

**BlackRock**

# **BlackRock Smaller Companies Trust plc**

Annual Report and Financial Statements for the year ended  
28 February 2023



## Keeping in touch

We know how important it is to receive up-to-date information about the Company. To ensure that you are kept abreast, please scan the QR code to the right of this page to visit our website. If you have a smartphone, you can activate the QR code by opening the camera on your device and pointing it at the QR code. This will then open a link to the relevant section on the Company's website. By visiting our website, you will have the opportunity to sign up to our monthly newsletter which includes our latest factsheets, market commentary, as well as upcoming events and webinars. Information about how we process personal data is contained in our privacy policy available on our website.

General enquiries about the Company should be directed to the Company Secretary at: [cosec@blackrock.com](mailto:cosec@blackrock.com).

## Register here to watch this year's Annual General Meeting

For the benefit of shareholders who are unable to attend this year's AGM in person, we have arranged for the proceedings to be viewed via a webinar. You can register to watch the AGM by scanning the QR code opposite or by visiting our website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) and clicking the registration banner.

Please note that it is not possible to speak or vote at the AGM via this medium and joining the webinar does not constitute attendance at the AGM. Shareholders wishing to exercise their right to attend, speak and vote at the AGM should either attend in person or exercise their right to appoint a proxy to do so on their behalf. For further details please see page 8 of the Annual Report.



Use this QR code to take you to the Company's website where you can sign up to monthly insights and factsheets.



# Corporate summary

<b>The Company</b>	The Company is an investment trust, and its shares are listed on the London Stock Exchange. The Company aims to attract long-term private and institutional investors wanting to benefit from the growth prospects of smaller companies.										
<b>Investment objective</b>	To achieve long-term capital growth for shareholders through investment mainly in smaller UK quoted companies. Full details are given on page 29.										
<b>Benchmark index</b>	Numis Smaller Companies plus AIM (excluding Investment Companies) Index.										
<b>Alternative Investment Fund Manager</b>	BlackRock Fund Managers Limited (The Manager or AIFM).										
<b>Investment Manager</b>	BlackRock Investment Management (UK) Limited (BIM (UK)) – Portfolio Manager: Roland Arnold.										
<b>Board</b>	The Company has an independent Board of Directors which is responsible for the governance of the Company, monitors its performance and keeps the investment strategy under review.										
<b>Website</b>	Information about the Company can be found on the website <a href="http://www.blackrock.com/uk/brsc">www.blackrock.com/uk/brsc</a> .										
<b>AIC</b>	The Company is a member of the Association of Investment Companies.										
<b>Financial calendar</b>	<table><tr><td>May 2023</td><td>Announcement of results for year ending 28 February 2023</td></tr><tr><td>June 2023</td><td>Payment of final dividend on ordinary shares</td></tr><tr><td>June 2023</td><td>Annual General Meeting</td></tr><tr><td>October/ November 2023</td><td>Announcement of results for six months ending 31 August 2023</td></tr><tr><td>November 2023</td><td>Payment of interim dividend on ordinary shares</td></tr></table>	May 2023	Announcement of results for year ending 28 February 2023	June 2023	Payment of final dividend on ordinary shares	June 2023	Annual General Meeting	October/ November 2023	Announcement of results for six months ending 31 August 2023	November 2023	Payment of interim dividend on ordinary shares
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June 2023	Annual General Meeting										
October/ November 2023	Announcement of results for six months ending 31 August 2023										
November 2023	Payment of interim dividend on ordinary shares										
<b>Depositary, Custodian and Fund Accountant</b>	The Bank of New York Mellon (International) Limited (BNYM).										

# Why BlackRock Smaller Companies Trust plc?

## Further information

Further details about the Company, including the latest annual and interim reports, factsheets and stock exchange announcements, are available on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

## Reasons to invest

### ✔ Outperforming asset class

The Company offers investors exposure to UK smaller companies, an asset class that has historically outperformed larger companies by circa 4%<sup>1</sup> per annum.

### ✔ Opportunities for active managers

There are at least 1,100 small and mid-cap companies listed on the UK stock market that are well diversified across a broad range of sectors and geographies. BlackRock believes that this area of the market represents an attractive hunting ground since these companies operate in an inefficient and under-researched area of the market thereby presenting attractive opportunities to generate good returns for investors over the long term.

### ✔ Highly experienced Emerging Companies team<sup>2</sup> with a robust investment process

The BlackRock team has excellent access to company managements and undertakes about 700 company meetings each year. The team looks to find hidden gems and invest in growth companies with the potential to become much larger. When selecting stocks the team looks for high quality, cash generative companies with strong management teams that are able to generate their own growth regardless of the wider economic environment.

### ✔ Globally diversified portfolio

The UK small and mid-cap universe contains many industry leaders often operating and selling globally. This allows BlackRock to construct a portfolio of global businesses. Currently around 50%<sup>3,4</sup> of the portfolio's revenues are generated from overseas operations.

### ✔ IPO opportunities

Due to the high standards of governance, strong accounting standards and consistent rule of law, London is attractive for companies seeking an IPO. There are often significant IPO opportunities within the UK smaller companies' sector, and many companies purchased at IPO have been extremely strong contributors to performance.

### ✔ Differentiated source of income

Investing in high quality, cash generative businesses has enabled the Company to increase its total annual dividend every year for 20 years. Since 2006, dividend growth has substantially outperformed the dividend growth of the median Equity Income Fund<sup>3</sup>.

### ✔ Additional exposure through leverage

The Company has the ability to borrow up to 15% of net assets, offering investors the ability to increase exposure to high quality businesses, potentially enhancing returns over the longer term.

### ✔ Benefits of a closed-ended vehicle

Closed-end funds do not have to deal with daily liquidity requirements that come with open-ended funds. As a result, the Company can invest more freely in exciting smaller companies that might be further down the market cap scale or less liquid.

### ✔ Strong performance record

The Company has a proven strategy with a consistent track record, outperforming its benchmark for 18 out of the last 20 financial years<sup>3</sup>.

Past performance is not a reliable indicator of current or future results and should not be the sole consideration when selecting a product or strategy. The value of investments and the income from them can fall as well as rise and is not guaranteed. The investor may not get back the amount originally invested.

<sup>1</sup> Source: Datastream. For the period 1955 to 2023. Numis Smaller Companies Index + AIM ex Investment Companies Total Return Index (previously known as Hoare Govett), Barclays Equity Total Return (December 1955 to December 2006), FTSE All-Share Total Return (January 2007 to February 2023).

<sup>2</sup> Previously referred to as UK small and mid-cap team.

<sup>3</sup> Sources: BlackRock and Datastream.

<sup>4</sup> Based on total revenue earned during the year.

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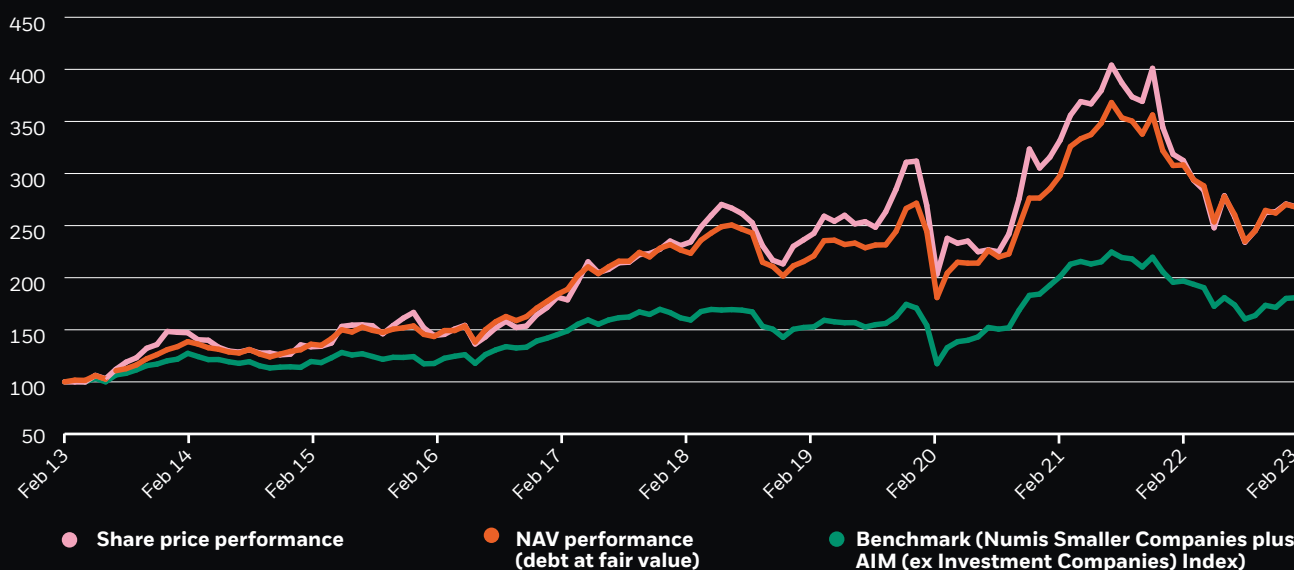
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# Performance record

	As at 28 February 2023	As at 28 February 2022	
Net asset value per ordinary share (debt at par value) (pence) <sup>1</sup>	1,553.41	1,878.11	
Net asset value per ordinary share (debt at fair value) (pence) <sup>1</sup>	1,601.42	1,882.38	
Ordinary share price (mid-market) (pence) <sup>1</sup>	1,380.00	1,684.00	
Numis Smaller Companies plus AIM (excluding Investment Companies) Index <sup>2</sup>	16,108.12	17,421.96	
<b>Assets</b>			
Total assets less current liabilities (£'000)	828,033	986,537	
Equity shareholders' funds (£'000) <sup>3</sup>	758,529	917,078	
Ongoing charges ratio <sup>4,5</sup>	0.7%	0.7%	
Dividend yield <sup>4</sup>	2.9%	2.1%	
Gearing <sup>4</sup>	6.3%	4.3%	
	<b>For the year ended 28 February 2023</b>	<b>For the year ended 28 February 2022</b>	
<b>Performance (with dividends reinvested)</b>			
Net asset value per ordinary share (debt at par value) <sup>2,4</sup>	-15.4%	7.0%	
Net asset value per ordinary share (debt at fair value) <sup>2,4</sup>	-13.0%	7.8%	
Ordinary share price (mid-market) <sup>2,4</sup>	-15.9%	0.9%	
Numis Smaller Companies plus AIM (excluding Investment Companies) Index <sup>2,4</sup>	-7.5%	1.5%	
	<b>For the year ended 28 February 2023</b>	<b>For the year ended 28 February 2022</b>	<b>Change %</b>
<b>Revenue and dividends</b>			
Revenue return per ordinary share	40.92p	35.29p	+16.0
Interim dividend per ordinary share	14.50p	13.00p	+11.5
Final dividend per ordinary share	25.50p	22.00p	+15.9
<b>Total dividends paid and payable</b>	<b>40.00p</b>	<b>35.00p</b>	<b>+14.3</b>

## Performance from 1 March 2013 to 28 February 2023



Sources: BlackRock and Datastream.

Share price, NAV and Benchmark with dividends reinvested rebased to 100.

<sup>1</sup> Without dividends reinvested.

<sup>2</sup> Total return basis with dividends reinvested.

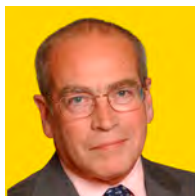
<sup>3</sup> The change in equity shareholders' funds represents the portfolio movements during the year and dividends paid.

<sup>4</sup> Alternative Performance Measure, see Glossary on pages 116 to 119.

<sup>5</sup> Ongoing charges ratio calculated as a percentage of average daily net assets and using the management fee and all other operating expenses, excluding finance costs, direct transaction costs, custody transaction charges, VAT recovered, taxation, prior year expenses written back and certain non-recurring items in accordance with AIC guidelines.

# Chairman's Statement

# Dear Shareholder



**Ronald Gould**  
Chairman

The year under review has been characterised by volatility and increased market uncertainty. Optimism that normal life would resume as the COVID-19 pandemic receded was misplaced as it became clear that the UK economy had sustained longer-term structural damage. Supply chain bottle necks, labour shortages and rising operating costs inevitably led to rising prices and inflation. The situation was exacerbated by Russia's invasion of Ukraine in early 2022, triggering an energy supply shock which pushed inflation to levels not seen in over 40 years. This environment of high inflation was sustained throughout the year, peaking at 11.1% (as measured by the UK Consumer Price Index Annual Rate) in October 2022 and looks set to persist for some time to come with UK inflation at the time of writing standing at 10.1%. Central Banks across the globe walked a narrow tightrope in attempting to take decisive action to combat soaring inflation by tightening monetary policy without suffocating economic growth. In the UK, higher interest rates hit growth forecasts hard and a more prolonged economic recession looks likely. The ongoing impact of sustained high interest rates is exposing cracks globally in economic models that have evolved through decades of low inflation and low interest rates. The sharp rise in interest rates in September 2022

forced pension funds to sell assets, often at significant losses, in order to meet the liquidity calls required by the fall in leveraged liability driven investment (LDI) values. High interest rates have driven bond valuations down and are impacting other valuation models, exposing balance sheet weaknesses and liquidity issues. UK markets have responded by adjusting valuations downward to reflect this more challenging economic back drop. High quality growth stocks within our portfolio have been caught up in this maelstrom of market volatility despite the fact that many have posted strong results and have seen no material change in the investment thesis, trading or outlook.

The challenging market backdrop is likely to persist for some time to come as the war in Ukraine continues and the predictability of economic forces remains limited. However, your Company's focus has always been on investing in companies with well capitalised balance sheets and strong, entrepreneurial management teams that are able to rapidly adapt their businesses to shifting market dynamics. As such we believe the portfolio is well-positioned and prepared to navigate the challenges ahead and to take advantage of the investment opportunities that may arise in these uncertain times.

**Your Company has now increased its annual dividend every year since 2003. The annualised increase in dividends paid since this date equates to 11.2%.**

**Performance**

In the year under review, the Company's net asset value (NAV) per share fell by 13.0%<sup>1,2,3</sup>, underperforming our benchmark index, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index, which fell by 7.5%<sup>1,3</sup>. Over the same period your Company's share price on a total return basis with income reinvested fell by 15.9%<sup>1,3</sup> compared with the FTSE AIM All-Share Index which fell by 16.1%<sup>1</sup>, the FTSE 250 Index which fell by 2.8%<sup>1</sup> and the FTSE 100 Index which rose by 9.6%<sup>1</sup>. The wide disparity between index returns reflected changing investor sentiment about large versus smaller cap companies during a period of great market uncertainty over future prospects.

More detail on the significant contributors to and detractors from performance during the year are given in the Investment Manager's Report on pages 12 and 13.

The Company's longer-term performance is set out in the table below. More information is also given in the chart on page 7 which illustrates how long-term investors have had an opportunity to build up an attractive annual income from an investment in the Company. Even if the initial dividend yield at the point of purchase has been unremarkable, the strong underlying growth in dividends over the years has resulted in a competitive yield on cost when compared with equity income funds in general.

To illustrate this investment and income success, the chart on page 7 shows that £1,000 invested in the Company on 28 February 2006 would have increased in value by 442.9%<sup>1</sup> in NAV terms to 28 February 2023, whereas £1,000 invested in the UK open-ended income sector median would have increased by just 151.6%<sup>1</sup>.

The chart also demonstrates that while the yield on the Company's shares was much lower at the beginning of the period, over time the Company's dividend has grown at a much faster rate than open-ended UK income fund competitors. As a result, the yield on the purchase cost of an investment in the Company would now be more than that on the UK open-ended income sector median.

**Returns and dividends**

Your Company's total revenues per year are a reflection of the dividends we receive from portfolio companies. This in turn drives our ability to pay dividends to our shareholders. Total revenue return for the year was 40.92 pence per share (2022: 35.29 pence per share). The increase of 16.0% was largely due to an increase in dividends received from the portfolio companies.

The Board continues its policy to ensure the sustainability of dividends and their future growth through investment in companies with strong balance sheets, solid management and sustainable business growth models. We remain mindful of the importance of yield to shareholders. The Board is also cognisant of the benefits of the Company's investment trust structure which enables it to retain up to 15% of total revenue each year to build up reserves which may be carried forward and used to pay dividends during leaner times. The Company has substantial distributable reserves (£692.1 million as at 28 February 2023, including revenue reserves of £18.6 million). Taking note of your Company's current reserves, and the strong revenue growth this year, the Board has decided to declare a final dividend of 25.50p per share, representing a 14.3% increase over total dividends declared for the year to 28 February 2022. The dividend will be paid on 27 June 2023 to shareholders on the

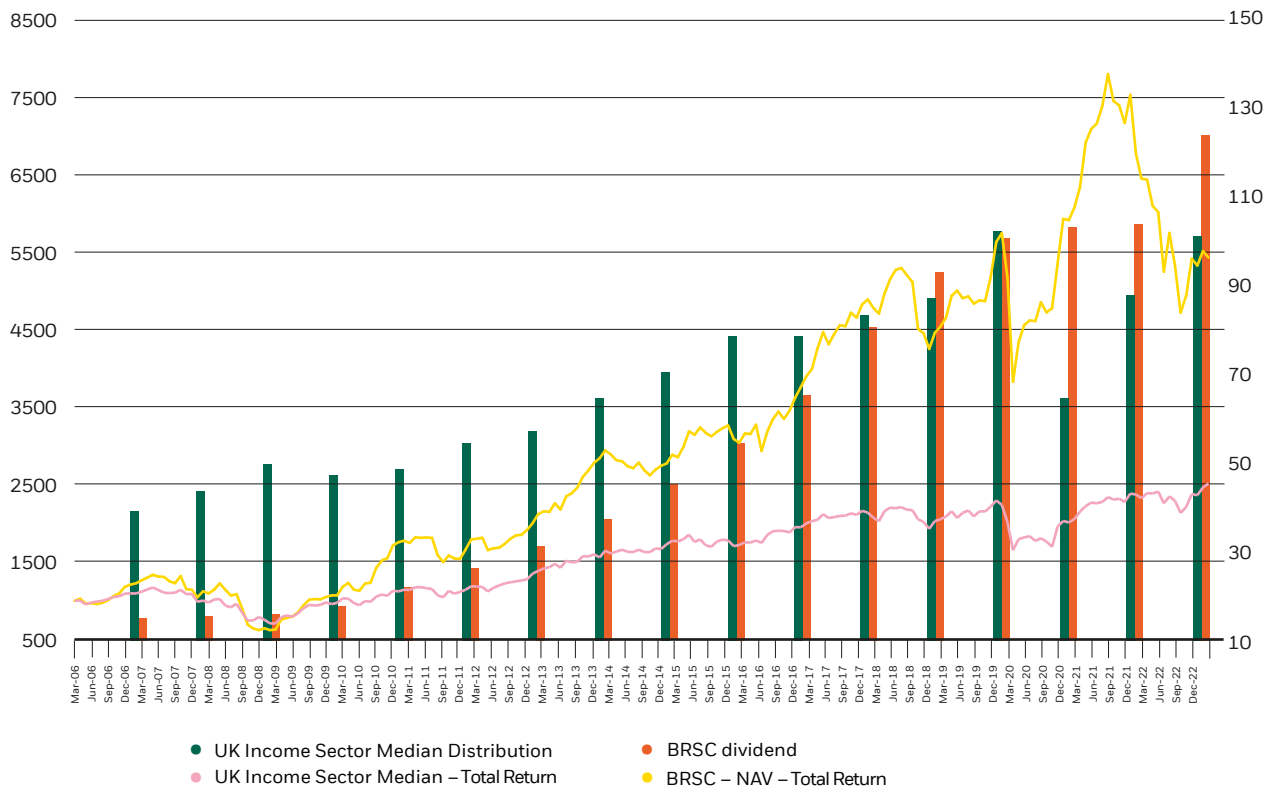
Performance to 28 February 2023	1 Year change %	3 Years change %	5 Years change %	10 Years change %	15 Years change %
NAV per share <sup>1,2,3</sup>	-13.0	9.4	18.1	167.6	399.5
Benchmark <sup>1,3</sup>	-7.5	17.2	12.0	80.9	142.4
Share price <sup>1,3</sup>	-15.9	-0.5	16.1	168.0	442.9

<sup>1</sup> Percentages in sterling terms with dividends reinvested.  
<sup>2</sup> NAV with debt at fair value.  
<sup>3</sup> Alternative Performance Measure, see Glossary on pages 116 to 119.



## Capital and income growth

Portfolio return £



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Smaller company investments are often associated with greater investment risk than those of larger company shares. This information does not constitute investment or any other advice and is for information purposes only and subject to change.

Source: BlackRock and Morningstar. BlackRock Smaller Companies Trust plc (BRSC) performance in the chart above is based on NAV total return net of fees. For the purpose of comparing income growth versus funds which have income generation as a primary objective the figures are based on £1,000 invested at 31 March 2006 in BlackRock Smaller Companies Trust plc and the IA UK Income sector median. BRSC dividends do not include special dividends paid between 2007 and 2010 of 1.25p, 0.7p and 0.5p.

Company's register as at 19 May 2023. The Board has also taken this decision recognising that many portfolio companies are demonstrating a robust rebound in their dividend paying ability, allowing us to take a more optimistic view of future prospects.

Your Company has now increased its annual dividend every year since 2003. The annualised increase in dividends paid since this date equates to 11.2% and your Company will now gain the AIC accolade of "Dividend Hero" for its' consistent 20 year growth in dividends.

### Gearing and sources of finance

The Company has traditionally maintained a range of borrowings and facilities to provide balance between longer-term and short-term maturities and between fixed and floating rates of interest. In July 2022, the Company's £15 million debenture matured and was redeemed. In anticipation of this event, and also to lock in borrowing at what we

considered to be very attractive interest rates, the Board had previously put in place a range of longer term fixed rate funding consisting of £25 million senior unsecured fixed rate private placement notes maturing in 2037, £20 million senior unsecured notes maturing in 2044 and £25 million senior unsecured notes maturing in 2046. The logic of the Board's decision to capture these lower interest rates for funding has been borne out by economic developments over the past year; by way of illustration, interest at 7.75% was payable on the £15 million debenture amounting to £1.2 million per annum; the equivalent cost for £15 million at the rate of the most recent long dated note issued in September 2021 of 2.47% equates to just £0.4 million, a saving of £0.8 million (10 basis points of NAV based on asset values at 28 February 2023). The Company also has in place variable rate funding consisting of a £60 million uncommitted overdraft facility with The Bank of New York Mellon (International) Limited.

It is the Board's intention that net gearing will not exceed 15% of the net assets of the Company at the time of the drawdown of the relevant borrowings. Under normal operating conditions it is envisaged that gearing will be within a range of 0%-15% of net assets. At the year end, the Company's net gearing was 6.3%<sup>1</sup> of net assets (2022: 4.3%).

### Management of share rating

The Board monitors the Company's share rating closely, and recognises the importance to shareholders that the price of the Company's shares do not trade at either a significant premium or discount to the underlying NAV. Therefore, where deemed to be in shareholders' long term interests, it may exercise its powers to issue shares or buy back shares with the objective of ensuring that an excessive premium or discount does not arise. As market volatility persisted through the year discounts across the closed-end funds sector widened as a whole and your Company was no exception, with

<sup>1</sup> Alternative Performance Measure, see the Glossary on page 116 to 119.

## **The Company's portfolio is weighted towards companies with well capitalised balance sheets and entrepreneurial management teams that are able to rapidly adapt their businesses to the shifting market dynamics.**

the average discount widening to an average discount of 13.9% to NAV (with debt at fair value) over the full year compared to an average discount of 5.0% for the year to 28 February 2022. To put this in context, the average discount for companies in the AIC UK Smaller Companies sector for the same period was 10.9%. Through February and into March 2023, the Company's discount remained wide, drifting out to the wider end of the peer group range. The Board took action to address this, and subsequent to the year end the Company bought back 220,000 shares for costs of £2,917,000 (at an average discount to NAV of 13.3%). The Company's discount currently stands at 13.3%.

### **Board composition, implementation of policy on tenure and diversity**

Since the date of my last report, I am pleased to note that the Board has fully implemented its policy on tenure (that no Director's tenure should exceed nine years, or in the case of the Chairman, twelve years). The Board remains focused on high standards of governance, and is cognisant that the Parker Review in respect of board diversity and the recent changes to the FCA's Listing Rules set new diversity targets and associated disclosure requirements for UK companies listed on the premium and standard segment of the London Stock Exchange. Your Board recognises the benefits of diversity at Board level and believes that Directors should have a mix of different skills, experience, backgrounds, ethnicity, gender and other characteristics. It is therefore actively taking steps to comply with best practice and applicable regulation in respect of diversity, including gender and ethnicity. These steps included the engagement in the year under

review of an external firm (Stogdale St James) to carry out an independent evaluation of the Board and as part of this process to compile a skills matrix to enable the Board to identify areas of focus in future succession planning to ensure a diverse Board. The Board intend to use this skills matrix described in the Board Diversity paragraph above as the cornerstone for undertaking a search and selection process in 2023 with the aim of further enhancing Board diversity. An external agency will be engaged to conduct this exercise, and a broad range of factors will be taken into account in setting the appointment brief and during the search and selection process. These will be underpinned by the underlying premise that all Board appointments must be made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective. Further information on Board composition can be found in the Corporate Governance Statement on page 61.

### **Annual general meeting**

The Company's Annual General Meeting (AGM) will be held in person at the offices of BlackRock at 12 Throgmorton Avenue, London EC2N 2DL on Tuesday 20 June 2023 at 11.30 a.m. Details of the business of the meeting are set out in the Notice of Annual General Meeting on pages 122 and 123. Shareholders are also invited to join Directors for a sandwich lunch and light refreshments after the formal business of the meeting has concluded.

Prior to the formal business of the meeting, our Investment Manager will make a presentation to shareholders. This will be followed by a question and answer session. Shareholders who are unable to attend the meeting in person but who wish to follow

the AGM proceedings can do so via a live webinar this year. Details on how to register, together with access details, will be available shortly on the Company's website at: [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) or by contacting the Company Secretary at [cosec@blackrock.com](mailto:cosec@blackrock.com). It is not possible to attend, speak or vote via this medium and it is solely intended to provide shareholders with the ability to watch the proceedings. Nevertheless, I trust shareholders will find this new facility helpful. Additionally, if you are unable to attend you can exercise your right to vote by proxy or appoint a proxy to attend in your place. Details of how to do this are included on the AGM Proxy Card provided to shareholders with the Annual Report. If you hold your shares through a platform or a nominee company, you will need to contact them directly and ask them to appoint you as a proxy in respect of your shares in order to attend, speak and vote at the AGM. Further information on the business of this year's AGM can be found in the Notice of the AGM on pages 122 and 123.

### **Outlook**

Ongoing market shocks from the persistent high interest/high inflation environment that has become the 'new normal' makes any forecast of future results challenging. Since the financial year end, the Company's NAV (as at 2 May 2023) has decreased by -4.0%<sup>1</sup>, against a decrease in the benchmark of -3.1%<sup>1</sup>, and the share price has fallen by -3.3%<sup>1</sup>. These results should be seen in the context of continued and significant market volatility.

As the COVID-19 pandemic has receded, the unpredictable trajectory of a return to normal life has continued to create significant volatility in markets across the globe. The monetary and

<sup>1</sup> Alternative Performance Measure. Percentages in sterling terms with dividends reinvested and based on NAV with debt at fair value.

fiscal hangover from the pandemic and the sharp resurgence in economic activity in the midst of ongoing supply disruptions have set the stage for a high inflation environment. The situation was exacerbated by the continuing devastating events in Ukraine which have constricted the supply of key commodities dramatically and pushed prices up even further. Now markets face aftershocks resulting from the swift and precipitous rise in interest rates which have the potential to give rise to an array of unintended consequences and liquidity events in the financial sector.

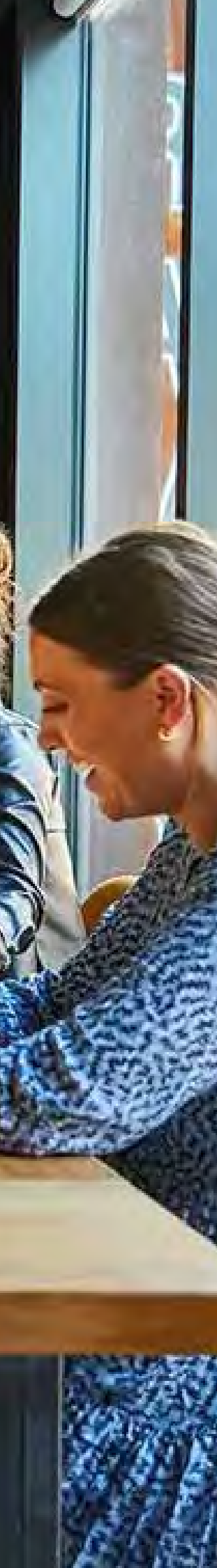
Against this turbulent backdrop, the Company's portfolio is weighted towards companies with well capitalised balance sheets and entrepreneurial management teams that are able to rapidly adapt their businesses to the shifting market dynamics. As such we believe your Company is well-positioned and prepared to take advantage of the investment opportunities that lie ahead despite the uncertain market conditions.

If shareholders would like to contact me, please write to BlackRock Smaller Companies Trust plc, Exchange Place One, 1 Sempie Street, Edinburgh EH3 8BL marked for the attention of the Chairman.

**RONALD GOULD**

Chairman  
5 May 2023





# Investment Manager's Report



**Roland Arnold**

In my interim report I discussed how both geo-political and financial market dynamics had driven the incredible asset class volatility we had witnessed in the first half of the year, and how it was unlikely the second half would provide much clarity. Sadly this has turned out to be the case. The second half of the financial year remained just as volatile as the first, with strong market rallies swiftly followed by sharp sell-offs, generally driven by the latest inflationary signals and the likely future path of interest rates. Central bankers, however, continued to take a relatively hawkish stance highlighting, whilst goods inflation may be easing, that supply side pressures, notably tight labour markets, are keeping services inflation at elevated levels. This dynamic continued to present a challenge for the strategy, as rising yields, since the beginning of the year, continued to undermine the valuation of long term growth stocks, meaning that growth shares remained under pressure for much of the year, whilst value continued to be in favour.

It may be worth taking a moment to remind investors of our investment philosophy. UK small and mid-cap investing is risky; stocks are illiquid, business models are less mature, and often companies are trying to disrupt industries already served by much bigger peers. As a consequence of those risks we seek companies that have significant multi-year options for growth, rather than more value orientated opportunities which may look attractive on a near term valuation, but have less capacity for earnings growth. If we correctly identify these opportunities, we will be rewarded through the share price. The value heavy FTSE 100 Index outperformed virtually every major equity market in 2022, but if ever there was a signal of how out of vogue growth is compared to value, it is how much the FTSE 100 Index has outperformed the more growth orientated FTSE 250 Index. We remain committed to this strategy, and believe that the valuation of UK growth is more attractive than it has been for some time.



Workspace Group, London's leading owner and operator of sustainable, flexible work spaces reported continued resilient levels of customer demand.

PHOTO COURTESY OF WORKSPACE GROUP



British multi-national defence technology group, QinetiQ Group, upgraded full year guidance on the back of a strong fourth quarter. The company develops technology in a number of sectors and is a leader in laser research.

PHOTO COURTESY OF QINETIQ GROUP

As it seems to be with almost every period that we report on recently, UK politics continued to grab headlines and drive market volatility, currency weakness, and divergence between large and small-cap UK equities. While their time in power was short, the Truss-Kwarteng mini-budget, caused its' fair share of turbulence within the UK 'Gilt Market' and required intervention from the Bank of England to restore order. Following changes of both leadership and policy, after the appointment of Rishi Sunak as Prime Minister, a degree of stability ensued although real incomes are declining, and the invasion of Ukraine remains a significant overhang. Domestically-exposed sectors, particularly those exposed to the consumer sector, were notably weak. As a result, large-cap companies outperformed the small and mid-cap indices as the higher domestic exposure of the latter two acted as a drag.

The Company's NAV per share ended the year down -13.0% (debt at fair value with dividends reinvested),

underperforming the benchmark which fell by -7.5%. As we alluded to in the Half-Yearly Report, small and mid-cap investing is volatile, and in any given financial year, some companies will fail to deliver on their earnings expectations and their share prices will suffer. Our team seeks to invest in companies with superior long term growth prospects and effective management and over the long-term this should be rewarded in the share prices of those companies that do deliver. Our frustration and biggest disappointment when looking back over this financial year is that underlying trading across a large portion of our portfolio has been strong, but this has not been reflected in the share price performance of many of our holdings.

The largest stock specific disappointment was with ingredients manufacturer **Treatt**. The company warned in the first half that profits for the full year would be c.30% lower than guidance as a result of rising costs, slowing demand for flavoured iced

tea in the US, and the weaker pound. While disappointing in the short term, the company believes that demand across all categories and geographies remains strong and it has offset rising input costs with price increases, although the long-term contracts with customers mean rises come through slowly. We did subsequently reduce the position size but maintain a holding, and encouragingly the most recent trading statement has been in line with expectations. Shares in **Inspecc** fell after the company reported a deterioration in trading, particularly in Europe and as a result has delayed investment into its new factories in Vietnam and Portugal. We subsequently sold the position. Shares in **Watches of Switzerland** have suffered during the year as investors have concerns over the consumer outlook. We believe these worries to be misplaced as revenues are to some extent protected by the order book that for some high demand pieces is measured in years. Most recently, the shares fell in response to quarter three volumes that some felt fell short

of expectations, despite management not giving quarterly guidance and reiterating their confidence in the full year. We continue to like the industry dynamics with the aforementioned waiting lists providing visibility not afforded to other retailers, and Rolex have recently announced some moves that may increase production to help satisfy this demand. The company has a net cash balance sheet, and we are confident that there will be further opportunity for M&A during the year.

On the positive side, **4imprint Group** remained the top contributor during the year, delivering further upgrades to forecasts, which now sit nearly 100% higher than they did at the start of the year. 4imprint Group has seen an acceleration in market share gains after increased investment through the COVID-19 pandemic as well as remixing their marketing efforts to above-the-line advertising to drive brand awareness. This has driven record revenue levels while the promotional products industry remains well below its 2019 level. 4imprint Group still has a low single digit percentage market share, leaving lots of runway for future gains. **Grafton** rallied after a very positive update in January reporting revenue and profit growth ahead of expectations. Grafton has been a volatile share during the financial year, derating significantly at points, mainly on expectations of a deterioration in trading conditions, something that the results clearly show has yet to materialise. Shares in veterinary group **CVS Group** remained resilient during the year, reflecting the defensive nature of pet services and longer term positive structural trends that the industry is exposed to.

Market volatility does bring opportunity, and where we saw decent companies at attractive entry prices, we took advantage. New holdings include the now pure play components business Essentra, which has simplified operations through disposing of their pharma and tobacco filter assets, builders merchant Grafton, which similarly has sold off assets and now sits on a significant cash pile, and US infrastructure play

Hill & Smith. We disposed of OSB Group given the challenging outlook for the UK mortgage market, building products firm Tyman given weakening US new housing, and Alliance Pharma in response to specific trading issues. We were fortunate to receive bids for Ideagen and Clipper Logistics.

## Outlook

Equity volatility has remained extremely high as we have entered 2023. However, this was seen in by an unexpected splurge from consumers, a re-awakening of demand in some of the more cyclical industrial sectors, a fall in bond yields, a rise in bond yields, oil falling in anticipation of economic weakness, oil rising in response to OPEC cuts, China re-opening, a belief inflation may have peaked, and stubbornly high inflation prints. In short we believe 2023 will see a continuation of recent themes of uncertainty; the Russian invasion of Ukraine, China, supply chains and inflation. However, currently we do expect 2023 to see an end to rising interest rates and the start of disinflation. Generally speaking, financial conditions are not too stretched; corporates and consumers are reasonably well capitalised, and banks have plenty of capital. As such the path of employment will dictate the consumer outlook but we continue to expect the trough to be shallower than in previous recessions.

Industrial activity is likely to decline as excess inventory works through the system, but given major markets such as automotive and aerospace were already seeing choked demand through supply chain issues, again we expect a shallower trough. Housebuilding and Renovation, Maintenance and Improvement will have a tough first half of 2023, but given the rapid re-pricing of mortgages post the brief Truss premiership, the outlook isn't as bad as it was in September 2022. Valuations have corrected quickly and looking back it appears all consumer orientated stocks overshot to the downside during the chaotic period around the Truss budget.

Whilst there is much that can be discussed with regards to the economic outlook, one thing is irrefutable; the valuation of UK small and mid sized companies is more attractive than it has been for some time, and if that valuation is not recognized by the stock market, it will be recognized by others. We expect to see M&A picking up through the course of the year and indeed in the last few days we have seen approaches for several companies in the UK as Private Equity players have decided to start deploying their substantial cash piles.

We are not out of the woods yet, but the recent round of trading updates from our investments have generally been in line or better than expectations. However, with oil and gas prices lower year-on-year, China re-opening, US\$ weakening, shipping/logistics/factory gate prices dropping, much of the inflation pressure of last year could become deflationary during the course of this year, and we have tentatively started to utilise more of our gearing facilities.

Against this difficult backdrop, we remind ourselves that many equity markets (Europe, UK) are structurally under owned and could benefit as sentiment turns and investors begin to reduce these underweights. We remain focused on bottom-up company specific analysis to identify high quality, nimble businesses, operated by entrepreneurial management teams, with strong market positions and resilient cash-flows. These are the types of businesses that we believe will be best placed to manage and thrive in the current environment. Historically these periods have been followed by strong returns for the strategy and presented excellent investment opportunities.

We thank shareholders for their ongoing support.

## ROLAND ARNOLD

BlackRock Investment Management (UK) Limited  
5 May 2023



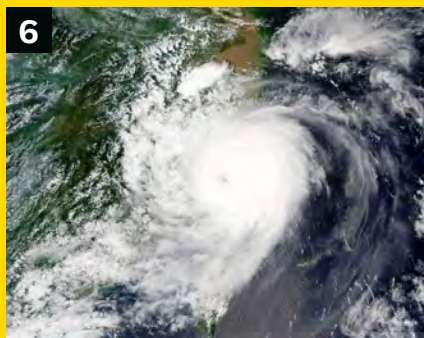




# Portfolio



Business communications specialist, Gamma Communications was the portfolio's largest holding at year end.



# Ten largest investments

## as at 28 February 2023

### 1 Gamma Communications

#### Mobile Telecommunications

Portfolio value **£22,386,000**  
Percentage of portfolio **2.8%**

A leading provider of Unified Communications as a Service (UCaaS) into the UK and European business markets, supplying communication solutions via their extensive network of trusted channel partners and also directly.

### 2 4imprint Group

#### Media

Portfolio value **£21,879,000**  
Percentage of portfolio **2.7%**

A UK-listed but US-centric direct marketing business of promotional goods. Despite a relatively small market share, they are the market leader in the US by some distance which reflects just how fragmented the market is.

### 3 CVS Group

#### General Retailers

Portfolio value **£20,589,000**  
Percentage of portfolio **2.6%**

CVS Group is one of the largest integrated veterinary services provider in the UK encompassing four main business areas; veterinary practices, diagnostic laboratories, pet crematoria and e-commerce division.

### 4 Watches of Switzerland

#### Personal Goods

Portfolio value **£18,102,000**  
Percentage of portfolio **2.2%**

The UK's leading luxury watch specialist with a growing US presence. The group is comprised of four prestigious retail brands; Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors and has been transformed over the last five years into a modern, technologically advanced, multi-channel retailer. The group has a showroom network which includes flagships in London, two flagship showrooms in New York, and increasing presence of mono-brand boutiques along with an industry leading e-commerce platform.

### 5 Oxford Instruments

#### Electronic & Electrical Equipment

Portfolio value **£15,719,000**  
Percentage of portfolio **2.0%**

A manufacturer of scientific instruments serving both academic and commercial markets. Oxford Instruments sells highly technical and complex instruments which play into some of the most highly funded and exciting areas of global research and development (R&D) today.

### 6 Impax Asset Management

#### Financial Services

Portfolio value **£13,923,000**  
Percentage of portfolio **1.7%**

A sustainable focused fund manager with a growing franchise, market leading investment performance and structural growth/interest in sustainability which underpins the company's investment philosophy.

### 7 Ergomed

#### Pharmaceuticals & Biotechnology

Portfolio value **£13,504,000**  
Percentage of portfolio **1.7%**

Ergomed is a global leader in specialised pharmaceutical services with the aim of addressing unmet medical needs and patient safety. The company specialises in drug development and drug safety, operating across two businesses, Clinical Research and Pharmacovigilance. The company has a strategy focusing on high growth markets in oncology, rare diseases and drug safety, and through both organic growth and strategic acquisitions, has delivered strong growth since its IPO in 2014.

### 8 Next Fifteen Communications

#### Media

Portfolio value **£13,261,000**  
Percentage of portfolio **1.6%**

A global provider of digital communication products and services. The company offers digital content, public relations and affairs, technology, marketing software, market research and policy communications.

### 9 Bloomsbury Publishing

#### Media

Portfolio value **£12,842,000**  
Percentage of portfolio **1.6%**

The company is a leading independent publisher which aims to inform, educate, entertain and inspire readers of all ages. The company is focused on investing in high value intellectual property, with a focus on publishing quality content. The company has been diversifying the portfolio across consumer and non-consumer, and geographically and has expanded its digital offering through mergers and acquisitions, further increasing the quality of its revenues and earnings.

### 10 QinetiQ Group

#### Aerospace & Defence

Portfolio value **£12,814,000**  
Percentage of portfolio **1.6%**

A leading science and engineering company operating primarily in the defence and security markets. The company operates within a large and growing addressable market, with a key focus on the UK, US and Australia. The strength of the balance sheet, coupled with the asset-light and cash generative business model enables the company to continue to invest for future growth.

# Fifty largest investments

as at 28 February 2023

Company	Business activity	Market value £'000	% of total portfolio
Gamma Communications	Provider of communication services to UK businesses	22,386	2.8
4imprint Group	Promotional merchandise in the US	21,879	2.7
CVS Group	Operator of veterinary surgeries	20,589	2.6
Watches of Switzerland	Retailer of luxury watches	18,102	2.2
Oxford Instruments	Designer and manufacturer of tools and systems for industry and scientific research	15,719	2.0
Impax Asset Management	Asset management	13,923	1.7
Ergomed	Provider of pharmaceuticals services	13,504	1.7
Next Fifteen Communications	Digital communication products and services	13,261	1.6
Bloomsbury Publishing	Publisher of fiction and non-fiction	12,842	1.6
QinetiQ Group	British multi-national defence technology company	12,814	1.6
Breedon	UK construction materials	12,762	1.6
Baltic Classifieds Group	Operator of online classified businesses in the Baltics	12,584	1.6
Robert Walters	Recruitment services	12,549	1.6
Workspace Group	Supply of flexible workspace to businesses in London	12,548	1.6
Tatton Asset Management	Provider of discretionary fund management services to financial advisors	12,475	1.5
Chemring Group	Advanced technology products and services for the aerospace, defence and security markets	11,700	1.5
Central Asia Metals	Mining operations in Kazakhstan and Macedonia	11,373	1.4
YouGov	International online research data and analysis group	11,308	1.4
TT Electronics	Global manufacturer of electronic components	11,218	1.4
Grafton	Builders merchants in the UK, Ireland and Netherlands	11,117	1.4
Clarkson	Provision of shipping services	10,725	1.3
Serica Energy	Gas and oil exploration and production company	10,598	1.3
Auction Technology Group	Operator of marketplaces for curated online auctions	10,048	1.2
Alpha Financial Markets	Global provider of specialist consultancy services to the asset management, wealth management and insurance industries	9,873	1.2
DiscoverIE	Specialist components for electronics applications	9,276	1.2
Team17	British video game developer and publisher	9,167	1.1
Moneysupermarket.com	Price comparison website specialising in financial services	9,089	1.1
TP ICAP	Inter-dealer broker and over the counter market data provider	9,013	1.1
Hill & Smith	Production of infrastructure products and supply of galvanizing services	8,944	1.1
Spirent Communications	Multinational telecommunications testing	8,935	1.1
The Pebble Group	Designer and manufacturer of promotional goods	8,904	1.1
Future	Multi-platform media business covering technology, entertainment, creative arts, home interest and education	8,896	1.1
IntegraFin	Investment platform for financial advisers	8,700	1.1
Atalaya Mining	Copper miner	8,358	1.0
Hunting	Manufacturer of components, technology systems and precision parts for the energy industry	8,085	1.0
Morgan Sindall	Office fit-out, construction and urban regeneration services	8,064	1.0
Ten Entertainment Group	Operator of entertainment centres across the UK	7,985	1.0
Sigmaroc	UK and European construction materials	7,951	1.0
GlobalData	Data analytics and consulting company	7,920	1.0
Vesuvius	Provider of metal flow engineering services and solutions to the steel and foundry industries	7,858	1.0

<b>Company</b>	<b>Business activity</b>	<b>Market value £'000</b>	<b>% of total portfolio</b>
Alfa Financial Software	Provider of software for customers working in the asset finance industry	7,854	1.0
Sylvania Platinum	Producer of platinum group metals (PGM)	7,668	0.9
Learning Technologies	E-learning services	7,609	0.9
Essentra	Global manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items	7,584	0.9
Restore	Records management business	7,402	0.9
Lok'n Store Group	Self-storage provider	7,368	0.9
Johnson Service Group	Provider of textile services	7,308	0.9
Boku	Digital payments company	7,236	0.9
Wilmington	Global provider of data, information, education and training services in the global Governance, Risk and Compliance (GRC) markets	7,120	0.9
FRP Advisory	Professional services firm which offers a range of advisory services to companies, lenders, investors, and other stakeholders, as well as individuals	6,867	0.9
50 largest investments		537,058	66.6
Remaining investments		269,030	33.4
<b>Total</b>		<b>806,088</b>	<b>100.0</b>

Details of the full portfolio are available on the Company's website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

# Portfolio holdings in excess of 3% of issued share capital

At 28 February 2023, the Company did not hold any equity investments comprising more than 3% of any company's share capital other than as disclosed in the table below:

<b>Company</b>	<b>% of issued share capital held</b>
Everyman Media	5.2
The Pebble Group	5.0
City Pub Group	4.9
Tatton Asset Management	4.6
Ten Entertainment Group	4.4
Longboat Energy	4.2
Distribution Finance Capital Holdings	4.2
Kitwave Group	4.0
Bloomsbury Publishing	3.8
Animalcare Group	3.6
Mercia Asset Management	3.4
Robert Walters	3.3
Gresham Technologies	3.3
Fuller Smith and Turner - A Shares	3.3
TT Electronics	3.2

# Distribution of investments

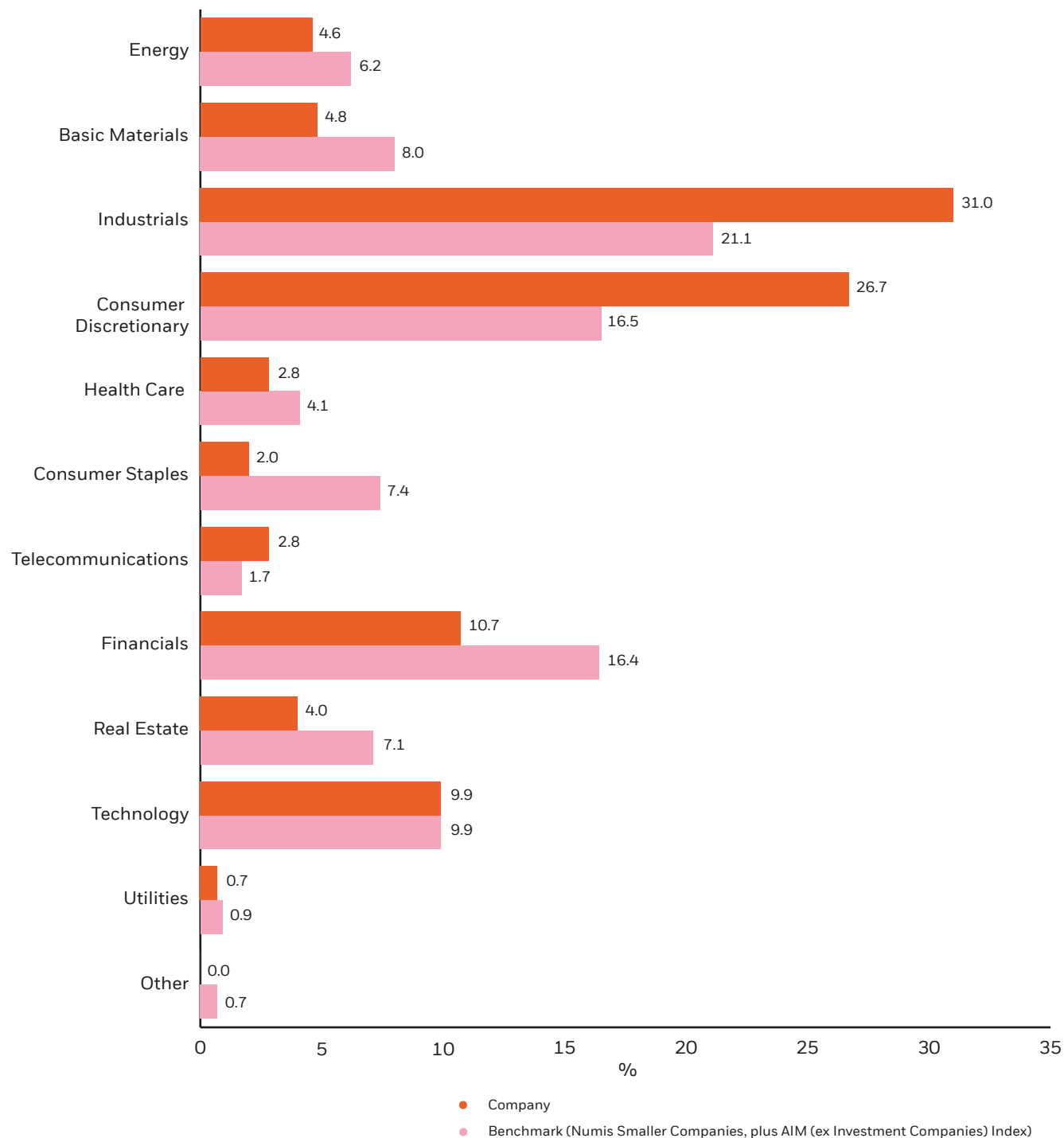
as at 28 February 2023

Sector	% of portfolio
Oil & Gas Producers	3.0
Oil Equipment, Services & Distribution	0.6
Oil-Field Services	1.0
<b>Energy</b>	<b>4.6</b>
Chemicals	0.7
Mining	4.1
<b>Basic Materials</b>	<b>4.8</b>
Aerospace & Defence	3.0
Construction & Materials	4.6
Electronic & Electrical Equipment	5.8
General Industrials	2.2
Industrial Engineering	3.2
Industrial Support Services	10.9
Industrial Transportation	1.3
<b>Industrials</b>	<b>31.0</b>
Automobiles & Parts	0.4
General Retailers	4.4
Leisure Goods	2.1
Media	11.4
Personal Goods	3.1
Specialty Retailers	1.0
Travel & Leisure	4.3
<b>Consumer Discretionary</b>	<b>26.7</b>
Health Care Equipment & Services	0.7
Pharmaceuticals & Biotechnology	2.1
<b>Health Care</b>	<b>2.8</b>
Food & Drug Retailers	0.5
Household Goods & Home Construction	1.5
<b>Consumer Staples</b>	<b>2.0</b>
Mobile Telecommunications	2.8
<b>Telecommunications</b>	<b>2.8</b>
Banks	0.6
Financial Services	10.1
<b>Financials</b>	<b>10.7</b>
Real Estate Investment & Services	1.6
Real Estate Investment Trusts	2.4
<b>Real Estate</b>	<b>4.0</b>
Software & Computer Services	8.8
Technology Hardware & Equipment	1.1
<b>Technology</b>	<b>9.9</b>
Waste and Disposal Services	0.7
<b>Utilities</b>	<b>0.7</b>
<b>Total</b>	<b>100.0</b>

# Portfolio analysis

as at 28 February 2023

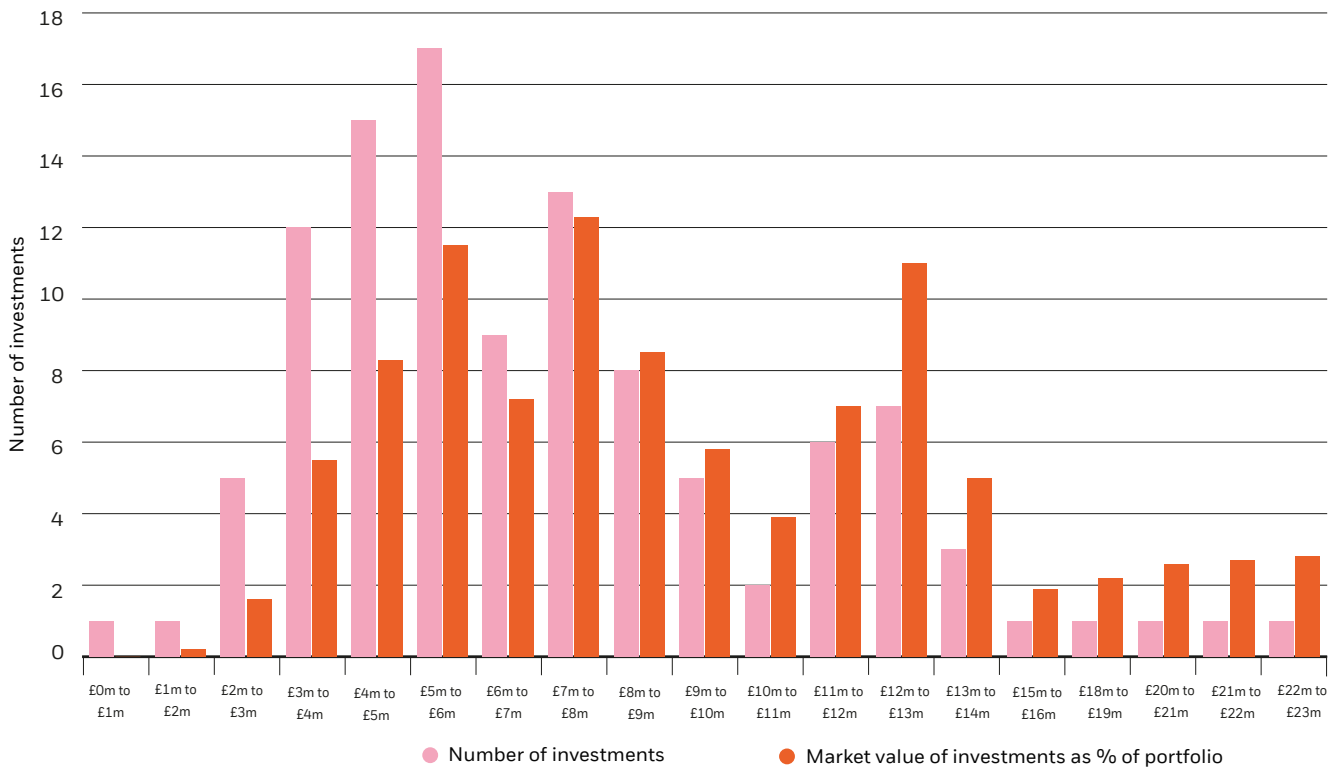
## Analysis of portfolio value by sector



Sources: BlackRock and Datastream.

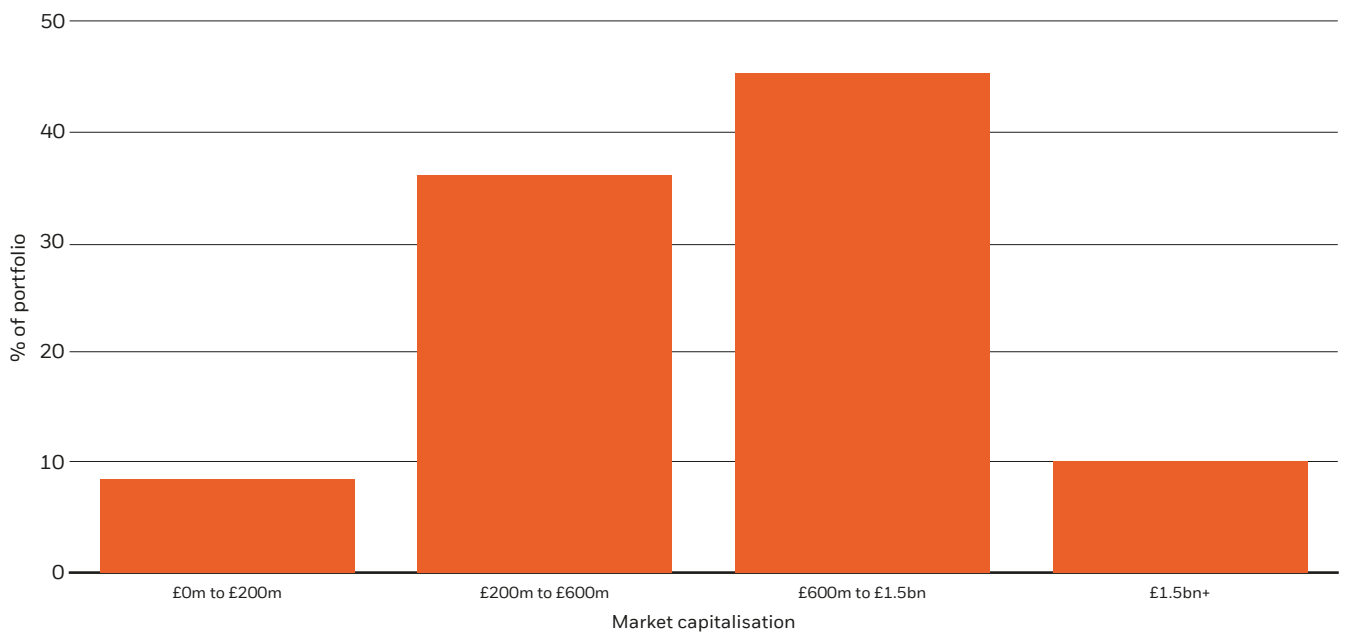


### Investment size as at 28 February 2023

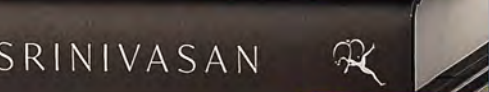
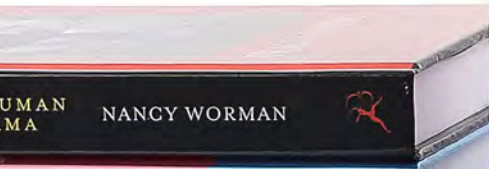
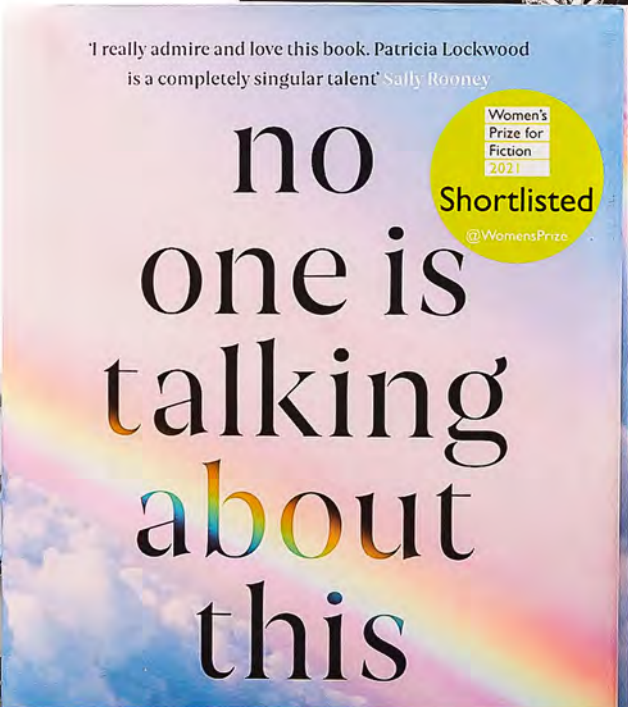
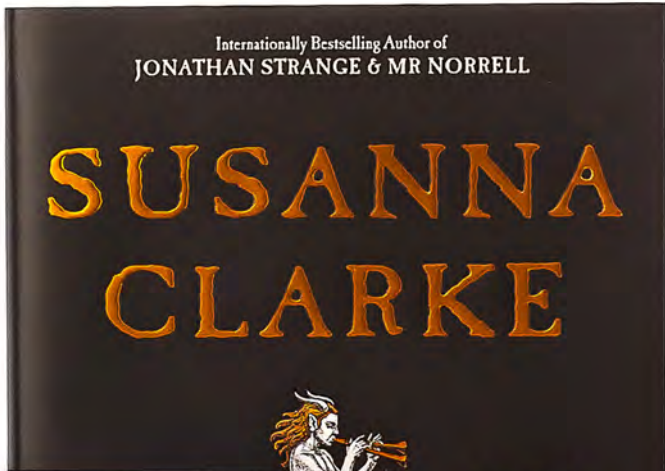


Source: BlackRock.

### Market capitalisation of our portfolio companies as at 28 February 2023



Source: BlackRock.



# Governance



With consumers rediscovering reading during COVID-19, revenue and profit for the past year were well ahead of market forecasts, as Bloomsbury Publishing reported strong demand for print and digital titles through to the end of the period.

PHOTO COURTESY OF BLOOMSBURY PUBLISHING

# Governance structure

Responsibility for good governance lies with the Board. The governance framework of the Company reflects that, as an investment company, the Company has no employees, the Directors are all non-executive and the investment management and administration functions are outsourced to the Manager and other service providers.

## The Board

5 scheduled meetings per annum

**Five non-executive Directors (NEDs), all independent of the Manager**

**Chairman:** Ronald Gould

**Objectives:**

- To determine the Company's strategy including investment policy and investment guidelines;
- To provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed and the Company's assets to be safeguarded;
- To challenge constructively and to scrutinise the performance of all outsourced activities; and
- To determine the Company's remuneration policy.

## Audit Committee<sup>1</sup>

3 scheduled meetings per annum

**Membership<sup>2</sup>:** Mark Little, James Barnes, Susan Platts-Martin and Helen Sinclair

**Chairman:** Mark Little

**Key objectives:**

- To oversee financial reporting;
- To consider the adequacy of the control environment and review the Company's risk register;
- To review the reporting of the auditors, review and form an opinion on the effectiveness of the external audit process; and
- To review the provisions relating to whistleblowing and fraud.

## Nomination and Remuneration Committee<sup>1,3</sup>

1 scheduled meeting per annum

**Membership:** All NEDs

**Chairman:** Susan Platts-Martin (with effect from 5 May 2023)

**Key objectives:**

- To regularly review the Board's structure and composition;
- To be responsible for the Board succession planning;
- To make recommendations for any new appointments;
- To be responsible for Directors' remuneration; and
- To set the Company's remuneration policy.

## Management Engagement Committee<sup>1</sup>

1 scheduled meeting per annum

**Membership:** All NEDs

**Chairman:** Ronald Gould

**Key objectives:**

- To ensure that the provisions of the investment management agreement follow industry practice, remain competitive and are in the best interest of shareholders;
- To review the performance of the Manager; and
- To review other service providers.

<sup>1</sup> Terms of reference for each of the committees are available at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

<sup>2</sup> Ronald Gould is not a member of the Committee but may attend by invitation.

<sup>3</sup> Prior to 5 May 2023, the Company had in place a Nomination Committee which was responsible for succession planning and making recommendations for any new appointments as well as reviewing the Board's structure and composition. There was no separate Remuneration Committee and the Board itself performed duties in respect of setting Directors' remuneration and remuneration policy for the Company. On 5 May 2023 the Directors established a combined Nomination and Remuneration Committee to perform these duties on an ongoing basis. This combined Committee will meet annually in February/March each year, or more frequently as required on an ad hoc basis.

# Directors' biographies



## Ronald Gould

Chairman

Appointed on 1 April 2019

He was previously Managing Director and head of the Promontory Financial Group in China, CEO of Chi-X Asia Pacific, Senior Adviser to the UK Financial Services Authority, CEO of investment bank ABG Sundal Collier and Vice Chairman of Barclays Bank asset management activities. He is Chairman of Think Alliance Asia and Henderson Far East Income Limited and previously of Compliance Science Limited and Credo Capital Partners AB. He was previously a non-executive director of JPMorgan Asian Investment Trust plc. Mr Gould was appointed Chairman on 4 June 2019.

### Attendance record:

Board: 5/5

Audit Committee: n/a<sup>1</sup>

Nomination Committee: 1/1<sup>2</sup>

Management Engagement Committee: 1/1



## Susan Platts-Martin

Senior Independent Director and Chair of the Nomination and Remuneration Committee

Appointed on 21 April 2016

She is the Chairman of Baillie Gifford China Growth Trust PLC and formerly sat on the Advisory Board of the Barings Targeted Return Fund. Having qualified as a chartered accountant, she spent 26 years with Fidelity International in a broad range of roles including several years as the first head of investment trusts, responsible for establishing and growing a successful investment trust business. Ms Platts-Martin was appointed Senior Independent Director on 28 July 2020 and appointed as Chair of the Nomination and Remuneration committee with effect from 5 May 2023.

### Attendance record:

Board: 5/5

Audit Committee: 3/3

Nomination Committee: 1/1<sup>2</sup>

Management Engagement Committee: 1/1



## Mark Little

Audit Committee Chairman

Appointed on 1 October 2020

He is the Chairman of the Audit Committee of Majedie Investments Plc, Abrdn Equity Income Trust plc and Securities Trust of Scotland Plc. He was also previously Investment Director at Seven Investment Management and a non-executive director (and audit committee chairman) of Sanditon Investment Trust plc as well as a non-executive director for the start-up business UWI Technology and the charity Winning Scotland Foundation. Mr Little has a wealth of experience in the financial services sector and began his career as a fund manager with Scottish Widows Investment Management after qualifying as a chartered accountant with Price Waterhouse in 1991. He subsequently worked as Global Head of Automotive Research for Deutsche Bank and joined Barclays Wealth in 2005, where he became Managing Director of Barclays Wealth (Scotland and Northern Ireland).

### Attendance record:

Board: 5/5

Audit Committee: 3/3

Nomination Committee: 1/1<sup>2</sup>

Management Engagement Committee: 1/1

<sup>1</sup> The Chairman is not a member of the Audit Committee but may attend the Committee meetings by invitation.

<sup>2</sup> Prior to 5 May 2023, the Company had in place a Nomination Committee which was responsible for succession planning and making recommendations for any new appointments as well as reviewing the Board's structure and composition. There was no separate Remuneration Committee and the Board itself performed duties in respect of setting Directors' remuneration and remuneration policy for the Company. On 5 May 2023 the Directors established a combined Nomination and Remuneration Committee to perform these duties on an ongoing basis. This combined Committee will meet annually in February/March each year, or more frequently as required on an ad hoc basis.

None of the Directors has a service contract with the Company. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the registered office of the Company and will be available at the Annual General Meeting.

# Directors' biographies

continued



**James Barnes**

Appointed on 31 July 2021

He began his career in corporate finance and investment banking. He was formerly a director of Dobbies Garden Centres plc and was instrumental in growing the business and leading its sale to Tesco in 2003. He was also previously a director and Chairman of Dunedin Smaller Companies Investment Trust plc (now abrdn UK Smaller Companies plc) and currently holds a number of other non-executive roles in other businesses.

**Attendance record:**

Board: 5/5

Audit Committee: 3/3

Nomination Committee: 1/1<sup>2</sup>

Management Engagement

Committee: 1/1



**Helen Sinclair**

Appointed on 1 March 2022

She began her career in investment banking and spent nearly eight years at 3i plc focusing on management buy-outs and growth capital investments. She later co-founded Matrix Private Equity (which became Mobeus Equity Partners) in early 2000 and subsequently became Managing Director of Matrix Private Equity before moving to take on a number of non-executive director roles. She is currently Chairman of Octopus Future Generations VCT PLC and previously Chairman of British Smaller Companies VCT plc, and a non-executive director of Shires Income plc, WH Ireland Group plc and Sherborne Investors (Guernsey) Limited.

**Attendance record:**

Board: 5/5

Audit Committee: 3/3

Nomination Committee: 1/1<sup>2</sup>

Management Engagement

Committee: 1/1

<sup>2</sup> Prior to 5 May 2023, the Company had in place a Nomination Committee which was responsible for succession planning and making recommendations for any new appointments as well as reviewing the Board's structure and composition. There was no separate Remuneration Committee and the Board itself performed duties in respect of setting Directors' remuneration and remuneration policy for the Company. On 5 May 2023 the Directors established a combined Nomination and Remuneration Committee to perform these duties on an ongoing basis. This combined Committee will meet annually in February/March each year, or more frequently as required on an ad hoc basis.

None of the Directors has a service contract with the Company. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the registered office of the Company and will be available at the Annual General Meeting.

# Strategic Report

The Directors present the Strategic Report of the Company for the year ended 28 February 2023. The aim of the Strategic Report is to provide shareholders with the information to assess how the Directors have performed their duty to promote the success of the Company for the collective benefit of shareholders.

The Chairman's Statement together with the Investment Manager's Report and the Directors' Statement setting out how they promote the success of the Company on pages 36 to 43 form part of the Strategic Report. The Strategic Report was approved by the Board at its meeting on 5 May 2023.

## Principal activities

The Company is a public company limited by shares and carries on business as an investment trust and its principal activity is portfolio investment. Investment trusts, like unit trusts and OEICs, are pooled investment vehicles which allow exposure to a diversified range of assets through a single investment, thus spreading, although not eliminating investment risk.

## Investment objective

The Company's prime objective is to seek to achieve long-term capital growth for shareholders through investment mainly in smaller UK quoted companies.

No material change will be made to the Company's investment objective without shareholder approval.

To achieve its investment objective the Company invests predominantly in UK smaller companies with securities admitted to trading on the Main Market of the London Stock Exchange or on the AIM. The Company may also invest in securities which are listed overseas but have a secondary UK quotation. Although investments are primarily in companies with securities admitted to trading on recognised stock exchanges or on the AIM, the Investment Manager may also invest in less liquid unquoted securities with the prior approval of the Board. The Manager has adopted a consistent investment process, focusing on good quality growth companies; stock selection is the primary focus, but consideration is also given to sector weightings and underlying themes. Whilst there are no set limits on individual sector exposures against the Company's benchmark, a schedule of sector weightings is presented at each Board meeting for review. In applying the investment objective, the Investment Manager expects the Company to be substantially fully invested and to borrow as and when appropriate. The Company seeks to achieve an appropriate spread of investment risk by investing in a number of holdings across a range of sectors. The Company may not hold more than 7% of the share capital of any company in which it has an investment. No single portfolio holding (excluding holdings in cash fund investments held for cash management purposes) will, on the date such holding is acquired by the Company, exceed 5% of the Company's

net asset value. Notwithstanding the foregoing, the general aim is that no single portfolio holding (excluding cash fund investments held for cash management purposes) will, on the date such holding is acquired by the Company, exceed 3% of the Company's net asset value. In addition, while the Company may hold shares in other listed investment companies (including investment trusts), the Board has agreed that the Company will not invest more than 15% of its total assets in other UK listed investment companies. The Investment Manager will not deal in derivatives without prior approval of the Board.

## Change to Threshold Limit

Previously, the Company could not hold more than 6% of the share capital of any company in which it has an investment. The Board has approved a change to this restriction whereby this limit will be increased to 7%. The rationale for the change is to give the portfolio manager additional flexibility (in particular when investing in stocks at the lower end of the small cap range). As the amendment does not constitute a material change in investment policy requiring (inter alia) approval of shareholders at a general meeting of the Company, it will take immediate effect.

## Benchmark

Performance is measured against an appropriate benchmark, the Numis Smaller Companies plus AIM (excluding Investment Companies) Index.

## Gearing policy

It is intended that net gearing will not exceed 15% of the net assets of the Company at the time of the drawdown of the relevant borrowings. Under normal operating conditions it is envisaged that gearing will be within a range of 0%-15% of net assets.

## Business model

The Company's business model follows that of an externally managed investment trust. Therefore, the Company does not have any employees and outsources its activities to third-party service providers including the Manager, who is the principal service provider. The management of the investment portfolio and the administration of the Company have been contractually delegated to the Manager who in turn (with the permission of the Company) has delegated certain investment management and other ancillary services to the Investment Manager. The Manager, operating under guidelines determined by the Board, has direct responsibility for the decisions relating to the day-to-day running of the Company and is accountable to the Board for the investment, financial and operating performance of the Company. The Company delegates fund accounting services to BlackRock Investment Management (UK) Limited (BIM (UK)), which in turn sub-delegates these services to The Bank of New York Mellon (International) Limited (BNYM).

# Strategic Report

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Other service providers include the Depositary (also BNYM) and the Registrar, Computershare Investor Services PLC. The Depositary has sub-delegated the provision of custody services to the Asset Servicing division of BNYM. Details of the contractual terms with the Manager and the Depositary and more details of the sub-delegation arrangements in place governing custody services are set out in the Directors' Report.

## Investment philosophy

The Investment Manager seeks to identify companies which it believes have superior long-term growth prospects and the management in place to take advantage of these prospects. This is done through internal investment research, company visits and the careful monitoring of market newsflow and external broker analysis. Initially, if the Investment Manager is sufficiently impressed with a company's prospects, it will look to take a small position, usually 0.25% to 0.50% of the Company's net assets, in a new holding. These holdings will be closely monitored, and members of the portfolio management team will meet with management on a regular basis. If these companies continue to prosper and make the most of opportunities, the Investment Manager will gradually add to the portfolio holding. Where initial expectations are disappointing, the holding will be sold. The anticipation is that each holding will develop into a core holding over time; one that meets the Investment Manager's criteria for high quality growth companies.

Valuation is a key consideration; it is important not to overpay for new holdings. However, investment fundamentals are also important, and the Investment Manager may be prepared to pay what seems like a high price if it believes that long-term growth prospects are very strong. Generally, a company will be held within the portfolio if it meets the criteria for core holdings; in respect of recent investments, the Investment Manager will consider whether they have the potential to meet these criteria. Holdings will be sold if there are concerns that the investment case has changed in a negative way. Holdings will be reduced where the position size becomes too large and raises concerns about risk and diversification. The general aim is for portfolio holdings not to exceed 3% of the Company's net assets (excluding cash fund investments held for cash management purposes). As the investments within the portfolio become larger over time, the Portfolio Manager will continue to assess growth prospects in comparison to smaller businesses operating within similar markets. New holdings must have a market cap beneath £2 billion, however holdings that move above that level will be maintained providing the investment adheres to the original thesis and remains the most attractive opportunity that can be found amongst a comparable peer group. In accordance with the guidelines, the Portfolio Manager will sell any stock that enters the FTSE 100 Index within thirty days of entry.

The Investment Manager believes that consistent outperformance can be achieved by employing a combination of bottom-up and top-down analysis, based upon strong fundamental research.

In building a robust portfolio the Investment Manager will also consider the macro-economic background, working with strategists, economists and other teams internally and externally to understand the broad environment. It also works closely with BlackRock's risk team to assess the risks in the structure of the portfolio. Any necessary adjustments will be made to the portfolio to ensure that it is structured in an appropriate way from a macro and risk point of view.

## Portfolio analysis

A detailed analysis of the portfolio has been provided on pages 22 and 23.

## Performance

Details of the Company's performance including the dividend are set out in the Chairman's Statement on pages 5 to 9. The Chairman's Statement and the Investment Manager's Report form part of this Strategic Report and include a review of the main developments during the year, together with information on investment activity within the Company's portfolio.

## Results and dividends

The results for the Company are set out in the Income Statement in the Financial Statements. The total net loss for the year, after taxation, was £140,726,000 (2022: profit of £62,140,000) of which the revenue return amounted to a profit of £19,980,000 (2022: profit of £17,234,000) and the capital loss amounted to £160,706,000 (2022: profit of £44,906,000).

The Company's revenue return amounted to 40.92 per share (2022: 35.29p). The Directors have declared a final dividend of 25.50p per share as set out in the Chairman's Statement.

## Future prospects

The Board's main focus is to achieve long-term capital growth. The future performance of the Company is dependent upon the success of the investment strategy and, to a large extent, on the performance of financial markets. The outlook for the Company in the next twelve months is discussed in the Chairman's Statement on pages 8 and 9 and the Investment Manager's Report on page 13.

## Social, community and human rights issues

As an investment trust, the Company has no direct social or community responsibilities or impact on the environment, and the Company has not adopted an ESG investment strategy or exclusionary screens. However, the Directors believe that it is in shareholders' interests to consider human rights issues, environmental, social and governance matters when selecting and retaining investments. Details of the Board's approach to ESG and socially responsible investment is set out on page 44. Details of the Manager's approach to ESG integration are set out on page 45.



## Modern Slavery Act

As an investment vehicle the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015. In any event, the Board considers the Company's supply chain, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

## Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The key performance indicators (KPIs) used to measure the progress and performance of the Company over time, and which are comparable to those reported by other investment trusts are set out below. As indicated in footnote 2 to the table, some of these KPIs fall within the definition of 'Alternative Performance Measures' (APMs) under guidance issued by the European Securities and Markets Authority (ESMA) and additional information explaining how these are calculated is set out in the Glossary on pages 116 to 119.

Key Performance Indicators	Year ended 28 February 2023	Year ended 28 February 2022
NAV per share (debt at par value) <sup>1,2</sup>	-15.4%	7.0%
NAV per share (debt at fair value) <sup>1,2</sup>	-13.0%	7.8%
Share price total return <sup>1,2</sup>	-15.9%	0.9%
Benchmark return <sup>1</sup>	-7.5%	1.5%
Average discount to NAV with debt at fair value <sup>2</sup>	13.9%	5.0%
Revenue return per share	40.92p	35.29p
Ongoing charges ratio <sup>2,3</sup>	0.7%	0.7%
Retail ownership	66.9%	68.6%

<sup>1</sup> Total return basis with dividends reinvested.

<sup>2</sup> Alternative Performance Measure, see Glossary on pages 116 to 119.

<sup>3</sup> Calculated as a percentage of average daily net assets and using the management fee and all other operating expenses, excluding finance costs, direct transaction costs, custody transaction charges, VAT recovered, taxation, prior year expenses written back and certain non-recurring items in accordance with AIC guidelines.

Sources: BlackRock and Datastream.

Additionally, the Board regularly reviews many indices and ratios to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. The Board also reviews the performance and ongoing charges of the Company against a peer group of UK smaller companies trusts and open-ended funds.

## Principal risks

The Company is exposed to a variety of risks and uncertainties. As required by the UK Code, the Board has in place a robust ongoing process to identify, assess and monitor the principal risks and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A core element of this process is the Company's risk register which identifies the risks facing the Company and assesses the likelihood and potential impact of each risk and the quality of the controls operating to mitigate it. A residual risk rating is then calculated for each risk based on the outcome of the assessment.

The risk register, its method of preparation and the operation of key controls in BlackRock's and third-party service providers' systems of internal control are reviewed on a

## Directors, gender representation and employees

The Directors of the Company on 28 February 2023 are set out in the Directors' biographies on pages 27 and 28. With effect from 1 March 2023, the Board consists of three male Directors and two female Directors. The Company does not have any executive employees.

regular basis by the Audit Committee. In order to gain a more comprehensive understanding of BlackRock's and other third-party service providers' risk management processes and how these apply to the Company's business, BlackRock's internal audit department provides an annual presentation to the Audit Committee Chairman setting out the results of testing performed in relation to BlackRock's internal control processes. The Audit Committee also periodically receives presentations from BlackRock's Risk and Quantitative Analysis team and reviews Service Organisation Control (SOC 1) reports from the Company's service providers. The current risk register categorises the Company's main areas of risk as follows:

- Investment performance risk;
- Market risk;

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- Income/dividend risk;
- Legal & compliance risk;
- Operational risk;
- Financial risk; and
- Marketing risk.

The Board has undertaken a robust assessment of both the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Over the course of 2020 and through to the present time, the COVID-19 pandemic has given rise to unprecedented challenges for businesses across the globe and the Board has taken into consideration the risks posed to the Company by the crisis and incorporated these into the Company's risk register. The risks identified by the Board have been described in the table

that follows, together with an explanation of how they are managed and mitigated. Emerging risks are considered by the Board as they come into view and are incorporated into the existing review of the Company's risk register. They were also considered as part of the annual evaluation process.

Additionally, the Manager considers emerging risks in numerous forums and the Risk and Quantitative Analysis team produces an annual risk survey. Any material risks of relevance to the Company identified through the annual risk survey will be communicated to the Board.

The Board will continue to assess these risks on an ongoing basis. In relation to the UK Code, the Board is confident that the procedures that the Company has put in place are sufficient to ensure that the necessary monitoring of risks and controls has been carried out throughout the reporting period.

Principal risk	Mitigation/Control
<p><b>Investment performance</b></p> <p>Returns achieved are reliant primarily upon the performance of the portfolio.</p> <p>The Board is responsible for:</p> <ul style="list-style-type: none"> <li>• deciding the investment strategy to fulfil the Company's objective; and</li> <li>• monitoring the performance of the Investment Manager and the implementation of the investment strategy.</li> </ul> <p>An inappropriate investment strategy may lead to:</p> <ul style="list-style-type: none"> <li>• poor performance compared to the Benchmark Index and the Company's peer group;</li> <li>• a loss of capital; and</li> <li>• dissatisfied shareholders.</li> </ul> <p>The Board is also cognisant of the long-term risk to performance from inadequate attention to ESG issues, and in particular the impact of Climate Change. More detail in respect of these risks can be found in the AIFMD Fund Disclosures document available on the Company's website at <a href="https://www.blackrock.com/uk/individual/literature/policies/itc-disclosure-blackrock-smaller-companies-trust-plc.pdf">https://www.blackrock.com/uk/individual/literature/policies/itc-disclosure-blackrock-smaller-companies-trust-plc.pdf</a></p>	<p>To manage this risk the Board:</p> <ul style="list-style-type: none"> <li>• regularly reviews the Company's investment mandate and long-term strategy;</li> <li>• has set investment restrictions and guidelines which the Investment Manager monitors and regularly reports on;</li> <li>• receives from the Investment Manager a regular explanation of stock selection decisions, portfolio exposure, gearing and any changes in gearing and the rationale for the composition of the investment portfolio;</li> <li>• monitors the maintenance of an adequate spread of investments in order to minimise the risks associated with factors specific to particular sectors, based on the diversification requirements inherent in the investment policy; and</li> <li>• receives reports showing the Company's performance against the benchmark.</li> </ul> <p>ESG analysis is integrated into the Manager's investment process, as set out on pages 45 and 46. This is monitored by the Board.</p>

Principal risk	Mitigation/Control
<b>Market risk</b>	
<p>Market risk arises from volatility in the prices of the Company's investments influenced by currency, interest rate or other price movements. It represents the potential loss the Company might suffer through holding market positions in financial instruments in the face of market movements.</p>	<p>The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Investment Manager.</p>
<p>Market risk includes the potential impact of events which are outside the Company's control, including (but not limited to) heightened geo-political tensions and military conflict, a global pandemic and high inflation or stagflation (in particular through increased commodity price volatility driving inflation and impacting trade).</p>	<p>The Board monitors the implementation and results of the investment process with the Investment Manager.</p> <p>The Board also recognises the benefits of a closed-end fund structure in extremely volatile markets such as those experienced as a consequence of the COVID-19 pandemic. Unlike open-ended counterparts, closed-end funds are not obliged to sell down portfolio holdings at low valuations to meet liquidity requirements for redemptions. During times of elevated volatility and market stress, the ability of a closed-end fund structure to remain invested for the long-term enables the portfolio manager to adhere to disciplined fundamental analysis from a bottom-up perspective and be ready to respond to dislocations in the market as opportunities present themselves.</p>
<p>The impact of climate change and new legislation governing climate change and environmental issues have the potential to adversely impact markets and the valuation of companies within the portfolio.</p>	<p>The Manager takes into account climate risk within the investment process along with other ESG considerations as set out on page 45.</p>
<p>There is the potential for the Company to suffer loss through holding investments in the face of negative market movements.</p>	
<b>Income/dividend risk</b>	
<p>The amount of dividends and future dividend growth will depend on the performance of the Company's underlying portfolio and may be impacted by events which are outside the Company's control, such as the COVID-19 pandemic. In addition, any change in the tax treatment of the dividends or interest received by the Company may reduce the level of dividends received by shareholders.</p>	<p>The Board monitors this risk through the receipt of detailed income forecasts and considers the level of income at each Board meeting.</p> <p>The Company has substantial revenue reserves which can be utilised and also has the ability to make distributions by way of dividends from capital reserves if required.</p>
<b>Legal &amp; Compliance risk</b>	
<p>The Company has been approved by HM Revenue &amp; Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions and operates as an investment trust in accordance with Chapter 4 of Part 24 of the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on the profits realised from the sale of its investments.</p>	<p>The Investment Manager monitors investment movements and the amount of proposed dividends to ensure that the provisions of Chapter 4 of Part 24 of the Corporation Tax Act 2010 are not breached. The results are reported to the Board at each meeting.</p>
<p>Any breach of the relevant eligibility conditions could lead to the Company losing investment trust status and being subject to corporation tax on capital gains realised within the Company's portfolio. In such event the investment returns of the Company may be adversely affected.</p>	<p>Compliance with the accounting rules affecting investment trusts is also carefully and regularly monitored.</p>
<p>Any serious breach could result in the Company and/or the Directors being fined or the subject of criminal proceedings or the suspension of the Company's shares which would in turn lead to a breach of the Corporation Tax Act 2010.</p>	<p>The Company Secretary and the Company's professional advisers provide regular reports to the Board in respect of compliance with all applicable rules and regulations.</p>
<p>Amongst other relevant laws and regulations, the Company is required to comply with the provisions of the Companies Act 2006, the Alternative Investment Fund Managers' Directive, the UK Listing Rules and Disclosure Guidance and Transparency Rules, the Sanctions and Anti-Money Laundering Act 2018 and the Market Abuse Regulation.</p>	<p>The Company's Investment Manager, BlackRock, at all times complies with sanctions administered by the UK Office of Financial Sanctions Implementation, the United States Treasury's Office of Foreign Assets Control, the United Nations, European Union member states and any other applicable regimes. The Company does not invest in companies domiciled in Russia.</p>

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Principal risk	Mitigation/Control
<b>Operational risk</b> <p>In common with most other investment trust companies, the Company has no employees. The Company therefore relies on the services provided by third parties. Accordingly, it is dependent on the control systems of the Manager, the Depositary and the Fund Accountant who maintain the Company's assets, dealing procedures and accounting records.</p> <p>The security of the Company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements and the prevention of fraud depend on the effective operation of the systems of these other third-party service providers. There is a risk that a major disaster, such as floods, fire, a global pandemic, or terrorist activity, renders the Company's service providers unable to conduct business at normal operating capacity and effectiveness.</p> <p>Failure by any service provider to carry out its obligations to the Company could have a material adverse effect on the Company's performance. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.</p> <p>Inadequate succession planning arrangements, particularly of the Manager, could disrupt the level of service provided.</p>	<p>Due diligence is undertaken before contracts are entered into with third-party service providers. Thereafter, the performance of the provider is subject to regular review and reported to the Board.</p> <p>The Board reviews on a regular basis an assessment of the fraud risks that the Company could potentially be exposed to, and also a summary of the controls put in place by the Manager, the Depositary, the Custodian, the Fund Accountant and the Registrar designed specifically to mitigate these risks.</p> <p>Most third-party service providers produce Service Organisation Control (SOC 1) reports to provide assurance regarding the effective operation of internal controls as reported on by their reporting accountants. These reports are provided to the Audit Committee.</p> <p>The Company's financial instruments held in custody are subject to a strict liability regime and in the event of a loss of such financial instruments held in custody, the Depositary must return assets of an identical type or the corresponding amount, unless able to demonstrate the loss was a result of an event beyond its reasonable control.</p> <p>The Board reviews the overall performance of the Manager, Investment Manager and all other third-party service providers and compliance with the Investment Management Agreement on a regular basis.</p> <p>The Board also considers the business continuity arrangements of the Company's key service providers on an ongoing basis and reviews these as part of their review of the Company's risk register. The Board considers the Manager's succession plans in so far as they affect the services provided to the Company.</p>
<b>Financial risk</b> <p>The Company's investment activities expose it to a variety of financial risks that include interest rate, credit and liquidity risk.</p>	<p>Details of these risks are disclosed in note 17 to the financial statements, together with a summary of the policies for managing these risks.</p>
<b>Marketing risk</b> <p>Marketing efforts are inadequate, do not comply with relevant regulatory requirements, and fail to communicate adequately with shareholders or reach out to potential new shareholders resulting in reduced demand for the Company's shares and a widening discount.</p>	<p>The Board focuses significant time on communications with shareholders and reviewing marketing strategy and initiatives. All investment trust marketing documents are subject to appropriate review and authorisation.</p>

## Viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months referred to by the 'Going Concern' guidelines.

The Board is cognisant of the uncertainty surrounding the potential duration of the COVID-19 pandemic, and the additional challenges posed to international supply chains and commodity prices arising from recent events in Ukraine and the escalation of geo-political conflict. The Board notes that these events will have an impact on the global economy and the prospects for some of the Company's portfolio holdings. However, notwithstanding these issues, and given the factors stated below, the Board expects the Company to continue for the foreseeable future and has therefore conducted this review for the period up to the AGM in 2028 being a five-year period from the date that this Annual Report will be approved by shareholders. This assessment term has

been chosen as it represents a medium-term performance period over which investors in the smaller companies' sector generally refer to when making investment decisions. The Board is cognisant of the uncertainty surrounding the potential duration of the Russian invasion of Ukraine, its impact on the global economy, and the prospects for the Company's portfolio holdings.

In making this assessment the Board has considered the following factors:

- The Company's principal risks as set out on pages 32 to 34;
- The impact of a significant fall in UK equity markets on the value of the Company's investment portfolio in the light of the heightened volatility resulting from the ongoing COVID-19 pandemic and the impact on the global economy, inflation and interest rates, of Russia's invasion of Ukraine;

- The risk that the challenging geo-political backdrop, rising inflation and a sustained high interest rate environment will impact on the ability of portfolio companies to pay dividends, and consequently impact the Company's portfolio yield and ability to pay dividends;
- The ongoing relevance of the Company's investment objective in the current environment; and
- The level of demand for the Company's ordinary shares.
- The operational resilience of the Company and its key service providers (the Manager, Depositary, Custodian, Fund Administrator, Registrar and Broker) and their ability to continue to provide a good level of service for the foreseeable future;
- The effectiveness of business continuity plans in place for the Company and key service providers in particular in respect to COVID-19;

The Board has also considered a number of financial metrics and other factors, including:

- The Board has reviewed portfolio liquidity as at 28 February 2023;
- The Board has reviewed the Company's revenue and expense forecasts in light of the current economic backdrop both in the UK and globally and the anticipated impact on dividend income and market valuations. The Board is confident that the Company's business model remains viable and that the Company has sufficient resources to meet all liabilities as they fall due for the period under review;
- The Board has reviewed the Company's borrowing and debt facilities and considers that the Company continues to meet its financial covenants in respect of these facilities and has a wide margin before any relevant thresholds are reached;
- The Board keeps the Company's principal risks and uncertainties as set out above under review, and is confident that the Company has appropriate controls and processes in place to manage these and to maintain its operating model, even given the global economic challenges posed by COVID-19, the impact of climate change on portfolio companies and the current climate of heightened geo-political risk (notably the invasion of Ukraine);

- The level of current and historic ongoing charges incurred by the Company;
- The discount to NAV;
- The level of income generated by the Company; and
- Future income forecasts.

The Company is an investment company with a relatively liquid portfolio. As at 28 February 2023, the Company held no illiquid unquoted investments and 56.7% of the Company's portfolio investments were readily realisable and listed on the London Stock Exchange. The remaining 43.3% that were listed on the Alternative Investment Market are also considered to be readily realisable. The Company has largely fixed overheads which comprise a very small percentage of net assets. Therefore, the Board has concluded that, even in exceptionally stressed operating conditions, including the challenges presented by the COVID-19 pandemic, the Company would comfortably be able to meet its ongoing operating costs as they fall due.

Based on the results of their analysis, the Directors 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.

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## Section 172 Statement: promoting the success of the Company

The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain in greater detail how they have discharged their duties under Section 172(1) of the Companies Act 2006 in promoting the success of their companies for the benefit of members as a whole. This enhanced disclosure is required under the Companies Act 2006 and the AIC Code of Corporate Governance and covers how the Board has engaged with and understands the views of stakeholders and how stakeholders' needs have been taken into account, the outcome of this engagement and the impact that it has had on the Board's decisions.

As the Company is an externally managed investment company and does not have any employees or customers, the Board considers the main stakeholders in the Company to be the shareholders, key service providers (being the Manager and Investment Manager, the Custodian, Depositary, Registrar and Broker) and investee companies. The reasons for this determination, and the Board's overarching approach to engagement, are set out in the table below.

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### Stakeholders

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Shareholders	Manager and Investment Manager	Other key service providers	Investee companies
Continued shareholder support and engagement are critical to the continued existence of the Company and the successful delivery of its long-term strategy. The Board is focused on fostering good working relationships with shareholders and on understanding the views of shareholders in order to incorporate them into the Board's strategy and objectives in delivering long-term growth and income.	The Board's main working relationship is with the Manager, who is responsible for the Company's portfolio management (including asset allocation, stock and sector selection) and risk management, as well as ancillary functions such as administration, secretarial, accounting and marketing services. The Manager has sub-delegated portfolio management to the Investment Manager. Successful management of shareholders' assets by the Investment Manager is critical for the Company to successfully deliver its investment strategy and meet its objective. The Company is also reliant on the Manager as AIFM to provide support in meeting relevant regulatory obligations under the AIFMD and other relevant legislation.	In order for the Company to function as an investment trust with a listing on the premium segment of the official list of the FCA and trade on the London Stock Exchange's (LSE) main market for listed securities, the Board relies on a diverse range of advisors for support in meeting relevant obligations and safeguarding the Company's assets. For this reason, the Board considers the Company's Custodian, Depositary, Registrar and Broker to be stakeholders. The Board maintains regular contact with its key external service providers and receives regular reporting from them through the Board and committee meetings, as well as outside of the regular meeting cycle.	Portfolio holdings are ultimately shareholders' assets, and the Board recognises the importance of good stewardship and communication with investee companies in meeting the Company's investment objective and strategy. The Board monitors the Manager's stewardship arrangements and receives regular feedback from the Manager in respect of meetings with the management of portfolio companies.

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A summary of the key areas of engagement undertaken by the Board with its key stakeholders in the year under review and how Directors have acted upon this to promote the long-term success of the Company are set out in the table below.

Area of Engagement	Issue	Engagement	Impact
<b>Management of share rating</b>	<p>The Board recognises that it is in the long-term interests of shareholders that shares do not trade at a significant discount or premium to their prevailing net asset value. Therefore, where deemed to be in shareholders' long-term interests, it may exercise its powers to issue shares or buy back shares with the objective of ensuring that an excessive premium or discount does not arise.</p>	<p>The Board monitors the Company's share rating on an ongoing basis and receives regular updates from the Company's Broker and Manager regarding the level of discount and the drivers behind this. The Manager provides regular performance updates and detailed performance attribution.</p> <p>The Board believes that the best way of maintaining the share rating at an optimal level over the long-term is to create demand for the shares in the secondary market. To this end the Investment Manager is devoting considerable effort to broadening the awareness of the Company, particularly to wealth managers and to the wider retail shareholder market.</p> <p>The Company contributes to a focused investment trust sales and marketing initiative operated by BlackRock on behalf of the investment trusts under its management. The Company's contribution to the consortium element of the initiative, which enables the trusts to achieve efficiencies by combining certain sales and marketing activities was a fixed amount of £67,000 and this contribution is matched by the Investment Manager for the year ended 31 December 2022. In addition, a budget of £51,000 was allocated for Company specific sales and marketing activity also for the year to 31 December 2022. The purpose of the programme overall is to ensure effective communication with existing shareholders and to attract new shareholders to the Company to improve liquidity in the Company's shares and to sustain the stock market rating of the Company.</p> <p>Since the year end and as at the date of this report, the Company has bought back 220,000 shares for costs of £2,917,000 at an average discount of 13.3%.</p>	<p>Over the last five years, the Company's discount has widened steadily, from an average discount of 13.0% for the year to 28 February 2018 to 13.9% for the year ended 28 February 2023. As at 2 May 2023 the Company's shares were trading at a discount of 13.3% to the cum income NAV (with debt at fair value). This compares to an average discount for the Company's sector of 12.4% (based on the Association of Investment Companies sector average for the UK Smaller Companies peer group).</p> <p>Over the last eleven years, the number of shares held by retail shareholders has increased from 34.1% (as at 29 February 2012) to 66.9% at 28 February 2023.</p>

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Area of Engagement	Issue	Engagement	Impact
<b>Investment mandate and objective</b>	The Board has the responsibility to shareholders to ensure that the Company's portfolio of assets is invested in line with the stated investment objective and in a way that ensures an appropriate balance between spread of risk and portfolio returns.	The Board works closely with the Investment Manager throughout the year in further developing our investment strategy and underlying policies, not simply for the purpose of achieving the Company's investment objective but in the interests of shareholders and future investors.	The portfolio activities undertaken by the Investment Manager can be found in the Investment Manager's Report on pages 11 to 13.
		The Board worked with the Manager to review the Company's limits on the percentage of share capital it may hold in underlying portfolio companies. To increase flexibility around the margins (in particular where investing in smaller capitalisation stocks) the Board has approved an increase in this threshold from 6% to 7%. As the amendment does not constitute a material change in investment policy requiring (inter alia) approval of shareholders at a general meeting of the Company, it will take immediate effect.	Details regarding the Company's NAV and share price performance can be found in the Chairman's Statement on page 6 and in the Strategic Report on page 30.  A shareholder consultation was undertaken in March 2021, in respect of the removal of the AIM limit, and as a result of feedback received, a resolution put forward to the Company's AGM on 11 June 2021 seeking shareholder approval to remove the AIM limit was approved.
<b>Responsible investing</b>	More than ever, good governance and consideration of sustainable investment is a key factor in making investment decisions. Climate change is becoming a defining factor in companies' long-term prospects across the investment spectrum, with significant and lasting implications for economic growth and prosperity.	The Board believes that responsible investment and sustainability are important to the longer-term delivery of the Company's success. The Board works closely with the Investment Manager to regularly review the Company's performance, investment strategy and underlying policies to ensure that the Company's investment objective continues to be met in an effective and responsible way in the interests of shareholders and future investors.	The Board and the Investment Manager believe there is a positive correlation between ESG practices and investment performance. Details of the Company's performance in the year are given in the Chairman's Statement on page 6 and the Performance Record on page 4.
		The Investment Manager's approach to the consideration of Environmental, Social and Governance (ESG) factors in respect of the Company's portfolio, as well as the Investment Manager's engagement with investee companies, are kept under review by the Board. The Investment Manager reports to the Board in respect of how consideration of material ESG risks and opportunities is integrated into the investment process; a summary of BlackRock's approach to ESG integration is set out on pages 45 and 46. The Investment Manager's engagement and voting policy is detailed on pages 44 to 46 and page 49 and on the BlackRock website.	The Company does not meet the criteria for Article 8 or 9 products under the EU Sustainable Finance Disclosure Regulation (SFDR) and the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. The Investment Manager has access to a range of data sources, including principal adverse indicator ("PAI") data, when making decisions on the selection of investments. However, whilst BlackRock considers ESG risks for all portfolios and these risks may coincide with environmental or social themes associated with the PAIs, unless stated otherwise in the AIFMD Disclosure Document, the Company does not commit to considering PAIs in driving the selection of its investments.



Area of Engagement	Issue	Engagement	Impact
<b>Gearing and sources of finance</b>	The Board believes that it is important for the Company to have an appropriate range of borrowings and facilities in place to provide a balance between longer-term and short-term maturities and between fixed and floating rates of interest.	<p>Gearing levels and sources of funding are reviewed regularly by the Board with a view to ensuring that the Company has a suitable mix of financing at competitive market rates.</p> <p>As at 28 February 2023, the Company had the following borrowing facilities in place: long-term fixed rate funding in the form of a £25 million senior unsecured fixed rate private placement notes issued in May 2017 at a coupon of 2.74% with a 20 year maturity, £20 million senior unsecured fixed rate private placement notes issued in December 2019 at a coupon of 2.41% with a 25 year maturity and £25 million senior unsecured fixed rate private placement notes issued in September 2021 at a coupon of 2.47% with a 25 year maturity. Shorter-term variable rate funding consisted of an uncommitted overdraft facility of £60 million with The Bank of New York Mellon (International) Limited with interest charged at SONIA plus 100 basis points.</p> <p>It is the Board's intention that gearing will not exceed 15% of the net assets of the Company at the time of the drawdown of the relevant borrowings. Under normal operating conditions it is envisaged that gearing will be within a range of 0%-15% of net assets.</p>	<p>The Board has been proactive over the last few years in putting in place structural fixed gearing with the issue of £70 million of private placement notes issued between May 2017 and September 2021 to lock in fixed rate, long dated, sterling denominated financing at a highly competitive pricing level. In July 2022, the Company redeemed its £15 million debenture and in November 2022 its £35 million revolving credit facility with SMBC Bank International plc expired. The Board replaced these with an increased level of bank overdraft with BNYM at a competitive interest rate (SONIA plus 100 bps) and a lower non-utilisation fee (4 bps).</p> <p>For the year to 28 February 2023, it is estimated that gearing contributed 0.6% to the NAV per share performance.</p> <p>At the year end, the Company's gearing was 6.3% of net assets.</p>
<b>Service levels of third-party providers</b>	The Board acknowledges the importance of ensuring that the Company's principal suppliers are providing a suitable level of service: including the Manager in respect of investment performance and delivering on the Company's investment mandate; the Custodian and Depositary in respect of their duties towards safeguarding the Company's assets; the Registrar in its maintenance of the Company's share register and dealing with investor queries and the Company's Broker in respect of the provision of advice and acting as a market maker for the Company's shares.	<p>The Manager reports to the Board on the Company's performance on a regular basis. The Board carries out a robust annual evaluation of the Manager's performance, their commitment and available resources.</p> <p>The Board performs an annual review of the service levels of all third-party service providers and concludes on their suitability to continue in their role.</p> <p>The Board receives regular updates from the AIFM, Depositary, Registrar and Broker on an ongoing basis.</p> <p>The Board works closely with the Manager to gain comfort that relevant business continuity plans are in place and are operating effectively for all of the Company's service providers.</p>	<p>All performance evaluations were performed on a timely basis and the Board concluded that all third-party service providers, including the Manager were operating effectively and providing a good level of service.</p> <p>The Board has received updates in respect of business continuity planning from the Company's Manager, Custodian, Depositary, Fund Administrator, Broker, Registrar and printers, and is confident that the arrangements in place are appropriate.</p>

# Strategic Report

continued

Area of Engagement	Issue	Engagement	Impact
<b>Board composition</b>	<p>The Board is committed to ensuring that its own composition brings an appropriate balance of knowledge, experience and skills, and that it is compliant with best corporate governance practice under the UK Code, including guidance on tenure and the composition of the Board's committees.</p>	<p>The Board engaged an external firm (Stogdale St James) to carry out an independent external evaluation of the Board for the year under review. As part of this process the Board also asked Stogdale St James to compile a skills matrix to enable the Board to identify areas of focus in future succession planning to ensure a diverse Board. The Board intend to use this skills matrix as the cornerstone for undertaking a search and selection process in 2023 with the aim of further enhancing Board diversity. An external recruitment agency will be engaged to conduct this exercise, and a broad range of factors will be taken into account in setting the appointment brief and during the search and selection process. These will be underpinned by the underlying premise that all Board appointments must be made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.</p> <p>The results of the external evaluation were satisfactory and it was concluded that the Board, its Committees and the Chairman were all performing in an effective manner. More details are given on page 49.</p> <p>All Directors stand for re-election by shareholders annually.</p> <p>Shareholders may attend the AGM and raise any queries in respect of Board composition or individual Directors in person or may contact the Company Secretary or the Chairman using the details provided on page 109 with any issues.</p> <p>The Board has implemented a policy of limiting directors' tenure to nine years. Subject to the constraints of effective succession planning, it is the Board's aim that no Director will serve on the Board for more than nine years (or twelve years in the case of the Chairman). The longer time limit for the Chairman's tenure is to allow for continuity of leadership in circumstances where a Chairman is appointed from the ranks of existing Board members after having already served on the Board for a period of time.</p>	<p>As at 5 May 2023, the Board had a 60:40 male to female gender ratio, in accordance with relevant regulation and best practice, and will continue to consider other diversity characteristics, such as age, ethnicity, gender, disability, educational or professional background when appraising Board composition.</p> <p>The Parker Review in respect of board diversity and the recent changes to the FCA's Listing Rules set new diversity targets and associated disclosure requirements for UK companies listed on the premium and standard segment of the London Stock Exchange. Listing Rule 9.8.6R (9) requires listed companies to include a statement in their annual reports and accounts in respect of certain targets on board diversity, or if those new targets have not been met to disclose the reasons for this. This new requirement applies to accounting periods commencing on or after 1 April 2022 and therefore the Company intends to report against these diversity targets for the year ending 29 February 2024.</p> <p>Further information on the composition and diversity of the Board can be found in the Corporate Governance Statement on page 61.</p> <p>At the start of the year under review, only one Board Director (Caroline Burton) had tenure in excess of nine years. Mrs Burton retired at the Company's AGM on 9 June 2022. No Board Director currently has tenure in excess of nine years.</p> <p>Details of each Director's contribution to the success and promotion of the Company are set out in the Directors' Report on page 51 and details of Directors' biographies can be found on pages 27 and 28.</p> <p>The Directors are not aware of any issues that have been raised directly by shareholders in respect of Board composition in the year under review. Details for the proxy voting results in favour and against individual Directors' re-election at the 2022 AGM are given on the Company's website at <a href="http://www.blackrock.com/uk/brsc">www.blackrock.com/uk/brsc</a>.</p>

Area of Engagement	Issue	Engagement	Impact
<b>Board composition</b> continued			<p>Prior to 5 May 2023, the Company had in place a Nomination Committee which was responsible for succession planning and making recommendations for any new appointments as well as reviewing the Board's structure and composition. There was no separate Remuneration Committee and the Board itself performed duties in respect of setting Directors' remuneration and remuneration policy for the Company. On 5 May 2023, the Directors established a combined Nomination and Remuneration Committee to perform these duties on an ongoing basis. This combined Committee will meet annually in February/March each year, or more frequently as required on an ad hoc basis.</p>

# Strategic Report

continued

Area of Engagement	Issue	Engagement	Impact
<b>Shareholders</b>	Continued shareholder support and engagement are critical to the continued existence of the Company and the successful delivery of its long-term strategy.	<p>The Board is committed to maintaining open channels of communication and to engage with shareholders and welcomes and encourages attendance and participation from shareholders at its Annual General Meetings. If shareholders wish to raise issues or concerns with the Board outside of the AGM, they are welcome to do so at any time. The Chairman is available to meet directly with shareholders periodically to understand their views on governance and the Company's performance where they wish to do so. He may be contacted via the Company Secretary whose details are given on page 109.</p> <p>The Annual Report and Half Yearly Financial Report are available on the Company's website and are also circulated to shareholders either in printed copy or via electronic communications. In addition, regular updates on performance, monthly factsheets, the daily NAV and other information are also published on the website at <a href="http://www.blackrock.com/uk/brsc">www.blackrock.com/uk/brsc</a>.</p> <p>The Board also works closely with the Manager to develop the Company's marketing strategy, with the aim of ensuring effective communication with shareholders in respect of the investment mandate and objective. Unlike trading companies, one-to-one shareholder meetings usually take the form of a meeting with the portfolio manager as opposed to members of the Board. As well as attending regular investor meetings the portfolio managers hold regular discussions with wealth management desks and offices to build on the case for, and understanding of, long-term investment opportunities in the UK smaller companies' sector.</p>	<p>The Board values any feedback and questions from shareholders ahead of and during Annual General Meetings in order to gain an understanding of their views and will take action when and as appropriate. Feedback and questions will also help the Company evolve its reporting, aiming to make reports more transparent and understandable.</p> <p>Feedback from all substantive meetings between the Investment Manager and shareholders will be shared with the Board. The Directors will also receive updates from the Company's broker on any feedback from shareholders, as well as share trading activity, share price performance and an update from the Investment Manager.</p> <p>The portfolio management team attended a number of professional investor meetings (mainly by videoconference) and held discussions with many different wealth management desks and offices in respect of the Company during the year under review.</p> <p>The portfolio manager also presented at virtual events hosted by Boring Money, Investor Meet, Kepler and Citywire. In addition, the portfolio manager met with a number of investors throughout the year.</p> <p>Investors gave positive feedback in respect of the portfolio manager, the good long-term track record, clear investment strategy and low fee. Some investors commented that they liked the fact that (in common with many closed-ended funds across the sector) the Company's discount had widened, making the shares excellent value.</p> <p>Investors expressed concerns over the outlook for UK consumers and the potential for economic data to deteriorate.</p>

Area of Engagement	Issue	Engagement	Impact
		<p>The Manager also coordinates public relations activity, including meetings between the portfolio managers and shareholders and potential investors to set out their vision for the portfolio strategy and outlook for the region and in the year under review, the Company held a number of webcasts and virtual conferences as well as meeting with investors by videoconference.</p> <p>The Manager releases monthly portfolio updates to the market to ensure that investors are kept up to date in respect of performance and other portfolio developments and maintains a website on behalf of the Company that contains relevant information in respect of the Company's investment mandate and objective.</p>	

# Strategic Report

continued

## Environmental, Social and Governance Issues and Approach

### The Board's approach

Environmental, social and governance (ESG) issues can present both opportunities and risks to long-term investment performance. Whilst the Company does not exclude investment in stocks purely on ESG criteria, ESG analytics are fully integrated into the investment process when weighing up the risk and reward benefits of investment decisions and the Board believes that communication and engagement with portfolio companies is important and can lead to better outcomes for shareholders and the environment than merely excluding investment in certain areas.

More information on BlackRock's global approach to ESG integration, as well as activity specific to the BlackRock Smaller Companies Trust plc portfolio, is set out below. BlackRock has defined ESG integration as the practice of incorporating material ESG information and consideration of sustainability risks into investment decisions in order to enhance risk-adjusted returns. ESG integration does not change the Company's investment objective. More information on sustainability risks may be found in the AIFMD Fund Disclosures document of the Company available on the Company's website at <https://www.blackrock.com/uk/individual/literature/policies/itc-disclosure-blackrock-smaller-companies-trust-plc.pdf>

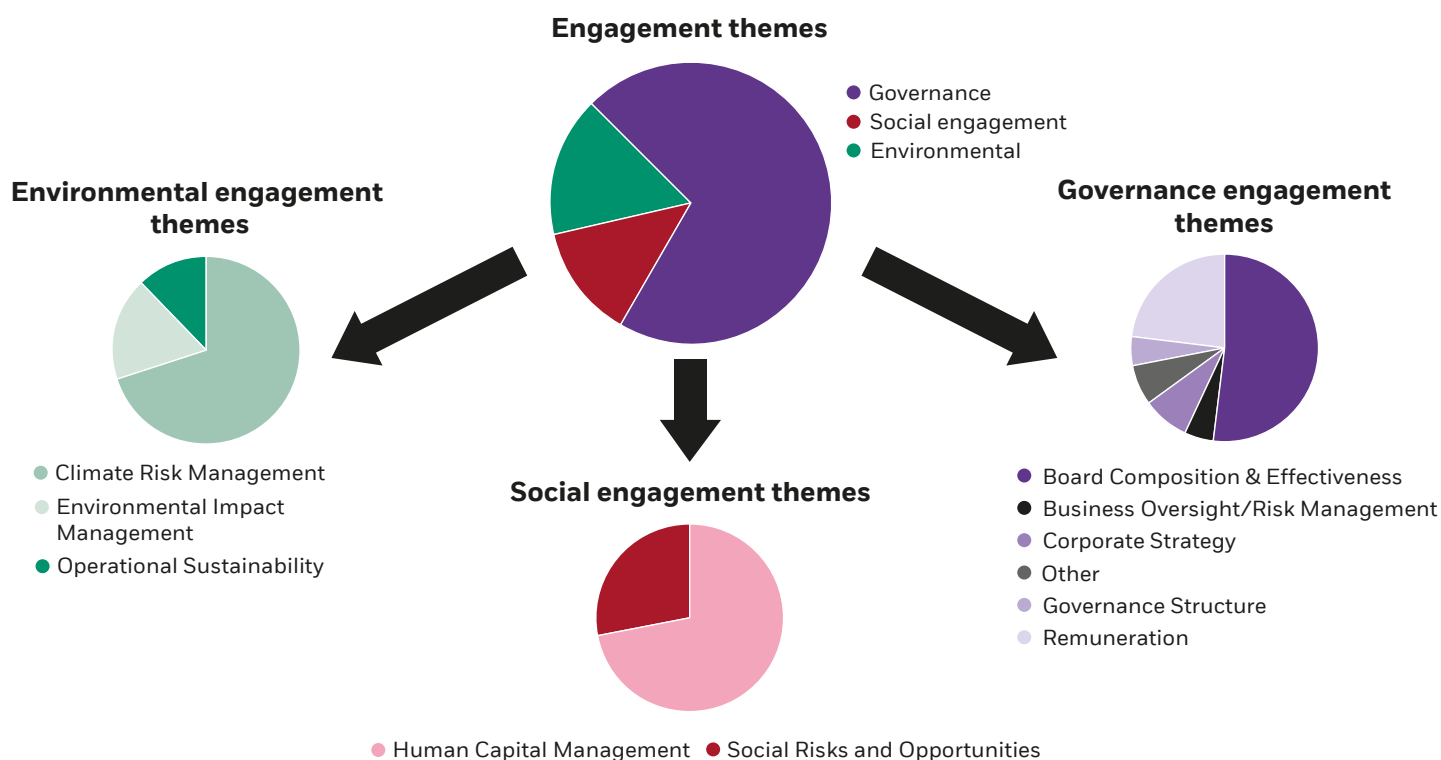
### BlackRock Smaller Companies Trust plc – BlackRock Investment Stewardship engagement with portfolio companies for the year ended 28 February 2023

The BlackRock portfolio management team has excellent access to company management teams and undertakes about 700 company meetings each year to identify high quality, cash generative businesses with strong management teams that are able to generate growth in a more challenging economic environment. In addition, BlackRock also has a separate Investment Stewardship (BIS) team that is committed to promoting sound corporate governance through engagement with investee companies, development of proxy voting policies that support best governance practices and wider engagement on public policy issues. For the year to 28 February 2023, BIS held 55 company engagements on a range of governance issues with the management teams of 41 companies in the BlackRock Smaller Companies Trust portfolio, representing 37.3% of the portfolio by value at 28 February 2023. Additional information is set out in the table below and the charts on page 45 as well as the key engagement themes for the meetings held in respect of the Company's portfolio holdings.

	Year ended 28 February 2023	Year ended 28 February 2022
Number of engagements held <sup>1</sup>	55	32
Number of companies met <sup>1</sup>	41	25
% of equity investments covered <sup>2</sup>	37.3	23.3
Shareholder meetings voted at <sup>1</sup>	115	133
Number of proposals voted on <sup>1</sup>	1,631	1,690
Number of votes against management <sup>1</sup>	75	98
% of total votes represented by votes against management	4.6	5.8

<sup>1</sup> Source: Institutional Shareholder Services as at 28 February 2023.

<sup>2</sup> Source: BlackRock. Company valuation as included in the portfolio at 28 February 2023 as a percentage of the total portfolio value.



## BlackRock's approach to ESG integration

BlackRock believes that sustainability risks, including climate risks, are investment risks. As a fiduciary, we manage material risks and opportunities that could impact portfolios. Sustainability can be a driver of investment risks and opportunities, and we incorporate them in our firm wide processes when they are material. This in turn (in BlackRock's view) is likely to drive a significant reallocation of capital away from traditional carbon intensive industries over the next decade. BlackRock believes that carbon-intensive companies will play an integral role in unlocking the full potential of the energy transition, and to do this, they must be prepared to adapt, innovate and pivot their strategies towards a low carbon economy.

As part of BlackRock's structured investment process, material ESG risks and opportunities (including sustainability/climate risk) are considered within the portfolio management team's fundamental analysis of companies and industries and the Company's portfolio managers work closely with BlackRock's Investment Stewardship (BIS) team to assess the governance quality of companies and any potential material risks or opportunities.

As part of their approach to ESG integration, the portfolio managers use ESG information when conducting research and due diligence on new investments and again when monitoring investments in the portfolio. In particular, portfolio managers at BlackRock now have access to 1,200 key ESG performance indicators in Aladdin (BlackRock's proprietary trading system) from third-party data providers. BlackRock's internal sustainability research framework scoring is also

available alongside third-party ESG scores in core portfolio management tools. BlackRock's analyst's sector expertise and local market knowledge allows it to engage with companies through direct interaction with management teams and conducting site visits. In conjunction with the portfolio management team, BIS engages with company leadership to understand how they are identifying and managing material business risks and opportunities, including sustainability-related risks and the potential impacts these may have on long-term performance. BIS' and the portfolio management team's understanding of material sustainability related risks and opportunities is further supported by BlackRock's Sustainable and Transition Solutions (STS) team. STS look to advance ESG research and integration, active engagement and the development of sustainable investment solutions across the firm.

## Investment Stewardship

Consistent with BlackRock's fiduciary duty as an asset manager, BIS seeks to support investee companies in their efforts to deliver long-term durable financial performance on behalf of our clients. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and, ultimately, individual investors, among others. BIS serves as a link between BlackRock's clients and the companies they invest in. Clients depend on BlackRock to help them meet their investment goals; the business and governance decisions that companies make may have a direct impact on BlackRock's clients' long-term investment outcomes and financial well-being.

# Strategic Report

continued

## Global principles

BlackRock's approach to corporate governance and stewardship is comprised in BIS' Global Principles and market-specific voting guidelines. BIS' policies set out the core elements of corporate governance that guide its investment stewardship activities globally and within each regional market, including when voting at shareholder meetings for those clients who have authorised BIS to vote on their behalf. Each year, BIS reviews its policies and updates them as necessary to reflect changes in market standards and regulations, insights gained over the year through third-party and its own research, and feedback from clients and companies. BIS' Global Principles are available on its website at [www.blackrock.com/corporate/literature/factsheet/blk-responsible-investment-engprinciples-global.pdf](http://www.blackrock.com/corporate/literature/factsheet/blk-responsible-investment-engprinciples-global.pdf)

## Market-specific proxy voting guidelines

BIS' voting guidelines are intended to help clients and companies understand its thinking on key governance matters. They are the benchmark against which it assesses a company's approach to corporate governance and the items on the agenda to be voted on at a shareholder meeting. BIS applies its guidelines pragmatically, taking into account a company's unique circumstances where relevant. BlackRock informs voting decisions through research and engages as necessary. BIS reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year. BIS' market-specific voting guidelines are available on its website at [www.blackrock.com/corporate/about-us/investment-stewardship#stewardship-policies](http://www.blackrock.com/corporate/about-us/investment-stewardship#stewardship-policies)

BlackRock is committed to transparency in terms of disclosure of its stewardship activities on behalf of clients. BIS publishes its stewardship policies – such as the Global Principles, engagement priorities, and voting guidelines – to help BlackRock's clients understand its work to advance their interests as long-term investors in public companies. Additionally, BIS publishes both annual and quarterly reports detailing its stewardship activities, as well as vote bulletins that describe its rationale for certain votes at high profile shareholder meetings. More detail in respect of BIS reporting can be found at [www.blackrock.com/corporate/about-us/investmentstewardship](http://www.blackrock.com/corporate/about-us/investmentstewardship)

## BlackRock's reporting and disclosures

In terms of its own reporting, BlackRock believes that the Sustainability Accounting Standards Board provides a clear set of standards for reporting sustainability information across a wide range of issues, from labour practices to data privacy to business ethics. For evaluating and reporting climate-related risks, as well as the related governance issues that are essential to managing them, the Task Force on Climate-related Financial Disclosures (TCFD) provides a valuable framework. BlackRock recognises that reporting to these standards requires significant time, analysis, and effort. BlackRock's 2021 TCFD report can be found at [www.blackrock.com/corporate/literature/continuous-disclosureand-important-information/tcfid-report-2021-blkinc.pdf](http://www.blackrock.com/corporate/literature/continuous-disclosureand-important-information/tcfid-report-2021-blkinc.pdf)

For and on behalf of the Board

### RONALD GOULD

Chairman  
5 May 2023



# Directors' Report

The Directors present the Annual Report and audited Financial Statements of the Company for the year ended 28 February 2023.

## Status of the Company

The Company was incorporated in Scotland on 2 May 1906 under the registered number SC006176 and is domiciled in the United Kingdom. The Company is a public company limited by shares and is also an investment company under Section 833 of the Companies Act 2006 and operates as such.

The Company has been approved by HM Revenue & Customs as an investment trust in accordance with Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

As an investment company that is managed and marketed in the United Kingdom, the Company is an Alternative Investment Fund (AIF) falling within the scope of, and subject to the requirements of, the Alternative Investment Fund Managers' Directive (AIFMD) as implemented, retained and onshored in the UK. The Company is governed by the provisions of the UK Alternative Investment Fund Managers' Regulations 2013 (the Regulations). The Company must also comply with the Regulations in respect of leverage, outsourcing, conflicts of interest, risk management, valuation, remuneration and capital requirements and must also make additional disclosures to both shareholders and the Financial Conduct Authority (FCA). Further details are set out in the AIFMD disclosures and in the Notes to the Financial Statements.

The Company's shares are eligible for inclusion in the stocks and shares component of an Individual Savings Account ('ISA').

## Information to be disclosed in accordance with Listing Rule 9.8.4 (information to be included in annual report and financial statements)

Disclosures in respect of how the Company has complied with Listing Rule 9.8.4 are set out on page 115.

## Facilitating retail investments

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments and intends to continue to do so for the foreseeable future.

In the context of the implementation of RDR (Retail Distribution Review) and the growing popularity of investment trusts on platforms, it is worth noting that the Company's shares are designed for private investors in the

UK, including retail investors and professionally advised private clients. It is also attractive to institutional investors who seek long-term capital growth and an attractive total return from quoted securities through investing in smaller UK quoted companies and who understand and are willing to accept the risks of exposure to equities. When assessing the suitability of the shares, private investors should consider consulting an independent financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Naturally, investors should also be capable of evaluating the risks and merits of an investment in the Company and should always have sufficient resources to bear any loss that may result.

## The common reporting standard

Tax legislation under the Organisation for Economic Cooperation and Development (OECD) Common Reporting Standard for Automatic Exchange of Financial Account Information (the Common Reporting Standard) was introduced on 1 January 2016.

The legislation requires investment trust companies to provide personal information to HMRC about investors who purchase shares in investment trusts. The Company has 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. The local tax authority to which the information is initially passed may in turn exchange the information with the tax authorities of another country or countries in which the shareholder may be tax resident, where those countries (or tax authorities in those countries) have entered into agreements to exchange financial account information.

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

## Shareholder Rights Directive II

The Shareholder Rights Directive II took effect from 10 July 2019 with some transitional provisions. It encourages long-term shareholder engagement and transparency between companies and shareholders. In substantive terms the changes were small for investment companies and the majority of requirements apply to the Company's remuneration policy and disclosure of processes, as well as related party transactions. There are also additional rules for Alternative Investment Fund Managers and proxy advisers.

## Dividends

Details of the dividends paid and payable in respect of the year are set out in the Chairman's Statement.

## Future prospects

Commentary on future prospects for the Company is set out in both the Chairman's Statement and the Investment Manager's Report.

# Directors' Report

continued

## Investment management and administration

BlackRock Fund Managers Limited (BFM, AIFM or Manager) was appointed as the Company's AIFM with effect from 2 July 2014.

BlackRock Investment Management (UK) Limited (BIM (UK) or Investment Manager) acts as the Company's Investment Manager under a delegation agreement with BFM. BIM (UK) also acted as the Secretary of the Company throughout the year.

The management contract is terminable by either party on six months' notice. The Board continues to be independent from the AIFM. The agreement provides the appropriate balance between the Board's control over the Company, its investment policies and compliance with regulatory obligations. The AIFM has (with the Company's consent) delegated certain portfolio and risk management services, and other ancillary services, to the Investment Manager. The Investment Manager also acted as the Secretary of the Company throughout the year.

No penalty on termination of the investment management contract would be payable by the Company in the event that six months' written notice is given to the Manager. There are no provisions relating to payment of fees in lieu of notice.

The Company contributes to a focused investment trust sales and marketing initiative operated by BlackRock on behalf of the investment trusts under its management. The Company's contribution to the consortium element of the initiative, which enables the trusts to achieve efficiencies by combining certain sales and marketing activities was a fixed amount of £67,000 (excluding VAT) and this contribution was matched by the Investment Manager for the year ended 31 December 2022. In addition, a budget of £51,000 (excluding VAT) was allocated for Company specific sales and marketing activity also for the year to 31 December 2022. For the financial year ended 28 February 2023, £170,000 (including VAT) has been charged in respect of these initiatives. The purpose of the programme overall is to ensure effective communication with existing shareholders and to attract new shareholders to the Company. This has the benefit of improving liquidity in the Company's shares and helps sustain the stock market rating of the Company.

The Manager and the Investment Manager are subsidiaries of BlackRock, Inc., which is a publicly traded corporation on the New York Stock Exchange, operating as an independent firm.

The AIFM receives an investment management fee which is based on a rate of 0.6% of the first £750 million of the Company's assets, reducing to 0.5% above this level. The fee rate was applied to an asset amount calculated as total assets (excluding current year income) less the current liabilities of the Company (the "Fee Asset Amount"). The investment management fee is allocated 75% to the capital column and

25% to the revenue column of the Income Statement. The Company has no performance fee arrangements in place.

## Appointment of the manager

The Board considers the arrangements for the provision of investment management services to the Company on an ongoing basis and a formal review is conducted annually. The Board believes that the continuing appointment of the Manager as AIFM, with investment management services delegated to the Investment Manager, on the terms as previously disclosed, is in the interests of shareholders as a whole. As part of the annual review the Board considered the quality and continuity of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date. In the Board's view, the investment remit is best served by the BlackRock Emerging Companies Team, as manager of some of the best performing UK equity funds specialising in small- and mid-cap investments.

## Depositary and custodian

The Company appointed BNY Mellon Trust & Depositary (UK) Limited (BNYMTD) in this role with effect from 2 July 2014. However, with effect from 1 November 2017, the role of Depositary was transferred, by operation of a novation agreement, from BNYMTD to its parent Company, The Bank of New York Mellon (International) Limited (BNYM or the Depositary). The Depositary's duties and responsibilities are outlined in the investment fund legislation (as set out in the FCA AIF Rulebook). The main role of the Depositary under AIFMD is to monitor the operations of the Company, including monitoring cash flows and ensuring that the value of the Company's shares is valued appropriately in accordance with the relevant regulations and guidance. The Depositary is also responsible for enquiring into the conduct of the AIFM in each annual accounting period. The Company has appointed the Depositary in a tripartite agreement, to which the Manager as AIFM is also a signatory. The Depositary is also liable for the loss of financial instruments held in custody.

Under the depositary agreement, custody services in respect of the Company's assets have been delegated to the Asset Servicing division of BNYM. BNYM receives a custody fee payable by the Company at rates depending on the number of trades effected and the location of securities held. The depositary agreement is subject to 90 days' notice of termination by any party.

## Registrar

The Company has appointed Computershare Investor Services PLC as its Registrar (the Registrar). The principal duty of the Registrar is the maintenance of the register of shareholders (including registering transfers). It also provides services in relation to corporate actions (including tender offers and the exercise of subscription shares), dividend administration and shareholder documentation. The Registrar receives a fixed fee plus disbursements and

VAT per annum. Fees in respect of corporate actions and other services are negotiated on an arising basis.

## **Change of control**

There are no agreements to which the Company is party that might be affected by a change of control of the Company.

## **Exercise of voting rights in investee companies**

The exercise of voting rights attached to the Company's portfolio has been delegated to the Investment Manager, whose voting policy is set out below. BlackRock's approach to voting at shareholder meetings, engagement with companies and corporate governance is framed within an investment context. BlackRock believes that sound corporate governance practices by companies contribute to their long-term financial performance and thus to better risk-adjusted returns.

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team, located in five offices around the world. In addition to its own professional staff, the BlackRock Investment Stewardship team draws upon the expertise of BlackRock's portfolio managers, researchers and other internal and external resources globally. BlackRock's global corporate governance and engagement principles are published on the website at [www.blackrock.com/corporate/en-us/about-us/investment-stewardship](http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship). The principles set out BlackRock's views on the overarching features of corporate governance that apply in all markets. For each region, BlackRock also publishes market-specific policies, which are updated every year to ensure they remain relevant. The voting guidelines are principles based and not prescriptive because BlackRock believes that each voting situation needs to be assessed on its merits. Voting decisions are taken to support the outcome that BlackRock believes (in its professional judgement) will best protect the economic interests of its clients.

During the year under review, the Investment Manager voted on 1,631 proposals at 115 general meetings on behalf of the Company. At these meetings the Investment Manager voted in favour of most resolutions, as should be expected when investing in well run companies but voted against 48 management resolutions and abstained from voting on 25 resolutions. Most of the votes against were in respect of resolutions relating to directors' remuneration or to elect or remove directors or to approve the issuance of equity, which were deemed by the Investment Manager as not being in the best interest of shareholders.

## **Principal risks**

The key risks faced by the Company are set out in the Strategic Report.

## **Going concern**

The Financial Statements of the Company have been prepared on a going concern basis. The forecast projections and actual performance are reviewed on a regular basis

throughout the year and the Directors believe that this is the appropriate basis, and the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date these Financial Statements were approved, and is financially sound. The Company is able to meet all of its liabilities from its assets and the 2023 ongoing charges are approximately 0.7% (2022: 0.7%) of the net assets.

## **Directors**

The Directors of the Company as at 28 February 2023 and their biographies are set out on pages 27 and 28. Details of Directors' interests in the ordinary shares of the Company are set out in the Directors' Remuneration Report. All of the Directors held office throughout the year under review.

All Directors will retire and being eligible, offer themselves for re-election or election at the forthcoming Annual General Meeting (AGM) to be held on 20 June 2023.

## **Board policy on tenure**

The Board's policy on tenure is that length of service does not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can add significantly to the strength of the Board.

However, mindful of the desirability of a combination of continuity and renewal, the Board has adopted a policy of limiting Directors' tenure to nine years. Subject to the constraints of effective succession planning, it is the Board's aim that no Director will serve on the Board for more than nine years (or twelve years in the case of the Chairman). The longer time limit for the Chairman's tenure is to allow for continuity of leadership in circumstances where a Chairman is appointed from the ranks of existing Board members after having already served on the Board for a period of time.

After due consideration and further to the annual evaluation process, the Board has concluded that all the Directors continue to be independent in both character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Board has considered the position of the Directors, as part of the evaluation process, and believes that it would be in the Company's best interests for all the Directors to be proposed for re-election or election, given their material level of contribution. Details of the evaluation process are set out in the Corporate Governance Statement.

There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business. None of the Directors is entitled to compensation for loss of office on the takeover of the Company. None of the Directors has a service contract with the Company. The Directors' attendance record is shown in the table on page 52.

# Directors' Report

continued

## Directors' indemnity and Directors' liability insurance

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year. In addition to Directors' and Officers' Liability Insurance cover, the Company's Articles provide, subject to the provisions of applicable UK legislation, an indemnity for Directors in respect of costs incurred in the defence of any proceedings brought against them by third parties arising out of their positions as Directors, in which they are acquitted, or judgement is given in their favour. The Company has entered into Deeds of Indemnity with Directors individually which are available for inspection at the registered office of the Company and will be available at the Annual General Meeting.

## Conflicts of interest

The Board has put in place a framework for Directors to report conflicts of interest or potential conflicts of interest which it believes has worked effectively during the year. All Directors notified the Company Secretary of any situations where they considered that they had a direct or indirect interest, or duty that conflicted or possibly conflicted, with the interests of the Company. All such situations were reviewed by the Board and duly authorised. Directors were also made aware that there remains a continuing obligation to notify the Company Secretary of any new situation that may arise, or any change to a situation previously notified. It is the Board's intention to continue to review all notified situations on an annual basis.

## Streamlined Energy and Carbon Reporting (SECR) statement: greenhouse gas (GHG) emissions and energy consumption disclosure

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations, nor does it have any responsibility for any other emissions producing sources under the Companies Act (Strategic Report and Directors' Reports) Regulations 2013. For the same reason the Company considers itself to be a low energy user under the SECR regulations and therefore is not required to disclose energy and carbon information.

## Articles of association

Any amendments to the Company's Articles of Association must be made by special resolution.

## Remuneration report

The Directors' Remuneration Report is set out on pages 54 to 57. An ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting.

## Remuneration policy

The Remuneration policy is set out on pages 58 and 59. An ordinary resolution to approve this policy will be put to shareholders at the Annual General Meeting in 2023.

## Notifiable interest in the Company's voting rights

As at 28 February 2023, the following investors had declared a notifiable interest in the Company's voting rights:

	Holding	%
BlackRock, Inc.*	5,191,766	10.63
Rathbone Bros	4,640,474	9.50
Investec Wealth & Management	2,025,220	4.16
Tilney Smith & Williamson	2,122,672	4.36

\* Including 2,060,781 shares held by BlackRock Institutional Jersey Funds (The Dynamic Diversified Growth Fund) representing 4.2% of the Company's issued share capital. The remainder of BlackRock Inc.'s holding represents shareholdings of investment vehicles managed by members of the BlackRock Group and discretionary managed money, none of which exceeds 3% of the Company's issued share capital on an individual fund basis.

As at 2 May 2023, the following investors had declared a notifiable interest in the Company's voting rights:

	Holding	%
BlackRock, Inc.*	5,191,766	10.68
Rathbone Bros	4,640,474	9.54
Tilney Smith & Williamson	2,122,672	4.36
Investec Wealth & Management	2,025,220	4.16

\* Including 2,060,781 shares held by BlackRock Institutional Jersey Funds (The Dynamic Diversified Growth Fund) representing 4.2% of the Company's issued share capital. The remainder of BlackRock Inc.'s holding represents shareholdings of investment vehicles managed by members of the BlackRock Group and discretionary managed money, none of which exceeds 3% of the Company's issued share capital on an individual fund basis.

## Share capital

Full details of the Company's share capital are given in note 15 of the Financial Statements. Details of the voting rights in the Company's shares as at the date of this report are given in note 18 to the Notice of Annual General Meeting. There are no restrictions on the voting rights of the shares or on the transfer of shares, and there are no shares that carry specific rights with regard to the control of the Company. At 28 February 2023, the Company's issued share capital was 48,829,792 ordinary shares, excluding 1,163,731 shares held in treasury.

## Share issues and repurchases

The Company has the authority to purchase ordinary shares in the market to be held in treasury or for cancellation and to issue new ordinary shares for cash. No shares were purchased or issued under either authority during the year. Since the year end and as at the date of this report, the Company has bought back 220,000 shares for costs of £2,917,000 at an average discount of 13.3%. The current authority to repurchase ordinary shares was granted to Directors on 9 June 2022 and expires at the conclusion of the Annual General Meeting in 2023. The Directors are proposing that their authority to buy back shares to be held in treasury, or for cancellation, and to issue new ordinary shares or sell shares from treasury, be renewed at the forthcoming Annual General Meeting.

## Treasury shares

The Board has determined that up to 10% of the Company's issued shares may be held in treasury and may be subsequently cancelled or sold for cash in the market. This would give the Company the ability to reissue shares quickly and cost effectively, thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base. The Board currently intends only to authorise the sale of shares from treasury at or above the prevailing net asset value per share (plus costs of the relevant sale). This should result in a positive overall effect on shareholders if shares are bought back at a discount and then sold at a price at or above the net asset value per share (plus costs of the relevant sale). In the interests of all shareholders, the Board will continue to keep the matter of treasury shares under review.

## Annual General Meeting

The following information to be discussed at the forthcoming Annual General Meeting is important and requires your immediate attention. If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents, including the form of proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

## Resolutions for the election and re-election of Directors

The biographies of the Directors are set out on pages 27 and 28 and are incorporated into this report by reference. The skills and experience each Director brings to the Board for the long-term sustainable success of the Company are set out below. All of the Directors held office throughout the year under review and all of the Directors will stand for re-election by shareholders at the meeting in accordance with the requirements of the UK Code.

### Resolution 5

Relates to the re-election of Mr Ronald Gould who was appointed on 1 April 2019. Mr Gould has current and detailed knowledge of the financial services industry and investment management and investment trusts. He brings leadership skills and much in-depth knowledge, expertise and experience of the sector to the Board, having served as Managing Director of the Promontory Financial Group and acted as Senior Adviser to the UK Financial Services Authority, as well as serving as a non-executive director on another investment trust board.

### Resolution 6

Relates to the re-election of Ms Susan Platts-Martin who was appointed on 21 April 2016, and who was appointed Senior Independent Director on 28 July 2020. She brings over 30 years financial services experience and an in-depth knowledge of investment trusts, having run the investment trust business at Fidelity International for many years and as the Chairman of another investment trust. She is a qualified chartered accountant and brings this skill set to her role as a member of the Company's Audit Committee.

### Resolution 7

Relates to the re-election of Mr Mark Little who was appointed on 1 October 2020. Mr Little has a wealth of experience in the financial services sector which he brings to his role on the Board, having begun his career as a fund manager with Scottish Widows Investment Management after qualifying as a chartered accountant with Price Waterhouse in 1991. He subsequently worked as Global Head of Automotive Research for Deutsche Bank and joined Barclays Wealth in 2005, where he became Managing Director of Barclays Wealth (Scotland and Northern Ireland). Mr Little also has audit committee experience, chairing the audit committees of Majedie Investments Plc and Securities Trust of Scotland Plc; he also previously acted as audit committee chairman of Sanditon Investment Trust plc.

### Resolution 8

Relates to the re-election of Mr James Barnes who was appointed on 31 July 2021. Mr Barnes brings to the Board a wealth of experience, especially in the UK smaller companies' sector. He began his career in corporate finance and investment banking. He was formerly a director of Dobbies Garden Centres plc and was instrumental in growing the business and leading its sale to Tesco in 2003. He was also previously a Director and Chairman of Dunedin Smaller Companies Investment Trust plc (now Standard Life UK Smaller Companies plc) and currently holds a number of other non-executive roles in other businesses.

### Resolution 9

Relates to the re-election of Ms Helen Sinclair who was appointed on 1 March 2022. Ms Sinclair began her career in investment banking and spent nearly eight years at 3i plc focusing on management buy-outs and growth capital investments. She later co-founded Matrix Private Equity (which became Mobeus Equity Partners) in early 2000 and subsequently became Managing Director of Matrix Private Equity before moving to take on a number of nonexecutive director roles.

## Special business

### Ordinary resolutions

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting.

# Directors' Report

continued

## Resolution 12 Directors' Remuneration

At present, Article 90 of the Company's Articles of Association, which deals with Directors' remuneration, sets an aggregate limit of £200,000 per annum on Directors' fees. The Board is proposing as an ordinary resolution that the aggregate limit on Directors' fees be increased to £250,000 per annum. This will provide for an overlap of Directors upon retirement and replacement in accordance with the Company's succession plan. The increase in the aggregate limit would also facilitate any future increase in Directors' fees to reflect market trends and to ensure that the remuneration of the Directors is sufficient to attract and retain Directors with suitable knowledge and experience. The Board notes that demands on Directors' time and involvement has materially increased over the last few years, not least in response to a significant increase in the legislative and regulatory requirements that the Company must comply with. Full details of the fees paid to Directors are set out in the Directors' Remuneration Report on pages 54 to 57.

## Resolution 13 Authority to allot shares

The Directors may only allot shares for cash if authorised to do so by shareholders in general meeting. This resolution seeks authority for the Directors to allot shares for cash up to an aggregate nominal amount of £1,215,244.80 which is equivalent to 4,860,979 ordinary shares of 25p each and represents 10% of the current issued share capital excluding treasury shares. The Directors will use this authority when it is in the best interests of the Company to issue shares for cash. This authority will expire at the conclusion of the Annual General Meeting to be held in 2024, unless renewed prior to that date at an earlier general meeting.

## Special resolutions

### Resolution 14 Authority to disapply pre-emption rights

By law, directors require specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 13 empowers the Directors to allot new shares for cash or to sell shares which are held by the Company in treasury, otherwise than to existing shareholders on

a pro rata basis, up to an aggregate nominal amount of £1,215,244.80 which is equivalent to 4,860,979 ordinary shares of 25p each and 10% of the Company's issued ordinary share capital excluding treasury shares. This authority will expire at the conclusion of the Annual General Meeting to be held in 2024, unless renewed prior to that date at an earlier general meeting.

## Resolution 15 Authority to buy back shares

The resolution to be proposed will seek to renew the authority granted to the Directors enabling the Company to purchase its own shares. The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. Under the Listing Rules of the FCA, the maximum price which can be paid is the higher of (i) 5% above the average market value of the ordinary shares for the five business days immediately preceding the date on which the purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of, and (b) the highest current independent bid for, any number of ordinary shares on the trading venue where the purchase is carried out. In making purchases, the Company will deal only with member firms of the London Stock Exchange. The Directors are seeking authority to purchase up to 7,286,607 ordinary shares (being 14.99% of the issued share capital excluding treasury shares). This authority will expire at the conclusion of the Annual General Meeting to be held in 2024, unless renewed prior to that date at an earlier general meeting.

## Recommendation

The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

As mentioned in the Chairman's Statement, if you are unable to attend the meeting in person you can cast your vote by proxy, either by appointing the Chairman as your proxy or alternatively a third party. Details on how to do so are included on the Proxy Card provided. If you hold your shares through a Nominee or Platform you will need to contact

Attendance Record	Total scheduled meetings	Ronald Gould <sup>1</sup>	Susan Platts-Martin	Mark Little	James Barnes	Helen Sinclair
Board	5	5	5	5	5	5
Audit Committee	3	n/a	3	3	3	3
Management Engagement Committee	1	1	1	1	1	1
Nomination Committee <sup>2</sup>	1	1	1	1	1	1

<sup>1</sup> Mr Gould is not a member of the Audit Committee but may attend by invitation. He was in attendance at all three Audit Committee meetings held for the year ended 28 February 2023.

<sup>2</sup> Prior to 5 May 2023, the Company had in place a Nomination Committee which was responsible for succession planning and making recommendations for any new appointments as well as reviewing the Board's structure and composition. There was no separate Remuneration Committee and the Board itself performed duties in respect of setting Directors' remuneration and remuneration policy for the Company. On 5 May 2023 the Directors established a combined Nomination and Remuneration Committee to perform these duties on an ongoing basis. This combined Committee will meet annually in February/March each year, or more frequently as required on an ad hoc basis.

them directly to instruct them on how you wish to vote or to request that they appoint you as a proxy in respect of your shareholding should you wish to attend the meeting. It may also be possible to vote electronically via the platform. If you are able to do so we would encourage shareholders to exercise your vote.

### **Corporate governance**

Full details are given in the Corporate Governance Statement. The Corporate Governance Statement forms part of this Directors' Report.

### **Audit information**

As required by Section 418 of the Companies Act 2006 the Directors who held office at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and resolutions proposing their reappointment and authorising the Audit Committee to determine their remuneration for the ensuing year will be submitted at the Annual General Meeting.

The Directors' Report was approved by the Board at its meeting on 5 May 2023.

For and on behalf of the Board

### **RONALD GOULD**

Chairman  
5 May 2023

# Directors' Remuneration Report

## Introduction

On behalf of the Board, the Nomination and Remuneration Committee presents the Directors' Remuneration Report for the year ended 28 February 2023 which has been prepared in accordance with the requirements of Sections 420-422 of the Companies Act 2006.

The Remuneration Report comprises a remuneration policy report and a remuneration policy implementation report. The remuneration policy report is subject to a triennial binding shareholder vote and will be put to shareholders for approval at the AGM in 2023. The remuneration policy implementation report is subject to an annual advisory vote. The law requires the Company's independent auditors to audit certain parts of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 72 to 77.

## Nomination and Remuneration Committee

At its meeting on 5 May 2023, the Board expanded the responsibilities of the Company's Nomination Committee and put in place a new combined Nomination and Remuneration Committee. As well as responsibility for succession planning and Board composition, this newly formed Committee has delegated responsibility for determining the policy for directors' remuneration and setting remuneration for the Company's Chair, Audit Committee Chair, Senior Independent Director and independent non-executive Directors in accordance with the principles and provisions of the UK Code. The Committee's responsibilities include reporting and making recommendations to the Board on all matters of remuneration.

## Statement by the Chairman of the Nomination and Remuneration Committee

The Company's policy on remuneration is set out on pages 58 and 59. A key element is that fees payable to Directors should be sufficient to attract and retain individuals with suitable knowledge and experience, and that consideration is given to the value and amount of time committed. The Committee's focus is on setting the strategy for the successful progression of the Company and monitoring performance against the strategic objectives set. In order to do this effectively, Directors spend a substantial amount of time preparing for the five scheduled Board meetings and three Audit Committee meetings held each year. At these meetings, the Directors review the Company's portfolio, monitor investment performance and review compliance with investment guidelines. The Board also reviews and monitors the Company's ongoing operating costs to ensure that these represent optimal value and are in line with agreed budgets. In addition, the Board sets the marketing strategy of the Company and contributes to a sales and marketing initiative operated by BlackRock; the Board has set key performance indicators to monitor progress and reviews these on a regular basis to monitor and assess the effectiveness of this initiative.

The Chairman makes himself available to meet directly with shareholders when required and the Board monitors

the Company's share rating closely and is responsible for determining the appropriate action to be taken to manage this where necessary. Directors are also responsible for establishing and maintaining the Company's control systems to manage risk effectively, and a register of these controls and the risks facing the Company are reviewed at each Audit Committee meeting, along with control reports from external auditors. Directors also receive an annual update from BlackRock's internal audit department. As well as this usual business, Directors also spend additional time as and when required in ad hoc meetings to address other issues as they arise, including the Board's response to emerging risks such as the COVID-19 pandemic. Investment trusts are subject to a large number of regulatory and disclosure requirements, including the requirements of the UK Code, UKLA Listing Rules, and Investment Trust Company tax regulations. The regulatory burden has increased significantly in recent years, with the implementation of AIFMD, GDPR, FATCA and the Common Reporting Standard requiring considerable additional time to be spent by the Board to ensure that new depositary and management agreements comply with best industry practice. There are yet more new regulatory obligations that will become applicable to the Company over the next few years, all of which are expected to generate an increased workload for Directors, and the Board will continue to be mindful of this in setting remuneration levels.

For the year ended 28 February 2023, the Chairman received an annual fee of £44,500, the Audit Committee Chairman received £34,000 per annum and the other Directors received £30,000 per annum. The Senior Independent Director received an additional fee of £1,000. Following a review on 21 February 2023, and with effect from 1 March 2023, the Chairman will receive an annual fee of £46,735, the Audit Committee Chairman will receive £35,700 per annum and the other Directors will each receive £31,500 per annum. The Senior Independent Director will also receive an additional £1,050 per annum. The basis for determining the level of any increase in Directors' remuneration is set out in the Directors' Remuneration Policy on pages 58 and 59.

No discretionary fees have been paid to the Directors during the year or previous year and the payment of such fees is expected to be a rare occurrence, only necessary in exceptional circumstances. Any discretionary fees paid to the Directors will be clearly disclosed in the Directors' Remuneration Report accompanied by an explanation of the work undertaken and any it was deemed necessary to pay such additional remuneration.

## Remuneration limits contained within Articles of Association

The maximum remuneration of the Directors is determined within the limits of the Company's Articles and currently amounts in aggregate to £200,000 per annum. No element of the Directors' remuneration is performance related. Approval is being sought at the 2023 AGM for an increase in the aggregate annual limit on Directors' fees. Full details of the proposed increase are provided on page 52 of the Directors' Report.



## Remuneration implementation report (audited)

A single figure for the total remuneration of each Director is set out in the table below for the years ended 28 February 2023 and 28 February 2022:

Directors	28 February 2023			28 February 2022		
	Fees	Taxable benefits <sup>8</sup>	Total	Fees	Taxable benefits <sup>8</sup>	Total
	£	£	£	£	£	£
Ronald Gould <sup>1</sup> (Chairman)	44,500	–	44,500	42,750	–	42,750
Mark Little <sup>2</sup>	34,000	4,625	38,625	31,620	–	31,620
Susan Platts-Martin <sup>3</sup>	31,000	866	31,866	29,750	–	29,750
Helen Sinclair <sup>4</sup>	30,000	74	30,074	n/a	n/a	n/a
James Barnes <sup>5</sup>	30,000	4,566	34,566	16,700	418	17,118
Caroline Burton <sup>6</sup>	8,301	–	8,301	28,750	–	28,750
Michael Peacock <sup>7</sup>	–	–	–	9,240	–	9,240
<b>Total</b>	<b>177,801</b>	<b>10,131</b>	<b>187,932</b>	<b>158,810</b>	<b>418</b>	<b>159,228</b>

<sup>1</sup> Mr Gould joined the Board on 1 April 2019 and became Chairman on 4 June 2019.

<sup>2</sup> Mr Little joined the Board on 1 October 2020 and was appointed Audit Committee Chairman on 11 June 2021.

<sup>3</sup> Ms Platts-Martin became Senior Independent Director on 28 July 2020.

<sup>4</sup> Mrs Sinclair joined the Board on 1 March 2022.

<sup>5</sup> Mr Barnes joined the Board on 31 July 2021.

<sup>6</sup> Mrs Burton retired as a Director on 9 June 2022.

<sup>7</sup> Mr Peacock retired as a Director and Audit Committee Chairman on 11 June 2021.

<sup>8</sup> Taxable benefits relate to travel and subsistence costs.

The information in the above table has been audited. The amounts paid by the Company to the Directors were for services as non-executive Directors. As at 28 February 2023, an amount of £14,000 was outstanding to Directors in respect of their annual fees (28 February 2022: £13,000).

As the Company has no employees, the table above also comprises the total remuneration costs and benefits paid by the Company.

## Relative importance of spend on remuneration

To enable shareholders to assess the relative importance of spend on remuneration, this has been shown in the table below compared with the Company's total income, total profit/(loss) and dividend distributions.

	2023	2022	Change
	£'000	£'000	£'000
Directors' total remuneration	188	159	+29
Total dividends paid and payable	19,475	17,091	+2,384
Income from investments	21,468	20,351	+1,117
Net (loss)/profit on ordinary activities after taxation	(140,726)	62,140	-202,866

No payments were made in the period to any past Directors (2022: nil).

# Directors' Remuneration Report

continued

## Annual percentage change in Directors' remuneration

The following table sets out the annual percentage changes in Directors' fees over the past five years.

	28 February 2023	28 February 2022	28 February 2021	29 February 2020	28 February 2019
Board Chairman	4.0%	0.6%	0.0%	6.3%	0.0%
Audit Committee Chairman	3.8%	0.8%	0.0%	8.3%	0.0%
Director	4.3%	0.9%	0.0%	6.5%	0.0%

As previously noted, the Company does not have any employees and hence no comparisons are given in respect of the comparison between Directors' and employees' pay increases.

## Shareholdings (audited)

The Board has not adopted a policy that Directors are required to own shares in the Company.

The interests of the Directors in the ordinary shares of the Company are set out in the table below. The Company does not have a share option scheme therefore none of the Directors has an interest in share options. All of the Directors held office throughout the year under review.

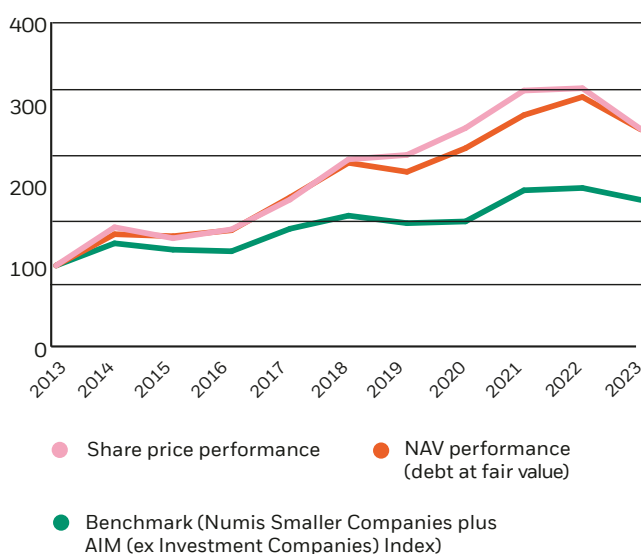
	28 February 2023	28 February 2022
Ronald Gould	2,544	1,000
Mark Little	491	491
Susan Platts-Martin	2,800	2,800
James Barnes	2,500	1,000
Helen Sinclair	988	988

All of the holdings of the Directors are beneficial. No changes to these holdings had been notified up to the date of this report.

## Performance

The line graph which follows compares the Company's net asset value (with dividends reinvested) and share price total return with the total return on an equivalent investment in the Numis Smaller Companies plus AIM (excluding Investment Companies) Index. This composite index was selected for comparison purposes, as it was the Company's benchmark used for investment performance measurement purposes.

### Total Shareholder Return from 1 March 2013 to 28 February 2023



All graph data rebased to 100, with dividends reinvested.  
Sources: BlackRock and Datastream.

### Implementation of the Remuneration Policy in the 2023 financial year

The Directors intend that the Remuneration Policy, which forms part of this report, will be implemented as set out on pages 58 and 59. The Directors do not receive any performance related remuneration or incentives. Discretionary payments are permitted under the policy; however, such discretionary payments would only be considered in exceptional circumstances.

### Retirement of Directors

Details are given in the Directors' Report on page 49.

For and on behalf of the Board

### SUSAN PLATTS-MARTIN

Chair

Nomination and Remuneration Committee

5 May 2023

# Directors' Remuneration Policy

## Directors' Remuneration Policy

In determining Directors' fees, a number of factors are considered, including the time commitment required, the level of skills and appropriate experience required, and the need for Directors to maintain on an ongoing basis an appropriate level of knowledge of regulatory and compliance requirements in an industry environment of increasing complexity. More details of the work carried out by the Board, the regulatory framework that it must ensure the Company complies with and the time commitments of Directors are set out in the Statement of the Chairman on page 54. The Board also considers the average rate of inflation during the period since the last fee increase and reviews the level of remuneration in comparison with other investment trusts of a similar size and/or mandate as well as taking account of any data published by the AIC to ensure that fees are in line with industry practice. This comparison, together with consideration of any alteration in non-executive Directors' responsibilities, is used to review whether any change in remuneration is necessary. The review is performed on an annual basis. The Board is cognisant of the need to avoid any potential conflicts of interest and has therefore agreed a mechanism by which no Director is present when his or her own pay is being considered. The Company has no executive employees and consequently no consideration is required to be given to employment conditions elsewhere in setting Directors' fees. No element of the Directors' remuneration is performance related. The Company has not awarded any share options or long-term performance incentives to any of the Directors. None of the Directors has a service contract with the Company or receives any non-cash benefits or pension entitlements. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at BlackRock's offices at 12 Throgmorton Avenue, London EC2N 2DL. The remuneration policy would be applied when agreeing the remuneration package of any new Director. Directors' appointments do not have a fixed duration, but they can be terminated by the Company in writing at any time without obligation to pay compensation. On termination of the appointment, Directors shall only be entitled to accrued fees as at the date of termination together with reimbursement of any expenses properly incurred prior to that date. No payments for loss of office are made. Directors are subject to annual re-election.

## Consideration of shareholders' views

An ordinary resolution to approve the remuneration report is put to members at each Annual General Meeting, and shareholders have the opportunity to express their views and raise any queries in respect of remuneration policy at this meeting. To date, no shareholders have commented in respect of the remuneration policy. In the event that there was a substantial vote against any resolution proposed at the Company's AGM, the reasons for any such vote would be sought and appropriate action taken. Should the votes be against resolutions in relation to the Directors' remuneration, further details will be provided in future Directors' Remuneration Reports. In accordance with the Companies Act 2006, the Company is required to seek shareholder approval of its remuneration policy on a triennial basis. An ordinary resolution for the approval of the remuneration policy was approved by shareholders at the Annual General Meeting in 2020. 99.88% of the votes cast were in favour of the resolution to approve the Directors' remuneration policy and 0.12% of votes were cast against. The remuneration policy will next be put to shareholders for approval at the forthcoming AGM in 2023.

At the Company's Annual General Meeting held on 9 June 2022, the resolution to approve the Directors' Remuneration Report was approved by 99.8% of votes cast in favour of the resolution and 0.2% votes cast against. Any discretionary fees paid to the Directors will be clearly disclosed in the Directors' Remuneration Report accompanied by an explanation of the work undertaken.

## Policy table

<b>Purpose and link to strategy</b>	Fees payable to Directors should be sufficient to attract and retain individuals of high calibre with suitable knowledge and experience. Those chairing the Board and key Committees should be paid higher fees than other Directors in recognition of their more demanding roles. Fees should reflect the time spent by Directors on the Company's affairs and the level of complexity of responsibilities borne by the Directors.
<b>Description</b>	<p>Current levels of fixed annual fee:</p> <p>Chairman – £46,735</p> <p>Audit Committee Chairman – £35,700</p> <p>Senior Independent Director – £32,550</p> <p>Directors – £31,500</p> <p>All reasonable expenses to be reimbursed.</p>
<b>Maximum and minimum levels</b>	<p>Remuneration consists of a fixed fee each year, set in accordance with the stated policies and as such there is no set maximum threshold; however, any increase granted must be in line with the stated policies.</p> <p>The Company's Articles of Association provide that the Directors are paid fees for their services not exceeding in the aggregate an annual sum of £200,000 or such larger amount as the Company may by Ordinary Resolution decide divided between the Directors as they agree. Approval is being sought at the 2023 AGM by way of an ordinary resolution for an increase in the aggregate annual limit on Directors' fees from £200,000 to £250,000. Full details of the proposed increase are provided on page 52 of the Directors' Report. In addition, the Directors propose a limit of £50,000 per annum in relation to the maximum that may be paid in respect of taxable benefits. These ceilings have been set at a level to provide flexibility in respect of the recruitment of additional Board members and inflation.</p>
<b>Policy on share ownership</b> Directors are not required to own shares in the Company.	
<b>Operation</b>	<b>Fixed fee element</b> The Board reviews the quantum of Directors' pay each year to ensure that this is in line with the level of Directors' remuneration for other investment trusts of a similar size. When making recommendations for any changes in pay, the Board will consider wider factors such as the average rate of inflation over the period since the previous review, and the level and any change in complexity of the Directors' responsibilities (including additional time commitments as a result of increased regulatory or corporate governance requirements). Directors are not eligible to be compensated for loss of office, nor are they eligible for bonuses, pension benefits, share options or other incentives or benefits. Directors do not have service contracts but are appointed under letters of appointment.
	<b>Discretionary payments</b> The Company's Articles authorise the payment of discretionary fees to Directors for any additional work undertaken on behalf of the Company which is outside of their normal duties. Any such extra work undertaken is subject to the prior approval of the Chairman or, in the case of the Chairman undertaking the extra work, subject to the prior approval of the Chairman of the Audit Committee. The level of discretionary fees shall be determined by the Directors and will be subject to a maximum of £25,000 per annum per Director. Any discretionary fees paid will be disclosed in the Directors' Remuneration Implementation Report within the Annual Report.
	<b>Taxable benefits</b> Some expenses incurred by Directors are required to be treated as taxable benefits. Taxable benefits include (but are not limited to) travel expenses incurred by the Directors in the course of travel to attend Board and Committee meetings which are held at the Manager's registered office in London, and which are reimbursed by the Company and therefore treated as a benefit in kind and are subject to tax and national insurance.  The Company's policy in respect of this element of remuneration is that all reasonable costs of this nature will be reimbursed as they are incurred, including the tax and national insurance costs incurred by the Director on such expenses.

# Corporate Governance Statement

## Chairman's introduction

Corporate Governance is the process by which the Board seeks to look after shareholders' interests and protect and enhance shareholder value. Shareholders hold the Directors responsible for the stewardship of the Company, delegating authority and responsibility to the Directors to manage the Company on their behalf and holding them accountable for its performance.

The Board is ultimately responsible for framing and executing the Company's strategy and for closely monitoring risks. We aim to run the Company in a manner which is responsible and consistent with our belief in honesty, transparency and accountability. In our view, good governance means managing our business well and engaging effectively with investors. We consider the practice of good governance to be an integral part of the way we manage the Company, and we are committed to maintaining high standards of financial reporting, transparency and business integrity.

As a UK-listed investment trust company our principal reporting obligation is driven by the UK Corporate Governance Code (the UK Code) issued by the Financial Reporting Council in July 2018. However, as listed investment trust companies differ in many ways from other listed companies, the Association of Investment Companies has drawn up its own set of guidelines, the AIC Code of Corporate Governance (the AIC Code) issued in February 2019, which addresses the governance issues relevant to investment companies and meets the approval of the Financial Reporting Council.

The Board has determined that it has complied with the recommendations of the AIC Code. This in most material respects is the same as the UK Code, save that there is greater flexibility regarding the tenure of office of the Chairman and membership of the Audit Committee.

This report, which forms part of the Directors' Report, explains how the Board deals with its responsibility, authority and accountability.

## Compliance

The Board has made the appropriate disclosures in this report to ensure that the Company meets its continuing obligations. It should be noted that, as an investment trust, most of the Company's day-to-day responsibilities are delegated to third party service providers, the Company has no executive employees and the Directors are all non-executives, therefore not all the provisions are directly applicable to the Company. The Board considers that the Company has complied with the recommendations of the AIC Code and the provisions contained within the UK Code that are relevant to the Company throughout this accounting period, except for the 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 Code, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company with no executive employees and, in relation to the internal audit function, in view of BlackRock having an internal audit function. Further explanation is provided below.

Information on how the Company has applied the principles of the AIC Code and the UK Code is set out below. The UK Code is available from the Financial Reporting Council's website at [frc.org.uk](http://frc.org.uk). The AIC Code is available from the Association of Investment Companies at [theaic.co.uk](http://theaic.co.uk).

## The Board

The Board currently consists of five non-executive Directors, all of whom are considered to be independent of the Manager. Provision 9 of the UK Code which relates to the combination of the roles of the chairman and chief executive does not apply as the Company has no executive directors.

The Board's primary purpose is to direct the Company to maximise shareholder value within a framework of proper controls and in accordance with the Company's investment objective.

## Board structure and management

Details of the Board's structure, roles and responsibilities and management are set out in the summary of governance structure on page 26. The Directors' biographies on pages 27 and 28 demonstrate a breadth of investment, commercial accounting, financial and professional experience which enables them to provide effective strategic leadership and proper governance of the Company. Details of the Chairman's other significant time commitments can be found on page 27.

The Company does not have a chief executive as day-to-day management of the Company's affairs is delegated to the Manager as AIFM, with investment management and other ancillary services delegated to the Investment Manager. Representatives of the Manager and the Company Secretary attend each Board meeting. The Board, the AIFM, the Investment Manager and the Company Secretary operate in a supportive and co-operative manner.

## Board independence and tenure

The Board's individual independence, including that of the Chairman, has been considered and confirmed, and this independence allows all of the Directors to sit on the Company's various Committees. In accordance with changes to the UK Code, the Chairman of the Board does not act as a member of the Audit Committee. None of the Directors has a service contract with the Company. The terms of their appointment are detailed to them when they join the

Board. Copies of these letters are available on request from the Company's registered office and will be available at the Annual General Meeting.

### Board Diversity

While the Board does not have a formal policy on diversity, it recognises the benefits at Board level and believes that Directors should have a mix of different skills, experience, backgrounds, ethnicity, gender and other characteristics. It is therefore actively taking steps to comply with best practice and applicable regulation in respect of diversity, including gender and ethnicity. These steps include the engagement in the year of an external firm (Stogdale St James) to carry out an independent evaluation of the Board and as part of this process to compile a skills matrix to enable the Board to identify areas of focus in future succession planning to ensure a diverse Board.

### Directors' recruitment

The Nomination and Remuneration Committee, which comprises all the Directors, reviews Board structure, size and composition, the balance of knowledge, experience and skills to consider succession planning and tenure policy. Appointments of new Directors are made on a formalised basis, with the Committee agreeing the selection criteria and the method of selection, recruitment and appointment. Board diversity, including gender, are taken into account in establishing the criteria. The services of an external search consultant may be used to identify suitable candidates and assist with the selection process. The Committee meets at least once a year and more regularly if required.

The Board intend to use the skills matrix described in the Board Diversity paragraph above as the cornerstone for undertaking a search and selection process in 2023 with the aim of further enhancing Board diversity. An external agency will be engaged to conduct this exercise, and a broad range of factors will be taken into account in setting the appointment brief and during the search and selection process. These will be underpinned by the underlying premise that all Board appointments must be made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

As at 23 February 2023, the Board had a 60:40 male to female gender ratio, in accordance with relevant regulation and best practice, and will continue to consider other diversity characteristics, such as age, ethnicity, gender, disability, educational or professional background when appraising Board composition.

The Parker Review in respect of board diversity and the recent changes to the FCA's Listing Rules set new diversity targets and associated disclosure requirements for UK companies listed on the premium and standard segment of the London Stock Exchange. Listing Rule 9.8.6R (9) requires listed

companies to include a statement in their annual reports and accounts in respect of certain targets on board diversity, or if those new targets have not been met to disclose the reasons for this. This new requirement applies to accounting periods commencing on or after 1 April 2022 and therefore the Company intends to report against these diversity targets for the year ending 28 February 2024.

Further information on the composition and diversity of the Board can be found in the disclosure table which follows below:

Gender	Number of Board Members	Percentage of Board	Number of senior roles held <sup>1</sup>
Men	3	60%	2
Women	2	40%	1
<b>Ethnicity<sup>2</sup></b>			
White British (or any other white background)	5	100%	3
Other	0	0	0

<sup>1</sup> A senior position is defined as the role of Chairman, Audit Committee Chairman or Senior Independent Director.

<sup>2</sup> Categorisation of ethnicity is stated in accordance with the Office of National Statistics classification.

### Directors' appointment, retirement and rotation

The rules concerning the appointment, retirement and rotation of Directors are set out in the Directors' Report on page 49.

### Directors' induction, training and development

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend some time with representatives of the Investment Manager whereby he or she will become familiar with the various processes which the Investment Manager considers necessary for the performance of its duties and responsibilities to the Company.

The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, amongst others, the auditors, representatives of the Manager and the Company Secretary regarding any proposed developments or changes in laws or regulations that could affect the Company and/or the Directors. Directors' training and development needs are reviewed by the Chairman on an annual basis.

### Directors' liability insurance

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year.

# Corporate Governance Statement

continued

## Board's responsibilities

The Board is responsible to shareholders for the overall management of the Company. It decides upon matters relating to the Company's investment objective, policy and strategy and monitors the Company's performance towards achieving that objective through its agreed policy and strategy. The Board has also adopted a schedule of matters reserved for its decision. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Strategic issues and all operational matters of a material nature are determined by the Board. The Board has responsibility for ensuring that the Company keeps adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable it to ensure that the financial statements comply with the Companies Act 2006. It is the Board's responsibility to present a balanced and understandable assessment, which extends to interim and other price-sensitive public reports. The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board has established a procedure whereby Directors wishing to do so in the furtherance of their duties, may take independent advice at the Company's expense.

## Meetings

The Board meets at least five times each year to review investment performance, financial reports and other reports of a strategic nature. Board or Board committee meetings are also held on an ad hoc basis to consider particular issues as they arise. The attendance record for each meeting is set out on page 52.

Key representatives of the Investment Manager attend each meeting. Details of the Directors' other significant time commitments can also be found on pages 27 and 28. In addition to regular scheduled Board meetings, the Directors met additionally in the year ended 28 February 2023 to receive performance updates from the portfolio manager and to review and monitor income forecasts in periods of market volatility.

## Performance evaluation

In order to review the effectiveness of the Board, its Committees and the individual Directors, the Board carries out an annual appraisal process. The annual evaluation for the year ended 28 February 2023 has been carried out with the assistance of an independent third party (Stogdale St James). The independent evaluation process involved the external consultant attending a Board meeting to observe Board dynamics at first hand and see Directors at work. This was followed up with a detailed evaluation questionnaire that was completed by all Directors, key representatives of the Manager and the Company's broker. Results were then discussed in-depth at one-to-one interviews between each participant and the consultant. The results (including an evaluation of the Chairman) were then compiled and sent to

the Chair and to Senior Independent Director for review and discussion prior to the final report along with conclusions and any action points circulated to the full Board.

The evaluation focused on several key areas, including the performance of the Board and its Committees, the effectiveness of the Board's oversight of the Investment Manager, investment strategy and performance, risk management, external relations and succession planning.

There were no significant issues arising from the evaluation process and it was agreed that the Board and its Committees were functioning effectively. The independent external consultant concluded as follows: "All factors point to this being an exemplary Board with very well qualified directors, which strives for and achieves high standards of performance. The directors' complementary professional credentials are enhanced by a good balance of personality types with strong interpersonal skills. The bar is set high for incoming directors when considering recruitment and succession planning but this should equip BRSC to attract the best talent."

In respect of the Chairman's evaluation, Mr Gould received an aggregate score derived from the consultant's proprietary Chair Review model of 97% which ranked him as an 'Outstanding' Chairman, and no significant concerns were raised in respect of his performance.

Following the conclusion of the external evaluation, the Chairman is pleased to confirm that each of the Directors continues to be effective and to demonstrate commitment to the role (including time for Board and Committee meetings and any other duties). Susan Platts-Martin, as Senior Independent Director, is pleased to confirm that, following the external evaluation, the Chairman also continues to be effective and to demonstrate commitment to the role (including time for Board and Committee meetings and any other duties).

## Delegation of responsibilities Management and administration

Details on the arrangements for the management of the investment portfolio and the administration of the Company are given on page 48 of the Directors' Report.

Details of the Manager's approach to voting at shareholder meetings are set out on page 49.

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting. In addition, a formal review is undertaken annually, details of which are set out in the Directors' Report on page 48.



## **The Company Secretary**

The Board has direct access to company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed, and that applicable regulations are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board.

## **Committees of the Board**

The Board has appointed a number of Committees as set out below.

### **Audit Committee**

Details of the Committee's membership and responsibilities are set out on page 26. Further details are provided in the Report of the Audit Committee on pages 66 to 68.

### **Nomination and Remuneration Committee**

Details of the Committee's membership and responsibilities are set out on page 26, along with details of the number of scheduled meetings each year.

### **Management Engagement Committee**

Details of the Committee's membership and responsibilities are set out on page 26.

## **Internal controls**

The Board is responsible for establishing and maintaining the Company's internal control systems and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of investment trusts.

The Board, through the Audit Committee, regularly reviews the effectiveness of the internal control systems to identify, evaluate and manage the Company's significant risks. If any significant failings or weaknesses are identified, the Manager and the Board ensure that necessary action is taken to remedy the failings. The Board is not aware of any significant failings or weaknesses arising in the year under review.

Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the operations of the Company. There is a monitoring and reporting process to review these controls which has been in place throughout the year under review and up to the date of this report. This accords with the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting".

The Company's Risk Register sets out risks relevant to the Company and describes, where relevant, the internal controls that are in place at the AIFM, the Investment Manager and other third-party service providers to mitigate these risks. The Audit Committee formally reviews this register on a semi-annual basis and the Manager as the Company's

AIFM reports on any significant issues that have been identified in the period. In addition, BlackRock's internal audit department reports on a semi-annual basis on the results of testing performed in relation to BlackRock's internal control processes. The Depositary also reviews the control processes in place at the Custodian, the Fund Accountant and the AIFM and reports formally to the Audit Committee twice yearly. Both the AIFM and the Depositary will escalate issues and report to the Audit Committee outside of these meetings on an ad hoc basis to the extent that this is required. The Audit Committee also receives periodic SOC 1 reports respectively, from BlackRock and BNYM as Custodian and Fund Accountant on the internal controls of their respective operations, together with the opinion of their reporting accountants.

The Company does not have its own internal audit function as all the administration is delegated to BlackRock and other third-party service providers. This matter is kept under review.

The Board has overall responsibility for the control systems in respect of the Company; as part of that responsibility the Board reviews those controls as set out above, although it relies on the controls at the third-party service providers. The Board recognises that these control systems can only be designed to manage rather than to eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and relies on the operating controls established by BlackRock and BNYM in its capacity as Depositary, Custodian and Fund Accountant.

The Manager prepares revenue forecasts and management accounts which allow the Board to assess the Company's activities and review its performance. The Board and the Investment Manager acting under delegation from the Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are submitted to the Board at each meeting.

## **Financial reporting**

The Statement of Directors' Responsibilities is set out on page 69, the Independent Auditors' Report on pages 72 to 77, and the Statement of Going Concern on page 49.

## **Socially responsible investment**

The Company invests mainly in smaller UK quoted companies. The Board aims to be a socially responsible investor and believes that it is important to invest in companies whose boards act responsibly in respect of environmental, ethical and social issues. BlackRock's evaluation procedure and financial analysis of the companies within the portfolio includes research and appraisal of such matters, and also takes into account environmental policies and other business issues.

# Corporate Governance Statement

continued

BlackRock's policies on socially responsible investment and Corporate Governance are detailed on the website [www.blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment-reports](http://www.blackrock.com/corporate/en-gb/about-us/responsible-investment/responsible-investment-reports). The Manager is supportive of the UK Stewardship Code, which is voluntary and operates on a "comply or explain basis".

## Bribery prevention policy

The provision of bribes of any nature to third parties in order to gain a commercial advantage is prohibited and is a criminal offence. The Board has a zero-tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly. The Board takes its responsibility to prevent bribery by the Company's Manager and Investment Manager very seriously and BlackRock has anti-bribery policies and procedures in place which are high level, proportionate and risk based. The Company's service providers have been contacted in respect of their anti-bribery policies and, where necessary, contractual changes are made to existing agreements in respect of anti-bribery provisions.

## Criminal Finances Act 2017

The Company has a commitment to zero-tolerance towards the criminal facilitation of tax evasion.

## GDPR

Data protection rights were harmonised across the European Union following the implementation of the General Data Protection Regulation (GDPR) on 25 May 2018, since retained in the UK by the European Union (Withdrawal) Act 2018. The Board has sought and received assurances from its third-party service providers that they have taken appropriate steps to ensure compliance with the regulation.

## Communication with shareholders

Under normal operating conditions, all shareholders have the opportunity to attend and vote at the Annual General Meeting. The Notice of Annual General Meeting, which is sent out at least 20 working days in advance of the meeting, sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for substantive issues. Shareholders are updated on performance through the publication of the interim and annual reports and the Portfolio Manager reviews the Company's activities at the Annual General Meeting, where the Chairman of the Board and the Chairman of the Audit Committee and representatives of the Manager are available to answer shareholders' queries. Proxy voting figures are announced to shareholders at the Annual General Meeting and will be made available on the Manager's website shortly after the meeting. The Investment Manager on behalf of the Company also normally carries out programmes of institutional presentations in conjunction with BlackRock, following the release of each set of Company results.

The Manager and the Investment Manager provide both Investment Management and Company Secretarial services; however, the Board is confident that there are comprehensive controls and procedures in place to ensure that conflicts of interest do not arise and that the Company Secretarial function is independently maintained. The Board discusses with BlackRock at each Board meeting any feedback from meetings with shareholders, and it also receives reports from its corporate broker, and has the opportunity to meet independently with the broker without the Manager or Secretary present. The Company's broker interacts with investors on a regular basis with regard to all investor issues and will conduct shareholder meetings with the Company when requested by investors and brief the Board on shareholder views. The Broker also attends the Annual General Meeting (alongside investors) and will alert investors to the results (final and interim) as well as other newsflow that they believe to be relevant to investors in the Company. If shareholders want to contact the Chairman, they may either speak to the Company Secretary or the corporate broker. As such, investors have an entirely alternative route to the Manager or Investment Manager to contact the Chairman if required. The Chairman is also available to meet directly with shareholders from time to time, as and when required, and on a regular basis will write directly to the Company's largest shareholders to offer the opportunity to meet at their convenience.

There is a section within the Annual Report and Financial Statements entitled "Shareholder Information", which provides an overview of useful information available to shareholders. The Company's Annual Report and Financial Statements, the Half Yearly Report, regular factsheets and other information are also published on [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) which is the website maintained by the Manager. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

## Packaged Retail & Insurance-Based Investment Products (PRIIPs) Regulation ('the Regulation')

The Regulation (as onshored in the UK and amended) requires that anyone manufacturing, advising on, or selling a PRIIP to a retail investor in the UK must comply with the Regulation. Shares issued by investment trusts fall into scope of the Regulation. Investors should be aware that the PRIIPs Regulation requires the AIFM, as PRIIPs manufacturer, to prepare a key information document ('KID') in respect of the Company. This KID must be made available, free of charge,

to UK retail investors prior to them making any investment decision and is published on BlackRock's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the Regulation. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

The PRIIPs KID in respect of the Company can be found at: [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

### **Disclosure guidance and transparency rules**

Information required to be disclosed pursuant to the Disclosure Guidance and Transparency Rules has been placed in the Directors' Report on pages 47 to 53 because it is information which refers to events that have taken place during the course of the year.

For and on behalf of the Board

### **RONALD GOULD**

Chairman

5 May 2023

# Report of the Audit Committee

## Role and responsibilities

The Company has a separately chaired Audit Committee whose duties include considering and recommending to the Board for approval the contents of the half yearly and annual financial statements and providing an opinion as to whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee also reviews the external auditors' report on the annual financial statements and is responsible for reviewing and forming an opinion on the effectiveness of the external audit process and audit quality. Other duties include reviewing the appropriateness of the Company's accounting policies and the adequacy of the internal control systems and standards. The Audit Committee operates within written terms of reference detailing its scope and duties and these are available on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

The Audit Committee met three times in the year under review. Two of the planned meetings were held prior to the Board meetings to approve the half yearly and annual results. The third meeting focused on the audit plan, internal controls and assessment of fraud. The Audit Committee receives information from BlackRock's internal audit and compliance departments on a regular basis.

## Composition

The Audit Committee comprises all the Directors excluding the Chairman of the Company, who attends by invitation. All Committee members, including the Chairman of the Committee, have recent and relevant financial experience from their senior management roles. The biographies of the Directors may be found on pages 27 and 28.

## Responsibilities and review of the external audit

During the year the principal activities of the Audit Committee included:

- reviewing the efficiency of the external audit process and the quality of the audit engagement partner and the audit team, and making a recommendation to the Board with respect to the reappointment of the auditors;
  - considering the quality of the formal audit report to shareholders;
  - reviewing the appropriateness of the Company's accounting policies; and
  - reviewing the Company's internal control systems and standards and evaluating the need for an internal audit function as set out in the Corporate Governance Statement on page 63.
- The fees paid to the external auditors are set out in note 5 of the Financial Statements.
- The Committee has also reviewed and accepted the 'whistleblowing' policy that has been put in place by BlackRock under which its staff, in confidence, can raise concerns about possible improprieties in matters of financial reporting or other matters, in so far as they affect the Company.

## Significant issues considered regarding the annual report and financial statements

During the year, the Audit Committee considered the significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements. The table on page 67 sets out the key areas of risk identified and also explains how these were addressed.

Significant issue	How the issue was addressed
The accuracy of the valuation of the investment portfolio	Listed investments are valued using stock exchange prices provided by third party pricing vendors. Unquoted or illiquid investments, if any, are valued by the Directors based on recommendations from BlackRock's Pricing Committee. The Board reviews detailed portfolio valuations at each of its Board meetings and receives confirmation from the Manager that the pricing basis is appropriate, in line with relevant accounting standards as adopted by the Company and that the carrying values are materially correct. The Board also relies on the Manager's and Fund Accountant's controls which are documented in a semi-annual internal controls report which is reviewed by the Audit Committee.
The risk of misappropriation of assets and unsecured ownership of investments	The Audit Committee reviews reports from its service providers on key controls over the assets of the Company. Any significant issues are reported by the Manager to the Audit Committee. The Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Company's assets.
The accuracy of the calculation of the management fee	The management fee is calculated in accordance with the contractual terms in the investment management agreement by the Fund Accountant and is reviewed in detail by the Manager and is also subject to an analytical review by the Board.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income	The Board reviews income forecasts, including special dividends, and receives explanations from the Manager for any variations or significant movements from previous forecasts and prior year figures.

As the provision of portfolio valuation, fund accounting and administration services is delegated to the Investment Manager, which sub-delegates fund accounting to The Bank of New York Mellon (International) Limited (BNYM) and the provision of depositary services and custody services are contracted to BNYM, the Audit Committee has also reviewed the Service Organisation Control (SOC 1) reports prepared by BlackRock and BNYM to ensure that the relevant control procedures are in place to cover these areas of risk as identified in the table above are adequate and appropriate and have been designated as operating effectively by the reporting auditors.

### Auditors and audit tenure

The Audit Committee reviews the performance of the auditors on an annual basis, taking into consideration the services and advice provided to the Company and the fees charged for these services. The last formal tender for audit services was conducted in December 2015 and following presentations and interviews with a number of audit firms, it was agreed to replace Scott-Moncrieff with PricewaterhouseCoopers LLP with effect from 13 January 2016. Mrs Gillian Alexander is the current audit partner and is in her third year in this role.

The Committee, in conjunction with the Board, is committed to reviewing this appointment on an annual basis to ensure the Company is receiving an optimal level of service. In addition to this, even if no change is made to the audit firm appointed, the audit partner changes at least every five years.

There are no contractual obligations that restrict the Company's choice of auditors. The regulations on mandatory "firm" rotation require the appointment of new auditors every ten years, although this can be extended up to an additional

ten years if tenders are carried out at the decade mark or another audit firm is appointed to do a joint audit.

No non-audit service work was carried out during the year. For the year ended 28 February 2022, non-audit fees of £3,500 were paid to PricewaterhouseCoopers LLP in respect of the review of the debenture certificate. The debenture was redeemed in July 2022 and this review was consequently not required in 2023.

The Committee also considers the risks associated with audit firms withdrawing from the market and the relationship with the Company's auditors.

PricewaterhouseCoopers LLP has indicated its willingness to continue in office and resolutions proposing its appointment and authorising the Audit Committee to determine its remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

### Assessment of the effectiveness of the external audit process

To assess the effectiveness of the external audit, members of the Audit Committee work closely with the Manager to obtain a good understanding of the progress and efficiency of the audit. The Audit Committee has adopted a framework in its review of the effectiveness of the external audit process and audit quality. This includes a review of the following areas:

- The quality of the audit engagement partner and the audit team;
- The expertise of the audit firm and the resources available to it;

# Report of the Audit Committee continued

- Identification of areas of audit risk;
- Planning, scope and execution of the audit;
- Consideration of the appropriateness of the level of audit materiality adopted;
- The role of the Audit Committee, the Manager and third party service providers in an effective audit process;
- Communications by the auditors with the Audit Committee;
- How the auditors support the work of the Audit Committee and how the audit continues to add value;
- A review of independence and objectivity of the audit firm; and
- The quality of the formal audit report to shareholders.

Feedback in relation to the audit process and the effectiveness of the Manager in performing its role is also sought from relevant involved parties, notably the audit partner and team. The external auditors attend the Audit Committee meeting at which the annual financial statements are considered and at which they have the opportunity to meet with the Audit Committee without representatives of the Manager being present.

The effectiveness of the Board and the Manager in the external audit process is assessed principally in relation to the timely identification and resolution of any process errors or control breaches that might impact the Company's net asset values and accounting records. It is also assessed by reference to how successfully any issues in respect of areas of accounting judgement are identified and resolved, the quality and timeliness of papers analysing these judgements, the Board and the Manager's approach to the value of independent audit and the booking of any audit adjustments arising, and the timely provision of draft public documents for review by the auditors and the Audit Committee.

To form a conclusion with regard to the independence of the external auditors, the Audit Committee considers whether the skills and experience of the auditors make them a suitable supplier of any non-audit services and whether there are safeguards in place to ensure that there is no threat to their objectivity and independence in the conduct of the audit resulting from the provision of any such services. On an annual basis, PricewaterhouseCoopers LLP reviews the independence of its relationship with the Company and reports to the Audit Committee, providing details of any other relationship with the Manager. As part of this review, the Audit Committee also receives information about policies and processes for maintaining independence and monitoring compliance with relevant requirements from the Company's auditors, including information on the rotation of audit partners and staff, the level of fees that the Company pays in proportion to the overall fee income of the firm, the level

of related fees, and details of any relationships between the audit firm and its staff and the Company, as well as an overall confirmation from the auditors of their independence and objectivity.

As a result of their review, the Audit Committee has concluded that the external audit has been conducted effectively and also that PricewaterhouseCoopers LLP is independent of the Company.

## **Conclusions in respect of the annual report and financial statements**

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion that the Annual Report and Financial Statements are fair, balanced and understandable, the Board has requested that the Audit Committee advise on whether it considers that these criteria are satisfied. In so doing, the Audit Committee has given consideration to the following:

- the comprehensive control framework over the production of the Annual Report and Financial Statements, including the verification processes in place to deal with the factual content;
- the extensive levels of review that are undertaken in the production process by the Manager, the Depositary and the Audit Committee;
- the controls that are in place at the Manager and third-party service providers to ensure the completeness and accuracy of the Company's financial records and the security of the Company's assets; and
- the existence of satisfactory Service Organisation Control reports that have been reviewed and reported on by external auditors in respect of the effectiveness of the internal controls of BlackRock and BNYM.

In addition to the work outlined above, the Audit Committee has reviewed the Annual Report and Financial Statements and is satisfied that, taken as a whole, they are fair, balanced and understandable. In reaching this conclusion, the Audit Committee has assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment trust industry. The Audit Committee has reported on these findings to the Board who affirm the Committee's conclusions in the Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements.

### **MARK LITTLE**

Chairman  
Audit Committee  
5 May 2023

# Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of each financial year and of the profit or loss of the Company for that year.

In preparing those financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 that enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report, the Corporate Governance Statement and the Report of the Audit Committee in accordance with the Companies Act 2006 and applicable regulations, including

the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules. The Directors have delegated responsibility to the Manager for the maintenance and integrity of the Company's corporate and financial information included on BlackRock's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names are listed on pages 27 and 28, confirms that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report contained in the Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The UK Code also requires Directors to ensure that the Annual Report and Financial Statements are fair, balanced and understandable. In order to reach a conclusion on this matter, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Financial Statements fulfil these requirements. The process by which the Committee has reached these conclusions is set out in the Audit Committee's report on pages 66 to 68. As a result, the Board has concluded that the Annual Report and Financial Statements for the year ended 28 February 2023, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

For and on behalf of the Board

**RONALD GOULD**

Chairman  
5 May 2023







# Financial statements



Shares in veterinary group CVS Group remained resilient during the year, reflecting the defensive nature of pet services and longer term positive structural trends that the industry is exposed to.

# Independent Auditors' Report

to the members of BlackRock Smaller Companies Trust plc

## Report on the audit of the financial statements

### Opinion

In our opinion, BlackRock Smaller Companies Trust plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 28 February 2023 and of its loss 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, including 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 Annual Report and Financial Statements for the year ended 28 February 2023 (the "Annual Report"), which comprise: the Balance Sheet as at 28 February 2023; the Income Statement, the Statement of Changes in Equity and the Statement of Cash Flows 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 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.

We have provided no non-audit services to the company in the period under audit.

## Our audit approach

### Context

The Company is a standalone Investment Trust Company and engages BlackRock Fund Managers Limited (the 'Manager') to manage its assets. The Manager engages Bank of New York Mellon (International) Limited (the 'Fund Accountant') to provide administrative functions to the Company.

### Overview

- 
- |                    |   |
|--------------------|---|
| <b>Audit scope</b> | <ul style="list-style-type: none"><li>• We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties, the accounting processes and controls, and the industry in which the Company operates.</li><li>• We obtained an understanding of the control environment in place at both the Manager and the Fund Accountant and adopted a fully substantive testing approach using reports obtained from the Fund Accountant.</li></ul> |
|--------------------|---|
- 

- |                          |   |
|--------------------------|---|
| <b>Key audit matters</b> | <ul style="list-style-type: none"><li>• Valuation and existence of investments.</li><li>• Accuracy, occurrence and completeness of investment income.</li></ul> |
|--------------------------|---|
- 

- |                    |  |
|--------------------|--|
| <b>Materiality</b> | <ul style="list-style-type: none"><li>• Overall materiality: £7.5 million (2022: £9.17 million) based on 1% of net assets.</li><li>• Performance materiality: £5.68 million (2022: £6.88 million).</li></ul> |
|--------------------|--|
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### 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.

### 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.

The key audit matters below are consistent with last year.

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**Key audit matter***Valuation and existence of investments*

The investment portfolio at the year end comprised of listed equity investments valued at £806 million.

We focused on the valuation and existence of investments because investments represent the principal element of the net asset value (NAV) as disclosed on the Balance Sheet in the Financial Statements.

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**How our audit addressed the key audit matter**

Our audit work on the valuation and existence of the investments included the following:

- We tested the valuation of all investments by agreeing the valuation to independent third party sources.
- We tested the existence of all of the investments by agreeing the Company's holdings to an independent custodian confirmation as at 28 February 2023.

We have no matters to report as a result of this testing.

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*Accuracy, occurrence and completeness of investment income*

Income from investments consists primarily of dividend income.

Within dividend income there is a risk of incomplete or inaccurate recognition of revenue through the failure to recognise proper income entitlements or to apply an inappropriate accounting treatment.

In addition, the Directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital' in the Income Statement.

We responded to this risk by performing the following audit procedures:

- We obtained an understanding of the processes and controls around income recognition and classification of special dividends by reviewing the internal control reports of the Fund Accountant.
- We assessed the appropriateness of the classification of special dividends as revenue or capital by the Directors with reference to publicly available information.

For all dividends recorded by the Company, we performed our audit procedures through the use of our proprietary testing tool Halo:

- Halo tested the accuracy of their receipts by agreeing the dividend rates from investments to independent market data.
- Halo tested occurrence by examining for each investment holding, that all dividends recorded in the year had been declared in the market.
- To test for completeness, Halo investigated that the appropriate dividends had been received in the year by reference to independent data of dividends declared for all investment holdings held within the year.

As stipulated by the requirements set out in the AIC SORP, we tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement by determining reasons behind dividend distributions.

We have no matters to report as a result of this testing.

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# Independent Auditors' Report

to the members of BlackRock Smaller Companies Trust plc

continued

## 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 structure of the company, the accounting processes and controls, and the industry in which it operates.

All audit procedures were conducted by a UK audit team. We tested and examined information using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to form our own judgements.

## The impact of climate risk on our audit

In planning our audit, we made enquiries of the Directors and Investment Manager to understand the extent of the potential impact of climate change on the Company's financial statements. The Directors and Investment Manager concluded that the impact on the measurement and disclosures within the financial statements is not material because the Company's investment portfolio is made up of level 1 quoted securities which are valued at fair value based on market prices. We found this to be consistent with our understanding of the Company's investment activities. We also considered the consistency of the climate change disclosures included in the Strategic Report and Investment Manager Report with the financial statements and our knowledge from our audit.

## 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:

<b>Overall Company materiality</b>	£7.5 million (2022: £9.17 million).
<b>How we determined it</b>	1% of net assets.
<b>Rationale for benchmark applied</b>	We believe that net assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. This benchmark provides an appropriate and consistent year on year basis for our audit.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £5.68 million (2022: £6.88 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £379,264 (2022: £458,539) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the Directors' updated risk assessment and considering whether it addressed relevant threats, including Russia's invasion of Ukraine, banking developments, rise of inflation and the wider macroeconomic uncertainty;
- evaluating the Directors' assessment of potential operational impacts, considering their consistency with other available information and our understanding of the business and assessed the potential impact on the Financial Statements;
- reviewing the Directors' assessment of the Company's financial position in the context of its ability to meet future expected operating expenses, their assessment of liquidity as well as their review of the operational resilience of the Company and oversight of key third-party service providers; and
- assessing the implication of significant reductions in NAV as a result of a severe but plausible downside in the market's performance on the ongoing ability of the Company to operate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for

a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **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 28 February 2023

is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

### **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.

### **Corporate Governance Statement**

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' 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 its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their

# Independent Auditors' Report

to the members of BlackRock Smaller Companies Trust plc

continued

statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

## 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 in respect of the Annual Report and Financial Statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of Section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase the net asset value. Audit procedures performed by the engagement team included:

- Discussions with the Manager and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understand the controls implemented by the Company and the Fund Accountant designed to prevent and detect irregularities;
- Assessment of the Company's compliance with the requirements of Section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions;
- Identifying and testing journal entries, in particular yearend journal entries posted by the Fund Accountant during the preparation of the financial statements;

- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing for example, targeting transactions that otherwise would be immaterial; and
- Reviewing relevant meeting minutes, including those of the Audit Committee.
- 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**

Following the recommendation of the Audit Committee, we were appointed by the directors on 13 January 2016 to audit the financial statements for the year ended 29 February 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 29 February 2016 to 28 February 2023.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Gillian Alexander** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
5 May 2023

#### **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 obtained 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

# Income Statement

for the year ended 28 February 2023

	Notes	2023			2022		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	10	–	(155,358)	(155,358)	–	51,824	51,824
Losses on foreign exchange		–	(5)	(5)	–	(3)	(3)
Income from investments held at fair value through profit or loss	3	21,468	–	21,468	20,351	–	20,351
Other income	3	1,237	–	1,237	34	–	34
<b>Total income/(loss)</b>		<b>22,705</b>	<b>(155,363)</b>	<b>(132,658)</b>	<b>20,385</b>	<b>51,821</b>	<b>72,206</b>
<b>Expenses</b>							
Investment management fee	4	(1,196)	(3,588)	(4,784)	(1,571)	(4,714)	(6,285)
Operating expenses	5	(832)	(22)	(854)	(746)	(17)	(763)
<b>Total operating expenses</b>		<b>(2,028)</b>	<b>(3,610)</b>	<b>(5,638)</b>	<b>(2,317)</b>	<b>(4,731)</b>	<b>(7,048)</b>
<b>Net profit/(loss) on ordinary activities before finance costs and taxation</b>		<b>20,677</b>	<b>(158,973)</b>	<b>(138,296)</b>	<b>18,068</b>	<b>47,090</b>	<b>65,158</b>
Finance costs	6	(577)	(1,733)	(2,310)	(729)	(2,184)	(2,913)
<b>Net profit/(loss) on ordinary activities before taxation</b>		<b>20,100</b>	<b>(160,706)</b>	<b>(140,606)</b>	<b>17,339</b>	<b>44,906</b>	<b>62,245</b>
Taxation	7	(120)	–	(120)	(105)	–	(105)
<b>Net profit/(loss) on ordinary activities after taxation</b>		<b>19,980</b>	<b>(160,706)</b>	<b>(140,726)</b>	<b>17,234</b>	<b>44,906</b>	<b>62,140</b>
<b>Earnings/(loss) per ordinary share (pence) - basic and diluted</b>	<b>9</b>	<b>40.92</b>	<b>(329.12)</b>	<b>(288.20)</b>	<b>35.29</b>	<b>91.97</b>	<b>127.26</b>

The total column of this statement represents the Company's profit and loss account. The supplementary revenue and capital accounts are both prepared under guidance published by the Association of Investment Companies (AIC). All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. All income is attributable to the equity holders of the Company.

The net profit/(loss) for the year disclosed above represents the Company's total comprehensive income/(loss).

The notes on pages 82 to 100 form part of these financial statements.



# Statement of Changes in Equity

for the year ended 28 February 2023

	Notes	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>For the year ended 28 February 2023</b>							
At 28 February 2022		12,498	51,980	1,982	834,185	16,433	917,078
Total comprehensive (loss)/income:							
Net (loss)/profit for the year		–	–	–	(160,706)	19,980	(140,726)
Transactions with owners, recorded directly to equity:							
Dividends paid <sup>1</sup>	8	–	–	–	–	(17,823)	(17,823)
<b>At 28 February 2023</b>		<b>12,498</b>	<b>51,980</b>	<b>1,982</b>	<b>673,479</b>	<b>18,590</b>	<b>758,529</b>
<b>For the year ended 28 February 2022</b>							
At 28 February 2021		12,498	51,980	1,982	789,279	15,557	871,296
Total comprehensive income:							
Net profit for the year		–	–	–	44,906	17,234	62,140
Transactions with owners, recorded directly to equity:							
Dividends paid <sup>2</sup>	8	–	–	–	–	(16,358)	(16,358)
<b>At 28 February 2022</b>		<b>12,498</b>	<b>51,980</b>	<b>1,982</b>	<b>834,185</b>	<b>16,433</b>	<b>917,078</b>

<sup>1</sup> Interim dividend paid in respect of the year ended 28 February 2023 of 14.50p was declared on 3 November 2022 and paid on 9 December 2022. Final dividend paid in respect of the year ended 28 February 2022 of 22.00p was declared on 29 April 2022 and paid on 17 June 2022.

<sup>2</sup> Interim dividend paid in respect of the year ended 28 February 2022 of 13.00p was declared on 2 November 2021 and paid on 2 December 2021. Final dividend paid in respect of the year ended 28 February 2021 of 20.50p was declared on 7 May 2021 and paid on 18 June 2021.

The notes on pages 82 to 100 form part of these financial statements.

# Balance Sheet

as at 28 February 2023

	Notes	2023 £'000	2022 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	806,088	956,429
<b>Current assets</b>			
Current tax assets		97	91
Debtors	11	6,858	6,665
Cash and cash equivalents		23,536	72,479
<b>Total current assets</b>		<b>30,491</b>	<b>79,235</b>
<b>Creditors – amounts falling due within one year</b>			
Other creditors	12	(8,546)	(49,127)
<b>Net current assets</b>		<b>21,945</b>	<b>30,108</b>
<b>Total assets less current liabilities</b>		<b>828,033</b>	<b>986,537</b>
Creditors – amounts falling due after more than one year	13	(69,504)	(69,459)
<b>Net assets</b>		<b>758,529</b>	<b>917,078</b>
<b>Capital and reserves</b>			
Called up share capital	15	12,498	12,498
Share premium account	16	51,980	51,980
Capital redemption reserve	16	1,982	1,982
Capital reserves	16	673,479	834,185
Revenue reserve	16	18,590	16,433
<b>Total shareholders' funds</b>	<b>9</b>	<b>758,529</b>	<b>917,078</b>
<b>Net asset value per ordinary share (debt at par value) (pence)</b>	<b>9</b>	<b>1,553.41</b>	<b>1,878.11</b>
<b>Net asset value per ordinary share (debt at fair value) (pence)</b>	<b>9</b>	<b>1,601.42</b>	<b>1,882.38</b>

The financial statements on pages 78 to 100 were approved and authorised for issue by the Board of Directors on 5 May 2023 and signed on its behalf by Ronald Gould, Chairman and Mark Little, Director and Audit Committee Chairman.

BlackRock Smaller Companies Trust plc

Registered in Scotland, No. SC006176

The notes on pages 82 to 100 form part of these financial statements.

# Statement of Cash Flows

for the year ended 28 February 2023

	2023 £'000	2022 £'000
<b>Operating activities</b>		
Net (loss)/profit on ordinary activities before taxation	(140,606)	62,245
Add back finance costs	2,310	2,913
Losses/(gains) on investments held at fair value through profit or loss	155,358	(51,824)
Net movement in foreign exchange	5	3
Sales of investments held at fair value through profit or loss	304,837	475,565
Purchases of investments held at fair value through profit or loss	(309,973)	(431,313)
Increase in debtors	(591)	(100)
Increase in creditors	36	2,070
Taxation on investment income	(120)	(105)
<b>Net cash generated from operating activities</b>	<b>11,256</b>	<b>59,454</b>
<b>Financing activities</b>		
Proceeds from 2.47% loan note issue	–	25,000
Issue costs of loan note	–	(188)
Repayment of SMBC Bank International plc revolving credit facility	(25,000)	(5,000)
Redemption of 7.75% debenture stock	(15,000)	–
Interest paid	(2,371)	(2,575)
Dividends paid	(17,823)	(16,358)
<b>Net cash (used in)/generated from financing activities</b>	<b>(60,194)</b>	<b>879</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(48,938)</b>	<b>60,333</b>
Cash and cash equivalents at beginning of the year	72,479	12,149
Effect of foreign exchange rate changes	(5)	(3)
<b>Cash and cash equivalents at end of year</b>	<b>23,536</b>	<b>72,479</b>
<b>Comprised of:</b>		
Cash at bank	794	3,123
Cash Fund*	22,742	69,356
	<b>23,536</b>	<b>72,479</b>

\* Cash Fund represents funds held on deposit with the BlackRock Institutional Cash Series plc - Sterling Liquid Environmentally Aware Fund.

The notes on pages 82 to 100 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 28 February 2023

## 1. Principal activity

The principal activity of the Company is that of an investment trust company within the meaning of Section 1158 of the Corporation Tax Act 2010.

## 2. Accounting policies

The principal accounting policies adopted by the Company are set out below.

### (a) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in October 2019 and updated in July 2022, and the provisions of the Companies Act 2006.

Substantially, all of the assets of the Company consist of securities that are readily realisable and, accordingly, the Directors are satisfied that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements, and therefore consider the going concern assumption to be appropriate. The Directors have reviewed compliance with the covenants associated with the debenture, loan notes and revolving credit facility, income and expense projections and the liquidity of the investment portfolio in making their assessment.

The Directors have considered the impact of climate change on the value of the investments included in the Financial Statements and have concluded that there was no further impact of climate change to be considered as the investments are valued based on market pricing as required by FRS 102.

None of the Company's other assets and liabilities were considered to be potentially impacted by climate change.

The principal accounting policies adopted by the Company are set out below. Unless specified otherwise, the policies have been applied consistently throughout the year and are consistent with those applied in the preceding year. All of the Company's operations are of a continuing nature.

The Company's financial statements are presented in sterling, which is the functional currency of the Company and the primary economic environment in which the Company operates. All values are rounded to the nearest thousand pounds (£'000) except where otherwise stated.

### (b) Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and a capital nature has been presented alongside the Income Statement.

### (c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being investment business.

### (d) Income

Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provisions are made for dividends not expected to be received. The return on a debt security is recognised on a time apportionment basis.

Special dividends are recognised on an ex-dividend basis and are treated as capital or revenue depending on the facts or circumstances of each particular dividend.

Dividends are accounted for in accordance with Section 29 of FRS 102 on the basis of income actually receivable, without adjustment for tax credits attaching to the dividend. Dividends from overseas companies continue to be shown gross of withholding tax.

Deposit interest receivable is accounted for on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the cash equivalent of the dividend foregone is recognised in the revenue account of the Income Statement. Any excess in the value of the shares over the amount of the cash dividend is recognised in capital reserves.

### (e) Expenses

All expenses, including finance costs, are accounted for on an accruals basis. Expenses have been charged wholly to the revenue account of the Income Statement, except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital. Details of transaction costs on the purchases and sales of investments are shown in note 10 on page 88;
- expenses are treated as capital where a connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- the investment management fee and finance costs have been allocated 75% to the capital account and 25% to the revenue account of the Income Statement in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio.

### (f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from

net profit as reported in the Income Statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

The current tax effect of different items of expenditure is allocated between capital and revenue on the marginal basis using the Company's effective rate of corporation tax for the accounting period.

Deferred taxation is recognised in respect of all timing differences at the financial reporting date, where transactions or events that result in an obligation to pay more taxation in the future or right to less taxation in the future have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. This is subject to deferred taxation assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the timing differences can be deducted.

#### **(g) Investments held at fair value through profit or loss**

The Company's investments are classified as held at fair value through profit or loss in accordance with Sections 11 and 12 of FRS 102 and are managed and evaluated on a fair value basis in accordance with its investment strategy.

All investments are classified upon initial recognition as held at fair value through profit or loss. Purchases of investments are recognised on a trade date basis. Sales of assets are recognised at the trade date of the disposal and the proceeds will be measured at fair value, which will be regarded as the proceeds of the sale less any transaction costs.

The fair value of the financial investments is based on their quoted bid price at the balance sheet date on the exchange on which the investment is quoted, without deduction for the estimated future selling costs.

Unquoted investments are valued by the Directors at fair value using International Private Equity and Venture Capital Valuation Guidelines. This policy applies to all current and non-current asset investments of the Company.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments.

The fair value hierarchy consists of the following three levels:

Level 1 – Quoted market price for identical instruments in active markets.

Level 2 – Valuation techniques using observable inputs.

Level 3 – Valuation techniques using significant unobservable inputs.

#### **(h) Dividends payable**

Under Section 32 of FRS 102, final dividends should not be accrued in the financial statements unless they have been approved by shareholders before the balance sheet date. Dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they have been approved by shareholders and have become a liability of the Company. Interim dividends are recognised in the financial statements in the period in which they are paid.

#### **(i) Foreign currency translation**

In accordance with Section 30 of FRS 102, the Company is required to nominate a functional currency, being the currency in which the Company predominately operates. The functional and reporting currency is sterling, reflecting the primary economic environment in which the Company operates. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in the capital account of the Income Statement and taken to the capital reserve.

#### **(j) Share repurchases and re-issues**

Shares repurchased and subsequently cancelled – share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with Section 733 of the Companies Act 2006. The full cost of the repurchase is charged to the capital reserves.

Shares repurchased and held in treasury – the full cost of the repurchase is charged to the capital reserves.

Where treasury shares are subsequently re-issued:

- amounts received to the extent of the repurchase price are credited to the capital reserves; and
- any surplus received in excess of the repurchase price is taken to the share premium account.

Where new shares are issued, the par value is taken to called up share capital and amounts received to the extent of any surplus received in excess of the par value are taken to the share premium account.

Share issue costs are charged to the share premium account. Costs on share reissues are charged to the capital reserves.

# Notes to the Financial Statements

continued

## 2. Accounting policies continued

### (k) Debtors

Debtors include sales for future settlement, other debtors and prepayments and accrued income in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

### (l) Creditors

Creditors include purchases for future settlement, interest payable, share buyback costs and accruals in the ordinary course of business. Creditors, loans and debentures are classified as creditors – amounts due within one year if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as creditors – amounts falling due after more than one year.

### (m) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and bank overdrafts repayable on demand. Cash equivalents include short-term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

### (n) Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events and that are believed to be reasonable under the circumstances. The Directors do not believe that any accounting judgements or estimates have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year.

## 3. Income

	2023 £'000	2022 £'000
<b>Investment income<sup>1</sup>:</b>		
UK dividends	15,162	13,376
UK special dividends	389	881
Property income dividends	851	624
Overseas dividends	4,348	4,928
Overseas special dividends	718	542
<b>Total investment income</b>	<b>21,468</b>	<b>20,351</b>
<b>Other income:</b>		
Bank interest	76	–
Interest from Cash Fund	1,161	34
	<b>1,237</b>	<b>34</b>
<b>Total income</b>	<b>22,705</b>	<b>20,385</b>

<sup>1</sup> UK and overseas dividends are disclosed based on the country of domicile of the underlying portfolio company.

No special dividends have been recognised in capital during the year (2022: £nil).

Dividends and interest received in cash during the year amounted to £20,835,000 and £1,174,000 (2022: £20,116,000 and £18,000).

## 4. Investment management fee

	2023			2022		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	1,196	3,588	4,784	1,571	4,714	6,285
<b>Total</b>	<b>1,196</b>	<b>3,588</b>	<b>4,784</b>	<b>1,571</b>	<b>4,714</b>	<b>6,285</b>

The investment management fee is based on a rate of 0.6% of the first £750 million of total assets (excluding current year income) less the current liabilities of the Company (the “Fee Asset Amount”), reducing to 0.5% above this level. The fee is calculated at the rate of one quarter of 0.6% of the Fee Asset Amount up to the initial threshold of £750 million, and one quarter of 0.5% of the Fee Asset Amount in excess thereof, at the end of each quarter. The investment management fee is allocated 25% to the revenue account and 75% to the capital account of the Income Statement.

## 5. Other operating expenses

	2023	2022
	£'000	£'000
<b>Allocated to revenue:</b>		
Custody fees	9	13
Depository fees	98	115
Auditor's remuneration:		
– audit services	48	45
– non-audit services <sup>1</sup>	–	4
Registrar's fee	45	47
Directors' emoluments <sup>2</sup>	188	159
Director search fees	4	17
Marketing fees	170	125
AIC fees	21	11
Bank charges	51	10
Broker fees	40	40
Stock exchange listings	48	26
Printing and postage fees	37	34
Legal fees	–	22
Prior year expenses written back <sup>3</sup>	(7)	–
Other administrative costs	80	78
	<b>832</b>	<b>746</b>
<b>Allocated to capital:</b>		
Custody transaction charges <sup>4</sup>	22	17
	<b>854</b>	<b>763</b>
	<b>2023</b>	<b>2022</b>
The Company's ongoing charges <sup>5</sup> , calculated as a percentage of average daily net assets and using the management fee and all other operating expenses, excluding finance costs, direct transaction costs, custody transaction charges, VAT recovered, taxation, prior year expenses written back and certain non-recurring items were:	0.7%	0.7%

<sup>1</sup> No additional fees (2022: £3,500) were incurred for non-audit services relating to the debenture compliance work carried out by the Auditors.

<sup>2</sup> Further information on Directors' emoluments can be found in the Directors' Remuneration Report on page 55.

<sup>3</sup> Relates to legal fees written back during the year ended 28 February 2023 (2022: no prior year accruals written back).

<sup>4</sup> For the year ended 28 February 2023, expenses of £22,000 (2022: £17,000) were charged to the capital account of the Income Statement. These relate to transaction costs charged by the Custodian on sale and purchase trades.

<sup>5</sup> Alternative Performance Measure, see Glossary on pages 116 to 119.

# Notes to the Financial Statements

continued

## 6. Finance costs

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on 7.75% debenture stock 2022 <sup>1</sup>	117	355	472	294	881	1,175
Interest on 2.74% loan note 2037	173	518	691	173	518	691
Interest on 2.41% loan note 2044	121	362	483	121	362	483
Interest on 2.47% loan note 2046 <sup>2</sup>	152	456	608	70	211	281
Interest on bank loan	6	18	24	60	182	242
7.75% Amortised debenture stock issue expenses <sup>1</sup>	–	4	4	4	12	16
2.74% Amortised loan note issue expenses	4	10	14	4	10	14
2.41% Amortised loan note issue expenses	2	5	7	2	5	7
2.47% Amortised loan note issue expenses <sup>2</sup>	2	5	7	1	3	4
	<b>577</b>	<b>1,733</b>	<b>2,310</b>	<b>729</b>	<b>2,184</b>	<b>2,913</b>

<sup>1</sup> The £15 million 7.75% debenture stock was redeemed at par on 31 July 2022.

<sup>2</sup> The £25 million 2.47% loan note was issued on 16 September 2021. Interest on the note is payable in equal half yearly instalments on 24 May and 16 September each year.

Finance costs have been allocated 25% to the revenue account and 75% to the capital account of the Income Statement.

## 7. Taxation

### (a) Analysis of charge for the year

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Current taxation:</b>						
Overseas tax	120	–	120	105	–	105
<b>Total taxation charge (note 7(b))</b>	<b>120</b>	<b>–</b>	<b>120</b>	<b>105</b>	<b>–</b>	<b>105</b>

### (b) Factors affecting taxation charge for the year

The taxation assessed for the year is higher (2022: lower) than the standard rate of corporation taxation in the UK. The differences are explained below.

	2023			2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net profit/(loss) on ordinary activities before taxation	20,100	(160,706)	(140,606)	17,339	44,906	62,245
Tax on profit/(loss) on ordinary activities at standard rate of corporation tax of 19.00% (2022: 19.00%)	3,819	(30,534)	(26,715)	3,294	8,532	11,826
<b>Effects of:</b>						
Income not subject to corporation tax	(3,917)	–	(3,917)	(3,748)	–	(3,748)
Losses/(gains) on investments held at fair value through profit or loss	–	29,518	29,518	–	(9,846)	(9,846)
Foreign exchange loss not taxable	–	1	1	–	1	1
Disallowed expenses	–	4	4	–	3	3
Excess expenses not utilised	98	797	895	454	1,142	1,596
Overseas tax charge	120	–	120	105	–	105
Effect of corporate interest restriction in current period	–	214	214	–	168	168
<b>Total taxation charge (note 7(a))</b>	<b>120</b>	<b>–</b>	<b>120</b>	<b>105</b>	<b>–</b>	<b>105</b>



### (c) Factors that may affect future tax changes

At 28 February 2023, the Company had net surplus management expenses of £73,747,000 (2022: £69,033,000) and a non-trade loan relationship deficit (relating to interest on the Company's debenture, loan notes, revolving credit facility and bank overdraft) of £33,672,000 (2022: £32,546,000). A deferred tax asset has not been recognised in respect of these losses as the Company is not expected to generate taxable income in the future in excess of the deductible expenses of that future period and, accordingly, it is unlikely the Company will be able to reduce future tax liabilities through the use of the existing excess expenses and loan relationship deficits.

## 8. Dividends

<b>Dividends paid on equity shares:</b>	<b>Record date</b>	<b>Payment date</b>	<b>2023</b>	<b>2022</b>
			<b>£'000</b>	<b>£'000</b>
2021 Final of 20.50p	21 May 2021	18 June 2021	–	10,010
2022 Interim of 13.00p	12 November 2021	2 December 2021	–	6,348
2022 Final of 22.00p	13 May 2022	17 June 2022	10,743	–
2023 Interim of 14.50p	11 November 2022	9 December 2022	7,080	–
			<b>17,823</b>	<b>16,358</b>

The Directors have proposed a final dividend of 25.50p per share in respect of the year ended 28 February 2023. The final dividend will be paid, subject to shareholders' approval, on 27 June 2023 to shareholders on the Company's register on 19 May 2023. The proposed final dividend has not been included as a liability in these financial statements, as final dividends are only recognised in the financial statements when they have been approved by shareholders.

The total dividends payable in respect of the year which form the basis of determining retained income for the purposes of Section 1158 of the Corporation Tax Act 2010 and Section 833 of the Companies Act 2006, and the amount proposed for the year ended 28 February 2023 meet the relevant requirements as set out in this legislation.

<b>Dividends paid or proposed on equity shares:</b>	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Interim dividend paid 14.50p (2022: 13.00p)	7,080	6,348
Final dividend payable of 25.50p per share* (2022: 22.00p)	12,395	10,743
	<b>19,475</b>	<b>17,091</b>

\* Based upon 48,609,792 ordinary shares (excluding treasury shares) in issue on 2 May 2023.

All dividends paid or payable are distributed from the Company's distributable reserves.

# Notes to the Financial Statements

continued

## 9. Returns and net asset value per share

Revenue, capital (loss)/earnings and net asset value per ordinary share are shown below and have been calculated using the following:

	Year ended 28 February 2023	Year ended 28 February 2022
Revenue return attributable to ordinary shareholders (£'000)	19,980	17,234
Capital (loss)/return attributable to ordinary shareholders (£'000)	(160,706)	44,906
<b>Total (loss)/profit attributable to ordinary shareholders (£'000)</b>	<b>(140,726)</b>	<b>62,140</b>
<b>Total shareholders' funds (£'000)</b>	<b>758,529</b>	<b>917,078</b>
The weighted average number of ordinary shares in issue during the year on which the earnings per ordinary share was calculated was:	48,829,792	48,829,792
The actual number of ordinary shares in issue at the end of each year on which the undiluted net asset value was calculated was:	48,829,792	48,829,792
<b>Earnings per share</b>		
Revenue earnings per share (pence) – basic and diluted	40.92	35.29
Capital (loss)/earnings per share (pence) – basic and diluted	(329.12)	91.97
<b>Total (loss)/earnings per share (pence) – basic and diluted</b>	<b>(288.20)</b>	<b>127.26</b>
	<b>As at 28 February 2023</b>	<b>As at 28 February 2022</b>
Net asset value per ordinary share (debt at par value) (pence)	1,553.41	1,878.11
Net asset value per ordinary share (debt at fair value) (pence)	1,601.42	1,882.38
Ordinary share price (pence)	1,380.00	1,684.00

## 10. Investments held at fair value through profit or loss

	2023 £'000	2022 £'000
UK investments held at fair value	457,389	544,154
UK AIM investments held at fair value	348,699	412,275
<b>Valuation of investments at 28 February</b>	<b>806,088</b>	<b>956,429</b>
Opening book cost of equity and fixed income investments	763,884	687,189
Investment holding gains	192,545	261,259
<b>Opening fair value</b>	<b>956,429</b>	<b>948,448</b>
<b>Analysis of transactions made during the year:</b>		
Purchases at cost	309,466	430,647
Sales proceeds received	(304,449)	(474,490)
(Losses)/gains on investments	(155,358)	51,824
<b>Closing fair value</b>	<b>806,088</b>	<b>956,429</b>
Closing book cost of equity and fixed income investments	753,273	763,884
Closing investment holding gains	52,815	192,545
<b>Closing fair value</b>	<b>806,088</b>	<b>956,429</b>

The Company received £304,449,000 (2022: £474,490,000) from investments sold in the year. The book cost of these investments when they were purchased was £320,077,000 (2022: £353,952,000). These investments have been revalued over time and until they were sold any unrealised gains were included in the fair value of the investments.

Transaction costs of £1,233,000 were incurred on the acquisition of investments (2022: £1,295,000). Costs relating to the disposal of investments during the year amounted to £243,000 (2022: £342,000). All transaction costs have been included within capital reserves.

## 11. Debtors

	2023	2022
	£'000	£'000
Sales for future settlement	5,648	6,036
Prepayments and accrued income	1,210	629
	<b>6,858</b>	<b>6,665</b>

## 12. Creditors – amounts falling due within one year

	2023	2022
	£'000	£'000
Purchases for future settlement	2,805	3,311
Interest payable	571	682
Accruals	5,170	5,139
7.75% debenture stock 2022	–	15,000
Unamortised debenture stock issue expenses	–	(5)
	–	14,995
Revolving loan facility – SMBC Bank International plc	–	25,000
	<b>8,546</b>	<b>49,127</b>

## 13. Creditors – amounts falling due after more than one year

	2023	2022
	£'000	£'000
2.74% loan note 2037	25,000	25,000
Unamortised loan note issue expenses	(196)	(210)
	24,804	24,790
2.41% loan note 2044	20,000	20,000
Unamortised loan note issue expenses	(140)	(146)
	19,860	19,854
2.47% loan note 2046	25,000	25,000
Unamortised loan note issue expenses	(160)	(185)
	24,840	24,815
<b>Total borrowings</b>	<b>69,504</b>	<b>69,459</b>

The fair value of the 2.74% loan note has been determined based on a comparative yield for UK Gilts for similar duration maturity and spreads, and as at 28 February 2023 equated to a valuation of 75.22p per note (2022: 99.14p), a total of £18,805,000 (2022: £24,785,000). The fair value of the 2.41% loan note has been determined based on a comparative yield for UK Gilts for similar duration maturity and spreads, and as at 28 February 2023 equated to a valuation of 62.80p per note (2022: 92.99p), a total of £12,560,000 (2022: £18,598,000). The fair value of the 2.47% loan note has been determined based on a comparative yield for UK Gilts for similar duration maturity and spreads, and as at 28 February 2023 equated to a valuation of 58.79p per note (2022: 88.15p), a total of £14,698,000 (2022: £22,038,000).

The £15 million debenture stock was issued on 8 July 1997. Interest on the stock was payable in equal half yearly instalments on 31 July and 31 January in each year. The stock was secured by a first floating charge over the whole of the assets of the Company and was redeemed at par on 31 July 2022.

The £25 million loan note was issued on 24 May 2017. Interest on the note is payable in equal half yearly instalments on 24 May and 24 November in each year. The loan note is unsecured and is redeemable at par on 24 May 2037.

# Notes to the Financial Statements

continued

## 13. Creditors – amounts falling due after more than one year continued

The £20 million loan note was issued on 3 December 2019. Interest on the note is payable in equal half yearly instalments on 3 December and 3 June in each year. The loan note is unsecured and is redeemable at par on 3 December 2044.

The second £25 million loan note was issued on 16 September 2021. Interest on the note is payable in equal half yearly instalments on 24 May and 16 September each year. The loan note is unsecured and is redeemable at par on 16 September 2046.

The Company had in a place a £35 million three year multi-currency revolving loan facility with SMBC Bank International plc. This facility was terminated on 25 November 2022 and any loan amounts repaid. As at 28 February 2022, £25 million of the facility had been utilised. Prior to the termination, interest on the facility was reset every three months and was charged at the Sterling Overnight Index Average rate (SONIA) plus a credit adjustment spread of 0.326% for one month borrowings and 0.1193% for three month borrowings.

The Company also has available an uncommitted overdraft facility of £60 million with The Bank of New York Mellon (International) Limited, of which £nil had been utilised at 28 February 2023 (2022: £nil).

## 14. Reconciliation of liabilities arising from financing activities

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
<b>Debt arising from financing activities:</b>		
Debt arising from financing activities at beginning of the year	109,454	89,604
Cash flows:		
Repayment of SMBC Bank International plc revolving credit facility	(25,000)	(5,000)
Issue of 2.47% loan note 2046	–	25,000
Payment of 2.47% loan note issue expenses	–	(188)
Redemption of 7.75% debenture stock 2022	(15,000)	–
Non-cash flows:		
Amortisation of debenture and loan note issue expenses	50	38
<b>Debt arising from financing activities at end of the year</b>	<b>69,504</b>	<b>109,454</b>

## 15. Called up share capital

	Ordinary shares number	Treasury shares number	Total shares number	Nominal value £'000
<b>Allotted, called up and fully paid share capital comprised:</b>				
<b>Ordinary shares of 25 pence each</b>				
At 28 February 2022	48,829,792	1,163,731	49,993,523	12,498
<b>At 28 February 2023</b>	<b>48,829,792</b>	<b>1,163,731</b>	<b>49,993,523</b>	<b>12,498</b>

During the year ended 28 February 2023, the Company has not bought back or issued any shares to or from treasury (2022: nil).

Since 28 February 2023 and up to the latest practicable date of 2 May 2023, 220,000 ordinary shares have been bought back into treasury for a total consideration of £2,917,000.

The ordinary shares (excluding any shares held in treasury) carry the right to receive any dividends and have one voting right per ordinary share. There are no restrictions on the voting rights of the ordinary shares or on the transfer of ordinary shares.

## 16. Reserves

	Distributable reserves				
	Share premium account	Capital redemption reserve	Capital reserve (arising on investments sold)	Capital reserve (arising on revaluation of investments held)	Revenue reserve
			£'000	£'000	
At 28 February 2022	51,980	1,982	641,658	192,527	16,433
Movement during the year:					
Losses on realisation of investments	–	–	(15,627)	–	–
Change in investment holding gains	–	–	–	(139,731)	–
(Losses)/gains on foreign currency transactions	–	–	(21)	16	–
Finance costs and expenses charged to capital	–	–	(5,343)	–	–
Net profit for the year	–	–	–	–	19,980
Dividends paid during the year	–	–	–	–	(17,823)
<b>At 28 February 2023</b>	<b>51,980</b>	<b>1,982</b>	<b>620,667</b>	<b>52,812</b>	<b>18,590</b>

	Distributable reserves				
	Share premium account	Capital redemption reserve	Capital reserve (arising on investments sold)	Capital reserve (arising on revaluation of investments held)	Revenue reserve
			£'000	£'000	
At 28 February 2021	51,980	1,982	528,028	261,251	15,557
Movement during the year:					
Gains on realisation of investments	–	–	120,538	–	–
Change in investment holding gains	–	–	–	(68,714)	–
Gains/(losses) on foreign currency transactions	–	–	7	(10)	–
Finance costs and expenses charged to capital	–	–	(6,915)	–	–
Net profit for the year	–	–	–	–	17,234
Dividends paid during the year	–	–	–	–	(16,358)
<b>At 28 February 2022</b>	<b>51,980</b>	<b>1,982</b>	<b>641,658</b>	<b>192,527</b>	<b>16,433</b>

The share premium account and capital redemption reserve are not distributable reserves under the Companies Act 2006. In accordance with ICAEW Technical Release O2/17BL on Guidance on Realised and Distributable Profits under the Companies Act 2006, the capital reserve may be used as distributable reserves for all purposes and, in particular, the repurchase by the Company of its ordinary shares and for payment as dividends. In accordance with the Company's Articles of Association, the capital reserve and the revenue reserve may be distributed by way of dividend. The gain on the capital reserve arising on the revaluation of investments of £52,812,000 (2022: gain of £192,527,000) is subject to fair value movements and may not be readily realisable at short notice, as such it may not be entirely distributable. The investments are subject to financial risks; as such capital reserves (arising on investments sold) and the revenue reserve may not be entirely distributable if a loss occurred during the realisation of these investments.

# Notes to the Financial Statements

continued

## 17. Risk management policies and procedures

The Company's investment activities expose it to various types of risks which are associated with the financial instruments and markets in which it invests. The following information is not intended to be a comprehensive summary of all risks and shareholders should refer to the Alternative Investment Fund Managers' Directive FUND 3.2.2R Disclosures which can be found at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) for a more detailed discussion of the risks inherent in investing in the Company.

### Risk management framework

The following information refers to the risk management framework of the Alternative Investment Fund Manager (AIFM). However, as disclosed in the Corporate Governance Statement on pages 60 to 65 and in the Statement of Directors' Responsibilities on page 69, it is the ultimate responsibility of the Board to ensure that the Company's risks are appropriately monitored, and to the extent that elements of this are delegated to third party service providers, the Board is responsible for ensuring that the relevant parties are discharging their duties in accordance with the terms of relevant agreements and taking appropriate action to the extent issues are identified.

The Directors of the AIFM review quarterly investment performance reports and receive semi-annual presentations in person from the Investment Manager covering the Company's performance and risk profile during the year. The AIFM has delegated the day-to-day administration of the investment programme to the Investment Manager. The Investment Manager is also responsible for ensuring that the Company is managed within the terms of its investment guidelines and limits set out in the Alternative Investment Fund Managers' Directive FUND 3.2.2R Disclosures which can be found at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

The AIFM is responsible for monitoring investment performance, product risk monitoring and oversight and has the responsibility for the monitoring and oversight of regulatory and operational risk for the Company. The Directors of the AIFM have appointed a Risk Manager who has responsibility for the daily risk management process with assistance from key risk management personnel of the Investment Manager, including members of the Risk and Quantitative Analysis Group (RQA) which is a centralised group which performs an independent risk management function. RQA independently identifies, measures and monitors investment risk, including climate-related risk, and tracks the actual risk management practices being deployed across the Company. By breaking down the components of the process, RQA has the ability to determine if the appropriate risk management processes are in place. This captures the risk management tools employed, how the levels of risk are controlled, ensuring risk/return is considered in portfolio construction and reviewing outcomes.

The AIFM reports to the Audit Committee twice yearly on key risk metrics and risk management processes; in addition, the Depositary monitors the performance of the AIFM and reports to the Audit Committee twice yearly. Any significant issues are reported to the Board as they arise.

### Risk exposures

The risk exposures of the Company are set out as follows:

#### (a) Market risk

Market risk arises mainly from uncertainty about future values of financial instruments influenced by currency, interest rate and other price movements. It represents the potential loss the Company may suffer through holding market positions in financial instruments in the face of market movements.

A key metric the RQA Group uses to measure market risk is Value-at-Risk (VaR) which encompasses price, currency and interest rate risk. VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables (including other price risk, foreign currency risk and interest rate risk) unlike a traditional sensitivity analysis.

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than one day and a historical observation period of not less than one year (250 days). A VaR number is defined at a specified probability and a specified time horizon. A 99% one day VaR means that the expectation is that 99% of the time over a one day period the Company will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk. It is noted that the use of the VaR methodology has limitations, namely assumptions that risk factor returns are normally distributed and that the use of historical market data as a basis for estimating future events does not encompass all possible scenarios, particularly those that are of an extreme nature and that the use of a specified confidence level (e.g. 99%) does not take into account losses that occur beyond this level. There is some probability that the loss could be greater than the VaR percentage amounts. These limitations and the nature of the VaR measure mean that the Company can neither guarantee that losses will not exceed the VaR amounts indicated, nor that losses in excess of the VaR amounts will not occur more frequently.

The one-day VaR as of 28 February 2023 and 28 February 2022 (based on a 99% confidence level) was 3.12% and 2.62%, respectively.

### (i) Market risk arising from foreign currency risk

#### Exposure to foreign currency risk

As the Company's objective is to achieve capital growth for shareholders through investment mainly in smaller UK quoted companies, substantially all of the Company's assets are sterling denominated. From time to time, the Company may hold an overseas line of stock to the extent that the underlying investment has exposure to the UK market and, consequently, at any time a very small proportion of the Company's assets, liabilities and income may be denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results).

As at 28 February 2023, there was one non-sterling denominated investment (2022: no non-sterling denominated investments).

### (ii) Market risk arising from interest rate risk

#### Exposure to interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk specifically through its cash holdings and variable rate borrowings. Interest rate movements may affect the level of income receivable from any cash at bank and on deposits and the level of interest payable on variable rate borrowings. The effect of interest rate changes on the earnings of the companies held within the portfolio may have a significant impact on the valuation of the Company's investments. Interest rate sensitivity risk has been covered by the VaR analysis under the market risk section.

#### Interest rate exposure

The Company's exposure to interest rates at year end was:

- floating interest rates – when the interest rate is due to be re-set; and
- fixed interest rates – when the financial instrument is due for repayment.

	2023			2022		
	Within one year	More than one year	Total	Within one year	More than one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Exposure to floating interest rates:</b>						
Cash and cash equivalents	23,536	–	23,536	72,479	–	72,479
SMBC Bank International plc revolving credit facility	–	–	–	(25,000)	–	(25,000)
<b>Exposure to fixed interest rates:</b>						
7.75% debenture stock 2022	–	–	–	(14,995)	–	(14,995)
2.74% loan note 2037	–	(24,804)	(24,804)	–	(24,790)	(24,790)
2.41% loan note 2044	–	(19,860)	(19,860)	–	(19,854)	(19,854)
2.47% loan note 2046	–	(24,840)	(24,840)	–	(24,815)	(24,815)
<b>Total exposure to interest rates</b>	<b>23,536</b>	<b>(69,504)</b>	<b>(45,968)</b>	<b>32,484</b>	<b>(69,459)</b>	<b>(36,975)</b>

The above year end amounts are not representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made, borrowings are drawn down and repaid, and the mix of borrowings between floating and fixed interest rates change. During the year, the Company was exposed to interest rate risk through its cash investments, its overdraft facility and cash deposits with The Bank of New York Mellon (International) Limited (BNYM) and the multi-currency revolving credit facility with SMBC Bank International plc. Borrowing is varied throughout the year as part of a Board endorsed policy. As set out in the table above, as at 28 February 2023, the Company had an uncommitted overdraft facility of £60 million with BNYM of which £nil had been utilised (2022: uncommitted overdraft facility with BNYM of £10 million of which £nil had been utilised and a multi-currency revolving loan facility with SMBC Bank International plc of £35 million of which £25 million had been utilised).

# Notes to the Financial Statements

continued

## 17. Risk management policies and procedures continued

### Management of interest rate risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing. Derivative contracts are not used to hedge against the exposure to interest rate risk. Interest rate sensitivity risk has been covered by the VaR analysis under the market risk section.

The Company's loan notes accrue interest at a fixed rate of 2.74%, 2.41% and 2.47% per annum respectively. The Company expects to hold these stocks to maturity, therefore it is not exposed to variations in interest rates.

Interest received on cash balances, or paid on the bank overdraft respectively, is approximately 1.66% and 2.92% per annum (2022: 0.01% and 1.08%).

### (iii) Market risk arising from other price risk

#### Exposure to other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, climate change, or other events could have a significant impact on the Company and market prices of its investments.

The current environment of heightened geo-political risk given the war in Ukraine has undermined investor confidence and market direction. In addition to the tragic and devastating events in Ukraine, the war has constricted supplies of key commodities, pushing prices up and creating a level of market uncertainty and volatility which is likely to persist for some time.

The Company is exposed to market price risk arising from its equity investments. The movements in the prices of these equity investments result in movements in the performance of the Company. Other price risk sensitivity has been covered by VaR analysis under the market risk section above.

The Company's exposure to other changes in market prices at 28 February 2023 on its equity investments was £806,088,000 (2022: £956,429,000).

#### Management of other price risk

Exposures to individual stocks are monitored by the Portfolio Managers, who take into account the strategy of the Company and the need to hold a diversified portfolio. No more than 15% of the Company's assets may be invested in any one stock, but in practice positions are much smaller. Limits on individual holdings are coded on BlackRock's trading systems and are monitored daily.

Regular review by RQA of sector allocations and various concentration of risk metrics identifies areas of concern. Portfolio concentrations are reviewed by RQA on a regular basis and areas of concern are highlighted to and discussed with the Portfolio Manager.

#### Concentration of exposure to market price risks

An analysis of the Company's fifty largest investments and sector analysis, is shown in the Portfolio section of this Annual Report. At 28 February 2023, this shows the majority of the investment value is in UK companies. Accordingly, there is a concentration of exposure to the UK, although it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

### (b) Counterparty credit risk

Counterparty credit risk is the risk that the issuer of a financial instrument will fail to fulfil an obligation or commitment that it has entered into with the Company.

The Company is exposed to counterparty credit risk from the parties with which it trades and will bear the risk of settlement default. Counterparty credit risk to the Company arises from transactions to purchase or sell equity investments.

The major counterparties engaged with the Company are all widely recognised and regulated entities.

There were no past due or impaired assets as of 28 February 2023 (2022: nil).



## Depository

The Company's Depository is The Bank of New York Mellon (International) Limited (BNYM or the Depository) (S&P long-term credit rating as at 28 February 2023: AA- (2022: AA-)). The Company's listed investments are held on its behalf by The Bank of New York Mellon (International) Limited (BNYM) as the Company's Custodian (as sub-delegated by the Depository). All of the equity assets and cash of the Company are held within the custodial network of the global custodian appointed by the Depository. Bankruptcy or insolvency of the Depository/Custodian may cause the Company's rights with respect to its investments held by the Depository/Custodian to be delayed or limited. The maximum exposure to this risk at 28 February 2023 is the total value of equity investments held with the Depository/Custodian and cash and cash equivalents in the Balance Sheet.

In accordance with the requirements of the depository agreement, the Depository will ensure that any agents it appoints to assist in safekeeping the assets of the Company will segregate the assets of the Company. Thus, in the event of insolvency or bankruptcy of the Depository, the Company's non-cash assets are segregated and this reduces counterparty credit risk. The Company will, however, be exposed to the counterparty credit risk of the Depository in relation to the Company's cash held by the Depository. In the event of the insolvency or bankruptcy of the Depository, the Company will be treated as a general creditor of the Depository in relation to cash holdings of the Company.

## Counterparties/Brokers

All transactions in listed securities are settled/paid for upon delivery using an approved broker. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has made payment. Payment is made on a purchase once the securities have been delivered by the broker. The trade will fail if either party fails to meet its obligation.

Counterparty credit risk also arises on transactions with the broker in relation to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the credit quality of the broker used. The Company monitors the credit rating and financial position of the broker used to further mitigate this risk.

Cash held by a counterparty is subject to the credit risk of the counterparty. The following table details the total number of counterparties to which the Company is exposed, the maximum exposure to any one counterparty, any collateral held by the Company against this exposure, the total exposure to all other counterparties and the lowest long-term credit rating of any one counterparty (or its ultimate parent if unrated).

	Total number of counterparties	Maximum exposure to any one counterparty <sup>1</sup> £'000	Collateral held £'000	Total exposure to all other counterparties <sup>1</sup> £'000	Lowest credit rating of any one counterparty <sup>2</sup>
2023	13	2,671	–	3,770	BBB+
2022	11	3,123 <sup>3</sup>	–	6,036	A-

<sup>1</sup> Calculated on a net exposure basis.

<sup>2</sup> Standard & Poor's Ratings.

<sup>3</sup> The maximum exposure to any one counterparty for the year ended 28 February 2022 has been restated to remove the exposure to the Cash Fund.

Cash is subject to counterparty credit risk as the Company's access to its cash could be delayed should the counterparties become insolvent or bankrupt.

## Debtors

Amounts due from debtors are disclosed on the Balance Sheet as Debtors.

The counterparties included in debtors are the same counterparties discussed previously under counterparty credit risk and subject to the same scrutiny by the BlackRock RQA Counterparty & Concentration Risk (RQA CCR) team. The Company monitors the ageing of debtors to mitigate the risk of debtor balances becoming overdue.

# Notes to the Financial Statements

continued

## 17. Risk management policies and procedures continued

In summary, the exposure to credit risk at 28 February 2023 and 28 February 2022 was as follows:

	2023 3 months or less £'000	2022 3 months or less £'000
Cash and cash equivalents	23,536	72,479
Sales for future settlement	5,648	6,036
Other debtors	1,210	720
	<b>30,394</b>	<b>79,235</b>

### Management of counterparty credit risk

Credit risk is monitored and managed by RQA CCR. The team is headed by BlackRock's Chief Credit Officer who reports to the Global Head of RQA. Credit authority resides with the Chief Credit Officer and selected team members to whom specific credit authority has been delegated. As such, counterparty approvals may be granted by the Chief Credit Officer, or by identified RQA Credit Risk Officers who have been formally delegated authority by the Chief Credit Officer.

The counterparty credit risk is managed as follows:

- transactions are only entered into with those counterparties approved by RQA CCR, with a formal review carried out for each new counterparty and counterparties selected by RQA CCR on the basis of a number of risk mitigation criteria designed to reduce the risk to the Company of default;
- the creditworthiness of financial institutions with whom cash is held is reviewed regularly by RQA CCR team; and
- the RQA CCR team reviews the credit standard of the Company's brokers on a periodic basis and set limits on the amount that may be due from any one broker.

The Board monitors the Company's counterparty risk by reviewing:

- the semi-annual report from the Depositary, which includes the results of periodic site visits to the Company's custodian where controls are reviewed and tested;
- the custodian's Service Organisation Control (SOC 1) reports which include a report by the custodian's auditors. This report sets out any exceptions or issues noted as a result of the auditor's review of the custodian's control processes;
- the Manager's internal control reports which includes a report by the Manager's auditors. This report sets out any exceptions or issues noted as a result of the auditors' review of the Manager's control processes; and
- in addition, the Depositary and the Manager report any significant breaches or issues arising to the Board as soon as these are identified.

### (c) Liquidity risk

This is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. At the year end, the Company has an overdraft facility of £60 million (2022: overdraft of £10 million and a three year multi-currency revolving loan facility of £35 million). The Company also has a £25 million loan note (2022: £25 million), a second £25 million loan note (2022: £25 million) and a £20 million loan note (2022: £20 million). These loan notes are unsecured and are redeemable at par on 24 May 2037, 16 September 2046 and 3 December 2044 respectively.

### Liquidity risk exposure

The remaining undiscounted gross cash outflows of the financial liabilities as at 28 February 2023 and 28 February 2022, based on the earliest date on which payment can be required, were as follows:

	2023			2022		
	Within 1 year	Between 1 and 5 years	More than 5 years	Within 1 year	Between 1 and 5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
7.75% debenture stock 2022	–	–	–	15,487	–	–
2.74% loan note 2037	685	2,740	31,325	685	2,740	32,010
2.41% loan note 2044	482	1,928	28,079	482	1,928	28,561
2.47% loan note 2046	618	2,472	36,462	618	2,472	37,080
Revolving loan facility – SMBC Bank International plc	–	–	–	25,000	–	–
Purchases for future settlement	2,805	–	–	3,311	–	–
Other creditors	5,170	–	–	5,139	–	–
	<b>9,760</b>	<b>7,140</b>	<b>95,866</b>	<b>50,722</b>	<b>7,140</b>	<b>97,651</b>

### Management of liquidity risk

Liquidity risk is minimised by holding sufficient liquid investments which can be readily realised to meet liquidity demands. Asset disposals may also be required to meet liquidity needs. Liquidity risk is not significant as the majority of the Company's assets are investments in listed securities that are readily realisable.

The Company's liquidity risk is managed on a daily basis by the Investment Manager in accordance with established policies and procedures in place. The Portfolio Manager reviews daily forward-looking cash reports which project cash obligations. These reports allow him to manage his obligations.

The Board of Directors gives guidance to the Investment Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short-term borrowings be used to manage short-term cash requirements.

For the avoidance of doubt, none of the assets of the Company are subject to special liquidity arrangements.

### (d) Valuation of financial instruments

Financial assets and financial liabilities are either carried in the Balance Sheet at their fair value (investments) or at an amount which is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank and bank overdrafts). Section 34 of FRS 102 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The valuation techniques used by the Company are explained in the accounting policies note 2 of the Financial Statements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

The fair value hierarchy has the following levels:

#### Level 1 – Quoted market price for identical instruments in active markets

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Company does not adjust the quoted price for these instruments.

#### Level 2 – Valuation techniques using observable inputs

This category includes instruments valued using quoted prices for similar instruments in markets that are considered less active; or other valuation techniques where significant inputs are directly or indirectly observable from market data.

#### Level 3 – Valuation techniques using significant unobservable inputs

This category includes all instruments where the valuation technique includes inputs not based on market data and these inputs could have a significant impact on the instrument's valuation.

# Notes to the Financial Statements

continued

## 17. Risk management policies and procedures continued

This category also includes instruments that are valued based on quoted prices for similar instruments where significant entity determined adjustments or assumptions are required to reflect differences between the instruments and instruments for which there is no active market. The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the Level 3 asset or liability including an assessment of the relevant risks including but not limited to credit risk, market risk, liquidity risk, business risk and sustainability risk. The determination of what constitutes 'observable' inputs requires significant judgement by the Investment Manager, and these risks are adequately captured in the assumptions and inputs used in measurement of Level 3 asset or liability.

### Fair values of financial assets and financial liabilities

The table below is an analysis of the Company's financial instruments measured at fair value at the balance sheet date.

<b>Financial assets at fair value through profit or loss at 28 February 2023</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Equity investments	806,088	–	–	806,088
<b>Total</b>	<b>806,088</b>	<b>–</b>	<b>–</b>	<b>806,088</b>

<b>Financial assets at fair value through profit or loss at 28 February 2022</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Equity investments	956,429	–	–	956,429
<b>Total</b>	<b>956,429</b>	<b>–</b>	<b>–</b>	<b>956,429</b>

There were no transfers between levels for financial assets during the year recorded at fair value as at 28 February 2023 and 28 February 2022. The Company did not hold any Level 3 securities throughout the financial year or as at 28 February 2023 (2022: nil).

For exchange listed equity investments the quoted price is the bid price. Substantially all investments are valued based on unadjusted quoted market prices. Where such quoted prices are readily available in an active market, such prices are not required to be assessed or adjusted for any business risks, including climate change risk, in accordance with the fair value related requirements of the Company's Financial Reporting Framework.

### (e) Capital management policies and procedures

The Company's capital management objectives are:

- to ensure it will be able to continue as a going concern; and
- to secure long-term capital growth primarily through investing in smaller UK quoted companies.

This is to be achieved through an appropriate balance of equity capital and gearing. It is the Board's intention that gearing should not exceed 15% of net assets. The Company's objectives, policies and processes for managing capital remain unchanged from the preceding accounting period.

The Company's total capital at 28 February 2023 was £828,033,000 (2022: £1,026,532,000) comprising £nil (2022: £25,000,000) of revolving credit facility, £nil (2022: £14,995,000) of debenture stock at par value, £24,804,000 (2022: £24,790,000) of 2.74% unsecured loan note, £19,860,000 (2022: £19,854,000) of 2.41% unsecured loan note, £24,840,000 (2022: £24,815,000) of 2.47% unsecured loan note and £758,529,000 (2022: £917,078,000) of equity share capital and other reserves.

The Board with the assistance of the Investment Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Investment Manager's view on the market; and
- the need to buyback equity shares, either for cancellation or to be held in treasury, which takes account of the difference between the NAV per share and the share price (i.e. the level of share price discount or premium).

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restrictions tests imposed on investment companies by law.

During the year the Company complied with the externally imposed capital requirements to which it was subject including those imposed in respect of loan covenants.

## **18. Transactions with the Manager and AIFM**

BlackRock Fund Managers Limited (BFM) provides management and administration services to the Company under a contract which is terminable on six months' notice. BFM has (with the Company's consent) delegated certain portfolio and risk management services, and other ancillary services to BlackRock Investment Management (UK) Limited (BIM (UK)). Further details of the investment management contract are disclosed in the Directors' Report on page 48.

The investment management fee for the year ended 28 February 2023 amounted to £4,784,000 (2022: £6,285,000) as disclosed in note 4 to the Financial Statements. At the year end, £4,784,000 was outstanding in respect of the management fee (2022: £4,714,000).

In addition to the above services, BIM (UK) provided the Company with marketing services. The total fees paid or payable for these services for the year ended 28 February 2023 amounted to £170,000 including VAT (2022: £125,000). Marketing fees of £137,000 (2022: £132,000) were outstanding at the year end.

As of 28 February 2023, an amount of £105,000 (2022: £102,000) was payable to the Manager in respect of Directors' fees.

The ultimate holding company of the Manager and the Investment Manager is BlackRock, Inc., a company incorporated in Delaware, USA.

# Notes to the Financial Statements

continued

## 19. Related parties disclosures

### Directors' emoluments

Disclosures of the Directors' interests in the ordinary shares of the Company and fees and expenses payable to the Directors are set out in the Directors' Remuneration Report. At 28 February 2023, an amount of £14,000 (2022: £13,000) was outstanding in respect of Directors' fees.

### Significant holdings

The following investors are:

- a. funds managed by the BlackRock Group or are affiliates of BlackRock, Inc. ("Related BlackRock Funds") or
- b. investors (other than those listed in (a) above) who held more than 20% of the voting shares in issue in the Company and are as a result, considered to be related parties to the Company ("Significant Investors").

#### As at 28 February 2023

Total % of shares held by Related BlackRock Funds	Total % of shares held by Significant Investors who are not affiliates of BlackRock Group or BlackRock, Inc.	Number of Significant Investors who are not affiliates of BlackRock Group or BlackRock, Inc.
10.6	n/a	n/a

#### As at 28 February 2022

Total % of shares held by Related BlackRock Funds	Total % of shares held by Significant Investors who are not affiliates of BlackRock Group or BlackRock, Inc.	Number of Significant Investors who are not affiliates of BlackRock Group or BlackRock, Inc.
12.4	n/a	n/a

## 20. Contingent liabilities

There were no contingent liabilities at 28 February 2023 (2022: none).







# Additional information



Chemring Group develops advanced technology products and services for the aerospace, defence and security industries. The company supplied a number of critical components to NASA for its Mars Rover project.

# Shareholder information

## Financial calendar

The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

<b>April/May</b>	Annual results and final dividend for year announced.
<b>April/May</b>	Annual Report and Financial Statements published.
<b>June</b>	Annual General Meeting.
<b>June/July</b>	Final dividend paid.
<b>October</b>	Half yearly figures to 31 August announced and Half-Yearly Financial Report published.
<b>November</b>	Interim dividend paid.

## Dividend – 2023

The proposed final dividend in respect of the year ended 28 February 2023 is 25.50p per share.

Ex-dividend date (shares transferred without the dividend)	18 May 2023
Record date (last date for registering transfers to receive the dividend)	19 May 2023
Last date for registering DRIP instructions	6 June 2023
Dividend payment date	27 June 2023

## Payment of dividends

Cash dividends will be sent by cheque to the first-named shareholder at their registered address. Dividends may also be paid direct into a shareholder's bank account via BACSTEL-IP (Bankers' Automated Clearing Service – Telecom Internet Protocol). This may be arranged by contacting the Company's registrar, Computershare Investor Services PLC, through their secure website [investorcentre.co.uk](https://investorcentre.co.uk), or by telephone on 0370 707 1649, or by completing the Mandate Instructions section on the reverse of your dividend counterfoil. Confirmation of dividends paid will be sent to shareholders at their registered address, unless other instructions have been given, to arrive on the payment date.

## Dividend reinvestment scheme (DRIP)

Shareholders may request that their dividends be used to purchase further shares in the Company. Dividend reinvestment forms may be obtained from Computershare Investor Services PLC through their secure website [investorcentre.co.uk](https://investorcentre.co.uk), or on 0370 707 1649. Shareholders who have already opted to have their dividends reinvested do not need to reapply. The last date for registering for this service for the forthcoming dividend is 6 June 2023.

## Share price

The Company's mid-market ordinary share price is quoted daily in The Financial Times under "Investment Companies" and in The Daily Telegraph and The Times under "Investment Trusts". The share price is also available on the BlackRock website at [www.blackrock.com/uk/brsc](https://www.blackrock.com/uk/brsc).

## ISIN/SEDOL numbers

The ISIN/SEDOL numbers and mnemonic codes for the Company's shares are:

	<b>Ordinary shares</b>
ISIN	GB0006436108
SEDOL	0643610
Reuters Code	BRSC
Bloomberg Code	BRSC LN

## Share dealing

Investors wishing to purchase more shares in the Company or sell all or part of their existing holding may do so through a stockbroker. Most banks also offer this service. Alternatively, please go to [www.computershare.com/dealing/uk](https://www.computershare.com/dealing/uk) for a range of Dealing services made available by Computershare.

## CREST

The Company's shares may be held in CREST, an electronic system for uncertificated securities trading.

Private investors can continue to retain their share certificates and remain outside the CREST system. Private investors are able to buy and sell their holdings in the same way as they did prior to the introduction of CREST, although there may be differences in dealing charges.

## Electronic communications

We encourage you to play your part in reducing our impact on the environment and elect to be notified by email when your shareholder communications become available online.

This means you will receive timely, cost-effective and greener online annual reports, half yearly financial reports and other relevant documentation. Shareholders who opt for this service will receive an email from Computershare with a link to the relevant section of the BlackRock website where the documents can be viewed and downloaded. Please submit your email address by visiting [investorcentre.co.uk/ecomms](https://investorcentre.co.uk/ecomms). You will need your shareholder reference number which you will find on your share certificate or tax voucher.

You will continue to receive a printed copy of these reports if you have elected to do so. Alternatively, if you have not submitted your email address nor have elected to receive printed reports, we will write and let you know where you can view these reports online.

## Electronic proxy voting

Shareholders are able to submit their proxy votes electronically via Computershare's internet site at [eproxyappointment.com](http://eproxyappointment.com) using their shareholder reference number, control number and a unique identification PIN which will be provided with voting instructions and the Notice of Annual General Meeting.

CREST members who wish to appoint one or more proxies or give an instruction through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. More details are set out in the notes on the Form of Proxy and the Notice of Annual General Meeting.

## Risk factors

- Past performance is not necessarily a guide to future performance.
- The value of your investment in the Company and the income from it can fluctuate as the value of the underlying investments fluctuate.
- The price at which the Company's shares trade on the London Stock Exchange is not the same as their net asset value (NAV) (although they are related) and therefore you may realise returns which are lower or higher than NAV performance.

## Nominee code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance; and
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available.

## Publication of net asset value/portfolio analysis

The net asset value (NAV) per share of the Company is calculated daily, with details of the Company's investments and performance being published monthly. The daily NAV per share and monthly information are released through the London Stock Exchange's Regulatory News Service and are available on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) and through the Reuters News Service under the code 'BLRKINDEX', on page 8800 on Topic 3 (ICV terminals) and under 'BLRK' on Bloomberg (monthly information only).

## Online access

Other details about the Company are also available on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc). The financial statements and other literature are published on the website.

Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Shareholders can also manage their shareholding online by using Investor Centre, Computershare's secure website at [investorcentre.co.uk](http://investorcentre.co.uk). To access Computershare's website, you will need your shareholder reference number which can be found on paper or electronic communications you have previously received from Computershare. Listed below are the most frequently used features of the website.

- **Holding enquiry** – view balances, values, history, payments and reinvestments.
- **Payments enquiry** – view your dividends and other payment types.
- **Address change** – change your registered address.
- **Bank details update** – choose to receive your dividend payment directly into your bank account instead of by cheque.
- **Outstanding payments** – reissue payments using the online replacement service.
- **Downloadable forms** – including dividend mandates, stock transfer, dividend reinvestment and change of address forms.

## Dividend tax allowance

The annual tax-free allowance on dividend income across an individual's entire share portfolio reduced to £1,000 from 6 April 2023 and will reduce again to £500 from 6 April 2024. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances.

The Company continues to provide registered shareholders with a confirmation of the dividends paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

If you have any tax queries, please contact a Financial Adviser.

## Individual savings accounts (ISA)

ISAs are a tax-efficient method of investment and the Company's shares are eligible investments for inclusion within a stocks and shares ISA. In the 2022/2023 tax year investors are able to invest up to £20,000 in Individual Savings Accounts either as cash or shares.

# Shareholder information

continued

## Shareholder enquiries

The Company's registrar is Computershare Investor Services PLC. Certain details relating to your holding can be checked through the Computershare Investor Centre website. As a security check, specific information needs to be input accurately to gain access to an individual's account. This includes your shareholder reference number, available from either your share certificate, tax voucher or other communications you have previously received from Computershare. The address of the Computershare website is [investorcentre.co.uk](https://investorcentre.co.uk). Alternatively, please contact the registrar on 0370 707 1649.

Changes of name or address must be notified in writing either through Computershare's website, or to the registrar at:

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

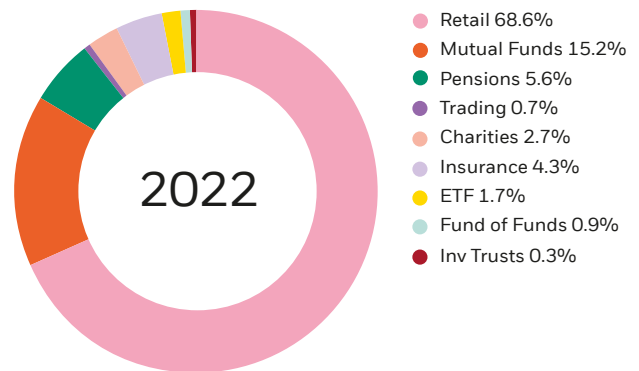
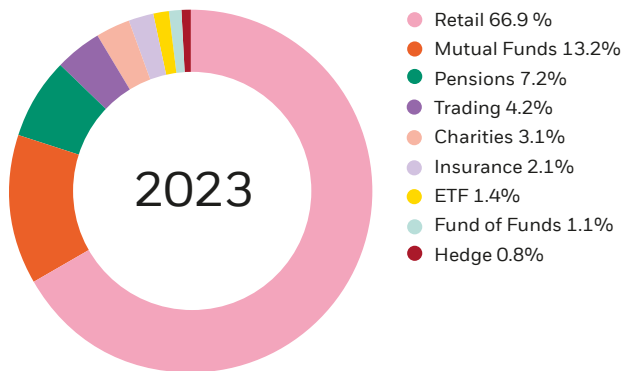
## General enquiries

Enquiries about the Company should be directed to:

The Secretary  
BlackRock Smaller Companies Trust plc  
12 Throgmorton Avenue  
London EC2N 2DL  
Telephone: 020 7743 3000  
Email: [cosec@blackrock.com](mailto:cosec@blackrock.com)

# Analysis of ordinary shareholders

as at 28 February 2023



# Historical record

Year ended 28 February	Shareholders' funds £'000	Net Asset Value per Share <sup>4</sup> p	Share Price p	Revenue return per share p	Dividends per share p	Net asset value per share with dividends reinvested <sup>5</sup> p	Cumulative return per share with dividends reinvested <sup>5</sup>
2003	80,070	141.1	109.8	4.32	4.33	141.1	N/A
2004	125,891	234.7	183.0	4.32	4.42	240.7	70.4%
2005	145,500	284.4	229.0	4.59	4.52	297.3	110.7%
2006	182,621	361.2	312.0	4.46	4.62	383.7	172.0%
2007	226,860	453.8	392.8	5.61	4.76	487.9	245.9%
2008	201,052	414.5	340.0	7.16	4.90 <sup>1</sup>	450.2	219.1%
2009	110,265	227.4	177.0	7.21	5.05 <sup>2</sup>	251.3	78.1%
2010	182,267	380.7	293.8	7.41	5.60 <sup>3</sup>	428.6	203.8%
2011	297,202	620.7	542.0	8.55	7.00	708.5	402.2%
2012	296,733	619.8	503.0	10.16	8.40	716.1	407.6%
2013	344,934	720.4	626.5	11.53	10.00	845.9	499.6%
2014	471,843	985.5	908.0	14.59	12.00	1,173.2	731.6%
2015	456,936	954.3	812.0	16.93	14.50	1,152.4	716.9%
2016	475,055	992.2	863.0	20.57	17.50	1,216.7	762.4%
2017	597,073	1,247.0	1,060.0	22.47	21.00	1,556.3	1,003.1%
2018	721,442	1,506.8	1,325.0	29.30	26.00	1,910.9	1,254.5%
2019	674,089	1,407.9	1,330.0	33.67	31.20	1,819.7	1,189.6%
2020	767,873	1,572.6	1,484.0	37.13	32.50	2,075.6	1,371.0%
2021	871,296	1,784.4	1,698.0	13.36	33.30	2,409.4	1,607.6%
2022	917,078	1,878.1	1,684.0	35.29	35.00	3,049.0	2,060.9%
<b>2023</b>	<b>758,529</b>	<b>1,553.4</b>	<b>1,380.0</b>	<b>40.92</b>	<b>40.00</b>	<b>2,579.9</b>	<b>1,728.4%</b>

<sup>1</sup> Excludes a special dividend of 1.25p.

<sup>2</sup> Excludes a special dividend of 0.70p.

<sup>3</sup> Excludes a special dividend of 0.50p.

<sup>4</sup> Debt at par value.

<sup>5</sup> This is a theoretical net asset value per share calculated based on the assumption that dividends paid to shareholders between 28 February 2003 and 28 February 2023 were reinvested in the Company's shares at the first opportunity. It is used to calculate the total return that has been generated for shareholders from dividends paid out as well as from capital growth.

# Management and other service providers

## Registered Office

(Registered in Scotland, No. SC006176)  
Exchange Place One  
1 Semple Street  
Edinburgh EH3 8BL

## Investment Manager and Company Secretary

BlackRock Investment Management (UK) Limited<sup>1</sup>  
12 Throgmorton Avenue  
London EC2N 2DL  
Email: cosec@blackrock.com

## Alternative Investment Fund Manager

BlackRock Fund Managers Limited<sup>1</sup>  
12 Throgmorton Avenue  
London EC2N 2DL  
Telephone: 020 7743 3000

## Depository

The Bank of New York Mellon (International) Limited<sup>1</sup>  
160 Queen Victoria Street  
London EC4V 4LA

## Registrar

Computershare Investor Services PLC<sup>1</sup>  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 707 1649

## Stockbroker

Investec Bank plc<sup>1</sup>  
30 Gresham Street  
London EC2V 7QP

## Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

<sup>1</sup> Authorised and regulated by the Financial Conduct Authority.

# AIFMD report on remuneration

## Remuneration related disclosures in accordance with Article 22(2) of the AIFMD, Article 107 of the AIFMD Regulations and Section XIII of the ESMA Guidelines on sound remuneration policies under the AIFMD

The below disclosures are made in respect of the remuneration policies of the BlackRock group (“BlackRock”), as they apply to BlackRock Fund Managers Limited (the “Manager”). The disclosures are made in accordance with the provisions in the UK implementing the Alternative Investment Fund Managers Directive (the “AIFMD”), the European Commission Delegated Regulation supplementing the AIFMD (the “Delegated Regulation”) and the “Guidelines on sound remuneration policies under the AIFMD” issued by the European Securities and Markets Authority.

The BlackRock AIFM Remuneration Policy (the “AIFM Remuneration Policy”) will apply to the EEA entities within the BlackRock group authorised as a manager of alternative investment funds in accordance with the AIFMD, and will ensure compliance with the requirements of Annex II of the AIFMD and to UK entities within the BlackRock group authorised as a manager of a UK alternative investment fund in accordance with the UK version of the Directive.

The Manager has adopted the AIFM Remuneration Policy, a summary of which is set out below.

### Remuneration Governance

BlackRock’s remuneration governance in EMEA operates as a tiered structure which includes: (a) the Management Development and Compensation Committee (“MDCC”) (which is the global, independent remuneration committee for BlackRock, Inc. and (b) the Manager’s board of directors (the “Manager’s Board”). These bodies are responsible for the determination of BlackRock’s remuneration policies which includes reviewing the remuneration policy on a regular basis and being responsible for its implementation. The implementation of the remuneration policy is annually subject to central and independent review for compliance with policies and procedures for remuneration adopted by the MDCC and by the Manager’s Board. The remuneration disclosure is produced and owned by MDCC and the Manager’s Board.

#### (a) MDCC

The MDCC’s purposes include:

- providing oversight of:
  - BlackRock’s executive compensation programmes;
  - BlackRock’s employee benefit plans; and

- such other compensation plans as may be established by BlackRock from time to time for which the MDCC is deemed as administrator;

- reviewing and discussing the compensation discussion and analysis included in the BlackRock, Inc. annual proxy statement with management and approving the MDCC’s report for inclusion in the proxy statement;
- reviewing, assessing and making reports and recommendations to the BlackRock, Inc. Board of Directors (the ‘BlackRock, Inc. Board’) as appropriate on BlackRock’s talent development and succession planning, with the emphasis on performance and succession at the highest management levels; and
- supporting the boards of the Company’s EMEA regulated entities in meeting their remuneration-related obligations by overseeing the design and implementation of EMEA remuneration policy in accordance with applicable regulations.

The MDCC directly retains its own independent compensation consultant, Semler Brossy Consulting Group LLC, who has no relationship with BlackRock Inc. or the BlackRock, Inc. Board that would interfere with its ability to provide independent advice to the MDCC on compensation matters.

The BlackRock, Inc. Board has determined that all of the members of the MDCC are “independent” within the meaning of the listing standards of the New York Stock Exchange (NYSE), which requires each meet a “non-employee director” standard.

The MDCC held 7 meetings during 2022. The MDCC charter is available on BlackRock, Inc.’s website ([www.blackrock.com](http://www.blackrock.com)).

#### (b) The Manager’s Board

The Manager’s Board has the task of supervising and providing oversight of the AIFM Remuneration Policy as it applies to the Manager and its Identified Staff.

#### Decision-making process

Remuneration decisions for employees are made once annually in January following the end of the performance year. This timing allows full-year financial results to be considered along with other non-financial goals and objectives. Although the framework for remuneration decision-making is tied to financial performance, significant discretion is used to determine individual variable remuneration based on achievement of strategic and operating results and other considerations such as management and leadership capabilities.

No set formulas are established and no fixed benchmarks are used in determining annual incentive awards. In determining



specific individual remuneration amounts, a number of factors are considered including non-financial goals and objectives and overall financial and investment performance. These results are viewed in the aggregate without any specific weighting, and there is no direct correlation between any particular performance measure and the resulting annual incentive award. The variable remuneration awarded to any individual(s) for a particular performance year may also be zero.

Annual incentive awards are paid from a bonus pool.

The size of the projected bonus pool, including cash and equity awards, is reviewed throughout the year by the MDCC and the final total bonus pool is approved after year-end. As part of this review, the MDCC receives actual and projected financial information over the course of the year as well as final year-end information. The financial information that the MDCC receives and considers includes the current year projected income statement and other financial measures compared with prior year results and the current year budget. The MDCC additionally reviews other metrics of BlackRock's financial performance (e.g., net inflows of AUM and investment performance) as well as information regarding market conditions and competitive compensation levels.

The MDCC regularly considers management's recommendation as to the percentage of pre-incentive operating income that will be accrued and reflected as a compensation expense throughout the year for the cash portion of the total annual bonus pool (the "accrual rate"). The accrual rate of the cash portion of the total annual bonus pool may be modified by the MDCC during the year based on its review of the financial information described above. The MDCC does not apply any particular weighting or formula to the information it considers when determining the size of the total bonus pool or the accruals made for the cash portion of the total bonus pool.

Following the end of the performance year, the MDCC approves the final bonus pool amount.

As part of the year-end review process the Enterprise Risk and Regulatory Compliance departments report to the MDCC on any activities, incidents or events that warrant consideration in making compensation decisions.

Individuals are not involved in setting their own remuneration.

### **Control functions**

Each of the control functions (Enterprise Risk, Legal & Compliance, and Internal Audit) has its own organisational structure which is independent of the business units and therefore staff members in control functions are remunerated independently of the businesses they oversee. The head of each control function is either a member of the

Global Executive Committee ("GEC"), the global management committee, or has a reporting obligation to the board of directors of BlackRock Group Limited, the parent company of all of BlackRock's EMEA regulated entities, including the Manager.

Functional bonus pools are determined with reference to the performance of each individual function. The remuneration of the senior members of control functions is directly overseen by the MDCC.

### **Link between pay and performance**

There is a clear and well defined pay-for-performance philosophy and compensation programmes which are designed to meet the following key objectives as detailed below:

- appropriately balance BlackRock's financial results between shareholders and employees;
- attract, retain and motivate employees capable of making significant contributions to the long-term success of the business;
- align the interests of senior employees with those of shareholders by awarding BlackRock Inc.'s stock as a significant part of both annual and long-term incentive awards;
- control fixed costs by ensuring that compensation expense varies with profitability;
- link a significant portion of an employee's total compensation to the financial and operational performance of the business;
- promote sound and effective risk management across all risk categories, including sustainability risk;
- discourage excessive risk-taking (sustainability related or otherwise); and
- ensure that client interests are not negatively impacted by remuneration awarded on a short-term, mid-term and/or long-term basis.

Driving a high-performance culture is dependent on the ability to measure performance against objectives, values and behaviours in a clear and consistent way. Managers use a 5-point rating scale to provide an overall assessment of an employee's performance, and employees also provide a self-evaluation. The overall, final rating is reconciled during each employee's performance appraisal. Employees are assessed on the manner in which performance is attained as well as the absolute performance itself.

# AIFMD report on remuneration

continued

In keeping with the pay-for-performance philosophy, ratings are used to differentiate and reward individual performance – but don't pre-determine compensation outcomes. Compensation decisions remain discretionary and are made as part of the year-end compensation process. When setting remuneration levels other factors are considered, as well as individual performance, which may include:

- the performance of the Manager, the funds managed by the Manager and/or the relevant functional department;
- factors relevant to an employee individually; relationships with clients and colleagues; teamwork; skills; any conduct issues; and, subject to any applicable policy, the impact that any relevant leave of absence may have on contribution to the business;
- the management of risk within the risk profiles appropriate for BlackRock's clients;
- strategic business needs, including intentions regarding retention;
- market intelligence;
- criticality to business; and
- supporting the firm's approaches to environmental, social and governance factors and diversity, equity and inclusion.

A primary product tool is risk management and, while employees are compensated for strong performance in their management of client assets, they are required to manage risk within the risk profiles appropriate for their clients. Therefore, employees are not rewarded for engaging in high-risk transactions outside of established parameters. Remuneration practices do not provide undue incentives for short-term planning or short-term financial rewards, do not reward unreasonable risk and provide a reasonable balance between the many and substantial risks inherent within the business of investment management, risk management and advisory services.

BlackRock operates a total compensation model for remuneration which includes a base salary, which is contractual, and a discretionary bonus scheme.

BlackRock operates an annual discretionary bonus scheme. Although all employees are eligible to be considered for a discretionary bonus, there is no contractual obligation to make any award to an employee under its discretionary bonus scheme. In exercising discretion to award a discretionary bonus, the factors listed above (under the heading "Link between pay and performance") may be taken into account in addition to any other matters which become relevant to the exercise of discretion in the course of the performance year.

Discretionary bonus awards for all employees, including executive officers, are subject to a guideline that determines the portion paid in cash and the portion paid in BlackRock, Inc. stock and subject to additional vesting/clawback conditions. Stock awards are subject to further performance adjustment through variation in BlackRock, Inc.'s share price over the vesting period. As total annual compensation increases, a greater portion is deferred into stock. The MDCC adopted this approach in 2006 to substantially increase the retention value and shareholder alignment of the compensation package for eligible employees, including the executive officers. The portion deferred into stock vests into three equal instalments over the three years following grant.

Supplementary to the annual discretionary bonus as described above, equity awards may be made to select individuals to provide greater linkage with future business results. These long-term incentive awards have been established individually to provide meaningful incentive for continued performance over a multi-year period recognising the scope of the individual's role, business expertise and leadership skills.

Selected senior leaders are eligible to receive performance adjusted equity-based awards from the "BlackRock Performance Incentive Plan" ("BPIP"). Awards made from the BPIP have a three-year performance period based on a measurement of As Adjusted Operating Margin<sup>1</sup> and Organic Revenue Growth<sup>2</sup>. Determination of pay-out will be made based on the firm's achievement relative to target financial results at the conclusion of the performance period. The maximum number of shares that can be earned is 165% of the award in those situations where both metrics achieve pre-determined financial targets. No shares will be earned where the firm's financial performance in both of the above metrics is below a pre-determined performance threshold. These metrics have been selected as key measures of shareholder value which endure across market cycles.

A limited number of investment professionals have a portion of their annual discretionary bonus (as described above) awarded as deferred cash that notionally tracks investment in selected products managed by the employee. The intention of these awards is to align investment professionals with the investment returns of the products they manage through the deferral of compensation into those products. Clients and external evaluators have increasingly viewed more favourably those products where key investors have "skin in the game" through significant personal investments.

<sup>1</sup> As Adjusted Operating Margin: As reported in BlackRock's external filings, reflects adjusted Operating Income divided by Total Revenue net of distribution and servicing expenses and amortisation of deferred sales commissions.

<sup>2</sup> Organic Revenue Growth: Equal to net new base fees plus net new Aladdin revenue generated in the year (in dollars).

## Identified Staff

The AIFM Remuneration Policy sets out the process that will be applied to identify staff as Identified Staff, being categories of staff of the Manager, including senior management, risk takers, control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the risk profiles of the Manager or of the funds it manages.

The list of Identified Staff will be subject to regular review, being formally reviewed in the event of, but not limited to:

- organisational changes;
- new business initiatives;
- changes in significant influence function lists;
- changes in role responsibilities; and
- revised regulatory direction.

## Quantitative Remuneration Disclosure

The Manager is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with BlackRock's interpretation of currently available regulatory guidance on quantitative remuneration disclosures. As market or regulatory practice develops BlackRock may consider it appropriate to make changes to the way in which quantitative remuneration disclosures are calculated. Where such changes are made, this may result in disclosures in relation to a fund not being comparable to the disclosures made in the prior year, or in relation to other BlackRock fund disclosures in that same year.

Disclosures are provided in relation to (a) the staff of the Manager; (b) staff who are senior management; and (c) staff who have the ability to materially affect the risk profile of the Fund, including individuals who, although not directly employed by the Manager, are assigned by their employer to carry out services directly for the Manager.

All individuals included in the aggregated figures disclosed are rewarded in line with BlackRock's remuneration policy for their responsibilities across the relevant BlackRock business area. As all individuals have a number of areas of responsibilities, only the portion of remuneration for those individuals' services attributable to the Manager is included in the aggregate figures disclosed.

Members of staff and senior management of the Manager typically provide both AIFMD and non-AIFMD related services in respect of multiple funds, clients and functions of the Manager and across the broader BlackRock group. Conversely, members of staff and senior management of

the broader BlackRock group may provide both AIFMD and non-AIFMD related services in respect of multiple funds, clients and functions of the broader BlackRock group and of the Manager. Therefore, the figures disclosed are a sum of individuals' portion of remuneration attributable to the Manager according to an objective apportionment methodology which acknowledges the multiple-service nature of the Manager and the broader BlackRock group. Accordingly, the figures are not representative of any individual's actual remuneration or their remuneration structure.

The amount of the total remuneration awarded to the Manager's staff in respect of the Manager's financial year ending 31 December 2022 is US\$194.5 million. This figure is comprised of fixed remuneration of US\$109.3 million and variable remuneration of US\$85.3 million. There were a total of 3,790 beneficiaries of the remuneration described above.

The amount of the aggregate remuneration awarded by the Manager in respect of the Manager's financial year ending 31 December 2022, to its senior management was US\$21.6 million, and to other members of its staff whose actions potentially have a material impact on the risk profile of the Manager or its funds was US\$8.8 million. These figures relate to the entire Manager and not to the Company.

# Other AIFMD disclosures (unaudited)

## Report on remuneration

The Alternative Investment Fund Managers' Directive (the AIFMD), requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM.

Details of the BlackRock AIFM Remuneration Policy are disclosed on the Company's website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc) and became applicable to the Manager on 1 January 2015, being the beginning of the first financial year of BlackRock following the Manager's authorisation as an AIFM.

## Quantitative remuneration disclosure

Disclosures in accordance with FUND 3.3.5, Article 22(2)e and 22(2)f of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

## Leverage

The Company may employ leverage and borrow cash in accordance with its stated investment policy or investment strategy. Consistent with its investment objectives and policy, the Company may with the prior approval from the Board utilise derivative instruments as part of its investment policy.

The use of derivatives may expose the Company to a higher degree of risk. In particular, derivative contracts can be highly volatile, and the amount of initial margin is generally small relative to the size of the contract so that transactions may be leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard underlying bonds or equities. Leveraged derivative positions can therefore increase the Company's volatility. The use of borrowings and leverage has attendant risks and can, in certain circumstances, substantially increase the adverse impact to which the Company's investment portfolio may be subject.

For the purposes of this disclosure, leverage is any method by which the Company's exposure is increased, whether through borrowing cash or securities, or leverage embedded in contracts for difference or by any other means. The AIFMD requires that each leverage ratio be expressed as the ratio between a Company's exposure and its NAV, and prescribes two required methodologies, the gross methodology and the commitment methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure.

Using the methodologies prescribed under the AIFMD, the leverage of the Company is disclosed in the table below:

	<b>Commitment leverage as at 28 February 2023</b>	<b>Gross leverage as at 28 February 2023</b>
Leverage ratio*	1.06	1.02

\* Leverage arises from the 2.74% £25 million long dated note 2037, 2.41% £20 million long dated note 2044 and the 2.47% £25 million long dated note 2046. The Company did not hold any derivatives during the year ended 28 February 2023.

## Other risk disclosures

The financial risk disclosures relating to risk framework and liquidity risk are set out in note 17 of the Notes to the Financial Statements.

## Pre investment disclosures

The AIFMD requires certain information to be made available to investors in Alternative Investment Fund ("AIF") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the website at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

By order of the Board

## GRAHAM VENABLES

For and on behalf of  
BlackRock Investment Management (UK) Limited  
Company Secretary  
5 May 2023

# Information to be disclosed in accordance with Listing Rule 9.8.4

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

9.8.4 (1) The Company has not capitalised any interest in the period under review.

9.8.4 (2) The Company has not published any unaudited financial information in a class 1 circular or prospectus or any profit forecast or profit estimate.

9.8.4 (3) This provision has been deleted.

9.8.4 (4) The Company does not have any long-term incentive schemes in operation.

9.8.4 (5) and 9.8.4 (6) No Director of the Company has waived or agreed to waive any current or future emoluments from the Company.

9.8.4 (7), (8) and (9) The Company has not allotted any equity securities for cash in the period under review.

The Company is a stand-alone entity therefore Listing Rules 9.8.4 (8) and 9.8.4 (9) are not applicable.

9.8.4 (10) There were no contracts of significance subsisting during the period under review to which the Company is a party and in which a Director of the Company is or was materially interested, or between the Company and a controlling shareholder.

9.8.4 (11) This provision is not applicable to the Company.

9.8.4 (12) and 9.8.4 (13) There were no arrangements under which an ordinary shareholder has waived or agreed to waive any dividends or future dividends.

9.8.4 (14) This provision is not applicable to the Company.

By order of the Board

**GRAHAM VENABLES**

For and on behalf of  
BlackRock Investment Management (UK) Limited  
Company Secretary  
5 May 2023

# Glossary

## Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The Company's APMs are set out below and are cross-referenced where relevant to the financial inputs used to derive them as contained in other sections of the annual report.

## Closed-end company

An investment trust works along the same lines as a unit trust, in that it pools money from investors which is then managed on a collective basis. The main difference is that an investment trust is a company listed on the Stock Exchange and, in most cases, trading takes place in shares which have already been issued, rather than through the creation or redemption of units. As the number of shares which can be issued or cancelled at any one time is limited, and requires the approval of existing shareholders, investment trusts are known as closed-end funds or companies. This means that investment trusts are not subject to the same liquidity constraints as open-ended funds and can therefore invest in less liquid investments.

## Discount and Premium\*

Investment trust shares can frequently trade at a discount to NAV. This occurs when the share price (based on the mid-market share price) is less than the NAV (debt at fair value) and investors may therefore buy shares at less than the value attributable to them by reference to the underlying assets. The discount is the difference between the share price and the NAV, expressed as a percentage of the NAV. As at 28 February 2023, the share price was 1,380.00p (2022: 1,684.00p) and the NAV (debt at fair value) was 1,601.42p (2022: 1,882.38p) therefore the discount was 13.8% (2022: 10.5%). Please see note 9 of the financial statements on page 88 for the inputs to the calculation.

The approach to calculate the discount at the year end shown above is used on a daily basis to calculate the daily discount. This daily discount is then averaged over the year (being the number of days that the Company's share price and NAV (with debt at fair value) are available).

The average share price, NAV (debt at fair value) and discount for the year are shown in the table below.

Average share price	Average NAV (debt at fair value)	Average discount
1,403.52p	1,629.75p	13.9%

A premium occurs when the share price (based on the mid-market share price) is more than the NAV and investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets. For example, if the share price was 100p and the NAV 90p, the premium would be 11.1%.

Discounts and premiums are mainly the consequence of supply and demand for the shares on the stock market.

## Gearing\*

Investment companies can borrow to purchase additional investments. This is called 'gearing'. It allows investment companies to take advantage of a favourable situation or a particularly attractive stock without having to sell existing investments.

Gearing has the effect of magnifying a company's performance. If a company 'gears up' and then the value of the Company's investments rises and the returns on those investments outstrip the costs of borrowing, the overall returns to investors will be greater. But if the value of the Company's investments falls then losses suffered by the investor will also be magnified.

The Company may achieve gearing through borrowings or the effect of gearing through an appropriate balance of equity capital and borrowings.

Gearing is calculated in line with AIC guidelines and represents net gearing. This is defined as total assets of the Company less current liabilities (excluding bank overdrafts), less any cash or cash equivalents held minus total shareholders' funds, divided by total shareholders' funds. Cash and cash equivalents are defined by the AIC as net current assets or net current liabilities (as relevant). To the extent that the Company has net current liabilities, the net current liabilities total is added back to the total assets of the Company to calculate the numerator in this equation. The calculation and the various inputs are set out in the following table.

Net gearing calculation	Page	28 February 2023 £'000	28 February 2022 £'000	
Net assets	80	758,529	917,078	(a)
Borrowings	89	69,504	109,454	(b)
Total assets (a + b)		828,033	1,026,532	(c)
Current assets <sup>1</sup>	80	30,491	79,235	(d)
Current liabilities (excluding borrowings)	89	(8,546)	(9,132)	(e)
Cash and cash equivalents (d + e)		21,945	70,103	(f)
<b>Net gearing figure (g = (c - f - a)/a) (%)</b>		<b>6.3%</b>	<b>4.3%</b>	<b>(g)</b>

<sup>1</sup> Includes cash at bank and the Company's investment in BlackRock's Institutional Cash Series plc – Sterling Liquidity Environmentally Aware Fund.

## Leverage

Leverage is defined in the AIFM Directive as "any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means".

\* Alternative Performance Measure

Leverage is measured in terms of 'exposure' and is expressed as a ratio of net asset value:

$$\text{Leverage ratio} = \frac{\text{Total assets}}{\text{Net assets}}$$

The Directive sets out two methodologies for calculating exposure. These are the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except that, where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect 'netting' or 'hedging' arrangements and the entity's exposure is effectively reduced.

### Net asset value per share (NAV)

This is the value of the Company's assets attributable to one ordinary share. It is calculated by dividing total shareholders' funds by the total number of ordinary shares in issue (excluding treasury shares). For example, as at 28 February 2023, shareholders' funds were worth £758,529,000 (debt at par value) and £781,970,000 (debt at fair value) and there were 48,829,792 ordinary shares in issue (excluding treasury shares) the NAV per share was therefore 1,553.41p per share (debt at par value) and 1,601.42p per share (debt at fair value) (2022: 1,878.11p per share debt at par value and 1,882.38p per share debt at fair value). Shareholders' funds are calculated by deducting the Company's current and long-term liabilities and any provision for liabilities and charges from its total assets.

### Net asset value per share – debt at fair value (debt at fair value NAV)

The Company has in issue a number of tranches of long term debt as described in detail on note 13 on pages 89 and 90. For accounting purposes and in accordance with UK GAAP, this debt is valued at par less amortised costs on the Company's balance sheet. However, the fair value of this debt reflects instead the market price that investors would be willing to buy it for, which differs from the book value on the balance sheet.

To the extent that a company's debt is publicly traded, the most recently available quoted offer price is typically used to value it. For private placement debt, the fair value is typically calculated using a discounted cash flow technique utilising inputs including interest rates obtained from comparable loans on the market.

The calculation of the Company's NAV per share with debt at fair value is set out in the table on page 118.

### Net asset value and share price return (with income reinvested)\*

Performance statistics enable the investor to make performance comparisons between investment trusts with different dividend policies. The performance measures the combined effect of any dividends paid together with the rise or fall in the share price or NAV. This is calculated by the movement in the share price or NAV plus the dividends

paid by the Company assuming these are reinvested in the Company at the prevailing NAV/share price (please see the performance record on page 4 for the inputs to the calculations which are set out in the tables below).

NAV total return (Debt at par value)	Page	28 February 2023	28 February 2022	
Closing NAV per share (pence)	4	1,553.41	1,878.11	
Add back interim and final dividends (pence)	4	36.50	33.50	
Effect of dividend reinvestment (pence)		(0.75)	(3.16)	
Adjusted closing NAV (pence)		1,589.16	1,908.45	(a)
Opening NAV per share (pence)	4	1,878.11	1,784.35	(b)
<b>NAV total return (c = ((a - b)/b)) (%)</b>		<b>(15.4)</b>	<b>7.0</b>	<b>(c)</b>

NAV total return (Debt at fair value)	Page	28 February 2023	28 February 2022	
Closing NAV per share (pence)	4	1,601.42	1,882.38	
Add back interim and final dividends (pence)	4	36.50	33.50	
Effect of dividend reinvestment (pence)		(0.17)	(2.97)	
Adjusted closing NAV (pence)		1,637.75	1,912.91	(a)
Opening NAV per share (pence)	4	1,882.38	1,774.71	(b)
<b>NAV total return (c = ((a - b)/b)) (%)</b>		<b>(13.0)</b>	<b>7.8</b>	<b>(c)</b>

Share price total return	Page	28 February 2023	28 February 2022	
Closing share price (pence)	4	1,380.00	1,684.00	
Add back interim and final dividends (pence)	4	36.50	33.50	
Effect of dividend reinvestment (pence)		0.48	(4.23)	
Adjusted closing share price (pence)		1,416.98	1,713.27	(a)
Opening share price (pence)	4	1,684.00	1,698.00	(b)
<b>Share price total return (c = ((a - b)/b)) (%)</b>		<b>(15.9)</b>	<b>0.9</b>	<b>(c)</b>

\* Alternative Performance Measure

# Glossary

continued

## Net asset value per share with debt at fair value

The net asset value per share adjusted to include the debt at fair value rather than at par value is as follows:

	As at 28 February 2023		As at 28 February 2022	
	NAV <sup>1</sup> per share (pence)	Shareholders' funds £'000	NAV <sup>1</sup> per share (pence)	Shareholders' funds £'000
Net asset value (debt at par value)	1,553.41	758,529	1,878.11	917,078
Add back: 7.75% debenture stock 2022 – debt at par <sup>2</sup>	–	–	30.71	14,995
Add back: 2.74% loan note 2037 – debt at par	50.80	24,804	50.77	24,790
Add back: 2.41% loan note 2044 – debt at par	40.67	19,860	40.66	19,854
Add back: 2.47% loan note 2046 – debt at par	50.87	24,840	50.82	24,815
Add back: revolving loan facility – SMBC Bank International plc <sup>3</sup>	–	–	51.20	25,000
Less: 7.75% debenture stock 2022 – debt at fair value <sup>2</sup>	–	–	(34.71)	(16,950)
Less: 2.74% loan note 2037 – debt at fair value	(38.51)	(18,805)	(50.76)	(24,785)
Less: 2.41% loan note 2044 – debt at fair value	(25.72)	(12,560)	(38.09)	(18,598)
Less: 2.47% loan note 2046 – debt at fair value	(30.10)	(14,698)	(45.13)	(22,038)
Less: revolving loan facility – SMBC Bank International plc	–	–	(51.20)	(25,000)
<b>Net asset value (debt at fair value)</b>	<b>1,601.42</b>	<b>781,970</b>	<b>1,882.38</b>	<b>919,161</b>

<sup>1</sup> Based on 48,829,792 ordinary shares in issue as at 28 February 2023 (2022: 48,829,792).

<sup>2</sup> The £15 million 7.75% debenture stock was redeemed at par on 31 July 2022.

<sup>3</sup> The £35 million revolving loan facility was terminated on 25 November 2022.

## Ongoing charges ratio\*

$$\text{Ongoing charges (\%)} = \frac{\text{Annualised ongoing charges for the year}}{\text{Average net asset value (debt at par) in the period}}$$

Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs and include the annual management charge.

As recommended by the AIC in its guidance, ongoing charges are the Company's annualised revenue and capital expenses (excluding finance costs, direct transaction costs, custody transaction charges, VAT recovered, taxation, prior year expenses written back and certain non-recurring items expressed as a percentage of the average daily net assets (debt at par value) of the Company during the year.

The inputs that have been used to calculate the ongoing charges percentage are set out in the following table:

Ongoing charges calculation	Page	28 February 2023 £'000	28 February 2022 £'000	
Management fee	85	4,784	6,285	
Other operating expenses <sup>1</sup>	85	839	746	
Total management fee and other operating expenses		5,623	7,031	(a)
Average daily net assets in the year		780,220	1,015,584	(b)
<b>Ongoing charges (c = a/b)</b>		<b>0.7%</b>	<b>0.7%</b>	<b>(c)</b>

<sup>1</sup> Excludes prior year expenses written back in the year of £7,000 (2022: £nil).

## Quoted and unquoted securities

Quoted securities are securities that trade on an exchange and therefore there is a publicly quoted price. Unquoted securities are securities that do not trade on an exchange and therefore there is not a publicly quoted price.

\* Alternative Performance Measure



## Revenue return and revenue reserves

Revenue return represents the net revenue income earned after deduction of fees and expenses allocated to the revenue account and taxation suffered by the Company. Revenue reserves is the undistributed income that the Company keeps as reserves. Investment trusts do not have to distribute all the income they generate, after expenses. They may retain up to 15% of revenue generated each year which will be held in a revenue reserve. This reserve can be used at a later date to supplement dividend payments to shareholders.

## Treasury shares

Treasury shares are shares that a company keeps in its own treasury which are not currently issued to the public. These shares do not pay dividends, have no voting rights and are not included in a company's total issued share capital amount for calculating percentage ownership. Treasury shares may have come from a repurchase or buy back from shareholders, or it may never have been issued to the public in the first place. Treasury shares may be reissued from treasury to the public to meet demand for a company's shares in certain circumstances.

## Yield\*

The yield is the amount of cash (in percentage terms) that is returned to the owners of the security, in the form of interest or dividends received from it. Normally, it does not include the price variations, distinguishing it from the total return.

Yield	Page	28 February 2023	28 February 2022	
Interim and final dividends paid/payable (pence) <sup>1</sup>	87	40.00	35.00	(a)
Ordinary share price (pence)		1,380.00	1,684.00	(b)
<b>Yield (c = a/b) (%)</b>		<b>2.9</b>	<b>2.1</b>	<b>(c)</b>

<sup>1</sup> Comprising dividends declared/paid for the twelve months to 28 February.



# Notice of annual general meeting



Hill & Smith supplies engineering solutions, galvanizing services and road safety and security products to a number of industrial and infrastructure markets. Its FireStrong™ self-monitoring FRP composite pole, manufactured by subsidiary Creative Composites Group, is engineered to last up to 75 years with little to no maintenance in harsh, fire-prone environments.

PHOTO COURTESY OF HILL & SMITH

# Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of BlackRock Smaller Companies Trust plc will be held at the offices of BlackRock, 12 Throgmorton Avenue, London EC2N 2DL on 20 June 2023 at 11.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed, in the case of resolutions 1 to 13 as ordinary resolutions, and in the case of resolutions 14 and 15 as special resolutions).

Resolution 2 is an advisory vote on the Directors' Remuneration Report, excluding any content relating to the remuneration policy as set out on pages 58 and 59.

## Ordinary business

1. To receive the report of the Directors and the financial statements for the year ended 28 February 2023, together with the report of the auditors thereon.
2. To approve the Directors' Remuneration Report for the year ended 28 February 2023 (excluding any content relating to the remuneration policy).
3. To approve the Directors' Remuneration Policy as set out on pages 58 and 59.
4. To approve a final dividend of 25.50p per ordinary share.
5. To re-elect Ronald Gould as a Director.
6. To re-elect Susan Platts-Martin as a Director.
7. To re-elect Mark Little as a Director.
8. To re-elect James Barnes as a Director.
9. To re-elect Helen Sinclair as a Director.
10. To re-appoint PricewaterhouseCoopers LLP, Chartered Accountants, as auditors to the Company until the conclusion of the next Annual General Meeting of the Company.
11. To authorise the Audit Committee to determine the auditors' remuneration.

## Special business

### Ordinary resolutions

12. That pursuant to Article 90 of the Company's Articles of Association, the aggregate maximum fees payable to the Directors (other than alternate Directors) for their service in the office of Director per annum (excluding amounts payable under any other provision of the Articles) shall be increased to £250,000 per annum.
13. That, in substitution for all existing authorities, the Directors of the Company be and they are hereby generally and unconditionally authorised pursuant to Section 551

of the Companies Act 2006 (the Act), to exercise all the powers of the Company to allot relevant securities in the Company (as defined in that section) up to an aggregate nominal amount of £1,215,244.80 (being 10% of the aggregate nominal amount of the issued share capital, excluding treasury shares, of the Company at the date of this notice) provided this authority shall expire at the conclusion of the next Annual General Meeting to be held in 2024 but so that the Company may, before such expiry, make any offer or agreement which would or might require relevant securities to be allotted pursuant to any such offer or agreement as if the authority hereby conferred had not expired.

### Special resolutions

14. That, in substitution for all existing authorities and subject to the passing of resolution 13, the Directors of the Company be and are hereby empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the Act) to allot equity securities (as defined in Section 560 of the Act), and to sell equity securities held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority granted by the resolution numbered 13, as if Section 561(1) of the Act did not apply to any such allotments and sales of equity securities, provided that this power:
  - (a) shall expire at the conclusion of the next Annual General Meeting of the Company in 2024, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted or sold after such expiry and notwithstanding such expiry the Directors may allot and sell equity securities in pursuance of such offers or agreements;
  - (b) shall be limited to the allotment of equity securities and/or the sale of equity securities held in treasury for cash up to an aggregate nominal amount of £1,215,244.80 (representing 10% of the aggregate nominal amount of the issued share capital, excluding treasury shares, of the Company at the date of this notice); and
  - (c) shall be limited to the allotment of equity securities at a price of not less than the cum-income net asset value per share (debt at fair value).

15. That, in substitution for the Company's existing authority to make market purchases of ordinary shares of 25p each in the Company (Shares), the Company be and is hereby authorised in accordance with Section 701 of the Companies Act 2006 (the Act) to make market purchases of Shares (within the meaning of Section 693 of the Act) provided that:

- (a) the maximum number of Shares hereby authorised to be purchased is 7,286,607 (being the equivalent of 14.99% of the Company's issued share capital, excluding treasury shares, at the date of this notice);
- (b) the minimum price (exclusive of expenses) which may be paid for a Share shall be 25p, being the nominal value per ordinary share;
- (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be the higher of (i) 5% above the average of the market values of the Shares for the five business days immediately preceding the date of the purchase as derived from the Daily Official List of the London Stock Exchange and (ii) the higher of the price quoted for (a) the last independent trade of, and (b) the highest current independent bid for, any number of Shares on the trading venue where the purchase is carried out; and
- (d) unless renewed, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2024, save that the Company may, before such expiry, enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after such expiry.

All Shares purchased pursuant to the above authority shall be either:

- (i) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or
- (ii) cancelled immediately upon completion of the purchase.

By order of the Board

**GRAHAM VENABLES**

For and on behalf of

**BlackRock Investment Management (UK) Limited**

Company Secretary

5 May 2023

# Notice of annual general meeting

continued

Notes:

1. A member entitled to attend and vote at the meeting convened by the above Notice is also entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend, speak and vote instead of him/her. A proxy need not be a member of the Company. 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 the member.
2. To appoint a proxy you may use the form of proxy enclosed with this annual report. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be completed and returned to the office of the Company's registrar in accordance with the instructions printed thereon as soon as possible and in any event by not later than 11.30 a.m. on 16 June 2023. Alternatively, you can vote or appoint a proxy electronically by visiting [eproxyappointment.com](http://eproxyappointment.com). You will be asked to enter the Control Number, the Shareholder Reference Number and PIN which are printed on the form of proxy. The latest time for the submission of proxy votes electronically is 11.30 a.m. on 16 June 2023.
3. Proxymity Voting – if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to [www.proxymity.io](http://www.proxymity.io). Your proxy must be lodged by 11.30 a.m. on 16 June 2023 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.
4. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.
5. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a Nominated Person) should note that the provisions in notes 1 and 2 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 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 agreement to give instructions to the member as to the exercise of voting rights at the meeting.
6. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy the information rights (or perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from the Nominated Person.
7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company by not later than close of business two business days prior to the date fixed for the meeting shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at such time. If the meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned meeting is close of business two business days prior to the date of adjournment. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
9. Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by the Company's registrar not later than 48 hours before the start of the meeting. Instructions on how to vote through CREST can be found by accessing the following website: [www.euroclear.com/CREST](http://www.euroclear.com/CREST). Shareholders are advised that CREST and the internet are the only methods by which completed proxies can be submitted electronically.
10. If you are a CREST system user (including a CREST personal member) you can appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by Computershare (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which Computershare is able to retrieve the message. CREST personal members or other CREST sponsored members should contact their CREST sponsor for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes subject of those proxies are cast and voting rights in respect of those discretionary proxies, when added to the interest in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure Guidance and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3 per cent or more of the voting rights in the Company, who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Guidance and Transparency Rules, need not make a separate notification to the Company and the Financial Conduct Authority.

12. Any question relevant to the business of the meeting may be asked at the meeting by anyone permitted to speak at the meeting. A shareholder may alternatively submit a question in advance by a letter addressed to the Company Secretary at the Company's registered office. Under Section 319A of the Companies Act 2006, the Company must answer any question a shareholder asks relating to the business being dealt with at the meeting, unless (i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer had already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

13. 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.

14. Under Section 527 of the Companies Act 2006, 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:

- (i) the audit of the Company's financial statements (including the auditors' report and the conduct of the audit) that are laid before the meeting; or
- (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006.

The Company may not require the members requesting such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditors 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 Companies Act 2006 to publish on a website.

15. Under Sections 338 and 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

- (i) 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
- (ii) 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, 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.

16. Further information regarding the meeting which the Company is required by Section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this Notice), can be accessed at [www.blackrock.com/uk/brsc](http://www.blackrock.com/uk/brsc).

17. As at the date of this report, the Company's issued share capital comprised 48,609,792 ordinary shares of 25 pence each, excluding shares held in treasury. Each ordinary share carries the right to one vote and therefore the total number of voting rights in the Company on 2 May 2023 is 48,609,792.

18. No service contracts exist between the Company and any of the Directors, who hold office in accordance with letters of appointment and the Articles of Association.

# Share fraud warning

Be ScamSmart



## Investment scams are designed to look like genuine investments



### Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

### Avoid investment fraud

**1 Reject cold calls**

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

**2 Check the FCA Warning List**

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

**3 Get impartial advice**

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

### Report a scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers). You can also call the FCA Consumer Helpline on **0800 111 6768**

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

Find out more at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

**Remember: if it sounds too good to be true, it probably is!**

SGN001



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