F&C Global Smaller Companies PLC

Report and Accounts

2014

Contents

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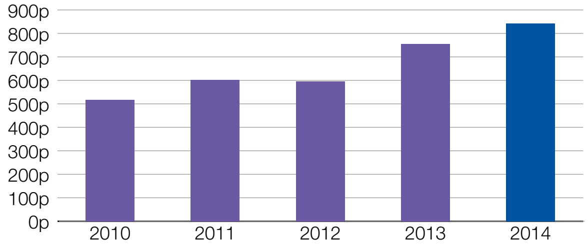
Registered in England and Wales with company registration number 28264.

Financial Highlights

Securing a high total return from investment in smaller companies worldwide

Net asset value per share with debt at nominal value at 30 April – pence

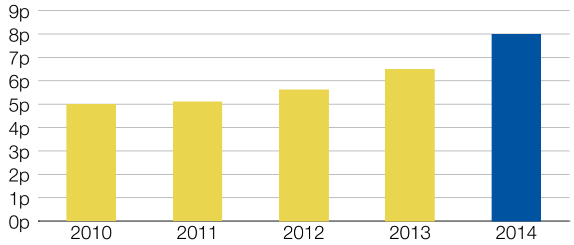


Source: F&C Management Limited

Net Asset Value per share up to **841.78p** and a Total Return of **12.3%**

(debt at nominal value)

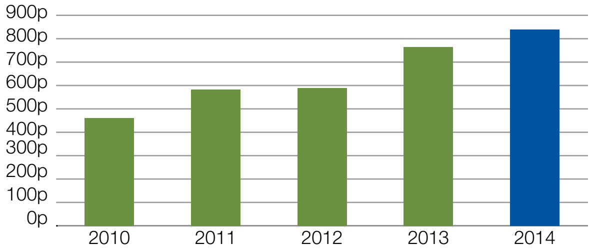
Dividends per share – pence



Source: F&C Management Limited

Annual Dividend per share up **23.1%** to **8.00p** – the 44th consecutive annual increase

Mid-market price per share at 31 December – pence

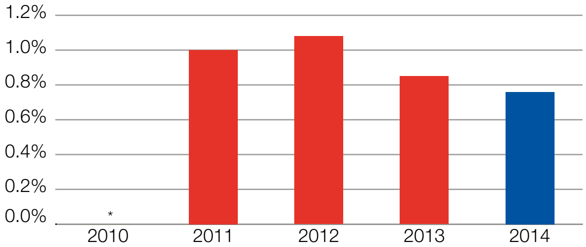


Source: F&C Management Limited

Share Price up **9.9%** to **840.0p**

Share Price Total Return **10.8%**

Ongoing charges excluding performance fees – %



Source: F&C Management Limited

* The measure of Ongoing Charges was introduced in 2012 and there is no comparative figure for 2010

Ongoing Charges down to **0.76%**

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

Chairman's Statement

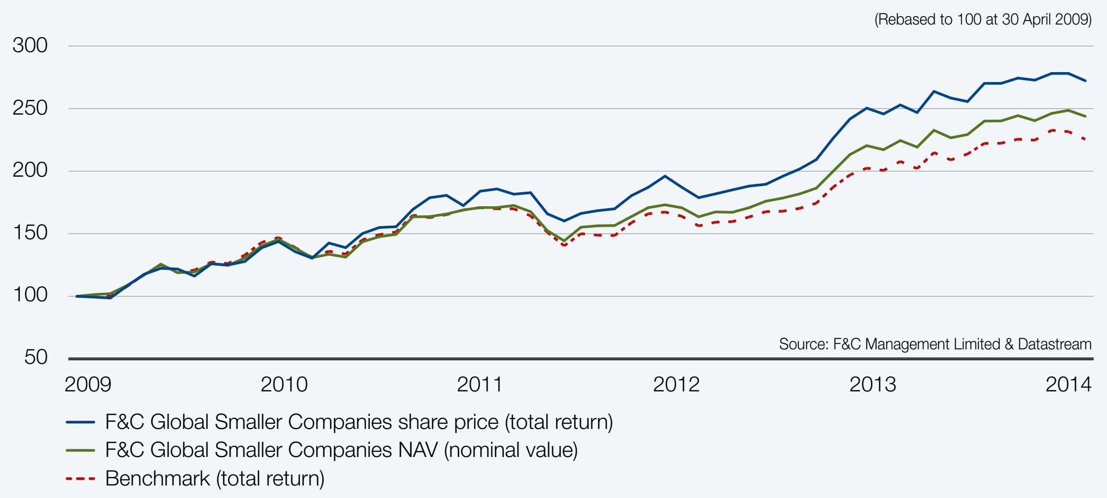
Anthony Townsend Chairman

I am pleased to be able to report that the year under review was one of further progress for your Company with the net asset value per share up 11.3% to 841.78p with the debenture valued at nominal value. The share price was up 9.9% to a record year end level of 840p, though progress in the second half of the year was more modest than the first. While there was quite a divergence between equity market returns around the world, and economic conditions have not been uniformly positive, monetary policy from the main world central banks was again supportive for share prices.

The net asset value return for the year on a total return basis, incorporating the Company's debenture at nominal value was 12.3% against 12.6% incorporating the debenture at fair market value. The Company's Benchmark is a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (70%) and Numis UK Smaller Companies (excluding investment companies) Index (30%), and over the year this produced a total return of 12.4%. Our returns therefore have been broadly in line with the Benchmark this year following on from three consecutive years of outperformance.

The long term track record is highlighted graphically and in the table opposite, and these make for pleasing reading. It is also worth flagging that the net asset value total return delivered by the Company has surpassed all other companies within the AIC's Global sector over a ten year period to the end of April. This showed through in good demand for new shares and shareholders will recall that the Company held a General Meeting in March at which shareholders renewed the Board's share issue authorities as the original authorities had nearly

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



been exhausted. For the vast majority of the year, the share price traded at a small premium to net asset value but ended at a 0.1% discount compared to a 1.6% premium a year earlier.

Period	3 years	5 years	10 years
NAV total return	42.7%	143.9%	235.2%
Share Price total return	48.0%	172.3%	324.7%
Benchmark	32.0%	125.5%	185.7%

Source: F&C Management Limited & Datastream

Dividends

This was another good year in terms of investment income and lower costs. So, after a 25% rise in the interim dividend, the Board also propose the payment of a higher final dividend of 5.50p, taking the dividend for the full year to 8.00p, up 23.1%. This will be paid on 15 August 2014 to shareholders on the register on 18 July 2014. The Board's intention remains to maintain a progressive dividend in the future and the fact that the Company has a large revenue reserve in hand provides backing to this.

Market background

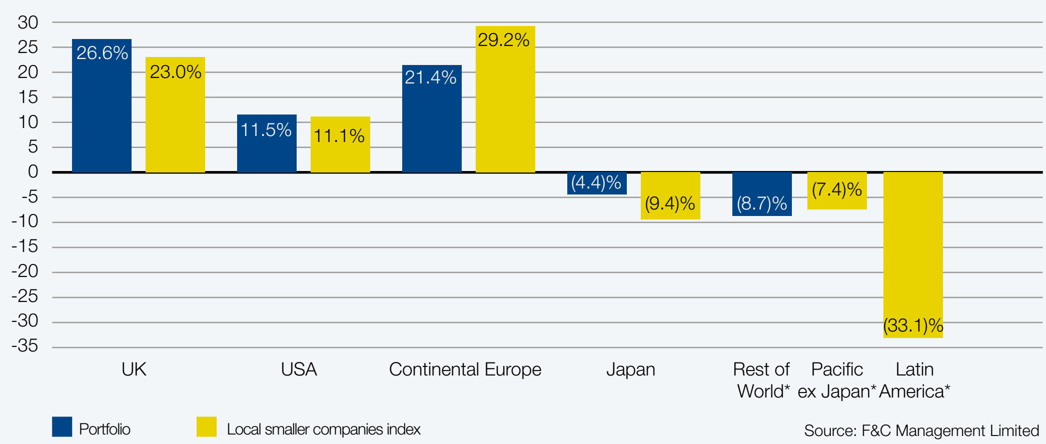
As already stated, the returns from equity markets diverged considerably, with the main divide being between the developed markets and emerging/developing markets. In the UK, Europe and US, share prices posted further gains. Economic growth forecasts were upgraded in the UK through the year, with strong net job creation and a recovering housing market leading to improving consumer confidence. While growth is more patchy in mainland Europe, confidence that the worst of the financial crisis was behind us led to a substantial fall in government bond yields for the peripheral countries as risk appetite revived. Faced by ongoing near zero interest rates on cash deposits, investors have chosen to direct more of their capital towards equities and other asset classes such as real estate.

The move to signal a "tapering" of quantitative easing and an eventual rise in interest rates in the US during the Summer, prompted fears of a flight of capital out of the emerging markets, and in particular those with high current account or fiscal deficits. This, combined with generally disappointing macro-economic data from China and some of the other key Asian emerging markets, heaped further pressure on some of the local currencies, worsening the equity market returns from a UK based investor's perspective.

Portfolio performance

The chart below shows the sterling total returns that were delivered by each geographic segment of the portfolio. This demonstrates how good returns were in the UK and Europe and how disappointing they were in both Japan and the Rest of World segment, which is where both Asian and Latin American markets fall in terms of the way that we report.

Geographical performance (total return sterling adjusted) for the year ended 30 April 2014



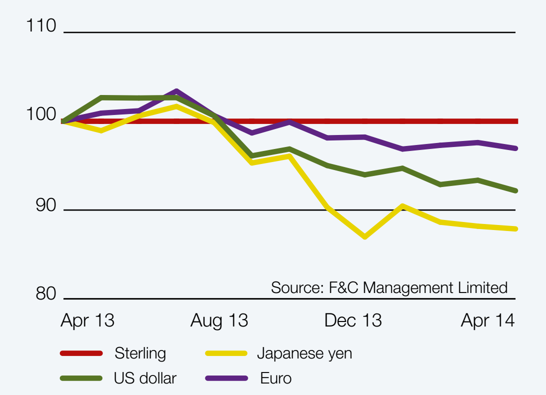
Source: F&C Management Limited

*Performance of the Rest of World portfolio is measured against both the Asian and Latin American smaller company indices.

Chairman's Statement (continued)

While the UK stock market has benefited from the improving domestic economic picture, this is not the only thing which has helped drive its outperformance. Currency moves have had more of an impact than usual this year, with sterling gaining ground across the board.

Currency movements relative to sterling in the year ended 30 April 2014



When we look at the returns on our portfolio, it is pleasing to note that for the third consecutive year we beat the local smaller company returns in the US, UK and Japan. After two extremely strong prior years, we were unable to keep pace with the rise in the European small caps. Our portfolio of fund holdings targeting Asian, Latin American and other frontier markets was unable to buck the downward trend in these markets.

Asset allocation

In the early part of the year, we lifted our UK exposure and were overweight versus the 30% Benchmark allocation for a short while. This proved timely and we were overweight to Europe which was also the right decision, though being overweight through the year in Japan was detrimental. Enthusiasm in the markets for the more growth and expansionary economic agenda of the Abe administration was not sustained, and slower than hoped for structural reforms combined with the slowdown in the broader Asian scene held Japanese small caps back. The Manager was rightly underweight to the emerging markets in the year, though has more recently been adding to some of our fund holdings bringing us closer to neutral. The main underweight is the US, as was the case a year ago, where valuations for the market and small caps within it seem less attractive.

Proposed Convertible Unsecured Loan Stock Issue, Gearing Policy and Growth of the Company

At the end of April 2014 the Company had no effective gearing with net cash in hand more than covering the Company's £10m debenture liability, which is due for repayment at the end of 2014. However, given the strong historic performance delivered by the Manager's investment approach and the view that the potential for good returns into the medium term is still very much intact, the Board has been considering the approach that should be taken with regard to gearing. We have concluded that regular or structural gearing through the investment cycle is appropriate to enhance shareholder returns in the future. As a result, the Board is considering the details of a possible imminent issue of up to £40m of new Convertible Unsecured Loan Stock. Should the issue be fully subscribed, the Company's effective gearing level would remain well within the Board's investment policy limit of 20% of shareholders' funds. In the event the Board decides to proceed with the issue, full details will be set out in a separate announcement to be released shortly and in a prospectus. We would need shareholder approval for the issue at a General Meeting the date and details of which would be notified to shareholders in a circular.

Fees and expenses

F&C, as Manager, is due a performance fee of £8,000. This compares to the £1.5m performance fee last year. The Board has considered whether to continue with the current base management plus performance fee approach and, for now, has decided that this remains appropriate. The greater size of the Company's asset base and the removal of F&C savings plan administration costs means that the expense ratios have moved lower this year. Transaction costs for the year, not included in the calculation of Ongoing Charges, were £527,000, representing 0.12% of the year end net asset value. The Board believes that the fee structure remains competitive in the market place.

Ongoing charges	Excluding performance fees	With performance fees
2013/14	0.76%	0.78%
2012/13	0.85%	1.49%

Ownership of the Manager

The acquisition of F&C by the Bank of Montreal completed in May bringing to an end any uncertainty over the future ownership of the investment manager of the portfolio. Corporate activity of this nature is always unsettling for those employed in the business and I would like to thank the team at F&C for the continuing high level of service. The investment and client service teams remain unchanged save for one unrelated departure from the US team and the Board remains confident that the portfolio is in good hands.

Alternative Investment Fund Managers' Directive ("AIFMD")

The AIFMD is European legislation for regulating managers of alternative investment funds. This was passed into UK law in July 2013 for the general purpose of enhancing investor protection. Investment trusts are one of a number of investment vehicles designated as alternative investment funds and which have until 22 July 2014 to comply. Although the Directive does not impose significant change to the safeguards and reporting requirements that have long been in place for investment trusts, the Company does need to appoint an Alternative Investment Fund Manager. By the time of the Annual General Meeting in July, to meet the specific requirements of the Directive the Board will have moved the management company's day-to-day responsibilities to F&C Investment Business Limited, another regulated subsidiary within F&C Asset Management plc, and will also have appointed it as the Company's Alternative Investment Fund Manager. There will not be any additional management fees as a result of the change. It is intended that JPMorgan Europe Limited will be appointed to act as depositary, which will levy charges but these are not expected to be significant.

New Zealand Stock Exchange Listing

The Company has had a secondary listing on the New Zealand Stock Exchange for many years. The Board has decided to cancel the listing in view of a decline in the number of shareholders on the register. The listing will cease on 27 June 2014.

The Board and corporate governance

In line with best practice and for the first time, shareholders will be asked to approve the Directors' Remuneration Policy at the Annual General Meeting. Jane Tozer and I have now passed nine years' service and will therefore be standing for re-election at the meeting, while Franz Leibenfrost will retire from the Board having given just over 15 years' service to the Company. Franz has brought a valuable international perspective to our Board discussions and has maintained a keen interest in the Company throughout his time as a Director; he has been a delightful colleague to work with and on behalf of his Board colleagues and shareholders alike I would like to thank him for all the years of diligent service he has given us. We wish him all the best for the future. We will be looking to appoint a new Director in the coming months.

Outlook

As markets rise, it becomes harder by definition to be as confident about the prospect for further near term progression. Nevertheless, the Board feels that the medium term prospects for growth in a global smaller company mandate remains bright, continuing to offer the potential for investors to gain exposure to some of the best equity growth stories of the future.

Anthony Townsend
Chairman
16 June 2014

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

Business Model and Strategy

Investment Objective

The Company invests in smaller companies worldwide in order to secure a high total return

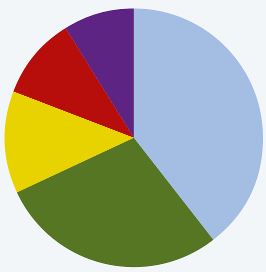
The Company carries on business as an investment trust. In aiming to achieve the investment objective the Board of Directors has appointed F&C as Manager to deliver investment performance. As F&C's Lead Manager, Peter Ewins is responsible for the overall construction of the Company's investment portfolio and asset allocation on a regional basis. The wholly non-executive Board retains responsibility for: corporate strategy; corporate governance; risk and control assessment; the overall investment and dividend policies; setting limits on gearing and asset allocation; monitoring investment performance and for approving marketing budgets.

The Company has no employees; its ancillary functions of administration, secretarial, accounting and marketing services are also carried out by F&C. Further information in relation to the Board can be found on page 34. Information on the one female and five male Directors can be found on page 26. Remuneration information is set out on pages 38 to 40. Information on the fees payable under the management agreement, which are structured to align the Manager's interests with shareholders, can be found on page 31 and in notes 4 and 5 on the accounts.

AIFMD

Under the Alternative Investment Fund Managers Directive, which comes into effect on 22 July 2014, the Company is required to appoint an Alternative Investment Fund Manager ("**AIFM**"). The Board intends to appoint F&C Investment Business Limited in place of F&C Management Limited not only as Manager but also to act as AIFM to the Company. This company is the manager of a number of other F&C managed investment trusts and, as AIFM, will be required to meet the regulatory and reporting requirements laid out by the Directive. Peter Ewins will continue in his capacity as Lead Manager and there will be no changes to the strategy and investment management philosophy and process or to the fees payable by the Company. The Company also intends to appoint JP Morgan Europe Limited as its depositary under the Directive for the purpose of strengthening the arrangements for the safe custody of assets.

Geographical distribution of the investment portfolio as at 30 April 2014



North America **39.7%** (40.4%)
UK **28.5%** (27.5%)
Continental Europe **12.7%** (12.0%)
Rest of World **10.3%** (11.7%)
Japan **8.8%** (8.4%)

The percentages in brackets are as at 30 April 2013

Source: F&C Management Limited

Investment strategy and implementation

Smaller company equities have historically delivered strong returns to investors, ahead of overall equity market returns in most parts of the world. Investing in smaller companies requires a long-term perspective not least because liquidity restrictions make shorter-term trading strategies harder to implement. F&C's investment team is therefore focused on the long rather than the short term when considering individual stock opportunities.

The investment team seeks out opportunities to invest in companies with market capitalisations that fit the generally accepted definition of smaller companies in the relevant local market. In the major developed economy stock-markets there are large numbers of publicly listed companies within this category to choose from. A full list of investments appears on pages 22 to 24.

F&C has teams of smaller company specialist managers focusing on fundamental analysis of the opportunities in the North American, UK and Continental European stock markets. The emphasis is on meeting individual companies and understanding the quality of their management, their position in their targeted market, and their strategy for growth. Attention is also focused on each individual company's financial strength and cash flow dynamics, which is particularly important given that smaller companies will tend to have less flexibility around funding options than larger companies. The aim is to invest in high quality companies at attractive prices, offering the potential to deliver strong returns.

For markets outside North America, the UK and Continental Europe, where F&C lacks dedicated smaller company investment teams, third party managed smaller company funds are assessed and a limited number of these are used to give the Company's investment portfolio exposure to companies in Japan, Asia, Latin America and Africa.

The Company's exposure to the different geographic markets is adjusted within specific ranges in the light of the attraction of local valuations and the outlook for currencies, but stock selection is the main driver of the Company's overall returns. The Company does not generally seek to hedge currency exposures although, in accordance with the Company's investment policy and the investment guidelines set by the Board from time to time, foreign currency loans may be used if required. The Company's Investment Policy Statement is set out in detail on page 28.

Responsible ownership

The Board's primary responsibility is to ensure that the Company's portfolio is properly invested and managed in accordance with the investment objective. The Board supports the Manager in its belief that good governance creates value. The Manager takes a particular interest in corporate governance and sustainable business practices, which includes the integration of environmental, social and governance issues into its investment decisions. Information on the Company's voting policy can be found in the Directors' Report on page 28.

Gearing strategy

The Company's Articles of Association limit borrowings to a maximum of the aggregate of the Company's share capital and reserves, after deducting one-half of any reserves representing the appreciation in value of unrealised investments of the Company. Within that overriding limit the Board has set an effective gearing limit, under normal circumstances, of 20% of shareholders' funds based on valuing the Company's debenture at nominal value. The Board believes that structural gearing throughout the investment cycle is appropriate for the enhancement of shareholder returns in the future. The Company's debenture will mature on 31 December 2014 and therefore the Board is considering the issue of up to £40m of convertible unsecured loan stock. Should the issue proceed and be fully subscribed, the gearing level of the Company would remain well within the 20% limit. The Company's short term loan facility has not been renewed. Information on the debenture can be found in note 14 on the accounts.

Share issue and buyback strategy

As part of its wider strategy, the Company has for many years either bought back or issued shares in order to moderate the level of discount or premium at which the shares trade in relation to the net asset value per share. This strategy also has the benefit of enhancing net asset value per share for continuing shareholders. In the event of the shares trading at a price lower than the net asset value, the Board aims to keep the discount at no more than 5% in normal market conditions (with the debenture at market value).

Marketing strategy

The Company is well positioned to benefit from the Retail Distribution Review as more and more investors begin to take direct control of their financial affairs and invest through investment platforms. Furthermore, the Company is an investment trust and its shares can therefore continue to be recommended by independent financial intermediaries to ordinary retail investors in accordance with the Financial Conduct Authority's recently introduced rules on non-mainstream investment products. The Manager continues to promote investment in the Company's shares, which has traditionally been made through F&C's flexible and cost effective savings plans. The Board will continue to work closely with the Manager to ensure optimal promotion of the Company.

Business Model and Strategy (continued)

Principal risks and uncertainties and risk management

As stated within the Report of the Audit and Management Engagement Committee on pages 41 to 43, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the particular needs of the Company in managing the risks and uncertainties to which it is exposed.

The Board analyses the principal risks and uncertainties faced by the Company under three main categories: the security of assets: investment performance; and the deviation of the share price to the underlying net asset value per share. These are described below and in note 25 to the financial statements.

Security and operational issues

Risk description: *loss of assets or other damage to the interests of investors and the Company could arise due to poor systems and physical access security, operational errors, control failures or regulatory failures by or between service providers, including the Manager.*

Mitigation: The Board receives regular reports from the Manager in respect of its own control and regulatory environment and on its oversight of service providers including arrangements that are in place for the safe custody of the assets, the administration of the F&C savings plans and to protect against cyber-attacks. Audit assurance reports prepared by leading audit firms on each of the key service providers are reviewed annually by the Board. A depositary will be appointed under the AIFMD to enhance the protection of the Company's assets.

Investment performance issues

Risk description: *an inappropriate investment strategy or policy, or ineffective implementation, could result in poor returns for shareholders.*

Mitigation: The Board regularly reviews overall strategy and in considering investment policy reviews regular reports from the Manager: on stock selection; asset allocation; gearing; currency exposure and investment performance. The Board meets regularly with the senior management of the Manager, which structures its recruitment and remuneration packages in order to retain and enhance the quality of the management team. Assurances have been received from the Manager's new owner, Bank of Montreal, as to their continuing support for the Manager's key staff, operations and policies. The management contract can be moved at short notice.

Discount/Premium to Net Asset Value

Risk Description: *A significant share price discount or premium to the Company's net asset value per share, or related volatility, could lead to high levels of uncertainty or speculation and the potential to reduce investor confidence.*

Mitigation: The Board has established share buyback and share issue policies in order to moderate the level of share price premium or discount to the net asset value per share and related volatility and seeks shareholder approval each year for the necessary powers to implement these policies.

The Company's assets consist mainly of listed equities and its principal risks, opportunities and rewards are therefore mainly market related. The Company aims to spread the risk of stock market investment by diversifying investment exposure over a wide range of stocks. Investment is made around the globe in markets, sectors and companies which it is believed will reward shareholders by achieving the Company's objective of securing a high total return. In the following section we show how the Company has performed by reference to its key performance indicators.

Key performance indicators

Ultimately it is longer term share price performance that is most important to the Company's investors. Underlying the performance of the share price is the performance of the net asset value. The Board assesses its performance in meeting the Company's objective against the following key performance indicators ("**KPIs**"):

1. Net asset value per share total return
2. Share price total return
3. Share price discount/premium
4. Ongoing charges
5. Annual dividend growth
6. Regional performance against local benchmarks

Information in relation to these KPIs is set out in the tables below. Commentary can be found in the Chairman's Statement, Manager's Review and on page 3 in relation to regional performance.

Revenue results and dividends
for the year ended 30 April 2014

	£'000s	£'000s
Revenue return attributable to equity shareholders		4,461
Dividends paid in the year:		
Final dividend of 4.50p per share paid on 16 August 2013 to shareholders on the register at 19 July 2013	(2,071)	
Interim dividend of 2.50p per share paid on 31 January 2014 to shareholders on the register at 3 January 2014	(1,213)	
		(3,284)
Surplus transferred to the revenue reserve		1,177

Source: F&C Management Limited

Premium/(Discount)
(debenture at market value and including current period income)

At 30 April	%
2014	(0.1)
2013	1.6
2012	(0.4)
2011	(2.1)
2010	(9.6)

Source: F&C Management Limited.

Total return performance

	1 Year %	3 Years %	5 Years %
Company net asset value total return*	12.3	42.7	143.9
Benchmark total return	12.4	32.0	125.5
Company share price total return	10.8	48.0	172.3
Retail Prices Index	2.5	9.1	20.9

Source: F&C Management Limited and Datastream
*Debenture at nominal value

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

At 30 April	% (excluding performance fees)	% (including performance fees)
2014	0.76	0.78
2013	0.85	1.49
2012	1.08	1.56
2011	1.00	1.02

Source: F&C Management Limited.
*Calculated under the AIC Guidelines issued in May 2012. See page 71.

Dividend growth

	1 Year %	3 Years %	5 Years %
Dividends	23.1	56.9	63.7
Retail Prices Index	2.5	9.1	20.9

Source: F&C Management Limited and Datastream

Manager's Review

Peter Ewins Lead Manager

The year under review brought the usual array of challenges from an investment point of view, but ended with the returns from our portfolio broadly in line with the Benchmark. The NAV total returns with the debenture at par and fair value were 12.3% and 12.6% respectively, with the Benchmark delivering 12.4%. Following on from three good years, this could be viewed as a satisfactory performance.

In practice the NAV was moving more or less in line with the Benchmark for the whole year, although this certainly should not be taken to mean that we have moved to become index trackers. While we are aware of the broad skew of the Benchmark, we are far more concerned with the fundamentals of the individual stocks in which the fund is invested.

We start from the premise that we are investing in companies for the long term. It is therefore important to not get too focused on short term performance metrics. In the table below, we have shown the level of sterling returns delivered by each part of the portfolio on a one, three and five year basis to provide some sort of context around where the returns have come from in recent years.

For me this highlights a few important things. Firstly, it illustrates how good returns from investing in smaller companies on a global basis have been in the last five years. Secondly, it shows how well UK listed smaller companies have performed in recent years. We are often questioned why we continue to have a high exposure to the UK market at a time of increasing globalisation. The table shows that it has been right to have a significant UK exposure. Furthermore, many of our UK listed holdings are highly global businesses playing strong structural growth themes outside the UK. Thirdly and most pleasingly from the team's perspective, the numbers highlight that we have outperformed the local smaller company index in all parts of the portfolio over a three and five year basis.

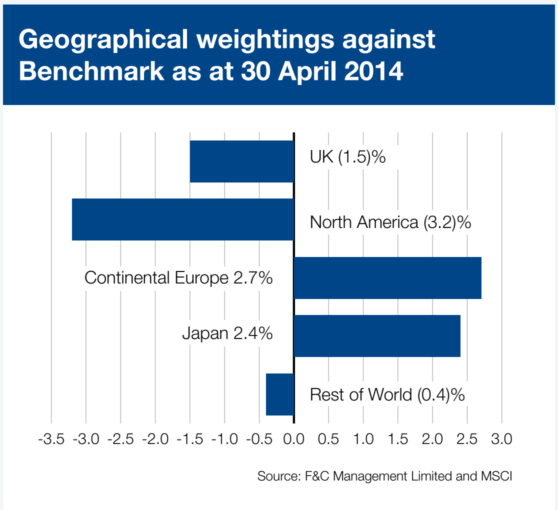
So during the last year, what were the main factors affecting the markets and our portfolio? At a macro level we obviously take account of economic news, but this does not tend to drive very many investment decisions. Far more important to us are the meetings and other contacts that we have with companies and analysts who help to inform our views. Nevertheless, from my perspective this

Table of returns

		1 year		3 years		5 years
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK	26.6%	23.0%	69.8%	53.0%	214.8%	164.8%
US	11.5%	11.1%	47.3%	34.1%	130.5%	116.9%
Continental Europe	21.4%	29.2%	46.2%	20.6%	173.0%	111.3%
Japan	(4.4)%	(9.4)%	38.1%	20.8%	62.8%	49.5%
Rest of World*	(8.7)%	(7.4)%	12.5%	(5.2)%	134.3%	76.9%

*Rest of World performance is benchmarked against an Asian small cap index

Source F&C Management Limited, sterling total returns



was a more stable year from a macro point of view, with the developed world generally seeing growth recovering, perhaps most notably in the UK.

The financial markets did have to get used to the idea that quantitative easing ("**QE**"), the purchasing of bond and other financial assets by central banks, might be coming towards its conclusion. The liquidity support this has provided across asset classes and in particular in relation to equity markets is hard to quantify, but it certainly has been supportive alongside the prolonged period of ultra-low interest rates. On the face of it, the extreme reaction of emerging market assets to the move by the US Federal Reserve to taper its purchasing of US bond assets was surprising, but in reality the effect of QE had been to drive flows of liquidity seeking higher returns into these markets. Tapering was also taken to mean that the US economy might soon see higher interest rates and the weakness of some developing countries' external trade positions also encouraged some investors to sell down their emerging market equity holdings.

We have never sought to make really large asset allocation changes on the back of short term developments and didn't in 2013/14 either. It is, however always tempting to add to the weighting of a region which has been notably weak, and vice versa, so late in the year we did start to add to our Rest of the World exposure at the expense of the UK. This is essentially a relative valuation call at this point in time.

We can't claim to have got all the calls right in the last year and it was wrong to be overweight in Japan, with enthusiasm around the policy agenda of the Abe government waning. We were however, rightly overweight in Europe, as small cap shares here benefited from much improved investor sentiment on the basis that economic recovery would feed through to corporate earnings. Valuations here, as in the UK, are however starting to look relatively full for most of the quality companies that we look to invest in. We have found fewer new ideas than usual in the last year in the US and were underweight throughout.

The following pages provide more detail around the five parts of the portfolio and what went well and not so well. It is very important not to become wedded to stocks that have performed very strongly as these can get over-valued. Equally last year's losers can go on to be next year's winners and weak near term trading due to one-off events can provide us with some great investment opportunities.

Before moving on to the regional reports, I should record my thanks to Robert Siddles who was Deputy Manager for a number of years and led the US smaller companies team at F&C. He has now moved elsewhere having made a strong contribution to the Company's returns in recent years. I wish him well in the future.

UK Review

Portfolio Performance	+26.6%
Numis UK Smaller Companies (excluding investment companies) Index	+23.0%
FTSE All Share	+10.9%

With the UK economy entering a period of faster economic growth, UK smaller company shares beat the wider market by some distance and our portfolio delivered a strong relative performance for the third year in a row.

We benefited from having a high exposure to property and construction related companies. Property values in London rose again as overseas buyers remained attracted by the opportunity to invest in a perceived safe haven asset class. Companies with assets offering scope for residential conversion or development within London were in

Manager's Review (continued)

favour on the stock market. **Workspace** on our portfolio was the prime beneficiary of this and its shares rose 53.1%, while nationwide developer **St Modwen Properties** was up 38.9% as interest from investors and buyers of property started to percolate out to the regions. One of our larger investments in the second half of the year was into **Sirius Real Estate**, a company which we had previously invested in but where we had lost faith in management. Under an improved team, an equity placing has de-risked the company and provided scope to invest in its German industrial properties to drive higher occupancy. Shares in companies serving construction markets were also strong. **Tyman Group**, which supplies window and door related products, continued its good run, and **Grafton Group**, the merchanting business, also rose strongly, eventually leading us to crystallise a profit.

With unemployment falling sharply and inflation easing, consumer facing companies have been enjoying a more benign backdrop after several tough years. Shares in **Enterprise Inns** rose by more than 50%, while **Thomas Cook**, the travel agent continued to recover under revitalised management. During the year, we sold these holdings after receiving very good returns. In the retail sector, our best performer was **JD Sports**, with the shares more than doubling as solid results earned a long overdue re-rating. **Vertu Motors** also did well as the UK car market remained buoyant and the company was able to buy some new dealerships at attractive prices.

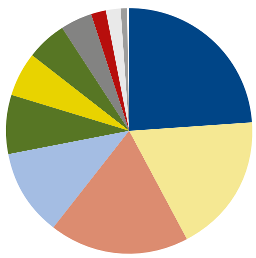
Within the financial services sector, **Polar Capital**, the fund manager performed well as it took in large inflows across a number of its funds and benefited from operational leverage. In the second half of the year, we bought back in to wealth manager **Rathbone Brothers**. Management have steadily grown the business in a controlled, mainly organic manner and we feel that the private wealth market is set to do well as a consequence of the ongoing structural changes post the Retail Distribution Review. We were pleased with the results from **Novae Group**, which has continued to deliver better returns from its underwriting business and paid out an unanticipated special dividend.

Medical stocks made a good contribution this year with **BTG** and **Vectura** progressing key products in their portfolios. At the smaller end, **Advanced Medical Solutions** which makes a range of wound-care related products, was up by 56.3%, as it delivered on its profit expectations after delays in the previous year. **Clinigen**, one of last year's new purchases at the time of its IPO did very well as it delivered to expectations and benefited from strong demand for its services to the pharmaceutical market and its own range of healthcare products.

A number of other stocks did well for us, most notably online payments provider **Optimal Payments**, which more than doubled as its performance surpassed expectations, and plastics packaging business **RPC Group**, which moved to widen its business further by way of acquisition. Within media, television and film production company **Entertainment One** built on the success of its Peppa Pig franchise. A transformational Canadian deal has worked out well and led to a re-rating, with the increased size of the company attracting more investor interest. Telecoms services supplier **Alternative Networks** was another winner which developed during the year by way of acquisition, while in oil services, **Kentz** did well as it fended off several takeover approaches and continued to win new work.

There are always disappointments, and this year they were principally focused on two of the more inherently risky areas of the market; resources and technology. Our investments in **Bowleven** and **Indus Gas** fell heavily, with the former forced into a rescue fund raise, and the latter struggling to monetise Indian gas assets. We decided to sell out of both of these stocks. **Salamander Energy**'s shares also fell significantly in the year as exploration news-

Industrial classification of the investment portfolio as at 30 April 2014



The percentages in brackets are as at 30 April 2013

Source: F&C Management Limited

Trading at Spirit Pub Company's outlets has been lifted by stronger consumer spending

flow disappointed the market, but here we added to our holdings as the value in the company's key producing assets in Thailand and Indonesia seemed to us to be under-recognised by the market. Recently the company has been approached by third parties interested in potentially making an offer, and the shares have rebounded.

Within the technology sector, several of our holdings including **Anite**, **Idox**, **SDL** and **Spirent** announced weaker than expected results. We have retained our holding in **Anite** as we feel that its handset and network testing business will recover, but the other three holdings have all now been sold as we lost confidence in the business dynamics. **Digital Barriers**, which focuses on advanced surveillance technologies for the homeland security and defence markets, also failed to hit its targets in the year, but we have added to our holding as we still feel that the intellectual property within the company has exciting medium term potential under a strong Chief Executive.

Looking forward, we recognise that valuations in the UK market and on our portfolio are higher than historic averages, and consequently we need to be even more confident in terms of the quality and medium term potential of our holdings. We also need to be conscious that the Scottish referendum has the scope to create some uncertainty near term. We are though, still finding some interesting new investments including two recent IPOs. Specialist care provider **Cambian** and telecoms business **Manx Telecom** came to market at prices that we felt offered value, though in our opinion a large proportion of the other recent new listings have been too aggressively priced.

North American Review

Portfolio Performance	+11.5%
Russell 2000 Index	+11.1%
S&P 500 Composite Index	+20.4%

In the last year, the US portfolio beat the local small cap index.

The US economy grew relatively steadily despite the impact of government spending cut-backs, although the pace of expansion slowed in early 2014 as extreme winter weather took its toll.

Against this background, we saw good returns from a number of our holdings across a range of

Manager's Review (continued)

A snow boarder at one of the many luxury ski resorts owned by Vail Resorts

sectors. The best performer in the portfolio was post-secondary education provider **Grand Canyon Education** which was up 68.1%. This company's lower cost university offering led to strong enrolment growth which should continue as the company opens new campuses. **Orbital Sciences**, a manufacturer of satellites and launch vehicles benefited from the successful test launch of a space vehicle to the International Space Station. Furthermore, early in the new financial year, the company has announced that it is to merge with **Alliant Techsystems**. **VASCO Data Security International**, a provider of user authentication products reported an improvement in its margins and earnings leading to a re-rating. Another winner was **The Andersons**; a diversified agri-business based in the eastern corn belt. The company's ethanol business delivered strong profitability in the year driving upgrades and a 71.4% rise in the share price.

On the negative side, gold producer **Allied Nevada Gold** suffered from a decline in the gold price and continued production problems. We decided to cut our losses and sold. Car dealer **America's Car-Mart** faced increased competition because of greater availability of credit. **Spectrum Pharmaceuticals**, a pharmaceuticals company that focuses on oncology was caught up in the wider sell off of the biotechnology sector late in the financial year. **Universal Truckload Services**, an asset light trucking company announced a profit warning as the company lost business with an automotive customer and weather issues took their toll.

Over the year we moved to freshen up the portfolio, buying a total of seven new holdings and selling eight. New purchases were spread between recovery situations, compounders (companies that grow steadily over time) and those with valuable assets.

We bought two recovery stocks in the year, both in the technology sector. **Mercury Systems** is a provider of electronics used for defence applications. The shares became cheap because federal sequestration led to reduced spending by defence primes. We believed that spending on the company's products would resume as budget uncertainty lifted, and the shares performed strongly after our purchase. **VASCO Data Security International** is a provider of user authentication products. The shares were under pressure because of quarterly earnings disappointments and the company's exposure to European banks. Earnings should recover as banks replace their data security products and as sales initiatives in the company's enterprise business bear fruit.

Three compounders were added to the portfolio in the period. **MSC Industrial Direct Co** is a distributor of products that are used by the manufacturing industry. The shares were depressed by the company's spending on growth and infrastructure initiatives at the same time as a slowdown in organic revenue growth. Over the long term, acquisitions and market share gains should lead to earnings growth. **Cinemark Holdings** is an operator of suburban cinemas in the US and Latin America. The shares were out of favour because of depreciation of Latin American currencies and a weak movie release line-up in 2014. The company should grow steadily over the long term by using free cashflow to make acquisitions and add screens. **WEX** is an operator of a fuel payment card network that is used by vehicle fleets. Weakness in Europe has held the shares back but the company should benefit from increased outsourcing of fuel card operations by oil companies.

In terms of asset plays, we bought **Covanta Holding**, a waste to energy company because it generates high and stable free cashflow that can be used for growth initiatives or to repurchase shares. We also bought **Resolute Energy**, an oil exploration and production company using cashflow from its mature Aneth field to fund development in the Permian basin.

We made several significant additions to stocks that became depressed, including **LKQ** (an alternative car parts distributor), **Genesee & Wyoming** (short line railroads), **Granite Construction** (civil construction), **Premiere Global Services** (conferencing technology), **Vail Resorts** (ski resorts), **Markel** (specialty insurer), **Conn's** (a retailer) and **Willbros Group** (contracting services for energy infrastructure).

Of the eight complete sales, two were made because we lost confidence in the business; five were sold because they achieved their price target and after review of this it was concluded that prospects were limited or that risks had risen unacceptably, and one company that was spun off from another holding was sold because it did not fit our investment process. As with **Allied Nevada Gold**, mentioned above, we lost faith in the investment thesis in relation to loss adjuster **Crawford & Co**. It is always preferable to sell when prices are high, and this was the case with marine support vessel company **Gulfmark Offshore**. Vessel utilisation improved in the Gulf of Mexico and day rates climbed in the North Sea lifting the shares but several operators announced capacity additions and this created uncertainty over future vessel utilisation and day rates, so we took profits. Similar examples of stocks hitting our price target were **ViaSat** (satellite broadband equipment and service), **Flowers Foods** (baked products), **American Railcar Industries** (a railcar manufacturer) and **Mohawk Industries** (a producer of floor coverings). **Harvard Apparatus Regenerative Technology** was spun off from **Harvard Bioscience** and we decided to sell our holding.

We remain confident in the potential for our US portfolio and have been encouraged by the recent improvement in manufacturing and employment data. Whilst at some stage interest rates are likely to move up, and valuations in general are higher than historic averages, we believe M&A activity will pick up and corporate capital spending should continue to grow, providing further upside over time.

Continental European Review

Portfolio Performance	+21.4%
HSBC Smaller Europe Ex UK Index	+29.2%
FTSE All World Developed Europe ex UK Index	+15.6%

Looking back on fiscal year 2013/14, we have mixed feelings on Europe. This portion of the portfolio made good returns in absolute terms and in isolation we should be happy. They were also ahead of the larger companies' index shown above. However, the performance was well behind the benchmark to which we are compared, so we are disappointed in that sense.

As an asset class European small cap equities forged ahead and the returns compare favourably to the rest of the investment portfolio while Europe continued its rehabilitation in the eyes of the wider investment community. Improving credit conditions

Manager's Review (continued)

flowed into strengthening leading indicators which has eventually manifested itself in better economic performance. In combination with attractive valuations on both an absolute basis and certainly relative to most other asset classes, flows were attracted to the region and helped re-rate the European equities to more normalised valuation levels.

Smaller companies did particularly well though because of a change in perception of growth expectations. Much of the recent investment cycle has been dominated by 'global growth' with a dim view taken specifically on the performance of the European economies. However, over the last year this view has been reassessed in the wake of a disappointing performance from this 'global growth' theme which in many specific cases turned out to be no more than emerging market exposure. As emerging markets turned sour and growth slowed, investors have turned their attention to improving domestic growth in Europe of which the chief beneficiaries are the smaller companies who are more often than not exposed to their home markets or region. Within European small caps, in the last year value stocks led the advance alongside those exposed to a potential improvement in Southern Europe.

In the year, we benefited from good performance from two financial services businesses, the first of which was German property lender **Aareal Bank** which rose 79%. The company has a conservative balance sheet and policy towards lending and has funded itself adequately during the period of crisis in the Eurozone. They are now finding themselves in a stronger competitive position as the irresponsible lenders have retreated and are licking their wounds. Fund manager **Azimut** in Italy likewise is also enjoying better times as it takes share from rivals as the market opens up away from the traditionally dominant banks.

Another strong performer from the value segment of the portfolio came from **Plastic Omnium**, which rose 98.3%. This is a French auto supplier with

Norma Group's NORMAQUICK® plastic quick connectors are an ideal means to connect media carrying lines on automobiles and have been developed for fuel system applications market leadership in niche applications that help the branded car manufacturers reduce the weight of their models and therefore achieve regulated emission targets. We were able to buy shares in the company at an exceptional valuation because it was little known outside of France and was associated with the local car industry that has historically performed poorly. Last year they were able to demonstrate strong growth through improving trends in international car production and shift towards more environmentally friendly models. Other strong performers in the year included telecoms company **Jazztel** which is performing well in a consolidating industry, events business **CTS Eventim** and software supplier **Exact**.

Of course we also had our share of poor performers, although we only had one stock which fell significantly. This was **Providence Resources** the Irish energy company which was down 64.8%. The energy sector had a difficult year with exploration companies in particular suffering as the oil majors stepped away from exploration in an effort to demonstrate more capital discipline. Providence's value lies in a number of fields which require further appraisal. We were expecting the company to announce a farm-down of its interest in its key asset to a larger company which would have allowed drilling to begin and remove uncertainty around funding. Unfortunately this was not forthcoming and since the year end we have sold the holding. A number of strong performers from previous years lagged the rally including nutritional products company **Glanbia**, which was only modestly up after several excellent years. Fellow Irish listed stock **C&C Group**, which we had mentioned last year also failed to grow its US cider business as fast as the underlying market.

Of late a degree of volatility has returned to the markets, with smaller companies taking the brunt. This is perhaps to be expected after such a strong run. We are however still positive taking a medium term view as an ongoing broader European economic recovery, if delivered, could lead to materially better profits for some of our stocks.

Japanese Review

Portfolio Performance	-4.4%
MSCI Japan Small Cap Index	-9.4%
Nikkei 225 Index	-7.7%

The year proved to be a difficult one for Japanese equity investors at a local level, and returns to international investors took a large hit from the weakness of the yen which fell by 12.1% against sterling over the twelve months, following on from a 14.5% depreciation in the previous year. Smaller stocks lagged the market leaders with the currency movements favouring the export driven large cap centric sectors.

In part this overall lacklustre performance reflects the fact that the previous year had been a very good period for the market, as investors had warmed to the policy agenda of the new government led by Shinzo Abe. In addition, sentiment was not helped by the negative prevailing news coming out from wider Asia.

Nevertheless it is, perhaps surprising that Japanese equities performed so poorly given the fact that corporate earnings actually enjoyed a substantial boost as a result of the yen weakness, and upgrades rather than downgrades as elsewhere in Asia have been the order of the day. In addition the government and Bank of Japan have not pulled back from their aim to stimulate economic revival and the end of deflation, and there are signs that deflation could indeed be a thing of the past at least for now in Japan.

It would be fair to say however, that the so called third arrow, structural reform, has not come through as rapidly as had been hoped earlier. There has been limited progress in relation to labour market reforms or on the thorny topic of immigration policy, which are key to the medium term, but the government has put through the anticipated 3% increase in sales tax to address its fiscal deficit, and there is talk of a change in corporation tax to make the country more business friendly in the future and would be well received by financial markets.

At the corporate level, while it would be an exaggeration to say that all companies are in rude health, a large number are now benefiting from significant competitive advantage with the yen at more than 100 to the US dollar. As a consequence, we are seeing more companies pay out dividends or undertaking share buybacks. Bank lending is up on a year ago, and the banking sector is now very robustly financed in contrast to the position of a few years ago.

We obtain our exposure to Japan now via holdings in specialist smaller company funds

Manager's Review (continued)

managed by M&G and Aberdeen. The former fund has served us well over recent years with a strong value orientated investment approach. We bought into Aberdeen's fund during the year, and this is managed in the same way as Aberdeen's Asian Small Cap Fund which we have owned for some years now, focusing on a long term buy and hold approach of quality companies. Pleasingly, both of the funds did better than our local benchmark index the MSCI Japan Small Cap index.

Looking forward, we anticipate better absolute and relative performance from Japan's smaller company sector. The main reason for this is the valuation argument with Japanese small caps on a much lower than historical average earnings multiple in contrast to the other developed markets. While in most parts of the world, earnings multiples have been rising, in Japan, the opposite has been the case, with earnings upgrades not being followed by share price rises. In addition, we expect that over time, local demand for equities in Japan will benefit from the combined effort of an asset allocation switch from bonds as directed by the government sponsored GPIF fund (the world's largest pension fund), and from individual investors through the new NISA (similar to ISA) scheme. As a result we have been adding to our exposure to Japan in recent months. Risks to our view revolve around the potential for the recent sales tax to hurt the economy more than currently envisaged, for the reform programme to stagnate, and finally and least predictably, the potential for the current political spat with China over the Senkaku Islands to cause a shock.

Rest of the World Review

Portfolio Performance	-8.7%
MSCI All Countries Asia ex Japan Small Cap Index	-7.4%
MSCI EM Latin American Small Cap Index	+33.1%

As already discussed in earlier pages, this was a poor year for emerging market investing in general, and it was a shocking one for Latin American small caps. Our portfolio was unable to buck the general trends, but in relative terms it did not do too badly taking account of the scale of the weakness in some of these markets.

The general tone was set by moves from the US authorities to signal tapering of QE in the first half of the year. This led to a period of severe weakness in emerging markets in general, and particularly in relation to those of countries with high current account or fiscal deficits. A number of countries in South East Asia were in the firing line in this respect including India and Indonesia. Higher inflation in some countries led to increased interest rates also. For the year as a whole North Asian markets such as China, Taiwan and Korea performed much better than those further South such as Indonesia or Thailand, the latter being undermined also by political chaos.

At the corporate level too, there was general disappointment in terms of earnings trends, with most countries in Asia and Latin America seeing a lot more in the way of downgrades than upgrades. The markets were also hit by a de-rating like Japan, but in contrast to most of the other developed markets.

The so called Frontier Markets of the Middle East and Africa on the other hand performed more resiliently through the year. Net inflows from investors seeking diversification away from Asia and exposure to demographically driven growth, supported and lifted share prices given generally low liquidity in these markets. Our holding in the **Advance Frontier Markets Fund**, bought in the previous year, posted a positive return of 11.3%, which was very encouraging.

Latin American markets suffered from a combination of earnings downgrades, political distractions and the impact on sentiment of the major civil unrest in parts of the Continent. Economic growth has been lacklustre at best, and Brazil in particular has been hampered also by some poor policy decisions and infrastructure bottlenecks, while weakness in commodity prices has undermined its trade position. Civil unrest ahead of the football World Cup has also been unhelpful for equities. Elsewhere, weaker economies such as Argentina moved to a policy of currency controls bringing back painful memories from the past. Generally high inflation in the region has led to rises in interest rates, another headwind for equity investors.

As with Japan, we gain exposure to the Rest of the World markets via fund holdings. During the year, the main change we made was to switch from a fund managed by Allianz for Asia to one managed by Canadian manager Manulife. We have been impressed by the track record of Manulife's Asian small cap fund, which is backed up by a high level of analyst and fund management resource based in the region.

The best performing holding on our Rest of World portfolio after the **Advance Frontier Markets Fund**, was the **Utilico Emerging Markets** fund. This has benefited from its focus on structural growth areas such as infrastructure investments, and its general defensiveness. After a number of strong years, the **Aberdeen's Global-Asian Smaller Companies Fund** underperformed this time around, highlighting that it is hard to continually outperform year in year out. The worst performing fund was the **Advance Brazil Leblon Fund** which targets Brazilian growth companies. We are hopeful that this will recover if the Brazilian market turns as we still think the team managing it are good stock pickers.

Towards the end of the period we started to add to our Rest of World weighting by topping up the three largest fund holdings. We feel that the valuation argument looks relatively favourable for the markets, and hopeful that economic recovery in the developed world will help to support the emerging markets from here. The main concerns for us near term are two-fold. Firstly there is political uncertainty in many countries, with important elections still to come in Indonesia and Thailand following on from the recent one on India which seems to have gone the right way from the financial market's perspective. The second concern is around the poor prevailing flow of data from the Chinese economy, and fears that we will see a large jump in bad debts in the banking and so called shadow banking market as the real estate market corrects and general manufacturing cools. As with a lot of things in relation to China, it is hard to get clarity around the extent of the problems at this stage and therefore we will need to monitor developments closely.

Outlook

Developed market equities outside of Japan, have re-rated in the last few years, and smaller companies have been at the forefront of this. We therefore need to redouble our analysis to ensure that we invest in companies which are likely to deliver to plan in the coming period. We still believe that we can build a portfolio that can deliver good returns over the medium term, and our attention is focused on this, as in previous years. We also need to be aware that interest rates in some countries may well be rising before too long, and consider how this may change the outlook for some sectors and companies within them.

Peter Ewins
16 June 2014

Thirty Largest Holdings

30 April 2014	30 April 2013		% of total investments	Value £m
1	*1*	**M&G Japan Smaller Companies Fund** Japan Fund providing exposure to Japanese smaller companies.	4.5	19.0
2	–	**Aberdeen Global-Japanese Smaller Companies Fund** Japan Fund providing exposure to Japanese smaller companies.	4.4	18.5
3	*5*	**The Scottish Oriental Smaller Companies Trust** Rest of World Investment company providing exposure to Asian smaller companies.	2.4	10.3
4	*3*	**Aberdeen Global-Asian Smaller Companies Fund** Rest of World Investment company providing exposure to Asian smaller companies.	2.1	8.8
5	–	**Manulife Global Fund – Asian Smaller Cap Equity Fund** Rest of World Investment company providing exposure to Asian smaller companies.	2.1	8.8
6	*4*	**Utilico Emerging Markets** Rest of World Investment company focusing on utility and infrastructure companies in emerging markets.	1.8	7.6
7	*24*	**CLS Holdings** United Kingdom Property investment company mainly operating in the UK, France, Germany and Sweden.	1.1	4.8
8	*10*	**Rex Energy** United States Oil and gas exploration and production company.	1.1	4.6
9	*19*	**Premiere Global Services** United States Outsourced conferencing services.	1.0	4.4
10	*63*	**Granite Construction** United States Civil construction contractor.	1.0	4.2
11	–	**Mercury Systems** United States A manufacturer of electronics for defence applications.	0.9	4.0
12	*53*	**Genesee & Wyoming "A"** United States Operator of short line railways.	0.9	3.9
13	*8*	**Alere** United States Diagnostic and patient monitoring equipment.	0.9	3.9
14	*44*	**LKQ** United States A distributor of alternative car parts.	0.9	3.9
15	–	**MSC Industrial Direct** United States Specialised industrial distributor.	0.9	3.9

30 April 2014	30 April 2013		% of total investments	Value £m
16	*42*	**Markel** **United States** Specialised insurance underwriter.	0.9	3.8
17	*22*	**Airgas** **United States** The leading distributor of packaged gases in the US.	0.9	3.8
18	*9*	**Atlantic Tele-Network** **United States** Telecommunications holding company.	0.9	3.8
19	*40*	**Hub Group "A"** **United States** A provider of intermodal transportation services.	0.9	3.8
20	*20*	**Monro Muffler Brake** **United States** Automobile servicing in the North East of the US.	0.9	3.7
21	*41*	**Bottomline Technologies** **United States** Payments automation software supplier.	0.9	3.7
22	–	**Covanta Holding** **United States** A waste energy company.	0.9	3.7
23	*49*	**Vail Resorts** **United States** Operator of luxury ski resorts in the US.	0.9	3.5
24	*26*	**Alleghany** **United States** Specialist commercial insurer.	0.9	3.5
25	*46*	**Safeguard Scientifics** **United States** A provider of capital to the healthcare and technology industries.	0.8	3.5
26	–	**Wex** **United States** An operator of a fuel card payment network.	0.8	3.5
27	*31*	**Astec Industries** **United States** A manufacturer of road construction and mining equipment.	0.8	3.5
28	*32*	**ACI Worldwide** **United States** A leading provider of software for electronic funds transfer used by banks, retailers and credit card companies.	0.8	3.5
29	*37*	**Roper Industries** **United States** An operator of niche industrial business.	0.8	3.4
30	*15*	**Allscripts Healthcare Solutions** **United States** Provider of clinical software.	0.8	3.4

The value of the thirty largest equity holdings represents 38.9% (30 April 2013: 38.8%) of the Company's total investments.

List of Investments

Quoted investments	Holding	30 April 2014 Value £'000s
CONTINENTAL EUROPE		
DENMARK		
Christian Hansen	56,834	1,515
Ringkjoebing Landbobank	9,883	1,338
Topdanmark	64,783	1,121
Total Denmark		3,974
FINLAND		
Amer Sports	101,376	1,239
FRANCE		
Plastic Omnium	70,078	1,407
GERMANY		
Aareal Bank	56,795	1,523
CTS Eventim	33,128	1,250
Elringklinger	31,247	744
Gerresheimer	27,272	1,094
Kuka	35,321	1,072
Norma Group	36,239	1,121
Rational	3,872	730
SAF Holland	132,650	1,166
SHW	23,088	820
Symrise	32,522	970
Takkt	91,622	1,096
Total Germany		11,586
IRELAND		
Aer Lingus	930,027	1,165
C&C Group	285,169	1,006
Glanbia	182,855	1,615
IFG Group	889,662	1,243
Irish Continental	58,658	1,393
Origin Enterprises	242,027	1,550
Providence Resources	95,568	198
Total Ireland		8,170
ITALY		
Ansaldo STS	110,748	724
Azimut Holding	95,746	1,765
Banca Generali	65,401	1,217
Credito Emiliano	176,923	1,072
Davide Campari	140,739	723
Interpump Group	110,437	926
Tod's	12,065	1,000
Total Italy		7,427

Quoted investments	Holding	30 April 2014 Value £'000s
NETHERLANDS		
ASM International	50,732	1,312
Delta Lloyd	91,734	1,427
Exact Holdings	41,700	870
Kendrion	42,118	847
Nutreco	204,880	1,352
Total Netherlands		5,808
NORWAY		
Sparebank 1 SR Bank	144,308	825
Storebrand	358,550	1,185
Tomra Systems	181,499	997
Total Norway		3,007
RUSSIA		
Prosperity Voskhod Fund*	884,652	529
SPAIN		
Bolsas Y Mercados	44,909	1,157
Jazztel	152,834	1,387
Mediaset Espana Comunicacion	134,876	883
Viscofan	29,031	895
Total Spain		4,322
SWEDEN		
Betsson	53,804	1,154
Indutrade	41,254	1,055
Total Sweden		2,209
SWITZERLAND		
EFG International	157,386	1,175
Forbo Holdings	2,551	1,558
Leonteq	4,259	481
Partners Group	7,316	1,184
Total Switzerland		4,398
TOTAL CONTINENTAL EUROPE		**54,076**
ASIA PACIFIC (EXCLUDING JAPAN)		
Aberdeen Global-Asian Smaller Companies Fund	329,239	8,816
Manulife Global Fund – Asian Smaller Cap Equity Fund	9,214,485	8,754
Advance Frontier Markets Fund*	4,800,000	2,772
Utilico Emerging Markets	4,149,649	7,646
Utilico Investments	1,194,841	1,386
The Scottish Oriental Smaller Companies Trust	1,339,269	10,265
TOTAL ASIA PACIFIC (EXCLUDING JAPAN)		**39,639**

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2014 Value £'000s
BRAZIL		
Advance Brazil Leblon Equities Fund	49,314	1,352
TOTAL BRAZIL		**1,352**
JAPAN		
Aberdeen Global-Japanese Smaller Companies Fund	3,627,051	18,508
M&G Japan Smaller Companies Fund	7,072,866	18,966
TOTAL JAPAN		**37,474**
UNITED KINGDOM		
Acal	126,073	448
Advanced Medical Solutions Group*	781,317	971
Alternative Networks*	267,810	1,232
Amerisur Resources*	2,844,571	1,629
Anite	1,381,100	1,129
Arrow Global Group	519,093	1,189
Aveva Group	47,900	1,009
Bovis Homes Group	146,104	1,155
Brammer	284,061	1,333
Cambian Group	640,345	1,446
Chime Communications	273,503	949
Clinigen Group*	262,110	1,261
CLS Holdings	344,055	4,765
Computacenter	199,305	1,297
Dechra Pharmaceuticals	180,355	1,238
Digital Barriers*	731,553	644
Diploma	171,461	1,129
Domino Printing Sciences	165,234	1,340
Dunelm Group	54,496	509
Ebiquity*	837,059	1,071
Elementis	431,746	1,197
Entertainment One	468,278	1,386
Faroe Petroleum*	1,035,594	1,504
Fidessa Group	39,772	892
James Fisher	213,006	2,750
Fuller Smith & Turner	136,710	1,292
Galliford Try	201,862	2,398
Genus	125,900	1,277
Halfords Group	226,112	1,001
Hellermanntyton	220,030	693
Hill & Smith Holdings	324,620	1,802
Horizon Discovery Group*	176,790	318
Howden Joinery Group	444,703	1,446
Hunting	275,818	2,333
Hyder Consulting	220,264	1,014
Innovation Group	2,744,300	871
Interserve	173,915	1,348
ITE Group	166,694	383
JD Sports Fashion	90,489	1,587
Kazakhmys	291,144	692
Keller Group	148,784	1,483
Kier Group	69,260	1,152
Laird	651,864	1,807
Lavendon Group	650,050	1,461
LSL Property Services	301,030	1,204
LXB Retail Properties*	1,497,191	1,819
Manx Telecom	595,220	958
Max Property Group*	1,540,308	2,387
Mears Group	267,110	1,340
Micro Focus International	180,243	1,397
National Express Group	456,680	1,272
Novae Group	357,303	1,937
Optimal Payments*	195,530	740
Pace	244,790	893
PayPoint	112,030	1,274
Perform Group	273,470	589
Petra Diamonds	547,732	893
Plastics Capital*	730,574	913
Polar Capital Holdings*	327,047	1,609
Premier Farnell	621,157	1,378
Pressure Technologies*	74,375	513
Rathbone Brothers	124,631	2,412
Redrow	319,574	916
Regenersis*	298,844	1,055
Restaurant Group	319,517	1,994
Robert Walters	384,480	1,226
RPC Group	459,501	2,750
RPS Group	493,570	1,454
Safestore Holdings	720,926	1,656
Salamander Energy	1,214,022	1,618
Senior	798,079	2,275
Sirius Real Estate*	6,705,929	1,735
Spirent Communications	672,350	640
Spirit Pub Company	2,408,150	1,890
St. Modwen Properties	416,359	1,530
Supergroup	62,703	833
Synergy Health	144,119	1,786
Tarsus Group	585,525	1,288
Ted Baker	109,557	2,026
Telecom Plus	61,330	949
Topps Tiles	496,440	637

* Quoted on the Alternative Investment Market in the UK.

List of Investments (continued)

Quoted investments	Holding	30 April 2014 Value £'000s
Trifast	747,958	692
Tyman Group	942,450	2,686
UDG Healthcare	269,150	965
Ultra Electronics Holdings	64,128	1,088
Vectura Group	924,765	1,302
Vertu Motors	2,466,905	1,480
J D Wetherspoon	114,150	962
Workspace Group	227,721	1,305
XP Power	55,450	896
TOTAL UNITED KINGDOM		**120,993**
UNITED STATES		
ACI Worldwide	102,290	3,462
Airgas	60,391	3,797
Alere	197,322	3,902
Alleghany	14,589	3,522
Allscripts Healthcare Solutions	374,330	3,374
America's Car-Mart	136,512	2,919
The Andersons	23,195	855
Astec Industries	146,454	3,462
Atlantic Tele-Network	108,213	3,777
Bottomline Technologies	198,995	3,729
Cardinal Financial	320,690	3,189
The Chefs' Warehouse	282,967	3,363
Cinemark Holdings	186,509	3,273
Conn's	106,382	2,787
Covanta Holding	339,129	3,706
CRA International	187,139	2,412
DENTSPLY International	121,885	3,221
DeVry	103,689	2,765
FTI Consulting	151,387	3,075
GATX	41,528	1,614
Genesee & Wyoming "A"	67,392	3,949
Grand Canyon Education	80,661	2,053
Granite Construction	190,039	4,207
Hallmark Financial Services	337,465	1,679
Harvard Bioscience	410,222	1,023
HCC Insurance	119,837	3,260
Hub Group "A"	142,931	3,777
ICF International	127,681	2,944
INTL FCStone	301,051	3,373
Kirby	49,255	2,934
LKQ	225,271	3,884
Markel	10,412	3,849
Mercury Systems	486,189	4,020
Microsemi	239,382	3,333
Monro Muffler Brake	111,795	3,731

* Quoted on the Alternative Investment Market in the UK.

Quoted investments	Holding	30 April 2014 Value £'000s
MSC Industrial Direct "A"	71,800	3,871
Orbital Sciences	181,920	3,167
Pernix Therapeutics Holdings	638,257	1,818
Pool	78,054	2,726
Premiere Global Services	584,640	4,404
Resolute Energy	609,698	2,704
Rex Energy	368,908	4,601
Roper Industries	41,466	3,411
Safeguard Scientifics	281,325	3,500
Sanderson Farms	17,775	866
Simpson Manufacturing	138,947	2,697
Spectrum Pharmaceuticals	609,603	2,480
Tejon Ranch	164,683	2,715
Universal Truckload Services	227,842	3,318
Vail Resorts	86,050	3,529
Vasco Data Security	471,746	3,188
Wex	61,320	3,483
Willbros Group	492,005	3,234
W.R. Berkley	112,920	2,958
TOTAL UNITED STATES		**168,890**
TOTAL QUOTED INVESTMENTS		**422,424**

Unquoted investments	Holding	30 April 2014 Value £'000s
AUSTRALIA		
Australian New Horizons Fund	2,375,135	2,920
TOTAL UNQUOTED INVESTMENTS		**2,920**
TOTAL INVESTMENTS		**425,344**

The number of investments in the portfolio is 203 (2013: 201).

The Chairman's Statement, the Manager's Review, Business Model and Strategy, Thirty Largest Holdings and List of Investments within this Report and Accounts 2014 all form part of the Strategic Report for the year ended 30 April 2014.

By order of the Board
F&C Management Limited
Secretary

Management and Advisers

The management company

The Company is managed by F&C Management Limited, a wholly owned subsidiary of F&C Asset Management plc. On 7 May 2014 F&C Asset Management plc was acquired by Bank of Montreal through its wholly owned subsidiary, BMO Global Asset Management (Europe) Limited. BMO Global Asset Management is part of BMO Financial Group, a highly diversified financial services provider based in North America.

The Manager is authorised and regulated in the UK by the Financial Conduct Authority. It is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing. With effect from July 2014, the Manager and AIFM will be F&C Investment Business Limited, a fellow regulated subsidiary of FCAM.

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

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

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

Jan Baker: Carries out the company secretarial duties of the Company on behalf of the Manager. She joined F&C in 2005.

Secretary and registered office

F&C Management Limited, Exchange House, Primrose Street, London EC2A 2NY

Telephone: 020 7628 8000

Facsimile: 020 7628 8188

Website: www.fandcglobalsmallers.com

Email: info@fandc.com

Registered in England and Wales

Solicitors

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

Chartered accountants and statutory auditors

PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT

Bankers

JPMorgan Chase Bank, 25 Bank Street, Canary Wharf, London E14 5JP

Custodian

JPMorgan Chase Bank, 25 Bank Street, Canary Wharf, London E14 5JP

Registrars

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

Telephone: 0870 889 4088

Shareholders can visit www.investorcentre.co.uk to sign up to access and update information relating to their holding online.

Authorised and regulated in the UK by the Financial Conduct Authority.

New Zealand Registrars*

Computershare Investor Services Limited, Private Bag 92119, Auckland 1142, Level 2, 159 Hurstmere Road, Takapuna, North Shore City 0622, New Zealand

Telephone: +64 9 488 8700

*until 27 June 2014

Stockbrokers

Oriel Securities, 150 Cheapside, London EC2V 6ET

Directors

Anthony Townsend, Chairman, was appointed to the Board on 24 September 2004 and is chairman of the Nomination Committee. He has spent over 40 years working in the City of London and was chairman of the Association of Investment Companies from 2001 to 2003. He is chairman of Baronsmead VCT 3 PLC, British & American Investment Trust PLC, Finsbury Growth & Income Trust PLC and Miton Worldwide Growth Investment Trust plc.

Andrew Adcock was appointed to the Board on 31 July 2007. He was, until mid 2009, vice chairman of Citigroup Corporate Broking and managing partner of Brompton Asset Management Limited until July 2011. He has more than 30 years' experience in the City of London and is chairman of Majedie Investments PLC and a non-executive director of Kleinwort Benson Bank Ltd, JPMorgan European Growth & Income Trust PLC and Foxtons Group PLC.

Les Cullen, chairman of the Audit and Management Engagement Committee, was appointed to the Board on 1 September 2006. He is a non-executive director and senior independent director of Interserve plc. He has previously chaired the audit committees of a number of UK listed companies, been chairman of several private equity owned companies and been group finance director of Prudential plc and Inchcape plc and other large companies.

Dr Franz Leibenfrost, Senior Independent Director, was appointed to the Board on 15 February 1999. He is a non-executive director of various European companies.

Jane Tozer was appointed to the Board on 13 June 2005. She is a non-executive director of JPMorgan Income & Growth Investment Trust plc, StatPro plc, Asthma UK and Citizens Advice in Three Rivers Ltd. She is also a trustee of the Information Technologists' Charity and a member of the Warwick Business School Advisory Board. She previously worked at IBM and then as CEO of a software development company.

Mark White was appointed to the Board on 31 July 2007. He is chief executive of LGT Capital Partners (U.K.) Limited and general manager of Castle Alternative Invest AG. He is also the senior non-executive director of Impax Asset Management Group Plc and chairs its audit and risk committee. He is a non-executive director of Ellis Brady Absolute Return Fund Ltd and Standard Life Equity Income Trust PLC. He was previously joint head of JP Morgan Asset Management in Europe and chief executive of Jardine Fleming Investment Management in Hong Kong.

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

Directors' Report

The Directors present their Annual Report and Accounts of the Company for the year ended 30 April 2014. The Corporate Governance Statement commencing on page 34 and the Report of the Audit and Management Engagement Committee commencing on page 41 form part of this Directors' Report.

Statement regarding Annual Report and Accounts

The Board is of the opinion that the Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

In reaching this conclusion, the Directors have assumed that the reader of the Report and Accounts would have a reasonable level of knowledge of the investment trust industry in general.

Results and dividends

The results for the year are set out in the attached accounts.

The recommended final dividend of 5.50p per share is payable on 15 August 2014 to shareholders on the register of members on 18 July 2014 (Resolution 4). This, together with the interim dividend of 2.50p per share, makes a total dividend of 8.00p per share and represents an increase of 23.1% over the 6.50p per share for the previous year.

Company status

The Company is an investment company as defined by section 833 of the Companies Act 2006 (the "**Act**"). As such, it analyses its income between revenue, which is available for distribution by way of dividends, and capital which, under its articles of association, it is prohibited from distributing other than by way of share buybacks.

The Company is registered in England and Wales with company registration number 28264 and is subject to the UK Listing Authority's Listing Rules, UK company law, financial reporting standards, taxation law and its own articles of association, amendments to which must be approved by shareholders via a special resolution. The Company has had a secondary listing on the New Zealand Stock Exchange since 1995. However, in recent years, the number of shareholders on the New Zealand share register has reduced substantially and the Board determined that the compliance costs associated with remaining listed outweigh the benefits to the Company's shareholders of maintaining this listing. The Company has therefore requested and been granted approval by NZX Limited to cancel its listing of the Company's ordinary shares on the NZX Main Board ("**NZSX**"). The last day of trading of the Company's shares on the NZSX will be 17 June 2014 and the shares will cease to be listed at close of business (New Zealand time) on 27 June 2014. A letter explaining the transition process has been sent directly to the Company's New Zealand branch shareholders.

Investment trust taxation status

The Company is liable to UK corporation tax on its net revenue profits but is exempt from corporation taxation on capital gains, provided it complies at all times with section 1158 of the Corporation Tax Act 2010 ("**section 1158**"). The Company has been accepted by HMRC as an approved investment trust subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. The Company intends to conduct its affairs so as to enable it to comply with the requirements.

Accounting and going concern

The financial statements, starting on page 49, comply with current UK Financial Reporting Standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies and Venture Capital Trusts. The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' report on the Financial Statements appears on pages 45 to 48. The Company's investment policy statement places the emphasis on investing in readily realisable listed securities and puts a limit on borrowings. The Company retains title to all assets held by the Custodian. A trust deed governs its debenture. Cash is held with banks approved and regularly reviewed by the Manager.

Note 25 on the accounts sets out the financial risk profile of the Company and indicates the effect on the assets and liabilities of fluctuations in the value of securities and exchange and interest rates.

Directors' Report (continued)

The Directors believe, in light of the controls and review processes that are in place, the Company has adequate resources and arrangements to continue operating within its stated policy for the foreseeable future. Accordingly, the accounts continue to be drawn up on the basis that the Company is a going concern.

Shareholders will be asked to approve the adoption of the Annual Report and Accounts at the Annual General Meeting ("**AGM**") (Resolution 1).

Independent Auditors

So far as each Director is aware, there is no relevant audit information of which PwC are unaware. The Directors believe that they have each taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information. The Independent Auditors' Report can be found on pages 45 to 48.

PwC have indicated their willingness to continue in office as auditors to the Company and resolutions will be proposed at the AGM to re-appoint them and determine their remuneration (Resolutions 9 and 10).

Investment policy

The Company invests in smaller companies worldwide in order to secure a high total return. The Company pursues this investment objective by investing in a large number of stocks in various industry sectors and geographic locations. There are no specific sector or geographical exposure limits. Whilst the Company has a global orientation, its objective is to find attractively valued investment opportunities wherever they may be and it is therefore not constrained to mandatory weightings per geographic region.

The Company invests mainly in quoted equities, including those quoted on the Alternative Investment Market. It is able to invest in other types of securities or assets, including collective funds. Investments in unquoted securities can be made with the prior approval of the Board. No transaction can be made which would result in a holding of the Company exceeding 10% of the value of the total portfolio. Derivative instruments, such as futures, options, and warrants, can be used for efficient portfolio management up to a maximum of 10% of the NAV per share at any one time. At 30 April 2014, 0.7% of the portfolio was invested in unquoted securities. No derivatives were used during the year.

Under the Listing Rules, no more than 10% of the total assets may be invested in other listed closed-ended investment companies, unless such investment companies have themselves published investment policies to invest no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%. At 30 April 2014 the Company held 4.5% of its portfolio in UK listed investment companies.

The Manager's compliance with the limits set out in the investment policy is monitored by the Board.

The Company can borrow in either sterling or foreign currencies. Effective gearing is limited, in normal circumstances, to a maximum of 20% of shareholders' funds valuing the Company's Debenture Stock at nominal value. As at 30 April 2014, the Company held net cash of 1.3%.

The Board, with advice from the Manager, considers the foreign exchange outlook, as this can affect both the asset allocation and borrowing strategy, and can hedge the portfolio against currency movements. No such hedging has been undertaken in the period under review.

Any material change to the investment policy of the Company may only be made with the prior approval of shareholders by way of an ordinary resolution at a general meeting.

Voting Policy

F&C, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all meetings worldwide where practicable in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. Environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company.

F&C's statement of compliance with The UK Stewardship Code, issued by the Financial

Reporting Council in July 2010, has been reviewed and endorsed by the Board, which encourages and supports the Manager on its voting policy and its stance towards environmental, social and governance issues. The statement is available on the Manager's website at www.fandc.com/ukstewardshipcode. The Board periodically receives a report on instances where the Manager has voted against the recommendation of the management on any resolution. It also expects to be informed of any sensitive voting issues involving the Company's investments.

Capital structure

As at 30 April 2014 there were 51,211,102 ordinary shares of 25p each in issue. As at 13 June 2014 the number was 51,511,102. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid. Details of the capital structure can be found in note 16 on the accounts. The revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to shareholders pro rata to their holdings of ordinary shares.

Share issue and buyback policy

The Board closely monitors the prevailing share price premium or discount to NAV. The Board believes that the Company's continuing ability to issue shares at a premium to NAV in order to prevent the build up of excessive demand for the shares is necessary to reduce the risk of volatility in the price of a share relative to its NAV. The Company has, conditional upon shareholder approval, authority to allot shares for cash without first offering them to existing shareholders in proportion to their holdings. Any such allotments are only made when the Company's shares are trading at a premium to NAV. At the AGM held on 25 July 2013, shareholders authorised the Board to issue up to 10% of the Company's shares (4,560,000 shares) until the Company's next AGM in July 2014. Due to increased investor demand for the Company's shares it had allotted nearly 8% of its total issued share capital by February 2014. The Board believed that its remaining capacity would not be sufficient to allow the Board to satisfy the continuing demand for the Company's shares during the period up to the Company's AGM in July. The Board therefore sought early renewal of its shareholder authorities to allot further ordinary shares in the Company in the period up to the Company's next AGM and to disapply pre-emption rights in respect of those shares. A General Meeting was held on 6 March 2014 where shareholders granted the Board the authority to issue up to approximately five million new shares, and to re-issue shares from treasury, for cash on a non pre-emptive basis.

Where a company wishes to apply for the admission to trading on a regulated market of shares representing, over a period of 12 months, 10% or more of such company's shares then the Prospectus Rules provide that the company concerned is required to issue a prospectus. Accordingly, following the requisite authorities being granted by the shareholders at the General Meeting, the Company subsequently published a prospectus on 11 March 2014. This was necessary in order to allow the Company to continue its share issue policy. The prospectus will remain in force until 11 March 2015 and it has been used to cover new shares issued under the shareholder authorities granted at the General Meeting and is also intended to cover the proposed shareholders authorities at the Company's AGM in July and any further authorities proposed by the Board up to a maximum of 12.5 million new shares in aggregate.

In the year under review the Company allotted a total of 6,238,000 shares. A further 300,000 shares have been allotted since the year end.

Subject to annual shareholder approval, the Company may also purchase its own shares when trading at a discount to NAV per share; the Board aims to keep the discount (with the NAV per share excluding current period income and the debenture at market value) at no more than 5% in normal market conditions. The shares can either be

Directors' Report (continued)

cancelled or held in treasury to be sold as and when the shares return to a premium or at a narrower discount than the weighted average discount at which they had been bought back and in any event at no more than a 5% discount to the prevailing net asset value per share (with the debenture at market value). At the AGM held on 25 July 2013 shareholders gave the Board authority to buy back up to 14.99% of the Company's shares (6,835,000 shares) during the following 15 months. No shares have been purchased either during the year under review or since the year end and the date of this report and no shares were held in treasury.

Voting rights and proportional voting

At 13 June 2014 the Company's 51,511,102 ordinary shares in issue represented a total of 51,511,102 voting rights. As at 30 April 2014 and since that date no notifications of significant voting rights have been received under the Financial Conduct Authority's Disclosure and Transparency Rules.

Approximately 56% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. For ordinary course and non-conflicted resolutions, the nominee company holding these shares votes the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have ("**proportional voting**"). Implementation of this arrangement is subject to a minimum threshold of 5% of the shares held in the savings plans being voted. A maximum limit of 71,400 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Borrowings

The Company has a £10m 11.5% debenture stock, which is to be redeemed in December 2014 after twenty-five years, further information on which is included in note 14 on the accounts. The Company also has the ability to use short-term borrowings by way of loans and overdrafts, subject to the limit set out in the Company's investment policy and in the debenture deed. The Company is considering proposals to issue up to £40m of Convertible Unsecured Loan Stock in the near future, subject to shareholder approval by special resolution.

Should the issue be fully subscribed the gearing level of the Company would remain well within the range of 0–20% described on page 28.

The Company's revolving multi-currency credit facility of £5 million with Scotiabank (Ireland) Limited, expired on 13 June 2014. An overdraft facility equal to 10% of the Company's assets is made available to the Company by the Custodian.

Directors' remuneration reports

The Directors' remuneration policy and annual report, which can be found on pages 38 to 40, provide detailed information on the remuneration arrangements for Directors of the Company. Included is the Directors' Remuneration Policy for the first time, which shareholders will be asked to approve at the AGM (Resolution 2). Shareholders will also be asked to approve the Directors' Annual Report on Remuneration (Resolution 3).

Directors' re-elections

All Directors held office throughout the year under review and to the date of this report. Having served for nine years, the Chairman and Jane Tozer will both stand for re-election at the AGM (Resolutions 7 and 8). Franz Leibenfrost will be retiring immediately following the AGM. In accordance with the Company's articles of association, Andrew Adcock and Mark White will both retire by rotation (Resolutions 5 and 6).

Following a review of their performance, the Board believes that each of these Directors has made a valuable and effective contribution to the Company and therefore recommends that you vote in favour of their re-election.

Directors' interests and indemnification

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

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

Safe custody of assets

The Company's listed investments are held in safe custody by the Custodian. A depositary will be appointed in accordance with the Alternative Investment Fund Management Directive.

Greenhouse gas emissions

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

The Manager's fee

A management fee of 0.40% per annum of the net assets managed by F&C (with the debenture stock valued at market value) is payable to the Manager in respect of the management, administration and ancillary services provided to the Company. A reduced annual management fee of 0.25% of the market value of investments in third party collective funds made on strategic grounds after 30 April 2006, such as those utilised within the Rest of World and Japanese parts of the portfolio (as described in the Manager's Review), is paid to the Manager.

A performance fee equal to 10% of any out-performance of the Benchmark is payable annually if the net assets outperform the Benchmark, subject to a maximum absolute cap on the level of fees (including both the management fee and the performance fee) that the Manager can earn in any one year of 1% of average month-end net assets. Performance above this cap is carried forward to the subsequent period for inclusion in the calculation of performance in that period. Any underperformance must also be carried forward, thus creating a high watermark. A performance fee of £8,000 is payable to the Manager for the year under review.

Manager evaluation process

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out as required, with a formal evaluation taking place each year. In evaluating the performance of the Manager, the Board considers a range of factors including the investment performance of the portfolio as a whole, performance of the various regional sub-portfolios and the skills, experience and depth of the team involved in managing the Company's assets. The Board measures the overall relative success of the Company against the Benchmark, with each regional sub-portfolio being measured against relevant local small capitalisation indices. It also considers the resources and commitment of the Manager in all areas of its responsibility, including the marketing and administrative services provided to the Company.

Manager reappointment

The annual evaluation took place in June 2014 with a presentation from the Lead Manager and F&C's Head of Investment Trusts. This focused primarily on investment performance as well as any wider implications of the takeover of FCAM by Bank of Montreal.

The Board met in closed session following the presentation and, in light of the long-term investment performance of the Manager and the quality of the overall service provided, it is the opinion of the Board that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Annual General Meeting

The Annual General Meeting will be held on Thursday 24 July 2014 at 12 noon at The Chartered Accountants' Hall, One Moorgate Place, London EC2. The Notice of Annual General Meeting appears on pages 74 to 77 and includes a map of the venue. The Lead Manager will give a presentation covering progress in the year to date and his views on the market for the rest of the year. There will be an opportunity to ask questions during the Annual

Directors' Report (continued)

General Meeting and shareholders will be able to meet the Directors and the Lead Manager informally over refreshments after the meeting.

Authority to allot shares and sell shares from treasury (Resolutions 11, 12 and 14)

Resolutions 11, 12 and 14 are similar in content to the authorities and power given to the Directors at previous AGMs. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash or selling shares out of treasury without first offering them to existing shareholders in proportion to their holdings.

Resolution 11 gives the Directors, for the period until the conclusion of the AGM in 2015 or, if earlier, 15 months from the passing of the resolution, the necessary authority to allot securities up to an aggregate nominal amount of £1,287,000 (5,148,000 ordinary shares). This is equivalent to approximately 10% of the issued share capital of the Company (excluding treasury shares) at 13 June 2014. As at 13 June 2014 no shares were held by the Company in treasury.

Resolution 12 empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro-rata basis and also to sell treasury shares without first offering them to existing shareholders in proportion to their holdings up to an aggregate nominal amount also of £1,287,000 (representing approximately 10% of the issued ordinary share capital of the Company at 13 June 2014). Resolution 14 specifically authorises the Directors to sell treasury shares if the price is at a narrower discount than the weighted average discount at which the shares had been bought back and in any event at no more than a 5% discount to the prevailing net asset value per share (with debenture at market value). Resolution 14 does not preclude the Directors selling treasury shares at a premium.

These authorities and powers will provide the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, or the sale of treasury shares, in accordance with the policies set out on page 29 or should any other favourable opportunities arise to the advantage of shareholders. The Directors anticipate that they will mainly use them to satisfy demand from participants in the F&C plans when they believe it is advantageous to plan participants and the Company's shareholders to do so. In no circumstances would the Directors use them to issue shares unless the shares are trading at a premium to NAV.

Authority for the Company to purchase its own shares (Resolution 13)

Resolution 13 authorises the Company to purchase up to a maximum of 7,721,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital) in the market at a minimum price of 25p per share and a maximum price per share (exclusive of expenses) of 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase. In the event that the Company's shares return to a discount, the Directors intend to use this authority with the objective of keeping the discount at no more than 5% in normal market conditions as well as enhancing the NAV per share for continuing shareholders. Any shares that are purchased will either be cancelled or placed into treasury. The authority will continue until the expiry of 15 months from the date of the passing of the resolution unless it is varied, revoked or renewed prior to that by the Company in general meeting by special resolution. The Board intends to seek a renewal of such authority at subsequent Annual General Meetings.

Notice period for meetings (Resolution 15)

The Act and the Company's articles of association provide that all general meetings (other than Annual General Meetings) can be convened on 14 days' notice. However, one of the requirements of the Shareholder Rights Directive is that all general meetings must be held on 21 clear days' notice, unless shareholders agree to a shorter notice period. The Board is of the view that it is in the Company's interests to have a shorter notice period which complies with the provisions of the Act and the Company's articles allow all general meetings (other than an Annual General Meeting) to be called on 14 clear days' notice. The passing of resolution 15 would constitute shareholders' agreement for the purposes of the Shareholder Rights Directive (which agreement is required annually) and would therefore preserve the Company's ability to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. The Board would utilise this authority to provide flexibility when merited and would not use it as a matter of routine. The Board intends to seek a renewal of such authority at subsequent Annual General Meetings.

Form of proxy

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

All proxy appointments should be submitted so as to be received not later than 48 hours before the time appointed for holding the AGM (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

Form of direction and proportional voting

If you are an investor in any of the F&C Saving Plans you will have received a form of direction for use at the AGM and you will also have the option of lodging your voting directions using the Internet. The Manager operates a proportional voting arrangement, which is explained on page 30.

All voting directions should be submitted as soon as possible in accordance with the instructions on the form of direction and, in any event, not later than 96 hours before the time appointed for holding the Meeting, so that the nominee company can submit a form of proxy before the 48 hour period begins.

Recommendation

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

By order of the Board
For and on behalf of
F&C Management Limited, Secretary
16 June 2014

Corporate Governance Statement

Introduction

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

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

Articles of association

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

The Board

The Board is responsible for the effective stewardship of the Company's affairs and has adopted a formal schedule of matters reserved for its decision. It has responsibility for all corporate strategic issues, corporate governance matters, dividend policy, share issue and buyback policy, risk and control assessment, investment performance monitoring and budget approval. It is responsible for the review and approval of annual and half-yearly reports, interim management statements and other public documents. The Company does not have a chief executive as day-to-day management of the Company's affairs has been delegated to the Manager.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets at least six times a year and at each meeting reviews the Company's management information, which includes reports on investment performance and strategic matters and financial analyses. It monitors compliance with the Company's objectives and is responsible for setting the asset allocation, investment and gearing ranges within which the Manager has discretion to act. Key representatives of the Manager attend each Board meeting. Board meetings are also held on an ad-hoc basis to consider particular issues as they arise.

The following table below sets out the number of Board and committee meetings held and attended during the year under review. The Board held a strategy meeting in February 2014 to consider strategic issues and also met in closed session on one occasion during the year, without any representation from F&C. All Directors attended the Annual General Meeting.

Directors' attendance

	Board	Audit and Management Engagement Committee	Nomination Committee
Number of meetings	7	2	2
Anthony Townsend	7	2	2
Andrew Adcock	7	2	2
Les Cullen	7	2	2
Dr Franz Leibenfrost	6	1	1
Jane Tozer	7	2	2
Mark White	7	2	2

* In addition, committees of the Board met during the year to undertake business such as the approval of the Company's interim management statements, annual and half-yearly results and dividend, renewal of the share issue authorities and the potential issue of a convertible unsecured loan stock.

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

Directors are able to seek independent professional advice at the Company's expense in relation to their duties. No such advice was taken by the Directors in the year under review. The Board has direct access to company secretarial advice and services of the Manager which, through the Company Secretary, is responsible for ensuring that Board and committee procedures are followed and applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process

* Copies of the AIC Code, the AIC Guide and the UK Code may be found on the respective organisations' websites: www.theaic.co.uk and www.frc.org.uk

that allows any Director's concerns to be recorded in the minutes. The Board has the power to appoint or remove the Company Secretary in accordance with the terms of the Management Agreement. The powers of the Board relating to the issuing and buying back of the Company's shares are explained on pages 7 and 29.

Appointments, diversity and succession planning

Under the articles of association of the Company, the number of directors on the Board may be no more than twelve. Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM and institutional shareholders are given the opportunity to meet any newly appointed Director if they wish. All Directors are required to stand for re-election at least every three years and those Directors serving more than six years are subject to more rigorous review before being proposed for re-election. Each Director's appointment is reviewed prior to submission for re-election, which includes consideration of independence. The final decision with regard to new appointments always rests with the Board. A professional search consultancy is appointed for the purpose of finding suitable candidates. An induction process is in place for new appointees and all Directors are encouraged to attend relevant training courses and seminars.

The Board believes in the benefits of having a balance of skills and experience, including gender and length of service, on its Board of Directors. The Board also recognises the value of progressive refreshing of, and succession planning for, company boards. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. In line with the AIC Code, the Board feels that length of service does not necessarily compromise the independence or contribution of directors of investment trust companies, where experience and continuity can be a significant strength. The Board has a policy that only a minority of the Board should generally have served for more than nine years and anyone serving for more than this is subject to annual re-election.

Board effectiveness

The annual appraisal of the Board, the Committees and individual Directors has been carried out by the Chairman by way of a formal annual self-appraisal. This was facilitated by the completion of a questionnaire and confidential one-to-one interviews with the Chairman. The appraisal of the Chairman was covered as part of the process by the Senior Independent Director, Dr Franz Leibenfrost. The Board considers that the appraisal process is a constructive means of evaluating the contribution of individual Directors and identifying ways to improve the functioning and performance of the Board and its committees, including assessing any training needs. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so is kept under review.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of his period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his place.

Any Director automatically ceases to be a Director if:

(i) they give the Company a written notice of resignation,

(ii) they give the Company a written offer to resign and the Board resolves to accept this offer,

(iii) all the other Directors remove them from office by notice in writing served upon them,

(iv) in the written opinion of a registered medical practitioner they are or have become physically or mentally incapable of acting as a Director and are likely to remain so for more than three months,

(v) by reason of a Director's mental health, a court makes an order which wholly or partly prevents that Director from personally exercising any powers or rights which that Director would otherwise have,

(vi) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally,

(vii) they are prohibited from being a Director by law or

(viii) they are absent from Board meetings for six consecutive months without permission and the other Directors resolve that their office should be vacated.

Corporate Governance Statement (continued)

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. All the Directors, including the Chairman, Dr Franz Leibenfrost and Ms Jane Tozer who have now served for nine years, have been assessed by the Board as remaining independent of the Manager and the Company itself; none has a past or current connection with the Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to alter that judgement. Dr Franz Leibenfrost will be retiring immediately following the Annual General Meeting.

Conflicts of interest

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

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

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

In the year under review there have been no instances of a Director being required to absent himself/herself from a discussion or abstain from voting because of a conflict of interest.

Audit and Management Engagement Committee

The Board has established an Audit and Management Engagement Committee, the role and responsibilities of which are set out in the report on page 41.

Nomination Committee

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

(i) Board structure, size and composition, the balance of knowledge, experience, diversity and skill ranges;

(ii) succession planning and tenure policy;

(iii) the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction;

(iv) the appointment of new Directors and the re-appointment of those Directors standing for re-election at annual general meetings;

(v) the attendance and time commitment of the Directors in fulfilling their duties, including the extent of their other directorships;

(vi) the question of each Director's independence prior to publication of the Annual Report and Accounts;

(vii) the consideration of each Director's conflicts of interest; and

(viii) the Directors' contract for services and terms of office as set out in their Letter of Appointment.

All of the Nomination Committee's responsibilities have been carried out during the year and to date.

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

Remuneration Committee

As the Board has no executive Directors and no employees, and is composed solely of non-executives, it does not have a remuneration committee. Detailed information on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Policy and Director's Annual Report on Remuneration on pages 38 and 39 and in note 6 on the accounts.

Relations with shareholders

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

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

Reference to significant holdings in the Company's ordinary shares can be found under "Voting rights and proportional voting" on page 30.

At annual general meetings, all investors have the opportunity to question and meet the Chairman, the Board and the Lead Manager.

All beneficial shareholders in the F&C Savings Plans have the opportunity to vote using a form of direction and have the right to attend, speak and vote at all meetings. On routine and non-conflicted resolutions the Manager will instruct the nominee company to vote the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or any other member of the Board may do so by writing to the Company, for the attention of the Company Secretary, at the address set out on page 25.

Unclaimed dividends

The Company has engaged the services of Georgeson (a subsidiary of Computershare) to locate shareholders who have lost track of their investments or their beneficiaries.

This service is provided at no cost to the Company; Georgeson retain 10% of unclaimed dividends from the shareholder on completion of each successful trace and claim. Alternatively, shareholders are given the option of contacting the registrar themselves, thereby incurring no charge.

By order of the Board
for and on behalf of
F&C Management Limited
Secretary
16 June 2014

Remuneration Report
Directors' Remuneration Policy

This section provides details of the remuneration policy for the Directors of the Company, which shareholders will be asked to approve at the forthcoming Annual General Meeting. If the resolution is passed, the policy provisions will apply until they are next put to shareholders for approval, which must be at intervals of not less than three years.

The Board considers the level of Directors' fees at least annually. The Company's articles of association limit the aggregate fees payable to the Board of Directors to a total of £200,000 per annum. Within that limit, it is the responsibility of the Board as a whole to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and committee responsibilities and the time committed to the Company's affairs. The Board is composed solely of non-executive Directors, none of whom has a service contract with the Company, and therefore no remuneration committee has been appointed.

The Board's policy is to set Directors' remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objective. Time committed to the Company's business and the specific responsibilities of the Chairman, Directors and the chairmen and members of the various committees of the Board and their retention are taken into account. The policy aims to be fair and reasonable in relation to comparable investment trusts. It is intended that this policy will continue for the three year period ending at the Annual General Meeting 2017.

The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Each new Director is provided with a letter of appointment. There is no provision for compensation upon early termination of appointment. The letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes before and during the forthcoming Annual General Meeting. The terms of appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after appointment. All Directors are thereafter required to stand for re-election at least every three years and Directors who have served for nine years or more would stand for annual re-election.

The Chairman's fees and Directors' basic fee were previously increased on 1 January 2013. Towards the end of the Company's financial year end the Board carried out a review of fee rates and, with effect from 1 May 2014, approved an increase in the fees paid to Directors in order to better reflect the time spent in fulfilling their duties. For the year ending 30 April 2015, the following rates will apply:

Year ending	**2015 £**	2014* £
Board		
Chairman**	38,000	36,650
Senior Independent Director	22,000	21,000
Director	22,000	21,000
Audit & Management Engagement Committee		
Chairman	6,000	5,000
Members	2,000	2,000
Nomination Committee		
Chairman	Nil	Nil
Members	Nil	Nil

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

Based on the levels of fees effective 1 May 2014, Directors' remuneration for the year ending 30 April 2015 would be as follows:

Year ending	**2015 £**	2014* £
Anthony Townsend	38,000	36,650
Andrew Adcock	24,000	23,000
Les Cullen	28,000	26,000
Dr Franz Leibenfrost	6,000	23,000
Jane Tozer	24,000	23,000
Mark White	24,000	23,000
Total	144,000	154,650

*Actual

Remuneration Report

Directors' Annual Report on Remuneration

Shareholders will be asked to approve this Directors' Annual Report on Remuneration at the forthcoming Annual General Meeting.

At the Company's last Annual General Meeting, held on 25 July 2013, 97.68% of the votes cast were in favour of the resolution to approve the Directors' Remuneration Report in respect of the year ended 30 April 2013.

Directors' emoluments for the year

The Directors who served during the year received the following emoluments in the forms of fees:

Fees for services to the Company (audited)

Director	Year ended 30 April 2014 £	2013 £
Anthony Townsend (Chairman and highest paid Director)	**36,650**	35,550
Andrew Adcock	**23,000**	22,333
Les Cullen (Chairman of the Audit Committee)	**26,000**	25,333
Dr Franz Leibenfrost (Senior Independent Director)	**23,000**	22,333
Jane Tozer	**23,000**	22,333
Mark White	**23,000**	22,333
	154,650	150,215

As the Company has no employees, the table below represents the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of spend on Directors' remuneration, the table below shows the actual expenditure during the year in relation to Directors' remuneration, other operating expenses and shareholder distributions:

Year ended 30 April	2014 £'000s	2013 £'000s	% change
Aggregate Directors' Remuneration	**154.7**	150.2	3.0
Management and other operating expenses*	**2,034**	3,534	(42.4)
Dividends paid to Shareholders in the year	**3,284**	2,533	29.6

* Includes Directors' remuneration

Directors' shareholdings

The Directors who served during the year held the following interests in the Company's Ordinary Shares at the year end:

Directors' interests (audited)

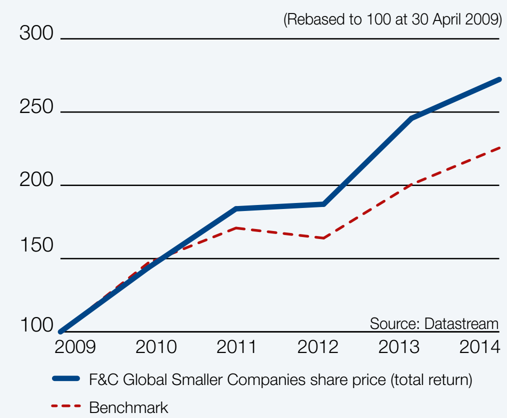
at 30 April	2014	2013
Anthony Townsend	**18,000**	18,000
Andrew Adcock	**5,000**	5,000
Les Cullen	**6,000**	6,000
Dr Franz Leibenfrost	**14,000**	14,000
Jane Tozer	**3,722**	3,722
Mark White	**10,000**	10,000

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

There have been no changes in any of the Directors' interests in shares detailed above since the Company's year end.

No Director held any interest, beneficial or otherwise, in the issued shares of the Company other than stated above.

Total shareholder return over five years



It is a company law requirement to compare the performance of the Company's share price to a single broad equity market index. As the Manager's performance is measured against its Benchmark the Benchmark performance has been shown as the comparator. This is a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (70%) and the Numis UK Smaller Companies (excluding investment companies) Index (30%).

Remuneration Report

Directors' Annual Report on Remuneration

Company Performance

The Board is responsible for the Company's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Manager. The graph on page 39 compares, for the five financial years ended 30 April 2014, the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the Company's benchmark, 30% Numis UK Smaller Companies (excluding investment companies) Index/70% MSCI all country World ex UK Small Cap Index. An explanation of the performance of the Company for the year ended 30 April 2014 is given in the Chairman's Statement and Manager's Review.

By order of the Board
Anthony Townsend
Director
16 June 2014

Report of the Audit and Management Engagement Committee

Role of the committee

The primary responsibilities of the Audit and Management Engagement Committee are to monitor the integrity of the financial reporting and statements of the Company, and to oversee the audit of the annual and preparation of the half-yearly accounts and the internal control and risk management processes. The committee met on two occasions during the year with the Manager's Head of Trust Accounting, and on one occasion with the Head of Internal Audit and the Fund Manager in attendance. PwC are entitled to attend all scheduled committee meetings and attended both meetings. PwC also met in closed session with the committee.

Specifically, the committee considered, monitored and reviewed the following matters throughout the year:

- The audited year-end results statement and the unaudited half-year results statement, annual and half-yearly reports and accounts and interim management statements;
- The accounting policies of the Company;
- The effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and the independence and objectivity of PwC, their reappointment, remuneration and terms of engagement;
- The policy on the engagement of PwC to supply non-audit services;
- The need for the Company to have its own internal audit function;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of AAF and SSAE16 reports or their equivalent from the Custodian and a due diligence report from the Company's share registrars;
- The performance of the Manager and the fees charged;
- Compliance with the provisions of the trust deed for the 11.5% debenture stock 2014; and
- The committee's terms of reference.

The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information. The committee has reviewed, and is satisfied with, the Manager's Anti-Fraud, Bribery and Corruption Strategy and Policy and with the "whistleblowing" policy that has been put in place by the Manager under which its staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

Composition of the committee

The committee is currently composed of the full Board. All the committee members are independent non-executive Directors. Les Cullen, chairman of the committee, is a certified accountant. The other members of the committee have a combination of financial, investment and business experience through the senior posts held throughout their careers. The terms of reference can be found on the website at www.fandcglobalsmaller.com.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls, for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day-to-day operations of the Company. The committee has reviewed and reported to the Board on these controls, which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and overall risk management, is exercised through regular reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses, revenue estimates, performance of the third party administrators of the F&C savings plans and on other management issues. The committee has direct access to the Manager's group audit committee and the Manager's Internal Audit Department prepares a control report that provides details of any internal significant control failure. A key risk summary is also produced to help identify the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. The Company's

Report of the Audit and Management Engagement Committee (continued)

principal risks are set out on page 8 with additional information given in note 25 on the accounts.

The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, or loss or fraud. Further to the review of the committee, the Board has assessed the effectiveness of the internal control systems, including a review of the Manager's risk management infrastructure and the report on policies and procedures in operation and tests for the period 1 January to 31 December 2013 (the "**Report**"). This has been prepared by the Manager for its investment trust clients to the standards of the Institute of Chartered Accountants in England and Wales Technical Release AAF (01/06).

Containing a report from independent external accountants, the Report sets out the Manager's control policies and procedures with respect to the management of its clients' investments and maintenance of their financial records. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's Internal Audit Department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would

Significant accounting issues considered by the committee for the year ended 30 April 2014

Matter	Action
Investment Portfolio Valuation	
The Company's portfolio is invested primarily in securities listed on recognised stock exchanges. The listed securities are highly liquid. Errors in valuation of the portfolio could have a material impact on the Company's net asset value per share.	The committee reviewed the Manager's annual internal control report which is reported on by independent external auditors and which details the systems and controls around the daily pricing and valuation of securities. The committee reviewed the valuation of the unlisted portfolio in detail twice in the year.
Misappropriation of Assets	
Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The committee reviewed the Manager's annual internal control report for the year ended 31 December 2013 which details the controls around the reconciliation of the Manager's records to those of the Custodian. The committee also reviewed the Custodian's annual internal control report to 31 March 2014, which is reported on by external accountants and which provides details regarding its control environment.
Income Recognition	
Incomplete or inaccurate recognition could have an adverse effect on the Company's net asset value and earnings per share and its level of dividend cover.	The committee reviewed the Manager's annual internal control report and updates. It also has access to regular forecasts of income and expenditure from the Manager.
Share Price Discount/Premium	
Discount volatility could lead to adverse reputational impact and reduction in investor confidence.	The Committee receives reports from the Manager on discount volatility of the Company and peer groups and reviews share issues and buybacks.

be reported to the Board. No failings or weaknesses material to the overall control environment and financial statements were identified in the year under review.

Through the procedures noted above the committee assisted the Board in its ongoing process for identifying, evaluating and managing the Company's significant risks consistent with the internal control guidance issued by the Financial Reporting Council ("Internal Controls: Revised Guidance for Directors on the Combined Code").

Following a recommendation from the committee, the Board has concluded that there is no current need for the Company to have an internal audit function. All of the Company's management functions are delegated to the Manager, which has its own internal audit department, and whose controls are monitored by the committee and Board.

External audit process – significant issues

In carrying out its responsibilities the committee has considered the planning arrangements, materiality levels and conclusions of the audit for the period under review.

In December 2013 the committee considered and approved PwC's plan for the full year audit.

The table on page 42 describes the significant issues considered by the committee in relation to the financial statements for the year ended 30 April 2014 and how these issues were addressed.

The committee met in June 2014 to discuss the draft final Report and Accounts for the year ended 30 April 2014, with representatives of the auditor and the Manager in attendance.

The committee established and agreed that there were no material issues arising which needed to be brought to the attention of the Board. PwC submitted their report to the committee at this meeting and confirmed that they had no reason not to issue an unqualified audit report in respect of the Report and Accounts for the year. The committee subsequently recommended to the Board that the Report and Accounts were in their view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice. The unqualified audit report, which sets out the scope of the audit and the areas of focus, in compliance with applicable auditing standards, can be found on pages 45 to 48.

Auditor assessment, independence and appointment

As part of the review of auditor independence and effectiveness, PwC have confirmed that they are independent of the Company and have complied with relevant auditing standards. In evaluating PwC, the committee has taken into consideration the standing, skills and experience of the firm and the audit team. The appointment has not been put out to tender notwithstanding PwC's long tenure as the committee, from direct observation and indirect enquiry of management, remains satisfied that PwC continue to provide effective independent challenge in carrying out their responsibilities. The committee will keep the appointment under review in the light of new rules which will require the company to put the audit out to tender by 2019.

The Company's policy with regard to the provision by PwC of non-audit services is that: the services should not be managed by members of the audit engagement team; the services should not have a material effect on the financial statements; and the fees thereon should not be contingent. The committee has reviewed the provision of such non-audit services in 2014, totalling £7,000. PwC has confirmed to the committee that the services were provided in compliance with the Company's policy, and the committee considers the services to have been cost-effective and not to have compromised the independence of PwC. The non-audit services include taxation matters and assurance services for the review of the Company's debenture compliance certificate. The chairman of the committee is advised of non-audit work required and a decision to authorise is taken on a case-by-case basis. Further information can be found in note 6 on the accounts.

The activities of the committee were evaluated as part of the Board appraisal process.

Les Cullen
Audit and Management
Engagement Committee Chairman
16 June 2014

Statement of Directors' Responsibilities in Respect of the Financial Statements

As required by company law, the Directors are responsible for the preparation of the Annual Report and Accounts, which is required to include a Strategic Report, Directors' Report, Directors' Annual Report on Remuneration and Corporate Governance Statement. The Directors must not approve the financial statements unless in their opinion they give a true and fair view of the state of affairs of the Company as at 30 April 2014 and of the results for the year then ended. The Directors are also responsible for ensuring that the Annual Report and Accounts is fair, balanced and understandable and that adequate accounting records are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Annual Report on Remuneration comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. In preparing the financial statements, suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made.

The Annual Report and Accounts is published on the www.fandcglobalsmallers.com website, which is maintained by F&C. The content and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this 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. Overseas visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the Annual Report and Accounts may differ from legislation in their jurisdiction.

In accordance with Chapter 4 of the Disclosure and Transparency Rules, the Directors confirm that to the best of their knowledge:

- the financial statements have been prepared in accordance with applicable UK generally accepted accounting standards, on a going concern basis, and give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Strategic Report includes a fair review of the development and performance of the Company and the important events that have occurred during the financial year and their impact on the financial statements, including a description of principal risks and uncertainties for the forthcoming financial year; and
- the financial statements and the Directors' Report include details on related party transactions.

On behalf of the Board
Anthony Townsend
Chairman
16 June 2014

Independent Auditors' Report
to the Members of F&C Global Smaller Companies PLC

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 30 April 2014 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by F&C Global Smaller Companies PLC (the "**Company**"), comprise:

- the balance sheet as at 30 April 2014;
- the income statement for the year then ended;
- the reconciliation of movements in shareholders' funds and the cash flow statement for the year then ended; and
- the notes on the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("**ISAs (UK & Ireland)**"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

In addition, we read all the financial and non-financial information in the Report and Accounts (the "**Annual Report**") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined an overall materiality for the financial statements as a whole of £4.3 million, which is approximately 1% of Net Assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £430,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Company is a standalone Investment Trust Company managed by an independent investment manager, F&C Management Limited (the "**Investment Manager**").

The financial statements, which remain the responsibility of the Directors, are prepared on their behalf by the Investment Manager. The Investment Manager has, with the consent of the Directors, delegated the provision of certain administrative functions to State Street Bank and Trust Company (the "**Company Administrator**").

In establishing the overall approach to our audit we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the Company's interaction with the Investment Manager and Company Administrator, and we assessed the control environment in place at both organisations to the extent relevant to our audit of the Company.

Independent Auditors' Report (continued)

Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We considered the following areas in the table below to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit.

We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 42.

In our audit, 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 draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Table of areas of particular audit focus

Area of focus	How the scope of our audit addressed the area of focus
Valuation and existence of investments	
We focused on this area because investments represent the principal element of the financial statements.	The investment portfolio comprises primarily listed equity investments. We tested the existence of the investment portfolio by agreeing the holdings to an independent confirmation. We tested the valuation of the listed investment portfolio by agreeing the valuation of the listed investments to independent third party sources. For the unlisted portfolio investment, we assessed management's valuation of the investment and obtained independent confirmation of the valuation from the fund manager of this investment.
Income recognition	
We focused on this area because incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.	We tested a sample of dividend receipts to independent third party sources. We have also performed tests on whether income the Company is entitled to has been recorded.
Risk of management override of internal controls	
ISAs (UK & Ireland) require that we consider management override of controls. We focused on this area because whilst the posting of journals is performed by the Company Administrator, the instruction is given by the Investment Manager who, along with the Directors, may exert bias or influence.	We tested journal entries to determine whether adjustments were supported by evidence and were appropriately authorised. We also built an element of "unpredictability" into our detailed testing.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on pages 27 and 28, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("**the Code**"). We have nothing to report having performed our review.

On page 27 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy. On page 42 as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

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

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 44 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 June 2014

Income Statement

Revenue notes	Capital notes	for the year ended 30 April	2014 Revenue £'000s	2014 Capital £'000s	2014 Total £'000s	2013 Revenue £'000s	2013 Capital £'000s	2013 Total £'000s
	11	Gains on investments	–	41,451	41,451	–	71,859	71,859
	19	Foreign exchange gains/(losses)	5	(633)	(628)	1	(2)	(1)
3		Income	5,876	–	5,876	4,834	–	4,834
4	4	Management fee	(371)	(1,112)	(1,483)	(262)	(785)	(1,047)
5	5	Performance fee	–	(8)	(8)	–	(1,477)	(1,477)
6		Other expenses	(543)	(28)	(571)	(1,010)	(17)	(1,027)
		Net return before finance costs and taxation	4,967	39,670	44,637	3,563	69,578	73,141
7	7	Finance costs	(288)	(862)	(1,150)	(288)	(864)	(1,152)
		Net return on ordinary activities before taxation	4,679	38,808	43,487	3,275	68,714	71,989
8	8	Taxation on ordinary activities	(218)	–	(218)	(231)	–	(231)
		Net return attributable to equity shareholders	4,461	38,808	43,269	3,044	68,714	71,758
9	9	**Return per share – pence**	9.31	81.01	90.32	7.10	160.38	167.48

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

for the year ended 30 April 2014

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 1 May 2013	11,243	53,009	16,158	250,760	8,920	340,090
	Movements during the year ended 30 April 2014						
10	Dividends paid	–	–	–	–	(3,284)	(3,284)
	Shares issued	1,560	49,451	–	–	–	51,011
	Net return attributable to equity shareholders	–	–	–	38,808	4,461	43,269
	Balance at 30 April 2014	12,803	102,460	16,158	289,568	10,097	431,086

for the year ended 30 April 2013

Notes		Share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
	Balance at 1 May 2012	10,345	29,818	16,158	182,046	8,409	246,776
	Movements during the year ended 30 April 2013						
10	Dividends paid	–	–	–	–	(2,533)	(2,533)
	Shares issued	898	23,191	–	–	–	24,089
	Net return attributable to equity shareholders	–	–	–	68,714	3,044	71,758
	Balance at 30 April 2013	11,243	53,009	16,158	250,760	8,920	340,090

Balance Sheet

Notes	at 30 April	£'000s	2014 £'000s	£'000s	2013 £'000s
	Fixed assets				
11	Investments		**425,344**		334,036
	Current assets				
12	Debtors	**3,574**		2,372	
	Cash at bank and short-term deposits	**16,705**		20,771	
		20,279		23,143	
	Creditors: amounts falling due within one year				
13	Creditors	**(4,537)**		(7,089)	
14	Debenture	**(10,000)**		–	
		(14,537)		(7,089)	
	Net current assets		**5,742**		16,054
	Total assets less current liabilities		**431,086**		350,090
	Creditors: amounts falling due after more than one year				
14	Debenture		**–**		(10,000)
	Net assets		**431,086**		340,090
	Capital and reserves				
16	Share capital		**12,803**		11,243
17	Share premium account	**102,460**		53,009	
18	Capital redemption reserve	**16,158**		16,158	
19	Capital reserves	**289,568**		250,760	
19	Revenue reserve	**10,097**		8,920	
			418,283		328,847
20	**Total shareholders' funds**		**431,086**		340,090
20	**Net asset value per share – pence**		**841.78**		756.21

The Financial Statements were approved by the Board on 16 June 2014 and signed on its behalf by:

Anthony Townsend, Chairman

Financial Report

Cash Flow Statement

Notes	for the year ended 30 April	£'000s	2014 £'000s	£'000s	2013 £'000s
	Operating activities				
	Investment income received	**5,062**		4,526	
	Interest received	**49**		23	
	Management fee paid to the management company	**(1,458)**		(1,096)	
	Performance fee paid to the management company	**(1,478)**		(892)	
	Directors' fees paid	**(155)**		(149)	
	Other payments	**(637)**		(710)	
21	**Net cash inflow from operating activities**		**1,383**		1,702
	Servicing of finance				
	Interest paid	**(1,150)**		(1,152)	
	Cash outflow from servicing of finance		**(1,150)**		(1,152)
	Financial investment				
	Purchases of equities and other investments	**(173,123)**		(97,240)	
	Sales of equities and other investments	**122,218**		90,752	
	Other capital charges and credits	**(26)**		(17)	
	Net cash outflow from financial investment		**(50,931)**		(6,505)
	Equity dividends paid		**(3,284)**		(2,533)
	Net cash outflow before use of liquid resources and financing		**(53,982)**		(8,488)
	Financing				
	Shares issued	**50,544**		23,710	
	Cash inflow from financing		**50,544**		23,710
22	**(Decrease)/increase in cash**		**(3,438)**		15,222

Notes on the Accounts

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The accounts of the Company have been prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments and derivative financial instruments at fair value, and in accordance with the Companies Act 2006, accounting standards applicable in the United Kingdom and the Revised Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued in January 2009.

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

There have been no significant changes to the accounting policies during the year ended 30 April 2014.

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

(b) Principal accounting policies

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

(i) Financial instruments

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

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

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments. The Company held no such securities during the year under review.

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

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Fixed asset investments and derivative financial instruments.

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

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

Derivative financial instruments are accounted for as financial assets or liabilities at fair value through profit or loss and are classified as held for trading.

(iii) Debt instruments

Interest-bearing debenture stock, loans and overdrafts are recorded initially at the proceeds received, net of issue costs, irrespective of the duration of the instrument. The fair market value of the long-term debenture stock is based on a margin over a comparable UK gilt and is disclosed in note 14 on the accounts. No debt instruments held during the year required hierarchical classification.

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

(iv) Foreign currency

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

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

(v) Income

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

Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies are shown gross of withholding tax.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Expenses, including finance charges

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

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

(vii) Taxation

Deferred tax is provided on an undiscounted basis in accordance with Financial Reporting Standard 19 "Deferred Tax" on all timing differences that have originated but not reversed by the balance sheet date, based on the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

(viii) Share premium

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

(ix) Capital redemption reserve

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

(x) Capital reserves

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

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

Capital reserve – arising on investments held

The following are accounted for in this reserve:

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

Notes on the Accounts (continued)

3. INCOME

	2014 £'000s	2013 £'000s
Income from investments		
Dividends	5,668	4,675
Scrip dividends	159	136
	5,827	4,811
Other income		
Interest on cash and short-term deposits	49	23
Total income	5,876	4,834

Total income comprises:		
Dividends	5,827	4,811
Other income	49	23
	5,876	4,834

Income from investments comprises:		
Quoted†	5,819	4,788
Unquoted	8	23
	5,827	4,811

† Includes investments quoted on AIM in the UK.

4. MANAGEMENT FEE

	Revenue £'000s	Capital £'000s	2014 Total £'000s	Revenue £'000s	Capital £'000s	2013 Total £'000s
Management fee	371	1,112	1,483	262	785	1,047

The Manager provides investment management, marketing and general administrative services to the Company. The management fee is an amount equal to 0.4% per annum, payable monthly in arrears, of net assets managed by the Manager (with debenture stock valued at market value) at the calculation date. Investments made by the Company in third party collective investment schemes are subject to a management fee, payable monthly in arrears to the Manager, of 0.25% per annum of the month end market value of those investments. The management agreement may be terminated upon six months' notice given by either party.

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

5. PERFORMANCE FEE

	2014 Capital £'000s	2013 Capital £'000s
Performance fee	8	1,477

The Manager is entitled to a performance fee, payable annually, equal to 10% of the value of any outperformance in the year by the net assets (with debt at market value, adjusted for share buybacks and dividends) compared to the Benchmark Index, subject to a maximum absolute cap on the level of fees (including both the management fee and the performance fee) that the Manager can earn in any one year of 1% of average month-end net assets. Performance above this cap (outperformance) or below the Benchmark level (underperformance) will be carried forward to the subsequent period for inclusion in the calculation of performance in that period.

Any performance fee is allocated 100% to capital reserve – arising on investments sold.

6. OTHER EXPENSES

	2014 £'000s	2013 £'000s
Auditors' remuneration:		
audit services*	32	29
other services*	7	8
Directors' fees for services to the Company†	155	150
Marketing	94	92
Saving plans expenses	(27)	488
Printing and postage	64	64
Custody fees	27	17
Sundry expenses	191	162
	543	1,010

* Auditors' remuneration for audit services, exclusive of VAT, amounts to £29,000 (2013: £28,000). Total auditors' remuneration for non-audit services, exclusive of VAT, amounts to £7,000 (2013: £7,000) comprising £6,000 for taxation compliance services (2013: £6,000) and £1,000 relating to other assurance services for review of a debenture compliance certificate (2013: £1,000). No part of these amounts was charged to capital reserves (2013: £nil).

† See the Directors' Remuneration Report on page 39.

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

7. FINANCE COSTS

	Revenue £'000s	Capital £'000s	2014 Total £'000s	Revenue £'000s	Capital £'000s	2013 Total £'000s
Debenture	288	862	1,150	288	862	1,150
Loans and bank overdrafts	–	–	–	–	2	2
	288	862	1,150	288	864	1,152

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

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Notes on the Accounts (continued)

8. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2014 Total £'000s	Revenue £'000s	Capital £'000s	2013 Total £'000s
Corporation tax payable at 22.8% (2013: 23.9%)	–	–	–	–	–	–
Overseas taxation	218	–	218	231	–	231
Current tax charge for the year (note 8(b))	218	–	218	231	–	231
Deferred taxation on accrued income	–	–	–	–	–	–
Taxation on ordinary activities	218	–	218	231	–	231

The tax assessed is lower than the standard rate of Corporate Tax in the UK (2013: lower).

(b) Factors affecting the current tax charge for the year

	Revenue £'000s	Capital £'000s	2014 Total £'000s	Revenue £'000s	Capital £'000s	2013 Total £'000s
Return on ordinary activities before tax	4,679	38,808	43,457	3,275	68,714	71,989
Return on ordinary activities multiplied by the standard rate of corporation tax of 22.8% (2013: 23.9%)	1,067	8,848	9,915	783	16,422	17,205
Effects of:						
Dividends*	(1,329)	–	(1,329)	(1,085)	–	(1,085)
Expenses not deductible for tax purposes	15	–	15	70	–	70
Overseas tax in excess of double taxation relief	218	–	218	231	–	231
Expenses not utilised in the year	247	459	706	232	752	984
Capital returns*	–	(9,307)	(9,307)	–	(17,174)	(17,174)
Total current taxation (note 8(a))	218	–	218	231	–	231

* These items are not subject to corporation tax in an investment trust company.

The Company is not subject to corporation tax on capital gains or on dividend income. As a consequence, it has unutilised expenses which have given rise to a deferred tax asset of £4.4m (2013: £4.2m). This asset has not been recognised as the Directors believe it is unlikely that the Company will have sufficient taxable profits in future to utilise it. Of this amount £0.9m (2013: £0.8m) relates to revenue expenses and £3.5m (2013: £3.4m) to capital expenses.

9. RETURN PER ORDINARY SHARE

	Revenue	Capital	2014 Total	Revenue	Capital	2013 Total
Return per share – pence	9.31	81.01	90.32	7.10	160.38	167.48
Net return attributable to equity shareholders – £'000s	4,461	38,808	43,269	3,044	68,714	71,758

Both the revenue and capital returns per share are based on a weighted average of 47,903,986 ordinary shares in issue during the year (2013: 42,845,491).

10. DIVIDENDS

Dividends on ordinary shares	Register date	Payment date	2014 £'000s	2013 £'000s
Interim for the year ended 30 April 2014 of 2.50p	3 January 2014	31 January 2014	1,213	–
Final for the year ended 30 April 2013 of 4.50p	19 July 2013	16 August 2013	2,071	–
Interim for the year ended 30 April 2013 of 2.00p	28 December 2012	31 January 2013	–	857
Final for the year ended 30 April 2012 of 4.00p	6 July 2012	16 August 2012	–	1,676
			3,284	2,533

The Directors have proposed a final dividend in respect of the year ended 30 April 2014 of 5.50p per share, payable on 15 August 2014 to all shareholders on the register at close of business on 18 July 2014. The recommended final dividend is subject to approval by shareholders at the annual general meeting.

The attributable revenue and the dividends paid and proposed in respect of the financial year ended 30 April 2014 for the purposes of the income retention test for section 1159 of the Income and Corporation Tax Act 2010, are set out below:

	2014 £'000s
Revenue attributable to equity shareholders	4,461
Interim for the year ended 30 April 2014 of 2.50p	(1,213)
Proposed final for the year ended 30 April 2014 of 5.50p*	(2,833)
Amount transferred to revenue reserve for section 1159 purposes**	415

*Based on 51,511,102 shares in issue at 13 June 2014.

** Undistributed revenue for the year equated to 7.1% of total income of £5,876,000 (see note 3).

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Notes on the Accounts (continued)

11. INVESTMENTS

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	Total £'000s
Cost at 30 April 2013	235,330	–	1,228	236,558
Gains at 30 April 2013	95,563	–	1,915	97,478
Valuation at 30 April 2013	330,893	–	3,143	334,036
Movements in the year:				
Purchases at cost	172,088	–	342	172,430
Sales proceeds	(122,573)	–	–	(122,573)
Gains on investments sold in year	37,973	–	–	37,973
Gains/(losses) on investments held at year end	4,043	–	(565)	3,478
Valuation of investments held at 30 April 2014	**422,424**	**–**	**2,920**	**425,344**

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	Total £'000s
Cost at 30 April 2014	322,818	–	1,570	324,388
Gains at 30 April 2014	99,606	–	1,350	100,956
Valuation at 30 April 2014	**422,424**	**–**	**2,920**	**425,344**

* Level 1 includes investments listed on any recognised stock exchange or quoted on AIM in the UK.
Level 2 includes investments for which the quoted price has been suspended.
Level 3 includes unquoted investments, which are held at Directors' valuation.

A list of investments is set out on pages 22 to 24.

Gains on investments

	2014 £'000s	2013 £'000s
Gains on investments sold during the year	**37,973**	27,796
Gains on investments held at year end	**3,478**	44,063
Total gains on investments	**41,451**	71,859

Substantial interests

At 30 April 2014 the Company held more than 5% of the following undertaking held as an investment which, in the opinion of the Directors, did not represent a participating interest:

Company	Country of registration, incorporation and operation	Number of units held	Percentage of undertaking held
Australian New Horizons Fund	Australia	2,375,135	28.6

12. DEBTORS

	2014 £'000s	2013 £'000s
Investment debtors	1,894	1,538
Prepayments and accrued income	781	400
Share issue proceeds due	846	379
Overseas taxation recoverable	53	55
	3,574	2,372

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Creditors	2014 £'000s	2013 £'000s
Investment creditors	3,870	4,719
Interest accrued	382	382
Management fee and performance fee accrued	141	1,586
Other accrued expenses	144	402
	4,537	7,089

14. DEBENTURE

	Falling due within one year 2014 £'000s	Falling due in more than one year 2013 £'000s
11.5% debenture stock 2014 (secured)	10,000	10,000

The 11.5% debenture stock is redeemable at par on 31 December 2014. It may be redeemed early by the Company giving notice of not less than 30 days in writing to stockholders. In such event, the redemption price must be the higher of par and the price equivalent to the gross redemption yield on the relevant date of 12% Exchequer Stock 2013/17.

The Directors have no present intention to redeem the 11.5% debenture stock before 31 December 2014.

The debenture stock is secured by floating charges against the assets of the Company and is stated at amortised cost, which is equivalent to nominal value. The market value of the debenture, which was based on a comparable UK gilt, was £10,655,000 (2013: £11,681,000).

Under the terms of the debenture trust deed the total of all borrowings, valued in accordance with the Company's accounting policies, shall not at any time exceed the Company's "Adjusted Total of Capital and Reserves" ("ATCR") – at 30 April 2014 the value of the ATCR was £374m and the value of all borrowings was £10m. The trust deed also specifies that the aggregate of the Company's debenture stocks valued at par shall not exceed one fifth of the ATCR.

Each year, the Company issues a certificate of compliance with the provisions of the trust deed to the trustee of the debenture stock, showing that the borrowing limits have not been exceeded at the relevant accounting date. The Company has complied at all times with the terms of the trust deed in the year under review.

In certain circumstances, the terms of the Company's debenture entitle the holders to demand early repayment. Such early repayment may be required in the event of the occurrence of certain events of default which are customary for facilities of this type. These include events of non payment, insolvency and insolvency proceedings, cessation of business, non-remedied breach of covenant or other obligation, cross-default or misrepresentation.

Notes on the Accounts (continued)

15. GEOGRAPHICAL AND INDUSTRIAL CLASSIFICATION (TOTAL ASSETS LESS CURRENT LIABILITIES)

	North America %	UK %	Continental Europe %	Rest of World %	Japan %	2014 Total %	2013 Total %
Industrials	11.2	9.2	2.7	–	–	**23.1**	21.0
Collective investments	–	–	0.1	9.3	8.5	**17.9**	19.4
Financials	7.8	5.0	4.1	0.6	–	**17.5**	15.0
Consumer services	5.0	4.6	1.5	–	–	**11.1**	11.8
Technology	4.8	2.2	0.5	–	–	**7.5**	7.1
Health care	2.8	2.4	0.2	–	–	**5.4**	5.0
Consumer goods	1.8	1.0	2.5	–	–	**5.3**	7.7
Oil & gas	2.4	1.6	–	–	–	**4.0**	3.9
Basic materials	0.9	0.8	0.2	–	–	**1.9**	2.8
Telecommunications	0.9	0.7	0.3	–	–	**1.9**	1.7
Utilities	0.8	–	–	–	–	**0.8**	–
Total investments	38.4	27.5	12.1	9.9	8.5	**96.4**	95.4
Net current assets/(liabilities)	1.0	2.5	0.2	–	(0.1)	**3.6**	4.6
Total assets less current liabilities (excluding borrowings)	**39.4**	**30.0**	**12.3**	**9.9**	**8.4**	**100.0**	
2013 totals	39.6	29.9	11.4	11.1	8.0		100.0

16. SHARE CAPITAL

Equity share capital	Issued and fully paid Number	£'000s
Ordinary shares of 25p each		
Balance brought forward	44,973,102	11,243
Shares issued	6,238,000	1,560
Balance carried forward	**51,211,102**	**12,803**

During the year 6,238,000 ordinary shares were issued, raising proceeds of £51,011,000. Since the year end a further 300,000 ordinary shares have been issued, raising proceeds of £2,556,000.

17. SHARE PREMIUM ACCOUNT

	2014 £'000s	2013 £'000s
Balance brought forward	**53,009**	29,818
Shares issued	**49,451**	23,191
Balance carried forward	**102,460**	53,009

18. CAPITAL REDEMPTION RESERVE

	2014 £'000s	2013 £'000s
Balance brought forward and carried forward	**16,158**	16,158

19. OTHER RESERVES

	Capital reserve arising on investments sold £'000s	Capital reserve arising on investments held £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Movements in the year				
Gains on investments sold in year	37,973	–	37,973	–
Gains on investments held at year end	–	3,478	3,478	–
Foreign exchange losses	(633)	–	(633)	–
Management fee (see note 4)	(1,112)	–	(1,112)	–
Performance fee (see note 5)	(8)	–	(8)	–
Other expenses	(28)	–	(28)	–
Finance costs (see note 7)	(862)	–	(862)	–
Revenue return	–	–	–	4,461
Net return attributable to ordinary shareholders	35,330	3,478	38,808	4,461
Dividends paid in the year	–	–	–	(3,284)
	35,330	3,478	38,808	1,177
Balance brought forward	152,938	97,822	250,760	8,920
Balance carried forward	**188,268**	**101,300**	**289,568**	**10,097**

Included within the capital reserve movement for the year are £377,000 (2013: £265,000) of transaction costs on purchases of investments, £150,000 (2013: £159,000) of transaction costs on sales of investments and £747,000 (2013: £97,000) of distributions received recognised as capital.

20. NET ASSET VALUE PER ORDINARY SHARE

	2014	2013
Net asset value per share (with debenture at nominal value) – pence	**841.78**	756.21
Net assets attributable at the year end – £'000s	**431,086**	340,090
Ordinary shares in issue at the year end	**51,211,102**	44,973,102

Net asset value per share with debenture at market value was 840.50p (2013: 752.47p).

Notes on the Accounts (continued)

21. RECONCILIATION OF RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2014 £'000s	2013 £'000s
Total return before finance costs and taxation	44,637	73,141
Adjust for returns from non-operating activities		
Gains on investments	(41,451)	(71,859)
Foreign exchange losses	628	1
Other expenses charged to capital	28	17
Return from operating activities	3,842	1,300
Adjust for non cash flow items		
(Increase)/decrease in accrued income	(385)	65
Decrease/(increase) in prepayments	3	(17)
(Decrease)/increase in creditors	(1,696)	704
Scrip dividends	(159)	(136)
Overseas taxation	(222)	(214)
Net cash inflow from operating activities	1,383	1,702

22. RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET DEBT

	2014 £'000s	2013 £'000s
(Decrease)/increase in cash and short term deposits	(3,438)	15,222
Foreign exchange movement	(628)	(1)
Movement in net debt in the year	(4,066)	15,221
Net cash/(debt) brought forward	10,771	(4,450)
Net cash carried forward	6,705	10,771

Represented by:	Balance at 30 April 2013 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 April 2014 £'000s
Cash at bank and short term deposits	20,771	(3,438)	(628)	16,705
Debenture	(10,000)	–	–	(10,000)
	10,771	(3,438)	(628)	6,705

23. RELATED PARTY TRANSACTIONS

The following are considered related parties: the Board of Directors (the "**Board**") and F&C Management Limited ("**F&C**").

There are no transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Remuneration Report on page 39 and as set out in note 6 on the accounts. There are no outstanding balances with the Board at the year end. Transactions between the Company and F&C are detailed in note 4 on management fees, note 5 on performance fees and note 13, where accrued management and performance fees are disclosed.

24. CONTINGENCIES

VAT legal case

A case has been brought against HMRC to seek recovery of recoverable VAT relating to the period 1997 to 2000, together with interest on a compound basis. No VAT or related interest recovery has been accrued or recognised as a contingent asset, as the outcome of the case is expected to remain uncertain for several years.

25. FINANCIAL RISK MANAGEMENT

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

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

The accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 2 on the accounts. The policies are in compliance with UK accounting standards and best practice, and include the valuation of financial assets and liabilities at fair value, except as noted in (d) below and in note 14 in respect of the debenture stock. The Company does not make use of hedge accounting rules.

(a) Market risks

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

The Company's other assets and liabilities may be denominated in currencies other than sterling and may also be exposed to interest rate risks. The Manager and the Board regularly monitor these risks. The Company does not normally hold significant net cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those currencies, thereby limiting the Company's exposure to future changes in exchange rates. Gearing may be short or long-term, in sterling and foreign currencies, and enables the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short-term volatility.

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

Currency exposure

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

		2014		2013
	At 30 April 2014	Average for the year	At 30 April 2013	Average for the year
US dollar	1.6886	1.6037	1.5564	1.5732
Euro	1.2178	1.1904	1.1805	1.2204
Japanese yen	172.49	161.34	151.61	133.28

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Notes on the Accounts (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Weakening of sterling by 10%	2014 US$	2014 €	2013 US$	2013 €
Net revenue return attributable to equity shareholders – £'000s	**119**	**87**	77	72
Net capital return attributable to equity shareholders – £'000s	**20,298**	**4,731**	14,566	3,191
Net total return attributable to equity shareholders – £'000s	**20,417**	**4,818**	14,643	3,263
Net asset value per share – pence	**39.87**	**9.41**	32.56	7.26

Strengthening of sterling by 10%	2014 US$	2014 €	2013 US$	2013 €
Net revenue return attributable to equity shareholders – £'000s	**(97)**	**(71)**	(95)	(70)
Net capital return attributable to equity shareholders – £'000s	**(16,608)**	**(3,871)**	(11,099)	(2,183)
Net total return attributable to equity shareholders – £'000s	**(16,705)**	**(3,942)**	(11,194)	(2,253)
Net asset value per share – pence	**(32.62)**	**(7.70)**	(27.05)	(5.44)

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

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

2014	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Debenture (at nominal value) £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,626	10,545	(1,553)	(10,000)	618	170,462	171,080
US dollar	1,732	5,327	(2,549)	–	4,510	178,173	182,683
Euro	53	833	–	–	886	41,693	42,579
Other	163	–	(435)	–	(272)	35,016	34,744
Total	**3,574**	**16,705**	**(4,537)**	**(10,000)**	**5,742**	**425,344**	**431,086**

2013	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Debenture (at nominal value) £'000s	Net monetary assets/ (liabilities) £'000s	Investments £'000s	Net exposure £'000s
Sterling	1,809	17,317	(6,063)	(10,000)	3,063	148,370	151,433
US dollar	32	3,336	(35)	–	3,333	142,324	145,657
Euro	112	118	(761)	–	(531)	32,439	31,908
Other	419	–	(230)	–	189	10,903	11,092
Total	2,372	20,771	(7,089)	(10,000)	6,054	334,036	340,090

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate exposure

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

	Within one year £'000s	More than one year £'000s	2014 Net total £'000s	Within one year £'000s	More than one year £'000s	2013 Net total £'000s
Exposure to floating rates – cash	16,705	–	16,705	20,771	–	20,771
Exposure to fixed rates – debenture	(10,000)	–	(10,000)	–	(10,000)	(10,000)
Net exposure	6,705	–	6,705	20,771	(10,000)	10,771
Minimum net exposure during the year	16,321	(10,000)	6,321	5,197	(10,000)	(4,803)
Maximum net exposure during the year	23,742	(10,000)	13,742	20,771	(10,000)	10,771

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

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

The Company's total returns and net assets are sensitive to changes in interest rates on cash and borrowings, except in respect of the debenture on which the interest rate is fixed. The debenture is valued in the accounts at nominal value and therefore the capital and revenue return arising from this instrument would be unchanged by a movement in market interest rates.

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

	Increase in rate £'000s	2014 Decrease in rate £'000s	Increase in rate £'000s	2013 Decrease in rate £'000s
Revenue return	334	(49)	415	(415)
Capital return	–	–	–	–
Total return	334	(49)	415	(415)
NAV per share – pence	0.65	(0.09)	0.92	(0.92)

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

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Notes on the Accounts (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other market risk exposures

The Company did not enter into derivative transactions in managing its exposure to other market risks (2013: same). The portfolio of investments, valued at £425,344,000 at 30 April 2014 (2013: £334,036,000) is therefore exposed to market price changes. The Manager assesses these exposures at the time of making each investment decision. The Board reviews overall exposures at each meeting against indices and other relevant information. An analysis of the portfolio by geographical region and major industrial sector is set out in note 15 on the accounts.

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

	2014 Increase in value £'000s	**2014** Decrease in value £'000s	2013 Increase in value £'000s	2013 Decrease in value £'000s
Capital return	**85,069**	**(85,069)**	66,807	(66,807)
NAV per share – pence	**166.11**	**(166.11)**	148.55	(148.55)

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

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through increased borrowing. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the large number of quoted investments held in the Company's portfolio (203 at 30 April 2014); the liquid nature of the portfolio of investments; and the industrial and geographical diversity of the portfolio (see note 15). Cash balances are held with reputable banks, usually on overnight deposit. The Company does not normally invest in derivative products. The Manager reviews liquidity at the time of making each investment decision. The Board reviews liquidity exposure at each meeting.

The 11.5% debenture stock is governed by a trust deed and is redeemable in 2014. The Board does not consider the repayment of the debenture stock as a likely short-term liquidity issue.

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

	Three months or less £'000s	More than three months but less than one year £'000s	More than one year £'000s	Total £'000s
2014				
Current liabilities				
Other creditors	4,155	–	–	4,155
Debentures	–	10,000	–	10,000
Interest payable on debentures	575	575	–	1,150
	4,730	**10,575**	**–**	**15,305**
2013				
Current liabilities				
Other creditors	6,707	–	–	6,707
Long-term liabilities				
Debentures	–	–	10,000	10,000
Interest payable on debentures	575	575	1,150	2,300
	7,282	575	11,150	19,007

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk and counterparty exposure

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

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

The Company has an ongoing contract with its custodian for the provision of custody services. The contract is reviewed periodically. Details of securities held in custody on behalf of the Company are received and reconciled monthly. The custodian has a lien over the securities in the account, enabling it to sell or otherwise realise the securities in satisfaction of charges due under the agreement.

To the extent that F&C Management Limited ("F&C") carries out management and administrative duties (or causes similar duties to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board assesses this risk continuously through regular meetings with the management of F&C (including the Fund Manager) and with F&C's internal audit function. In reaching its conclusions, the Board also reviews F&C's parent group's annual audit and assurance faculty report.

The Company had no credit-rated bonds or similar securities or derivatives in its portfolio at the year end (2013: none) and does not normally invest in them. None of the Company's financial liabilities are past their due date or impaired.

(d) Fair values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value, or at a reasonable approximation thereof, except for the debenture which is carried at par value. The fair value of the debenture, based on a comparable UK gilt, was £10,655,000 (2013: £11,681,000).

Unquoted investments are valued based on professional assumptions and advice that is not wholly supported by prices from current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investments. With respect specifically to investments in partnerships, the Directors rely on valuations of the underlying unlisted investments as supplied by the managers of those partnerships. The Directors regularly review the principles applied by the managers to those valuations to ensure they comply with the Company's accounting policies and with fair value principles.

(e) Capital risk management

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

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

At 30 April 2014 the Company had a multi-currency credit facility of £5 million with Scotiabank (Ireland) Limited which remained undrawn throughout the year. The Company had the option to request an additional commitment of up to £5 million at any time on the same terms. The facility expired on 13 June 2014.

26. POST BALANCE SHEET MOVEMENT IN NET ASSETS

The net asset value per share (with debenture at nominal value) on 12 June 2014 was 862.78p (30 April 2014: 841.78p).

Ten Year Record

Assets

at 30 April

£'000s	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total assets	260,475	288,404	240,652	249,574	198,100	160,994	218,384	251,604	256,776	350,090	**441,086**
Debenture and loans	25,085	24,006	13,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	**10,000**
Net assets	235,390	264,398	227,652	239,574	188,100	150,994	208,384	241,604	246,776	340,090	**431,086**

Net asset value ("NAV")

at 30 April

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
NAV per share	276.8p	311.3p	470.8p	512.2p	428.2p	360.2p	518.1p	602.5p	596.4p	756.2p	**841.8p**
NAV total return on 100p – 5 years (per AIC)											**251.9p**
NAV total return on 100p – 10 years (per AIC)											**338.9p**

Share price

at 30 April

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Middle market price per share	224.0p	268.5p	435.0p	473.3p	385.0p	325.0p	461.0p	583.5p	588.0p	764.5p	**840.0p**
Share price high	227.0p	286.0p	444.5p	473.3p	482.0p	405.0p	461.0p	587.0p	618.0p	779.0p	**879.5p**
Share price low	150.0p	209.5p	268.5p	364.3p	339.8p	221.0p	310.5p	405.0p	485.0p	554.0p	**745.3p**
Share price total return on 100p – 5 years (per AIC)											**272.3p**
Share price total return on 100p – 10 years (per AIC)											**424.7p**

Revenue

for the year ended 30 April

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Available for ordinary shares – £'000s	3,465	3,930	3,210	2,270	2,510	2,430	2,016	2,039	2,799	3,044	**4,461**
Return per share	3.95p	4.63p	4.54p	4.75p	5.54p	5.66p	4.88p	5.08p	6.87p	7.10p	**9.31p**
Dividends per share	4.24p	4.40p	5.53p#	4.69p	4.83p	4.89p	5.00p	5.10p	5.63p	6.50p	**8.00p**

Performance

(rebased to 100 at 30 April 2004)

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
NAV per share	100	112.5	170.1	185.0	154.7	130.1	187.2	217.7	215.5	273.2	**304.1**
Middle market price per share	100	119.9	194.2	211.3	171.9	145.1	205.8	260.5	262.5	341.3	**375.0**
Earnings per share	100	117.2	114.9	120.3	140.3	143.3	123.5	128.6	173.9	179.7	**235.7**
Dividends per share	100	103.8	130.4	110.6	113.9	115.3	117.9	120.3	132.8	153.3	**188.7**
RPI	100	103.2	105.8	110.6	115.2	113.9	120.0	126.2	130.6	134.4	**137.7**

* restated to reflect investments at bid value (in prior years, at mid market value) and to account for dividends in the year in which the company is liable to pay them (in prior years, accounted for in the period in which the net revenue to which those dividends related was accounted for).

includes a special dividend of 1.00p.

Costs of running the Company (ongoing charges/TER)

for the year ended 30 April

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expressed as a percentage of average net assets											
Ongoing charges											
– excluding performance fees	–	–	–	–	–	–	–	1.00%	1.08%	0.85%	**0.76%**
– including performance fees	–	–	–	–	–	–	–	1.02%	1.56%	1.49%	**0.78%**
TER											
– excluding performance fees	0.80%	0.66%	0.69%	0.74%	0.77%	0.93%	0.78%	0.76%	0.79%	0.71%	**0.50%**
– including performance fees	0.80%	0.66%	0.69%	0.99%	0.77%	0.93%	0.78%	0.76%	1.17%	1.22%	**0.50%**

Gearing

at 30 April

	2004	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Effective gearing	3.9%	7.4%	4.7%	2.7%	3.3%	4.1%	(3.3)%	2.7%	1.7%	(2.3)%	**(1.3)%**
Fully invested gearing	10.7%	9.1%	5.7%	4.2%	5.3%	6.6%	4.8%	4.1%	4.1%	2.9%	**2.3%**

* restated to reflect changes in accounting policies.

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 30 April 2014

Category	Number of shares	% Holding
F&C savings plans	28,564,185	55.89
Nominee holdings	14,317,000	28.01
Direct individual holdings	4,273,476	8.36
Institutions	3,956,441	7.74

Source: F&C Management Limited.

The total number of shareholders at 30 April 2014 was 40,956, of which 38,539 were investors through the F&C plans.

Information for Shareholders

Net asset value and share price

The Company's net asset value per share is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of F&C Global Smaller Companies PLC is shown in the investment trust or investment companies section of the stock market page in most leading newspapers, usually under "F&C Global Smaller Cos".

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are sent to shareholders in December and June respectively and in the interim management statement announcements.

More up-to-date performance information is available on the internet at www.fandcglobalsmallers.com. This website also provides a monthly update on the Company's largest holdings with comments from the Lead Manager.

UK capital gains tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £10,900 in the tax year ending 5 April 2015 without incurring any tax liability.

Shareholders in doubt as to their CGT position should consult their professional advisers.

Income tax

The recommended final dividend is payable in August 2014. Individual UK resident shareholders who are subject to UK income tax at the basic rate have no further tax liability.

Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

Association of Investment Companies

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

aic
The Association of Investment Companies

London Stock Exchange
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PREMIUM

Financial Calendar

Annual General Meeting	**24 July 2014**
Final dividend payable*	**15 August 2014**
Half-yearly results for 2015 announced	**December 2014**
Interim dividend payable	**January 2015**
Final results for 2015 announced	**June 2015**

* to shareholders on the register at the close of business on 18 July 2014

Warning to shareholders – Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the Financial Conduct Authority (FCA) before getting involved by visiting **www.fca.org.uk/firms/systems-reporting/register**
- Report the matter to the FCA by calling **0800 111 6768**
- If the calls persist, hang up.

More detailed information on this can be found on the FCA's website **www.fca.org.uk/consumer/scams**

How to Invest

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

F&C Private Investor Plan

A flexible way to invest with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250.

F&C Child Trust Fund ("CTF")

CTFs are closed to new investors; however, if your child has a CTF with another provider, it is easy to transfer it to F&C. Additional contributions can be made from as little as £25 per month or £100 lump sum – up to a maximum of £3,840 for birthdays in the 2014/15 tax year (due to increase to £4,000 from 1st July 2014).

F&C Investment Trust ISA

Use your ISA allowance to make an annual tax-efficient investment of up to £11,880 for the 2014/15 tax year (due to increase to £15,000 from 1st July 2014) with a lump sum from £500 or regular savings from £50 a month. You can also make additional lump sum top-ups at any time from £250 and transfer any existing ISAs to us whilst maintaining all the tax benefits.

F&C Children's Investment Plan ("CIP")

A flexible way to save for a child. With no maximum contributions, the plan can easily be written under trust to help reduce inheritance tax liability or kept in your name if you may need access to the funds before the child is 18. Investments can be made from a £250 lump sum or £25 a month. You can also make additional lump sum top-ups at any time from £100.

F&C Junior ISA ("JISA")

This is a tax-efficient savings plan for children who did not qualify for a CTF. It allows you to invest up to £3,840 for the 2014/15 tax year (due to increase to £4,000 from 1st July 2014) with all the tax benefits of the CTF. You can invest from £30 a month, or £500 lump sum, or a combination of both.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full amount originally invested. Tax rates and reliefs depend on the circumstances of the individual. The CTF and JISA accounts are opened in the child's name. Money cannot be withdrawn until the child turns 18.

Annual management charges and certain transaction costs apply according to the type of plan.

Annual account charge

ISA: £60+VAT

PIP: £40+VAT

JISA/CIP/CTF: £25+VAT

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

Dealing charge per holding

ISA: 0.2%

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

The dealing charge applies when shares are bought or sold but the fixed rate charge does not apply to the reinvestment of dividends or the investment of regular monthly savings.

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

Government stamp duty of 0.5% also applies on purchases (where applicable). There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan. For full details of charges, please read the Key Features and Terms and Conditions of the plan before investing.

How to invest

You can invest in all our savings plans online.

New customers:

Contact our Investor Services Team

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

Email: **info@fandc.com**

Investing online: **www.fandc.com**

Existing plan holders:

Contact our Investor Services Team

Call: **0845 600 3030** (*9:00am – 5:30pm, weekdays, calls may be recorded)

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

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

Other Information

BMO A part of BMO Financial Group

F&C Management Limited is authorised and regulated by the Financial Conduct Authority FRN: 119230 and is a member of the F&C Group. The ultimate parent company of the F&C Group is the Bank of Montreal.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-fifth annual general meeting of the Company will be held at The Chartered Accountants' Hall, One Moorgate Place, London EC2 on Thursday 24 July 2014 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions 1 to 11 as ordinary resolutions:

1. To receive and adopt the Directors' report and accounts for the year ended 30 April 2014.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Remuneration Report.
4. To declare a final dividend of 5.50p per share.
5. To re-elect Andrew Adcock as a Director.
6. To re-elect Mark White as a Director.
7. To re-elect Anthony Townsend as a Director.
8. To re-elect Jane Tozer as a Director.
9. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
10. To authorise the Directors to determine the remuneration of the auditors.
11. Authority to allot shares

    THAT, in addition to any existing authority, the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or convert any security into, shares in the Company (together being "**relevant securities**") up to an aggregate nominal amount of £1,287,000 (representing approximately 10% of the issue share capital of the Company (excluding treasury shares)), during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2015 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**"); save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require relevant securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

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

12. Disapplication of pre-emption rights

    THAT, subject to the passing of resolution 11 set out above and in addition to any existing authority, the Directors be and they are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the "**Act**"), to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority given by the said resolution 11 above, for cash, and/ or to sell equity securities which are held by the Company in treasury, during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2015 or on the expiry of 15 months from the passing of this resolution (whichever is earlier), unless previously revoked, varied or extended by the Company in a general meeting (the "**relevant period**") up to an aggregate nominal amount of £1,287,000 (representing approximately 10% of the issued share capital of the Company), in each case as if section 561(1) of the Act did not apply to any such allotment or transfer; save that the Company may at any time prior to the expiry of this authority make offers or enter into agreements which would or might require equity securities to be allotted or transferred after the expiry of the relevant period and notwithstanding such expiry the Directors may allot or transfer equity securities in pursuance of such offers or agreements.

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

13. Share buyback authority

    THAT, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the "**Act**"), to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25p each in the capital of the Company ("**ordinary shares**") on such terms and in such manner as the Directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 7,721,000 or, if less, 14.99% of the number of ordinary shares in issue (excluding treasury shares) as at the date of the passing of this resolution;

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

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority hereby conferred shall expire on the date which is 15 months after the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

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

14. Treasury shares

THAT, subject to the passing of resolution 12 set out above, the Directors be and they are hereby authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to sell or transfer out of treasury equity securities for cash at a price below the net asset value per share of the existing ordinary shares in issue (excluding treasury shares) pursuant to the authority conferred by resolution 12, provided that the discount at which such equity securities are sold or transferred out of treasury is: (i) always less than the weighted average discount at which the equity securities held in treasury have been purchased; and (ii) no more than 5% of the prevailing net asset value per share (with debenture at market value).

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

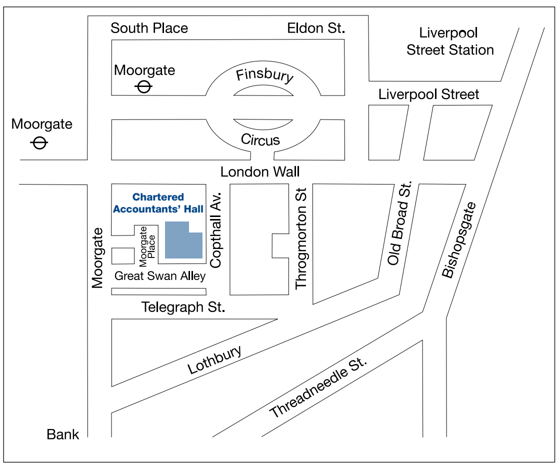
15. THAT the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next annual general meeting of the Company.

By order of the Board

F&C Management Limited	Registered office:
Secretary	Exchange House
16 June 2014	Primrose Street
	London EC2A 2NY

Notice of meeting

Location of meeting



Notice of Annual General Meeting (continued)

Notes

1. Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B of the Companies Act 2006 (the "**Act**"), the Company has specified that only those members included on the register of members of the Company at 11 p.m. on 22 July 2014 (the "**specified time**") shall be entitled to attend and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the specified time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11 p.m. on the day which is two days (excluding non-working days) before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

2. A member entitled to attend, speak and vote at the meeting may appoint one or more proxies to exercise his/her rights instead of him/her. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A form of proxy is provided to members which includes details on how to appoint more than one proxy; you may not appoint more than one proxy to exercise rights attached to any one share.

3. To be valid, the form of proxy and any power of attorney or other authority under which it is signed, or a notarially certified copy of such authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Alternatively, the form of proxy may be returned by electronic means using the CREST service as detailed below or proxy votes can be submitted electronically at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of proxy. Proxy votes must be received not less than 48 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 48 hour period).

4. 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 the Company's agent (ID number 3RA50) no later than the deadline stated above. 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 the issuer's agent is able to retrieve the message. 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. Instructions on how to vote through CREST can be found on the website www.euroclear.com/CREST.

5. Investors holding shares in the Company through the F&C plans should return forms of direction to Computershare Investor Services PLC or submit their voting directions electronically (for all F&C plans other than the pension savings plan) at www.eproxyappointment.com by entering the Control Number, Shareholder Reference Number and PIN printed on the form of direction. Voting directions must be received not less than 96 hours before the time appointed for holding the meeting (any part of a day which is a non-working day shall not be included in calculating the 96 hour period).

6. Completion and return of a form of proxy or form of direction or the submission of votes electronically will not preclude members/investors from attending and voting at the meeting should they wish to do so. On a vote on a show of hands every member attending in person (or by proxy or corporate representative) is entitled to one vote and, where a poll is called, every member attending in person or by proxy is entitled to have one vote for every share of which he is the holder.

7. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests 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 and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any person holding 3% 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 and Transparency Rules, need not make a separate notification to the Company and the Financial Conduct Authority. Any such person holding 3% or more of the voting rights in the Company who appoints a person other than the Chairman as his/her proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Act ("**Nominated Persons**"). Nominated Persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. 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 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 Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

9. This notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 13 June 2014, being the latest practicable date prior to publication of this document, and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, will be available at www.fandcglobalsmallers.com.

10. As at 13 June 2014, the latest practicable date prior to publication of this document, the Company had 51,511,102 ordinary shares in issue with a total of 51,511,102 voting rights. No shares are held in treasury.

11. In accordance with section 319A of the Act, the Company must answer any question that a member may ask relating to the business being dealt with at the meeting unless:

    (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    (b) the answer has already been given on a website in the form of an answer to a question; or

    (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

12. In accordance with section 527 of the Act, members of the Company meeting the qualification criteria set out below may require the Company to publish, on its website (without payment) a statement, which is also passed to the auditors, setting out any matter relating to the audit of the Company's accounts, including the Independent Auditors' Report and the conduct of the audit. The qualification criteria are that the Company has received such requests from either members representing at least 5% of the total voting rights of all the members who have a relevant right to vote or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the members' full names and addresses and be sent to the Company's registered office.

13. The final dividend in respect of the year ended 30 April 2014, if approved, will be paid on 15 August 2014 to holders of ordinary shares on the register at the close of business on 18 July 2014.

14. Copies of the articles of association of the Company, the register of Directors' holdings, Directors' terms of appointment letters and a deed poll in relation to Directors' indemnities are available for inspection at the registered office of the Company during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof. No Director has any contract of service with the Company.

15. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy or form of direction) to communicate with the Company for any purpose other than those expressly stated.

Glossary of Terms

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

AIC – Association of Investment Companies, the trade body for Closed-end Investment Companies.

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that certain investment vehicles ("**AIFs**") in the European Union, including Investment Trusts, must appoint a Depositary and an Alternative Investment Fund Manager ("**AIFM**") before 22 July 2014. The Board of Directors of an Investment Trust, nevertheless, will remain fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

Auditor – PricewaterhouseCoopers LLP ("**PwC**") are the external auditors to the Company.

Benchmark – the MSCI All Country World ex UK Small Cap Index (70%) and Numis UK Smaller Companies (excluding investment companies) Index (30%) is the benchmark against which the increase or decrease in the Company's net asset value is measured. The Index averages the performance of a defined selection of companies listed in stock markets around the world and gives an indication of how those markets have performed in any period. As the investments within this Index are not identical to those of the Company, the Index does not take account of operating costs and the Company's strategy does not include replicating (tracking) this Index, there is likely to be some level of divergence between the performance of the Company and the Index. Prior to 1 May 2010 the Company's Benchmark was a blended index of the returns from the MSCI All Country World ex UK Small Cap Index (60%) and the Hoare Govett UK Smaller Companies (including investment companies) Index (40%). In April 2012 the Hoare Govett UK Smaller Companies Index changed its name to the Numis UK Smaller Companies Index. The method of calculation remained unchanged.

Closed-end company – a company, including an Investment Company, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the net asset value of the company and which shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended company or Fund, which has units not traded on an exchange but issued or bought back from investors at a price directly related to net asset value.

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

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

Depositary – under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary will be strictly liable for loss of any investments or other assets in its custody and will be obliged to maintain oversight of share buy backs, dividend payments and adherence to investment limits.

Derivative – a contract between two or more parties, the value of which fluctuates in accordance with the value of an underlying security. The contract is usually short-term (for less than one year). Examples of derivatives are Put and Call Options, Swap contracts, Futures and Contracts for Difference. A derivative can be an asset or a liability and is a form of gearing because the fluctuations in its value are usually greater than the fluctuations in the underlying security's value.

Discount/Premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the net asset value (NAV) per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers of shares than buyers. Shares trading at a price above NAV per share are deemed to be at a premium. The Board of the Company tries to ensure that the shares trade at no more than a 5% discount in normal market conditions.

Distributable Reserves – Reserves distributable by way of dividend or for the purpose of buying back ordinary share capital. Company Law requires that Share Capital and the Capital Redemption Reserve may not be distributed. The Company's articles of association currently further restrict it from making distributions by way of dividend out of Capital Reserves. All dividend payments are currently made out of Revenue Reserve and the cost of all share buybacks is deducted from Capital Reserves.

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

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

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

Investment Company (Section 833) – UK Company Law allows an Investment Company to make dividend distributions out of realised distributable reserves, even in circumstances where it has made Capital losses in any year (see note 2 (a) provided the Company's assets remaining after payment of the dividend exceed 150% of the liabilities. An Investment Company is defined as investing its funds in shares, land or other assets with the aim of spreading investment risk.

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

Manager – F&C Management Limited ("**F&C**"), a subsidiary of the F&C Asset Management Group ("**FCAM**"); with effect from July 2014, the Manager will be F&C Investment Business Limited ("**FCIB**"), a fellow subsidiary of FCAM. The responsibilities and remuneration of the Manager are set out in the Business Model, Directors Report and notes 4 and 5 on the accounts.

Market capitalisation – the stock market quoted price of the Company's shares, multiplied by the number of shares in issue. If the Company's shares trade at a discount to NAV, the market capitalisation will be lower than the net asset value.

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

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

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

SSAE – Statement on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants.

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

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

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

Notes

Registered office:

Exchange House, Primrose Street, London EC2A 2NY

Tel: 020 7628 8000   Fax: 020 7628 8188

www.fandcglobalsmallers.com

info@fandc.com

Registrars:

Computershare Investor Services PLC,

PO Box 82, The Pavilions, Bridgwater Road,

Bristol BS99 7NH

Tel: 0870 889 4088   Fax: 0870 703 6142

www.computershare.com

web.queries@computershare.co.uk

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