F&C US Smaller Companies PLC

Report and Accounts

2012

Objective

The objective of
F&C US Smaller Companies PLC
is to achieve long-term capital growth
by investing in a diversified portfolio
primarily of quoted US smaller and
medium sized companies.

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

Visit the website at **www.fandcussmallers.com**

Registered in England and Wales with company registration number 02781968.

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

Financial Highlights

Summary of results

Attributable to equity shareholders	30 June 2012	30 June 2011	% Change
Net assets	**£99.25m**	£96.20m	3.2
Net assets per share	**468.32p**	464.58p	0.8
Russell 2000 Index (sterling adjusted)	**509.09**	515.39	(1.2)
Share price	**466.50p**	433.88p	7.5
Gearing/(net liquidity)*	**(5.6)%**	(3.9)%	
Increase in net asset value per share since inception on 8 March 1993			385.3
Increase since 8 March 1993 in the Russell 2000 Index (sterling adjusted)			222.8

*Calculated as loans less cash and investment debtors plus overdrafts and investment creditors at balance sheet value as a percentage of net assets.

Contents

Financial calendar

Annual general meeting	**4 October 2012**
Half-yearly results to 31 December 2012 announced	**February 2013**
Final results for 2013 announced	**September 2013**

Chairman's Statement

Gordon Grender Chairman

Dear fellow shareholders

Over the last year stock markets struggled to make progress, suffering a significant downward correction last summer. Economic growth slowed around the world and even slowed in the US last autumn before briefly gaining momentum and then flattening out again.

Performance

Against this background the Net Asset Value ("**NAV**") per share rose only slightly, gaining 0.8% to 468.3p during the twelve months to 30 June 2012. This compared to a fall of 1.2% in our benchmark, the sterling-adjusted Russell 2000 Index and a rise of 5.6% in the sterling-adjusted Standard & Poor's Composite Index.

Since inception in March 1993, the NAV per share has risen by 385.3%, whereas the sterling-adjusted Russell 2000 Index gained 222.8%. The Company's conservative investment approach has served shareholders well over the longer term.

Market review

In dollar terms, the Russell 2000 index of smaller companies lost 3.5% during the year under review. This was in contrast to other major US equity indices, which managed to achieve small gains: the Standard & Poor's Composite Index rose 3.1% and the technology-orientated NASDAQ Composite Index advanced by 5.8%.

The US stock market suffered a significant sell-off in late summer last year firstly as worries grew about the Euro crisis and secondly as the US economy showed signs of slowing. In particular the usually reliable ISM survey of manufacturing activity fell to almost 50, the level indicating no overall growth. It subsequently briefly gained momentum but has again fallen back to 50 more recently. Since last autumn, however, there has been a significant improvement in the job market as measured by weekly initial jobless claims (another usually reliable indicator). Slowing overseas economies do though appear to be having an effect on US growth.

The market was led by the healthcare, consumer staples and financial services sectors. The laggards were energy, technology and materials and processing. These moves reflect the more defensive mood of the stock market.

Discount and buybacks

The price of the shares rose by 7.5% to 466.5p over the year. The discount to NAV per share was 0.4% at the end of the period compared to 6.6% a year earlier and the average discount during the year was 2.4%. At 21 August 2012 the price stood at a premium of 1.3%.

For the third consecutive year, the Company did not buy back any shares, reflecting a relatively narrow discount for much of the last year and occasionally a share price premium to the NAV. Instead the Company used its power to issue 485,000 shares to meet demand from the market, bringing the total shares in issue to 21,192,135 at year end. The share issuance raised £2.3m and the average premium to NAV of the shares issued was 1.4%: each issue of shares during the year was at a premium. After the year end, a further 230,000 shares were issued, also at a premium to NAV. In view of this demand the Board will therefore seek shareholder authority at the annual general meeting to issue up to 10% of the Company's shares instead of the 5% level of previous years.

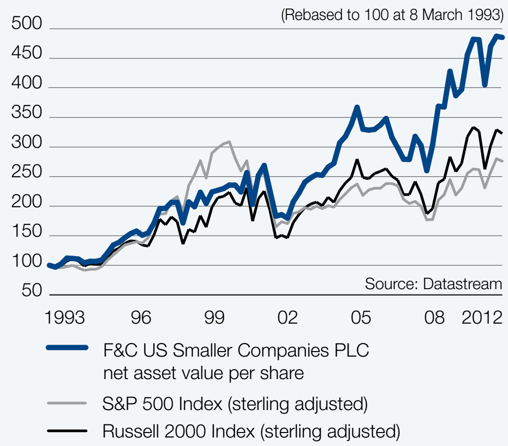
The Board will continue to apply its policy of buying back shares at appropriate times with a view to limiting the discount in the longer term to around 10%.

Foreign currency hedging policy and gearing policy

It is worth reiterating the Board's policy in relation to hedging and gearing. Although the Board has the authority to hedge out the £/$ risk for a sterling based investor, it does not routinely do so and the portfolio is not currently hedged.

The Company is not currently geared. The Board takes the view that the asset class in which the

Net asset value per share performance since launch



Company invests is sufficiently risky and it does not wish to compound this by adding the additional risk of borrowing. The Board believes that most of the Company's shareholders are conservative long-term investors and that this policy suits their needs.

Corporate governance

The Company is committed to high standards of corporate governance and the Board believes that the Company has complied with the relevant guidance in this area. More information is included in the Corporate Governance Statement on pages 21 to 25.

Annual general meeting

The annual general meeting ("**AGM**") will be held at 12.30 p.m. on Thursday 4 October 2012 and I hope that you will attend. The meeting will be held in the offices of F&C Management Limited at Exchange House, Primrose Street, London EC2A 2NY. A map showing the location is included in the Notice of Annual General Meeting on page 46.

Outlook

The US smaller company sector is an exciting one and shareholders can benefit from investing alongside some of America's most entrepreneurial managers. The US economy has recovered well from the recession but growth seems to have slowed now. Prospects should be helped by falling gasoline prices, growing energy self sufficiency and manufacturing competitiveness.

Gordon Grender
Chairman
23 August 2012

Manager's Review

In absolute terms, performance was somewhat disappointing this year as the market was held back by concerns over economic growth. Despite this, portfolio performance was better than that of the benchmark. The total number of holdings was reduced in the year with significant reductions in commodity-related stocks. Additions were made to stocks with valuable assets, which might reap good long term returns even in a slower growth environment, as well as recovery stocks.

Investment approach

The Company takes a conservative approach to investment that aims to preserve capital rather than to chase growth aggressively. This approach is not especially fashionable and will not necessarily produce good results every year but over time it should yield superior returns. The approach emphasizes taking a long term view of company prospects as well as buying when shares are cheap and have significant appreciation potential. In addition, greater attention is given to areas of the market that are out of favour or that offer low risk but steady returns. As a result the portfolio will tend to be under-represented in fashionable areas of the stock market and preference is shown instead for stocks which can offer steady (if unspectacular) returns. Examples of this are companies that can compound growth in book value per share, such as disciplined insurance underwriters.

Performance

In the last year, the NAV per share rose by 0.8% beating the Company's benchmark, the Russell 2000 Index in sterling terms, which fell 1.2%.

In the portfolio there was particularly strong performance from the longer term holding, Conn's, which returned 71%. This retailer of home appliance, furniture and consumer electronics enjoyed a rebound in sales and profitability following its 2010 rights issue and a change of management. This is in stark contrast to the performance of much of the consumer electronics retail industry. There were also good gains for the owner of mobile phone towers, SBA Communications, which made a significant acquisition and was seen as a beneficiary of the failure of AT&T's bid for T-Mobile USA. Pool Corp, the distributor of swimming pool supplies is seeing a rebound in pool remodelling. ACI Worldwide, the provider of software for electronic funds transfer, is experiencing strong business levels and also completed an important acquisition. Airgas continued to deliver strong results following its success last year in fighting off a hostile bid from Air Products. We bought back into the stock in 2011 having sold it during the bidding process.

As ever, not everything worked out as hoped. There was disappointing performance from Career Education, Devry (education), FLIR Systems (infra red vision systems), Amedisys (home nursing) and Crawford & Co (claims adjusting). We had believed the taint of industry scandals in education and home nursing had not significantly affected Career Education and Amedisys but we were wrong and in response we sold. Devry's margins were squeezed by spending to meet new regulations but we believe this is temporary and have held on. FLIR Systems is seeing declines in commercial as well as defence markets and appears to have run out of strategic options and we sold it. Crawford & Co has been affected by a decline in the more volatile legal claims administration business but we think the core claims adjusting will pick up in due course and have retained the position.

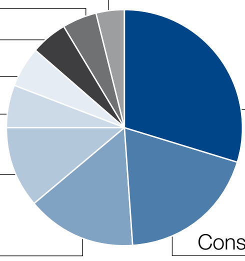
There were two bids during the year, an unsolicited bid for Prestige Brands from Genomma Labs Internacional of Mexico and an agreed bid for Knology (a cable-based communications company) from a private equity group. We sold Prestige Brands because we doubted that the bid would succeed and subsequent events proved us right as the deal fell through. Towards the year end, Lincare Holdings (home oxygen provider) rose sharply on market rumours of a bid from Linde of Germany. A bid was announced on the first trading day of July, i.e. immediately after the year end.

Portfolio

Although we bought nine new holdings in the year, more activity was concentrated on selling. One of the reasons behind the emphasis on selling was that our investment view on the commodity sector changed. In all, twelve positions were sold.

The reason for a sale is normally one of four events: a) when the original investment thesis

Industrial classification of the investment portfolio as at 30 June 2012



Source: F&C Management Limited

no longer applies; b) when the price objective is reached and substantial further gains are uncertain; c) if confidence is lost in the management or the company franchise; and d) if the stock is bid for. The sale of several commodity and commodity-related stocks falls into the first category. The investment view changed because after a ten year run in the sector, the cycle seems about to turn down. The rapid rate of growth of new supply seems now to be sufficient to meet demand. Examples of these sales were Allegheny Technologies, Arch Coal, Cal Dive International, and Intrepid Potash. In the case of CapitalSource, the stock had recovered well to fair value and we sold. FLIR Systems, mentioned above, was an example of a business where we had lost confidence in its investment strategy.

The main new purchases were split between recovery stocks, where the shares are deeply depressed compared to the business value, and "valuable assets", where the company owns an asset that can be exploited to increase overall share value. Stocks in the valuable asset category were sought out because they might be able to prosper even in a slower growth environment. In the recovery category were Grand Canyon Education, Granite Construction and Microsemi. We expect each of these to enjoy a re-rating as business conditions improve and some, such as Granite Construction, have already begun to recover since purchase. When we bought it, Granite Construction's shares were trading close to tangible book value which gave the shares downside protection. The civil construction business in which it operates is quite depressed but despite this the company is growing, implying that it is gaining market share. The balance sheet is strong with significant net cash and it has a hidden asset in the form of reserves of aggregates. A recovery in the construction market should see a much higher share price.

The valuable asset stocks we bought were Knology, Tejon Ranch and Vail Resorts. The assets that each owns are respectively: a cable-based communication network, 270,000 acres of undeveloped land in Kern County, California, and luxury ski resorts in Colorado. Knology owns a high quality cable network. In an industry renowned for indifferent quality, it has been able to increase cash flow by offering its cable customers a bundled product and superior service. We bought the shares when they were trading at significantly lower multiples of cash flow compared to private market valuations. Others agreed and the company was taken private by a private equity backed group this year.

In agriculture, in addition to the sale of Intrepid, this year we added to The Andersons (corn) after a decrease in profits but reduced Sanderson Farms (chickens) following a recovery.

It is pleasing to report that the financial health of companies held in the portfolio, as judged by recent earnings performance is good: recent quarterly reports from our largest positions have shown encouraging growth in profits or cash flow from Airgas, America's Car-Mart, Conn's, Lincare Holdings, Mohawk Industries, Pool and SBA Communications in particular.

Outlook

Predicting stock markets is very difficult and impossible to do with any certainty. The three main influences on equities are the outlook for profits growth (largely dependent on the economy), interest rates and psychology. The last two look okay: monetary policy looks set to stay easy for the future (which is good) and investor psychology is volatile (adverse investor sentiment tends to be a good sign for markets as it means that a gloomy view may already be reflected in stock prices, so that they are more likely to rise on any good news). The problem is with the first of the three, namely, the

Manager's Review (continued)

outlook for profits growth. A substantial recovery in profits has occurred since 2009 and the outlook for the economy is somewhat uncertain: policy makers seem to have little control over events given the need to reduce debt after the spending binge of the last decade. Beyond US shores, there are the additional uncertainties of a potential implosion in the Euro Zone and the end of easy export growth for China.

Fortunately for policy makers, the US seems quite well placed for the long-term given the faster growth in its work force, improving self sufficiency in energy and greater manufacturing competitiveness compared to China. Furthermore, with the right political will, there is still time to tackle the US fiscal deficit before it develops into a serious structural problem – those with long memories will recall that this happened in the mid 1990s.

The US Presidential Election will soon be upon us. Implications of the outcome of the elections for equities should not be overplayed. Statistically, there is evidence that US shares perform better under a Democratic Administration, however, business, unsurprisingly, tends to prefer the lighter regulatory touch of the Republicans. Nevertheless, it is probably fair to say that the consequences of errors in political decision making are greater now than they have been for some time.

We shall continue to apply the Company's conservative approach to investment, which has provided shareholders with good long-term returns.

Robert Siddles
F&C Management Limited
23 August 2012

Twenty Largest Equity Holdings

30 June 2012	*30 June 2011*	**Company** Description	Stock Exchange	% of total invest-ments	Value 30 June 2012 £'000s	*Value 30 June 2011 £'000s*
1	*36*	**Lincare Holdings** Lincare is the leading provider of home oxygen for the treatment of chronic obstructive pulmonary disease, a debilitating condition that is a major killer in the US. The company has very strong cash flow which it can use to bolster growth in related areas. Medicare cuts have been especially savage in home oxygen and we take the view that expectations are too negative. After 30 June 2012 the company received an agreed bid from Linde AG.	NASDAQ	2.8%	2,628	*1,689*
2	*4*	**Conn's** Conn's is a regional retailer of home appliance, furniture and consumer electronics focusing on Texas and Louisiana. It differentiates itself because it can offer store credit to customers who might not qualify for borrowing from a finance company; it has long experience in lending and insiders own 51%.	NASDAQ	2.8%	2,627	*2,161*
3	*8*	**Pool** Pool distributes swimming pool supplies. It holds a strong industry position given the fragmented nature of suppliers and customers. The company generates strong free cash flow and insiders own 6%.	NASDAQ	2.7%	2,552	*2,021*
4	*25*	**SBA Communications** SBA Communications owns and leases wireless communication towers. The industry is appealing because of high barriers to entry, recurring cash flow and increasing demand for wireless. The company should benefit from rising free cash flow and a successful acquisition strategy.	NASDAQ	2.7%	2,550	*1,758*
5	*5*	**Mohawk Industries** Mohawk Industries manufactures floor coverings. The US carpet market is an oligopoly and the company is using its cash flow to expand overseas and into other coverings such as wood and tile.	NYSE	2.7%	2,515	*2,111*
6	*3*	**America's Car-Mart** America's Car-Mart is a leading "buy here, pay here" used car dealer. Its emphasis on service and its ability to offer financing are its edge. It is benefiting from trading down by consumers. Insiders own 13% of the company.	NASDAQ	2.5%	2,357	*2,214*
7	*7*	**Airgas** Airgas distributes bottled gases. The business is attractive because of its lack of economic sensitivity and strong cash flow. Insiders own 13%.	NYSE	2.5%	2,301	*2,069*
8	*12*	**ACI Worldwide** ACI Worldwide is a leading provider of software for electronic funds transfer used by banks, retailers and credit card companies. It dominates the bank market. Regulatory change is opening up markets outside the US.	NASDAQ	2.5%	2,297	*1,897*
9	*–*	**Granite Construction** Granite Construction provides heavy civil construction services mainly to the public sector. The business is depressed, nevertheless the company has a strong balance sheet, has been gaining market share and it has a valuable hidden asset in the form of aggregates reserves.	NYSE	2.4%	2,264	*–*
10	*13*	**Alleghany** Alleghany, formerly a conglomerate, now owns specialist commercial insurers. The company has a long history of astute investments. The Kirby family still hold a stake (Fred Kirby was a co-founder of Woolworth in the 19th century) and brought in outside management to focus on insurance. Insiders own 8%.	NYSE	2.4%	2,244	*1,892*

Twenty Largest Equity Holdings (continued)

30 June 2012	*30 June 2011*	**Company** Description	Stock Exchange	% of total invest-ments	Value 30 June 2012 £'000s	*Value 30 June 2011 £'000s*
11	*20*	**Quanta Services** Quanta Services is a leading provider of contracting services to utilities. Management are very disciplined in contract bidding. The company should benefit from future investment in the US electricity grid.	NYSE	2.4%	2,224	*1,824*
12	*22*	**WR Berkley** This is a specialist property casualty insurer with a strong underwriting record. The founder, Bill Berkley Snr, owns 18% of the company.	NYSE	2.4%	2,220	*1,809*
13	–	**Grand Canyon Education** Grand Canyon Education provides online post secondary education services in the South West. Its combination of online and ground campus gives it an advantage from a cost perspective as well as being less affected by new regulations.	NASDAQ	2.3%	2,197	–
14	–	**Vail Resorts** Vail Resorts operates luxury ski resorts in the US. These generate considerable cash flow. The shares have been depressed by warm winter conditions.	NYSE	2.2%	2,093	–
15	*28*	**Rex Energy** Rex Energy is an oil and gas exploration and production company with considerable reserves in the Marcellus Shale. The company's existing oil operations provide downside protection to the shares which should benefit as its unproved reserves in the Marcellus are proved up. Insiders own 27%.	NASDAQ	2.2%	2,080	*1,729*
16	*29*	**Roper Industries** Roper Industries is a diversified industrial company that provides highly engineered products and services to niche markets such as water, energy, medical and scientific markets. Its businesses have low capital intensity and high profitability, and the company has done a good job in identifying new areas in which to invest.	NYSE	2.2%	2,073	*1,721*
17	*6*	**Flowers Foods** Flowers Foods produces baked goods. Its very efficient operations generate consistent free cash flow and it stands to benefit from industry consolidation. Insiders own 13%.	NYSE	2.2%	2,067	*2,107*
18	–	**Microsemi** Microsemi produces analogue semiconductors for high reliability applications. Analogue semis have long product lives and the company's low capital intensity means that it generates considerable free cash flow. Recent acquisitions reduce its reliance on defence markets.	NASDAQ	2.2%	2,058	–
19	*30*	**LKQ** LKQ is the leading US distributor of alternative car parts, including recycled original equipment parts. Insurance companies increasingly require the use of these parts for car repair as a means of managing the cost of insurance claims. The company uses its free cash flow to expand both geographically and into new kinds of car parts.	NASDAQ	2.1%	2,013	*1,704*
20	–	**Tejon Ranch** Tejon Ranch owns a large area of land in Kern County, 60 miles beyond the northern edge of Los Angeles. The vast majority of its land has been set aside as an environmental reserve but it has over 20,000 acres for potential development with commercial or residential use. The ultimate value through transforming this asset would be greatly in excess of that implied by the current share valuation. Insiders and the Tisch family interests own 18% of the stock.	NYSE	2.1%	2,010	–

The value of the twenty largest equity holdings represents £45.4 million (2011: £39.8 million) and 48.3% (2011: 43.0%) of the Company's total investments.

List of Investments

United States Listed investments	Stock Exchange	Holding	30 June 2012 Value £'000s
CONSUMER DISCRETIONARY			
America's Car-Mart	NASDAQ	95,345	2,357
Conn's	NASDAQ	278,626	2,627
DeVry	NYSE	86,404	1,706
Grand Canyon Education	NASDAQ	164,623	2,197
LKQ	NASDAQ	94,648	2,013
Mohawk Industries	NYSE	56,495	2,515
Pool	NASDAQ	98,921	2,552
Vail Resorts	NYSE	65,583	2,093
			18,060
CONSUMER STAPLES			
Flowers Foods	NYSE	139,562	2,067
Sanderson Farms	NASDAQ	37,512	1,096
The Andersons	NASDAQ	72,734	1,975
			5,138
ENERGY			
Rex Energy	NASDAQ	291,213	2,080
Willbros Group	NYSE	366,587	1,505
			3,585
FINANCIAL SERVICES			
Alleghany	NYSE	10,358	2,244
Cardinal Financial	NASDAQ	232,778	1,823
Crawford & Company "B"	NYSE	377,780	980
Hallmark Financial Services	NASDAQ	106,599	529
HCC Insurance Holdings	NYSE	95,930	1,920
INTL FCStone	NASDAQ	43,879	540
Markel	NYSE	6,037	1,700
Tejon Ranch	NYSE	110,166	2,010
WR Berkley	NYSE	89,504	2,220
			13,966
HEALTHCARE			
Dentsply International	NASDAQ	69,601	1,678
Harvard Bioscience	NASDAQ	434,462	1,044
Lincare Holdings	NASDAQ	121,145	2,628
			5,350
MATERIALS & PROCESSING			
Airgas	NYSE	42,956	2,301
Simpson Manufacturing	NYSE	104,664	1,969
			4,270

United States Listed investments	Stock Exchange	Holding	30 June 2012 Value £'000s
PRODUCER DURABLES			
American Railcar Industries	NASDAQ	97,935	1,692
Astec Industries	NASDAQ	100,439	1,963
CRA International	NASDAQ	120,763	1,130
FTI Consulting	NYSE	82,663	1,515
GATX	NYSE	70,573	1,732
Genesee & Wyoming "A"	NYSE	48,544	1,635
Granite Construction	NYSE	136,014	2,264
Hub Group "A"	NASDAQ	78,000	1,797
ICF International	NASDAQ	120,339	1,827
Kirby	NYSE	58,536	1,757
Orbital Sciences	NYSE	229,031	1,887
Quanta Services	NYSE	144,984	2,224
Roper Industries	NYSE	32,976	2,073
Teledyne Technologies	NYSE	41,600	1,635
Universal Truckload Services	NASDAQ	130,723	1,245
Waste Connections	NYSE	87,788	1,675
			28,051
TECHNOLOGY			
ACI Worldwide	NASDAQ	81,499	2,297
Bottomline Technologies	NASDAQ	153,762	1,766
Microsemi	NASDAQ	174,532	2,058
SBA Communications	NASDAQ	70,099	2,550
ViaSat	NASDAQ	76,800	1,849
			10,520
UTILITIES			
Atlantic Tele-Network	NASDAQ	86,256	1,851
Lumos Networks	NASDAQ	92,558	556
NTELOS Holdings	NASDAQ	74,010	889
Premiere Global Services	NYSE	303,490	1,622
			4,918
TOTAL INVESTMENTS			**93,858**

The number of companies in the portfolio is 52 (2011: 54). There are no convertible securities in the portfolio.

Management and Advisers

The management company

F&C US Smaller Companies PLC is managed by F&C Management Limited ("**F&C**" or the "**Manager**"), a wholly owned subsidiary of F&C Asset Management plc. The Manager is authorised and regulated in the UK by the Financial Services Authority. It is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

Robert Siddles

Fund Manager and Head of US Smaller Companies, responsible for the overall portfolio management and investment performance of the Company since 2001. He has 25 years of experience as a US equity fund manager.

Natalia de Sousa

Carries out the company secretarial duties of the Company on behalf of the Manager. She joined F&C in 2011.

Secretary and registered office

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

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Custodian

JPMorgan Chase Bank (the "**Custodian**"),
125 London Wall, London EC2Y 5AJ

Share registrars

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The Pavilions, Bridgwater Road,
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Shareholders can visit www.investorcentre.co.uk to sign up to access and update information relating to their holding online.

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Canary Wharf, London E14 5JP

Directors

Gordon Grender Chairman
A Director of the Company since its inception in 1993, he became Chairman in October 1998. He has been actively involved in fund management in North American stock markets since 1974. He has been the investment adviser to GAM North American Growth Fund since its inception in 1985 and is a director of GAM International Management Limited. Age 68.

Norman Bachop Senior Independent Director
Appointed to the Board in February 1999 and as Senior Independent Director on 14 June 2007. He was with Mercury Asset Management PLC and its predecessor companies for 30 years, 21 of which were spent managing US equities. Age 65.

Peter Barton Chairman of the Audit and Management Engagement Committee
Appointed to the Board in February 1998. He is a solicitor, investment banker and a deputy lieutenant of Greater London. Following a career of over 20 years as a corporate lawyer, he acquired extensive financial services experience as an investment banker with Lehman Brothers for nine years, followed by four years with Robert Fleming & Co and then nine years as a director of Alliance & Leicester plc, of which he was Deputy Chairman. He is chairman of Howard de Walden Estates Limited, Bramdean Asset Management LLP, G Martin Construction Ltd and Chelsminster Group Ltd, a director of easyGroup Holdings Ltd and a member of Oxford University Audit and Scrutiny Committee and Royal Commission for the Exhibition of 1851 Finance Committee. Age 75.

Clive Parritt
Appointed to the Board in January 2007. He is a chartered accountant with over 30 years' experience of providing strategic, financial and commercial advice to medium sized businesses. He is the chairman of DiGiCo Europe Limited, BG Consulting Group Limited and Baronsmead VCT2 plc. He is also a director of London & Associated Properties plc. He was president of the Institute of Chartered Accountants in England & Wales up to June of this year and until February 2001 was chairman of Baker Tilley, having been its national managing partner for ten years until June 1996. He has previously chaired or been a director of a number of investment trusts, VCTs and media businesses. Age 69.

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

Directors' Report and Business Review

The Directors present their Report, Business Review and the audited financial statements of F&C US Smaller Companies PLC for the year ended 30 June 2012. The financial statements are set out on pages 28 to 42.

Results and dividends

The Company's net asset value per share increased by 0.8% in the year ended 30 June 2012, compared to a decrease of 1.2 % in the sterling adjusted Russell 2000 Index (the "**benchmark**"). The Manager's Review on pages 4 to 6, which forms part of this Business Review, describes the background to this performance and the outlook for the current financial year. The Directors' Remuneration Report and the Corporate Governance Statement are incorporated by reference into this Directors' Report and Business Review.

The net assets of the Company as at 30 June 2012 were £99.25 million. The Company has a revenue reserve deficit and no dividend is recommended for payment on the ordinary shares.

Principal activity and status

The Company is an investment company as defined by section 833 of the Companies Act 2006 (the "**Act**"). It analyses its income between revenue, which is available for distribution by way of dividends, and capital, which it is prohibited from distributing other than by way of share buybacks. The Company is registered in England and Wales with company registration number 02781968 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 by way of a special resolution.

Duration of the Company

In accordance with the articles of association, a continuation vote is proposed at every third AGM. The next such vote will be in 2014.

Investment trust taxation status

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158 of the Corporation Tax Act 2010 ("**section 1158**"). Such compliance, for years ended on or before 30 June 2012, included investing no more than 15% of the total portfolio in any one investment, deriving income wholly or mainly from shares and securities and retaining no more than 15% of that income. For the year ended 30 June 2012, and prior years, the exemption from taxation on capital gains is granted annually in retrospect by HM Revenue and Customs. The Company has qualified as an investment trust under section 1158 for all years up to and including the year ended 30 June 2011 and has conducted its affairs in the year ended 30 June 2012 so as to comply with the rules.

For years beginning on or after 1 January 2012, compliance approval can be sought in advance, under sections 1158 and 1159, for that and all subsequent financial years. The Company intends to conduct its affairs so as to enable it to apply for Investment Trust status in advance.

Accounting and going concern

The financial statements, starting on page 28, comply with current UK financial reporting standards, supplemented by the Statement of Recommended Practice for Investment Trust Companies ("**SORP**"). The significant accounting policies of the Company are set out in note 2 on the accounts. The unqualified auditors' opinion on the financial statements appears on page 27. The Company's investment objective, strategy and policy, which are described below and are subject to a process of regular Board monitoring, are designed to ensure that the Company is invested mainly in readily realisable, listed securities and that the level of borrowings is restricted. The Company retains title to all assets held by the Custodian. Cash is held with banks approved and regularly reviewed by the Manager.

Note 21 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, the rates of exchange of the US dollar against sterling and changes in market rates of interest.

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

Independent auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors 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.

PwC have indicated their willingness to continue in office as auditors to the Company and resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Investment objective, strategy and policy

The Company's investment objective is to achieve long-term capital growth by investing in a diversified portfolio primarily of quoted US smaller and medium sized companies. The Board believes that this sector is a diverse and dynamic part of the North American market and continues to provide opportunities for capital growth over the long term. At the same time it considers the structure of the Company as a UK listed investment trust, with a fixed capital and an independent Board of Directors, to be well suited to investors seeking longer term returns from this sector.

The Board recognises that by its nature the US smaller companies sector can be a risky asset class in which to invest. The sector is highly diversified with a great many companies from which to choose. Many companies are relatively immature, whether financially or operationally or in terms of management or market position, highly geared to growth and are particularly vulnerable to market and other changes. Against this background, the Company has adopted a disciplined and relatively conservative investment style that focuses on companies with a strong franchise, free cash flow, insider ownership by management and whose shares are considered by the Manager to be cheap at the time of investment. Whilst shares in these companies will not always be the best performing, the Directors believe that this is an excellent approach to long-term investment in this sector and one which has produced good results since the Company was launched in 1993.

The Company's objective is achieved through diversification of holdings across a variety of economic/industrial sectors. A full list of investments by sector is included on page 9.

No more than 10% of the total assets of the Company may be invested in other UK listed investment companies (including investment trusts) except in such other UK listed investment companies which themselves have stated that they will invest no more than 15% of their total assets in other UK listed investment companies, in which case the limit is 15%.

The Company can borrow money so long as the level of borrowings does not exceed the lower of £10 million or an amount equal to the adjusted capital reserves as set out in the Company's articles of association. The Company is not currently geared.

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

Capital structure

As at 30 June 2012 there were 21,192,135 ordinary shares of 25p each in issue. 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 to which the Company is party that affects its control following a takeover bid. Details of the capital structure can be found in note 12 on the accounts. To the extent that they exist, 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 Company has, conditional upon shareholder approval, authority to allot shares for cash without first offering them to existing shareholders in proportion to their existing holdings. Any such allotments are only made when the Company's shares are trading at a premium to NAV.

Directors' Report and Business Review (continued)

At the AGM held on 29 November 2011, shareholders renewed the Board's authority to issue up to 5% of the Company's shares (1,035,356 shares). In order to satisfy demand for the Company's shares, mainly from holders through the F&C savings plans, the Company allotted 485,000 shares under this authority in the year under review. A further 230,000 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. In order to manage potential discount volatility, the Board has a policy of buying back shares when it considers it to be appropriate with a view to limiting the share price discount to NAV per share in the longer term to around 10%. Shares will only be purchased when the Board considers this will enhance shareholder value. At the AGM held on 29 November 2011 shareholders gave the Board authority to buy back up to 3,103,999 shares during the following 15 months. No shares were purchased for cancellation by the Company either during the year under review or since the year end to the date of this report. The Board closely monitors the discount, the historic levels of which are shown in the table on page 43. The discount at 30 June 2012 was 0.4%.

Marketing

The Manager actively promotes investment in the Company's shares through the F&C savings plans. These include the Child Trust Fund ("**CTF**"), Children's Investment Plan ("**CIP**"), Individual Savings Account ("**ISA**"), Pensions Savings Plan ("**PSP**"), Private Investor Plan ("**PIP**") and Junior ISA ("**JISA**"). The plans are designed to provide investors with a cost effective and flexible way to invest in the Company.

Meetings are also regularly held with current and potential new shareholders and with stockbroking analysts who cover the investment trust sector.

Voting rights and proportional voting

At 30 June 2012 the Company's 21,192,135 ordinary shares in issue represented a total of 21,192,135 voting rights. As at that date the Company had received notification of the following holding of voting rights, under the FSA's Disclosure and Transparency Rules; since then there have been no further notifications:

	%
Foreign & Colonial Investment Trust PLC	17.9

The percentage is calculated by applying the holding notified to the Company to the aggregate voting rights in respect of the issued ordinary share capital as at 21 August 2012.

Approximately 27% of the Company's share capital is held on behalf of non-discretionary clients through the F&C savings plans. 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 received from 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 14,000 shares that any one individual investor can vote, being approximately 5% of the minimum threshold, also applies. Any shares voted by an investor in excess of the maximum limit remain valid, but do not form part of the proportional voting basis. Planholders have the right to exclude their shares from the proportional voting arrangement.

Principal risks and their management

Like all businesses, the Company faces risks and uncertainties. The Corporate Governance Statement includes a summary of the risk management arrangements on pages 24 and 25. By means of the procedures set out in that summary, and in accordance with the Turnbull Guidance, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and has regularly reviewed the effectiveness of the internal control systems for the period. This process has been in place throughout the year under review, and to the date hereof, and will continue to be regularly reviewed by the Board.

The principal risks and uncertainties faced by the Company, and the Board's mitigation approach, are described below and note 21 on the accounts sets out the specific financial risks, including liquidity and counterparty risks:

- Market – the Company's investments consist of quoted equity securities and it is therefore exposed to movements in the price of individual securities and the market generally. The large number of investments held and the sector diversity of the portfolio enable the Company to spread its risks with regard to individual companies and sectors, but a significant fall in US equity markets could have an adverse impact on the value of the Company's investment portfolio. The Board recognises that by its nature the US smaller companies sector can be a risky asset class to invest in and has adopted a disciplined and relatively conservative investment style that it considers appropriate to long-term investment in this sector.

- Investment strategy – inappropriate investment strategy or ineffective implementation of this strategy could result in poor returns for shareholders and a widening of the discount of the share price to the NAV per share. The Board periodically reviews the investment strategy and regularly monitors the Company's investment portfolio and the investment selection, performance and operations of the Manager.
- Investment management resources – the quality of the management team is a crucial factor in delivering good performance and loss by the Manager of key staff could adversely affect investment returns. The Manager has training and development programmes in place for its employees and develops its recruitment and remuneration packages in order to retain key staff.
- Service providers – administrative errors or control failures by or between service providers could be damaging to the interests of investors and the Company. The Board receives regular reports from the Manager on its oversight of service providers which, for the administration of the F&C savings plans, includes audit site visits; monthly technical compliance monitoring; monthly service delivery meetings; quarterly financial crime prevention forums; and the detailed review and investigation of breaches and complaints. Arrangements are also in place to mitigate other service provider risks, including those relating to safe custody and the Manager's outsourced operational platform and its counterparties.
- Regulation – failure to comply with applicable legal and regulatory requirements could result in the Company losing its listing and/or being subject to corporation tax on its capital gains. The Board reviews regular reports from the Manager on the controls in place to ensure compliance by the Company with rules and regulations. The Board also receives regular investment valuations and income forecasts as part of its monitoring of compliance with the provisions of section 1158.

The Board's responsibilities

The Board of non-executive Directors, whose appointment is approved by shareholders, is charged with ensuring that the Company complies with its objectives and the various rules and regulations. Further information on the role and powers of the Board is contained in the Corporate Governance Statement on pages 21 to 25. Information on the individual Directors, all of whom are resident in the UK and have held office throughout the year under review and to the date of this report, is set out on page 11.

Directors' remuneration

The Directors' Remuneration Report on page 20 and note 5 on the accounts provide detailed information on the remuneration of the Directors. Shareholders will be asked to approve the Directors' Remuneration Report at the AGM. The Directors' remuneration is not conditional upon the resolution being passed.

Directors' re-election

It is the Company's policy for all Directors to stand for re-election annually. Following a review of their performance, the Board believes that each of the Directors has made and is expected to continue to make a relevant and significant contribution to your Company and individually maintains an attitude of rigorous independence and challenge. The Board 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 extent permitted by law, 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

Directors' Report and Business Review (continued)

for negligence, default or breach of trust or duty. The deed 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.

It is compulsory for all Directors to hold shares in the Company. The beneficial interests of the Directors in the ordinary shares of the Company were as follows:

Directors' interests

at 30 June	2012	2011
Mr G D Grender	**18,000**	18,000
Mr N M Bachop	**10,000**	10,000
Mr M P S Barton	**7,500**	5,000
Mr C A Parritt	**7,000**	7,000

There have been no changes in any of the Directors' interests in shares 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.

The Manager's responsibilities

In common with most investment trusts, the Company does not have any employees. The Company has appointed F&C as Manager with responsibility for the day-to-day management of the investment portfolio and for carrying out administrative, accounting, secretarial and marketing activities on its behalf. F&C is a subsidiary of F&C Asset Management plc, an independent investment firm listed on the London Stock Exchange. The appointment is governed by a management agreement which may be terminated upon six months' notice given by either party. Further information on the management agreement is set out in note 4 on the accounts.

Investment selection and monitoring is undertaken by the Fund Manager, Robert Siddles, who specialises in US smaller companies with support from F&C analysts and research teams. Assessing the quality of management of investee companies through meetings is an important part of the investment process. Extensive work is also done on analysing potential investments for their market positioning and competitive advantage, financial strength and cash flow characteristics. Various valuation benchmarks are used to assess the potential attractiveness of investment opportunities and to set price targets for the individual stocks.

The Board believes that individual fund managers holding shares in the companies that they manage is a positive indicator of their conviction in those companies. Robert Siddles held 18,040 shares in the Company as at 30 June 2012.

Safe custody of assets

The Company's investments are held in safe custody by the Custodian. Operational matters with the Custodian are carried out on the Company's behalf by the Manager in accordance with the provisions of the management agreement.

Responsible ownership

F&C's stated belief is that good governance creates value and therefore it takes a particular interest in corporate governance and sustainable business practices. This includes the integration of environmental, social and governance issues into its investment decisions. It votes all of the Company's shares whenever possible and engages with companies on corporate governance matters to encourage good practice. This includes engagement on significant social and environmental issues where these may impact shareholder value. F&C's statement of compliance with the UK Stewardship Code is included on the website www.fandc.com/ukstewardshipcode.

The Manager's fee

A quarterly management fee equal to 0.20% of the funds under management is payable in arrears to the Manager in respect of the management, administration and ancillary services provided to the Company. In addition, the Manager is eligible for a performance-related fee, charged through capital reserves, of 5% of any annual out-performance by the NAV per share of "target performance", defined as a margin of 2% over the Russell 2000 Index (both converted to sterling). No performance fee was payable for the year under review (2011: £nil).

Creditor payment policy

The Company's principal supplier is the Manager, the payment terms for which are set out above and in note 4 on the accounts. Other suppliers are paid in accordance with individually agreed payment terms. At 30 June 2012, the Company's outstanding trade creditors were equivalent to nil days' payment to suppliers (2011: seven days).

Key performance indicators

The Board uses the following key performance indicators ("**KPIs**") to help assess progress against the Company's objectives:

- NAV per share return compared to benchmark return in sterling.
- Share price return compared to benchmark return in sterling.
- Share price discount to NAV.

The following tables, the Ten Year Record on pages 43 and 44 and the Manager's Review on pages 4 to 6 show how the Company has performed against these KPIs.

Performance to 30 June 2012

	1 Year	3 Years	5 Years
Company NAV per share return %	0.8%	60.0%	39.4%
Company share price return %	7.5%	84.0%	55.2%
Benchmark return* %	(1.2)%	64.9%	22.5%

* Benchmark – Russell 2000 Index sterling adjusted
Source: F&C Management Limited and Datastream

Discount

At 30 June	%
2012	0.4
2011	6.6
2010	5.0
2009	13.4
2008	8.8

Source: F&C Management Limited

Investment performance is measured primarily against the Russell 2000 Index, adjusted to sterling, which measures the performance of 2,000 US smaller companies with capitalisations ranging between approximately US$125 million and US$3.3 billion.

Manager's evaluation and re-appointment

The review of the Manager's performance is an ongoing duty and responsibility of the Board which is carried out at every Board meeting, with a formal evaluation taking place each year. This evaluation takes into consideration the Company's investment record over short and long-term periods and the performance, competence and resources of the Manager, both as a management company and with regard to the fund management team led by Robert Siddles. Following the 2012 evaluation, the Board is satisfied with the long-term performance of the Company and with the way it is currently managed. On the basis of this review, and that carried out by the Audit and Management Engagement Committee in respect of other services provided by, and the contractual arrangements with, the Manager, it is the Board's opinion that the continuing appointment of the Manager on the terms agreed is in the best interests of shareholders as a whole.

Annual general meeting

The AGM will be held on Thursday 4 October 2012 at 12.30 p.m. at Exchange House, Primrose Street, London EC2. The Notice of Annual General Meeting appears on pages 45 to 47 and includes a map of the venue. Robert Siddles 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 and shareholders will be able to meet the Directors and Mr Siddles more informally over refreshments following the meeting. Resolutions numbered 9 to 11 are explained below.

Authority to allot shares (resolution 9)

Resolution 9 is similar in content to the authority 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 without first offering them to existing shareholders in proportion to their holdings. Resolution 9 gives

Directors' Report and Business Review (continued)

the Directors, for the period until the conclusion of the AGM in 2013, the necessary authority to allot securities up to an aggregate nominal amount of £535,500 (2,142,000 ordinary shares). This is equivalent to approximately 10% (2011: 5%) of the issued share capital of the Company at 21 August 2012. The Company is seeking a higher level of authority than in 2011 in view of the prevailing high level of demand for the Company's shares. It also empowers the Directors to allot such securities for cash, other than to existing shareholders on a pro-rata basis. This authority and power provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders.

The Directors anticipate that they will, if necessary, use this authority to satisfy demand from participants in the F&C savings 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 the authority and power to dilute the interests of existing shareholders by issuing shares at a price which is less than the NAV attributable to the shares at the time of issue.

Authority for the Company to purchase its own shares (resolution 10)

Resolution 10 authorises the Company to purchase up to a maximum of 3,211,000 ordinary shares (equivalent to approximately 14.99% of the issued share capital) 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. The Directors intend to use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing NAV per ordinary share which would have the effect of increasing the NAV per ordinary share for remaining shareholders. Any ordinary shares that are purchased would be cancelled.

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 AGMs.

Notice period for meetings (resolution 11)

The Act and the Company's articles of association provide that all general meetings (other than AGMs) 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. Your 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 AGM) to be called on 14 clear days' notice. The passing of resolution 11 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 AGM) 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 AGMs.

Form of proxy

Registered shareholders will find enclosed a form of proxy for use at the AGM. Please complete, sign and return the form of proxy, either in the envelope provided or by electronic means, as soon as possible in accordance with the instructions whether or not you intend to be present at the AGM. This will not preclude you from attending the AGM 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 plans you will find enclosed a form of direction for use at the AGM. The Manager operates a proportional voting arrangement, which is explained on page 14.

All voting directions should be submitted so as to be received not later than 96 hours (any part of a day which is a non-working day shall not be included in calculating the 96 hour period) before the time appointed for holding the AGM so that the nominee company can submit a form of proxy before the 48 hour period begins.

Recommendation

Your Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors recommend 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
F&C Management Limited
Secretary
23 August 2012

Directors' Remuneration Report

The Company's articles of association limit the aggregate fees payable to the Board of Directors to a total of £100,000 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 Chairman receives a fee of £20,000 per annum and the remaining Directors receive a fee of £12,000 per annum. In addition, the Chairman of the Audit and Management Engagement Committee, Mr Barton, receives a fee of £5,000 per annum and the other committee members each receive a fee of £2,500 per annum.

The amounts paid to each individual Director, which were for services to the Company solely in the capacity of non-executive Directors and have no performance related element, are set out in the table below. Following twelve years of no change to the level of remuneration, the Board has decided to increase Directors' fees with effect from 1 July 2012, as follows: Chairman £25,000 per annum; and remaining Directors £14,500 per annum.

Additional fees in respect of Audit and Management Engagement Committee responsibilities remain unchanged.

Fees for services to the Company

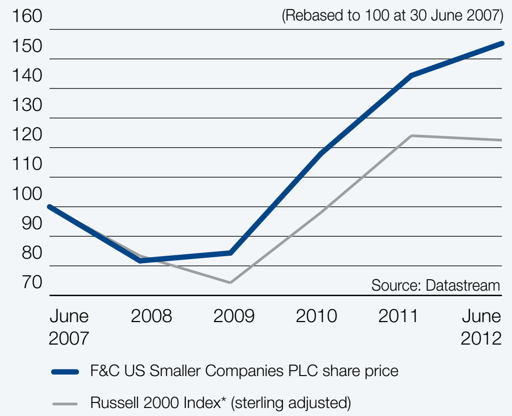
Director	Year ended 2012 £	2011 £
Mr G D Grender (Chairman and highest paid Director)	**22,500**	22,500
Mr N M Bachop	**14,500**	14,500
Mr M P S Barton (Chairman of the Audit Committee)	**17,000**	17,000
Mr C A Parritt	**14,500**	14,500
Totals	**68,500**	68,500

The information in the above table has been audited.

No Director past or present has any entitlement to pensions and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Shareholders will be asked to approve this Directors' Remuneration Report at the annual general meeting.

Total shareholder return over five years



* As the Manager's performance is measured against the Russell 2000 Index, this benchmark has been shown.

By order of the Board
F&C Management Limited
Secretary
23 August 2012

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**") issued in October 2010. 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, led by the Chairman, 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 five 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 table below sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in November 2011.

Directors' attendance

	Board	Audit and Management Engagement Committee
Number of meetings	5	2
Mr G D Grender	5	2
Mr N M Bachop	4	1
Mr M P S Barton	5	2
Mr C A Parritt	5	2

Committees of the Board met during the year to undertake business such as the approval of the Company's interim management statements and results.

Each Director has a signed letter of appointment to formalise the terms of his engagement as a non-executive Director. These are available for inspection at the Company's registered office during normal business hours and at annual general meetings.

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

* 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.

Corporate Governance Statement (continued)

issuing and buying back the Company's shares are explained on pages 13 and 14.

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 ten. Directors may be appointed by the Company by ordinary resolution or by the Board. Appointments of new Directors will be made on a formal basis with the Chairman agreeing a job specification and other relevant selection criteria and the method of recruitment, selection and appointment with his colleagues. The potential Director will meet with the Board prior to formal appointment. 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 annually. Each Director's appointment is reviewed prior to submission for re-election, which includes consideration of independence. An induction process is in place for new appointees. Individual Directors maintain their knowledge and awareness of the investment trust sector and governance best practice through attendance of seminars and workshops and regular review of relevant information material.

Board effectiveness

In order to review the effectiveness of the Board, its committees and the individual Directors, the Board carries out a process of formal annual self-appraisal. This is facilitated by the completion of a questionnaire and interviews with the Chairman and includes a review of each individual Director's training needs. The appraisal of the Chairman is carried out by the Board under the leadership of the Senior Independent Director, Mr Bachop. 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 and building on and improving collective strengths. 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 ordinary 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 ceases to be a Director if

(i) he gives the Board a written notice of resignation;

(ii) by reason of a Director's mental health, a court makes an order that requires the Board to resolve that his office be vacated;

(iii) a bankruptcy order is made against him or he makes any arrangement or composition with his creditors generally;

(iv) he is prohibited from being a Director by law or is removed pursuant to the articles of the Company; or

(v) he is absent from Board meetings for six consecutive months without permission and the other Directors resolve that his office should be vacated.

Independence of Directors

The Board regularly reviews the independence of its members in accordance with current guidelines. 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. No limit on the overall length of service of any of the Directors, including the Chairman, has been imposed. The Board believes that its four non-executive Directors, including Mr Bachop, Mr Barton and Mr Grender who have served for over nine years, are independent in character and judgement, with no relationships or circumstances relating to the Company or the Manager likely to alter this position.

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 Company's Directors.

Other than the formal authorisation of the Directors' other directorships and appointments and their holdings in some of the investee companies as situational conflicts, no authorisations have been sought. These authorisations were reviewed in August 2012.

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 from a discussion or abstain from voting because of a conflict of interest.

Board committees

As the Board is formed entirely of independent non-executive Directors and is small in size, it operates without a nomination committee.

As the Company has no executive Directors and no employees, neither does it have a remuneration committee. The Directors' Remuneration Report on page 20 provides information on the remuneration arrangements for the Directors of the Company.

The Board has established an Audit and Management Engagement Committee. Its terms of reference are available on the website www.fandcussmallers.com and on request.

Audit and Management Engagement 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 half-yearly accounts and the internal control and risk management processes. All the Directors are members of the committee and its terms of reference can be found on the website at www.fandcussmallers.com. All the committee members are independent non-executive Directors. Peter Barton, the chairman of the committee, was a corporate lawyer who also gained extensive financial services experience as an investment banker. The other committee members have relevant financial experience and include a past president of the ICAEW (Institute of Chartered Accountants in England and Wales). The committee has direct access to PwC; the Head of Internal Audit of the Manager; the Chief Risk Officer of the Manager and to the Manager's group audit committee and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to external financial statements and other significant published financial information.

The committee met on two occasions during the year with the Manager's Head of Trust Accounting, Head of Internal Audit and the Fund Manager in attendance. PwC attended the year end committee meeting. PwC also met in closed session with the committee. In carrying out its responsibilities the committee has considered the planning, arrangements and conclusions of the audit for the period under review. In February 2012 the committee considered and approved PwC's plan for the full year audit. The Board approved PwC's report, as submitted to the committee at its meeting in August 2012, in which they had highlighted the following areas of focus:

- Valuation and existence of investments.
- Accuracy and completeness of investment accounting entries.
- Recognition of income from the underlying investments.
- Foreign exchange gains/losses.
- Accuracy of the performance fee calculation.
- Correct disclosure of Directors' remuneration.
- Accuracy and disclosure of expenses.
- Taxation charge and maintenance of section 1158 status.
- Current assets and liabilities fairly stated.
- Cash balances and borrowings and calculation of interest.
- Compliance with financial statements and Business Review reporting requirements.
- Compliance with the relevant corporate governance codes.
- The Manager's procedures relating to fraud and the prevention of material misstatement of the financial statements.

PwC confirmed at the meeting that they had no reason not to issue an unqualified audit report in

Corporate Governance Statement (continued)

respect of the financial year ended 30 June 2012. The unqualified audit report can be found on page 27 .

At each of its meetings the committee receives an internal audit and compliance monitoring report from the Manager. The committee has received and reviewed the Report referred to under "Internal controls and management of risk" below and an annual compliance report. 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 Board.

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

- The audited results statements, 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 reports or their equivalent from the Custodian;
- The performance of the Manager and the fees charged;
- The analysis of other expenses; and
- The committee's terms of reference.

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.

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 recognised the necessity for the Manager and the Company to use different audit firms and 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 tenure over many years 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. Following professional guidelines, the engagement partner rotates after five years and this is the third year for the current partner. On the basis of this assessment, the committee has recommended the continuing appointment of PwC to the Board. Their performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

The committee has also reviewed the provision of non-audit services, which cost £4,150 in the year under review, and considers them to be cost effective and not to compromise the independence of PwC. The non-audit services were in relation to taxation advice. 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 5 on the accounts.

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. These controls 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, reputational, compliance and overall risk management, is exercised by the Board 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 other management issues. The Manager's internal audit department prepares a control report that provides details of any significant internal 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 principal risks are set out on pages 14 and 15, with details of financial risks given in note 21 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 mis-statement, loss or fraud.

The Board has carried out a risk and control assessment, which has not identified any issues. This included 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 2011 (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. 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 be reported to the Board. No significant failings or weaknesses in respect of the Company were identified in the year under review or to the date of this report.

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 also available on the www.fandcussmallers.com website.

All beneficial shareholders in the F&C savings plans have the right to attend, speak and vote at general meetings. The Manager has stated that the nominee company will vote the shares held on behalf of planholders who have not returned their voting directions in proportion to the directions of those who have.

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

A regular dialogue is maintained with the Company's institutional shareholders and private client asset managers through the Manager. Regular reports are made to the Board on any such contact and the views and attitudes of shareholders and the level and nature of any complaints received from investors. The Chairman and the Senior Independent Director are available to meet with major shareholders, although no meetings were held in the year under review.

Shareholders wishing to communicate with the Chairman, the Senior Independent Director or other members of the Board may do so by writing to the Secretary at the registered office address as detailed on page 10.

By order of the Board
F&C Management Limited
23 August 2012

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

The financial statements are published on the www.fandcussmallers.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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 11, confirms that, to the best of his knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board
Gordon Grender
Chairman
23 August 2012

Independent Auditors' Report

Independent Auditors' Report to the members of F&C US Smaller Companies PLC

We have audited the financial statements of F&C US Smaller Companies PLC for the year ended 30 June 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, 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 International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2012 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 12, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code, specified for our review.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
London
23 August 2012

Income Statement

Revenue notes	Capital notes	for the year ended 30 June	2012 Revenue £'000s	2012 Capital £'000s	2012 Total £'000s	2011 Revenue £'000s	2011 Capital £'000s	2011 Total £'000s
	8	Gains on investments	–	1,048	1,048	–	19,562	19,562
	16	Foreign exchange losses	–	(34)	(34)	–	(167)	(167)
3		Income	902	–	902	623	–	623
4		Management fee	(744)	–	(744)	(726)	–	(726)
5	16	Other expenses	(300)	(3)	(303)	(298)	(4)	(302)
		Net return on ordinary activities before taxation	(142)	1,011	869	(401)	19,391	18,990
6		Taxation on ordinary activities	(135)	–	(135)	(87)	–	(87)
7	7	**Net return attributable to equity shareholders**	(277)	1,011	734	(488)	19,391	18,903
7	7	**Return per share – pence**	(1.33)	4.85	3.52	(2.36)	93.64	91.28

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 June 2012	Called-up share capital £'000s	Share premium account £'000s	Non-distributable reserve £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
Balance at 1 July 2011	**5,177**	**2,468**	**841**	**8,175**	**81,407**	**(1,867)**	**96,201**
Movements during the year ended 30 June 2012							
Shares issued by the Company	**121**	**2,192**	**–**	**–**	**–**	**–**	**2,313**
Net return attributable to equity shareholders	**–**	**–**	**–**	**–**	**1,011**	**(277)**	**734**
Balance at 30 June 2012	**5,298**	**4,660**	**841**	**8,175**	**82,418**	**(2,144)**	**99,248**
for the year ended 30 June 2011							
Balance at 1 July 2010	5,177	2,468	841	8,175	62,016	(1,379)	77,298
Movements during the year ended 30 June 2011							
Net return attributable to equity shareholders	–	–	–	–	19,391	(488)	18,903
Balance at 30 June 2011	5,177	2,468	841	8,175	81,407	(1,867)	96,201

Balance Sheet

Notes	at 30 June	£'000s	2012 £'000s	£'000s	2011 £'000s
	Fixed assets				
8	Listed investments		93,858		92,630
	Current assets				
9	Debtors	95		522	
	Cash at bank and short-term deposits	5,675		3,441	
		5,770		3,963	
10	**Creditors: amounts falling due within one year**	(380)		(392)	
	Net current assets		5,390		3,571
11	**Net assets**		99,248		96,201
	Capital and reserves				
12	Called-up share capital		5,298		5,177
13	Share premium account	4,660		2,468	
14	Non-distributable reserve	841		841	
15	Capital redemption reserve	8,175		8,175	
16	Capital reserves	82,418		81,407	
16	Revenue reserve	(2,144)		(1,867)	
			93,950		91,024
	Total shareholders' funds		99,248		96,201
17	**Net asset value per share – pence**		468.32		464.58

Approved by the Board on 23 August 2012
and signed on its behalf by:

Gordon Grender, Chairman

Cash Flow Statement

Notes	for the year ended 30 June	£'000s	2012 £'000s	£'000s	2011 £'000s
	Operating activities				
	Investment income received	732		498	
	Interest received	3		3	
	Fee paid to management company	(739)		(688)	
	Fees paid to Directors	(69)		(69)	
	Other payments	(224)		(209)	
18	**Net cash outflow from operating activities**		(297)		(465)
	Return on investment and servicing of finance				
	Purchases of investments	(22,601)		(29,437)	
	Sales of investments	22,856		32,478	
	Other capital charges and credits	(3)		(4)	
	Net cash inflow from investment and servicing of finance		252		3,037
	Net cash (outflow)/inflow before use of liquid resources and financing		(45)		2,572
	Financing				
	Issue of ordinary shares		2,313		–
	Management of liquid resources				
	Increase in short-term deposits		(2,144)		(2,388)
19	**Increase in cash**		124		184

Notes on the Accounts

1. GENERAL INFORMATION

F&C US Smaller Companies PLC is an investment company incorporated in the United Kingdom with a premium listing on the London Stock Exchange. The Company registration number is 02781968 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 ("CTA"). The Company has qualified as an investment trust in respect of all relevant years up to and including the year ended 30 June 2011. Such approval exempts the Company from UK corporation tax on gains realised in the relevant year on its portfolio of fixed asset investments.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have not been changed and have been applied consistently during the year ended 30 June 2012, are stated below:

(a) Basis of accounting

The accounts of the Company are prepared on a going concern basis under the historical cost convention, modified to include fixed asset investments at fair value through profit or loss and in accordance with the Companies Act 2006, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in January 2009.

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

In accordance with the SORP, the Income Statement has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income, operating expenses and tax. Net revenue returns are allocated via the revenue account to the revenue reserve, out of which dividend payments may be made. Capital returns include, but are not limited to, profits and losses on the disposal and revaluation of fixed asset investments and currency profits and losses on cash and borrowings. Net capital returns may not be distributed by way of dividend and are allocated via the capital account to the capital reserves.

(b) Principal accounting policies

(i) Financial instruments

Financial instruments include fixed asset investments, derivative assets and liabilities and long-term debt instruments. Accounting standards recognise a hierarchy of fair value measurements for financial instruments 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.

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 recently suspended, forward exchange contracts and certain other derivative instruments.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, 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 instruments. Included within this category are unquoted investments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Fixed asset investments

As an investment trust, the Company measures its fixed asset investments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments 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.

(iii) 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, 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 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.

(iv) 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.

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.

(v) 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 are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve – arising on investments sold via the capital account; and
- performance fees insofar as they relate to capital performance are allocated to capital reserve – arising on investments sold.

All expenses are accounted for on an accruals basis. Finance charges are accrued using the effective interest rate method.

(vi) Taxation

Deferred tax is provided in accordance with Financial Reporting Standard 19 "Deferred Tax", on an undiscounted basis, on all timing differences that have originated but not reversed by the balance sheet date, based on the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

(vii) 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.

Notes on the Accounts (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(viii) Capital reserves

Capital reserve – arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the realisation of fixed asset investments;
- realised foreign exchange differences of a capital nature;
- performance fee payable to the Manager;
- 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
- the costs of purchasing ordinary share capital.

Capital reserve – arising on investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of fixed asset investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

3. INCOME

	2012 £'000s	2011 £'000s
Overseas dividends	899	582
Overseas scrip dividends	–	38
Interest on cash and short-term deposits	3	3
Total income	902	623

4. MANAGEMENT FEE

	Revenue £'000s	Capital £'000s	2012 Total £'000s	Revenue £'000s	Capital £'000s	2011 Total £'000s
Management fee – basic	744	–	744	726	–	726
Performance fee	–	–	–	–	–	–
	744	–	744	726	–	726

The Manager provides investment management, marketing and general administrative services to the Company for a quarterly management fee payable in arrears equal to 0.20% of the funds under management.

The Manager is also eligible for a performance-related management fee, charged through the capital account, of 5% of any annual out-performance by the net asset value ("NAV") per share of "target performance", defined as a margin of 2% over the Russell 2000 Index (in both cases converted to sterling). If the NAV per ordinary share performance (adjusted to exclude the relevant performance-related fee) exceeds the target, the performance-related fee is payable on the excess. If the NAV per ordinary share underperforms the Russell 2000 Index by 2% or more, the under-performance will be carried forward and no further performance-related fee will be payable until the NAV per ordinary share has both recovered the accumulated under-performance and exceeded the target performance for the year. The maximum performance-related fee which may be payable in respect of any year is 0.7% of gross assets.

No performance fee was payable (2011: £nil) as the NAV per ordinary share did not exceed the target performance for the year.

The management agreement may be terminated upon six months' notice given by either party.

5. OTHER EXPENSES

	2012 £'000s	2011 £'000s
Auditors' remuneration:		
– for audit services	25	25
– for taxation services	4	2
Directors' emoluments:		
– fees for services to the Company (see Directors' Remuneration Report on page 20)	69	69
Directors' and Officers' liability insurance	11	10
Printing and postage	34	31
Private investor plan and marketing expenses	113	104
Sundry expenses	44	57
	300	298

6. TAXATION ON RETURN ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2012 Total £'000s	Revenue £'000s	Capital £'000s	2011 Total £'000s
Current tax charge (all overseas) on ordinary activities (note 6 (b))	135	–	135	87	–	87

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

	Revenue £'000s	Capital £'000s	2012 Total £'000s	Revenue £'000s	Capital £'000s	2011 Total £'000s
Net return on ordinary activities before tax	(142)	1,011	869	(401)	19,391	18,990
Net return on ordinary activities multiplied by the effective rate of corporation tax in the UK of 25.5% (2011: 27.5%)	(36)	258	222	(110)	5,333	5,223
Expenses not deductible for tax purposes	13	–	13	14	–	14
Overseas taxation in excess of double tax relief	135	–	135	87	–	87
Overseas income not subject to corporation tax	(229)	–	(229)	(170)	–	(170)
Expenses not utilised in the year	252	–	252	266	–	266
Capital returns not subject to corporation tax	–	(258)	(258)	–	(5,333)	(5,333)
Current tax charge (note 6 (a))	135	–	135	87	–	87

The deferred tax asset of £876,000 in respect of unutilised expenses at 30 June 2012 (2011: £694,000) has not been recognised as it is unlikely that this will be utilised.

Notes on the Accounts (continued)

7. RETURN PER ORDINARY SHARE

Revenue return

The revenue return per share is based on the net revenue return attributable to equity shareholders of £277,000 loss (2011: £488,000 loss).

Capital return

The capital return per share is based on the net capital return attributable to equity shareholders of £1,011,000 profit (2011: £19,391,000 profit).

Weighted average ordinary shares in issue

Both the revenue and capital returns are based on a weighted average of ordinary shares in issue during the year of 20,850,345 (2011: 20,707,135).

8. INVESTMENTS

	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2012 Total £'000s	Level 1* £'000s	Level 2* £'000s	Level 3* £'000s	2011 Total £'000s
Cost brought forward	74,203	–	–	74,203	72,388	–	–	72,388
Gains/(losses) brought forward	18,427	–	–	18,427	4,137	–	–	4,137
	92,630	–	–	92,630	76,525	–	–	76,525
Movements in the year:								
Purchases at cost	22,590	–	–	22,590	29,475	–	–	29,475
Sales proceeds	(22,410)	–	–	(22,410)	(32,932)	–	–	(32,932)
Gains on investments sold in year	310	–	–	310	5,272	–	–	5,272
Gains on investments held at year end	738	–	–	738	14,290	–	–	14,290
Valuation at 30 June	93,858	–	–	93,858	92,630	–	–	92,630
Cost at 30 June	74,693	–	–	74,693	74,203	–	–	74,203
Gains at 30 June	19,165	–	–	19,165	18,427	–	–	18,427
Valuation at 30 June	93,858	–	–	93,858	92,630	–	–	92,630

Gains on investments held at fair value	2012 £'000s	2011 £'000s
Gains on investments sold	310	5,272
Gains on investments held	738	14,290
	1,048	19,562

* Level 1 includes investments listed on any recognised stock exchange.
Level 2 includes investments for which the quoted price has been recently suspended.
Level 3 includes investments in private companies and securities.

The investment portfolio is set out on page 9.

9. DEBTORS

	2012 £'000s	2011 £'000s
Investment debtors	8	454
Prepayments and accrued income of a revenue nature	87	68
	95	522

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'000s	2011 £'000s
Investment creditors	**118**	129
Payable to the Manager	**198**	193
Accrued expenses	**64**	70
	380	392

11. INDUSTRIAL CLASSIFICATION (NET ASSETS)

	2012 %	2011 %
Investments		
Producer durables	**28.3**	28.4
Consumer discretionary	**18.2**	15.1
Financial services	**14.1**	14.2
Technology	**10.6**	7.6
Healthcare	**5.4**	6.3
Consumer staples	**5.2**	5.5
Utilities	**4.9**	5.5
Materials and processing	**4.3**	7.2
Energy	**3.6**	6.5
Total investments	**94.6**	96.3
Net current assets	**5.4**	3.7
Net assets	**100.0**	100.0

12. CALLED-UP SHARE CAPITAL

Equity share capital – Issued and fully paid	2012 Number	2012 Nominal £'000s	2011 Number	2011 Nominal £'000s
Ordinary shares of 25p each				
Balance brought forward	**20,707,135**	**5,177**	20,707,135	5,177
Shares issued by the Company	**485,000**	**121**	–	–
Balance carried forward	**21,192,135**	**5,298**	20,707,135	5,177

During the year 485,000 ordinary shares were issued, raising proceeds of £2,313,000. Since the year end a further 230,000 ordinary shares have been issued, raising proceeds of £1,116,000.

At 21 August 2012, there were 21,422,135 shares in issue.

13. SHARE PREMIUM ACCOUNT

	2012 £'000s	2011 £'000s
Balance brought forward	**2,468**	2,468
Shares issued by the Company	**2,192**	–
Balance carried forward	**4,660**	2,468

Notes on the Accounts (continued)

14. NON-DISTRIBUTABLE RESERVE

	2012 £'000s	2011 £'000s
Balance brought forward and carried forward	**841**	841

15. CAPITAL REDEMPTION RESERVE

	2012 £'000s	2011 £'000s
Balance brought forward and carried forward	**8,175**	8,175

16. 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 the year	310	–	310	–
Foreign exchange losses	(34)	–	(34)	–
Other expenses	(3)	–	(3)	–
Increase in unrealised appreciation	–	738	738	–
Revenue return	–	–	–	(277)
Net return attributable to equity shareholders	273	738	1,011	(277)
Balance at 30 June 2011	62,980	18,427	81,407	(1,867)
Balance at 30 June 2012	**63,253**	**19,165**	**82,418**	**(2,144)**

Included within the capital reserve movement for the year are £50,000 of transaction costs on purchases of investments (2011: £81,000), and £57,346 of transaction costs on sales of investments (2011: £90,000) and £nil of distributions recognised as capital (2011: £nil).

17. NET ASSET VALUE PER ORDINARY SHARE

Net asset value per ordinary share is based on net assets of £99,248,000 (2011: £96,201,000) and on 21,192,135 (2011: 20,707,135) ordinary shares in issue at 30 June 2012.

18. RECONCILIATION OF NET RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2012 £'000s	2011 £'000s
Net return on ordinary activities before taxation	869	18,990
Adjust for returns from non-operating activities		
– Gains on investments	(1,048)	(19,562)
– Foreign exchange losses charged to capital	34	167
– Other expenses charged to capital	3	4
Return from operating activities	(142)	(401)
Adjust for non cash flow items		
– (Increase)/decrease in accrued income	(38)	4
– Decrease/(increase) in other debtors	13	(4)
– (Decrease)/increase in creditors	(1)	61
– Scrip dividends	–	(38)
– Overseas taxation	(129)	(87)
Net cash outflow from operating activities	(297)	(465)

19. RECONCILIATION OF NET CASH FLOW MOVEMENT TO MOVEMENT IN NET FUNDS

	2012 £'000s	2011 £'000s
Increase in cash	124	184
Increase in short-term deposits	2,144	2,388
Movement in net funds resulting from cash flows	2,268	2,572
Foreign exchange movement	(34)	(167)
Movement in net funds	2,234	2,405
Net funds brought forward	3,441	1,036
Net funds carried forward	5,675	3,441

Represented by:	Balance at 30 June 2011 £'000s	Cash flow £'000s	Foreign exchange movement £'000s	Balance at 30 June 2012 £'000s
Cash at bank	40	124	2	166
Short-term deposits	3,401	2,144	(36)	5,509
	3,441	2,268	(34)	5,675

20. 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 Directors' Remuneration Report on page 20 and as set out in note 5 on the accounts and the beneficial interests of the Directors in the ordinary shares of the Company as disclosed on page 16. 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 and the outstanding balance is detailed in note 10.

Notes on the Accounts (continued)

21. 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 of the CTA. 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 primarily in quoted US smaller and medium sized companies in order to secure long-term capital growth. In pursuing this objective, the Company is exposed to financial risks which could result in a reduction of the value of the net assets. 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 fixed asset investments at fair value. The Company does not make use of hedge accounting rules.

(a) Market risks

The fair value of equity 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 US dollars and 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 cash balances. Although the Company is authorised to borrow money, it is not the Board's general policy to do so and no borrowings were utilised during the year.

Income earned in foreign currencies is converted to sterling on receipt.

Currency exposure

The principal currency to which the Company was exposed during the year was the US dollar as all investments are quoted in that currency.

The exchange rates applying against sterling at 30 June and the average rates during the year ended 30 June were as follows:

	2012		2011	
	At 30 June	Average for the year	At 30 June	Average for the year
US dollar	**1.5685**	**1.5907**	1.6055	1.5883

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 the principal currency, US dollar, by 10% would have the following approximate effect on returns attributable to equity shareholders and on the NAV per share:

Weakening of sterling by 10% against the US dollar	**2012**	2011
Net revenue return attributable to equity shareholders – £'000s	**50**	58
Net capital return attributable to equity shareholders – £'000s	**11,068**	10,736
Net total return attributable to equity shareholders – £'000s	**11,118**	10,794
Net asset value per share – pence	**52.5**	52.1

Strengthening of sterling by 10% against the US dollar	**2012**	2011
Net revenue return attributable to equity shareholders – £'000s	**(99)**	(50)
Net capital return attributable to equity shareholders – £'000s	**(9,056)**	(8,799)
Net total return attributable to equity shareholders – £'000s	**(9,155)**	(8,849)
Net asset value per share – pence	**(43.2)**	(42.7)

These analyses are presented in sterling and are representative of the Company's activities although the level of the Company's exposure to the US dollar fluctuates in accordance with the investment and risk management processes.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

2012	Investments £'000s	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	–	9	124	(262)	(129)
US dollar	93,858	86	5,551	(118)	99,377
Total	**93,858**	**95**	**5,675**	**(380)**	**99,248**

2011	Investments £'000s	Short-term debtors £'000s	Cash at bank and short-term deposits £'000s	Short-term creditors £'000s	Net exposure £'000s
Sterling	–	500	–	(264)	236
US dollar	92,630	22	3,441	(128)	95,965
Total	92,630	522	3,441	(392)	96,201

Interest rate exposure

The exposure of the financial assets and liabilities to interest rate movements at 30 June was:

	2012 Within one year £'000s	**2012** Net total £'000s	2011 Within one year £'000s	2011 Net total £'000s
Exposure to floating rates – cash, short-term deposits and bank overdraft	**5,675**	**5,675**	3,441	3,441
Net exposure	**5,675**	**5,675**	3,441	3,441
Minimum net exposure during the year	**2,099**	**2,099**	1,130	1,130
Maximum net exposure during the year	**5,675**	**5,675**	3,441	3,441

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 is at ruling market rates. No borrowings were utilised during the current or prior year. There were no holdings in fixed interest investment securities during the year or at the year end (2011: none).

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 no material effect on the Income Statement revenue and capital returns after tax or on the NAV per share.

Other market price risk exposures

The Company does not enter into derivative transactions in managing its exposure to US market risks. The portfolio of investments, valued at £93,858,000 at 30 June 2012 (2011: £92,630,000) 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, held entirely in US dollars, by major industrial sector is set out on note 11 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 value of the portfolio, in sterling terms, by 20% would have had the following approximate effects on the net capital return attributable to equity shareholders and on the NAV per share:

	2012 Increase in value £'000s	**2012** Decrease in value £'000s	2011 Increase in value £'000s	2011 Decrease in value £'000s
Capital return	**18,772**	**(18,772)**	18,526	(18,526)
NAV per share – pence	**88.6**	**(88.6)**	89.5	(89.5)

Notes on the Accounts (continued)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk exposure

The Company is required to raise funds to meet commitments associated with financial instruments and share buybacks. These funds may be raised either through the realisation of assets or through a temporary bank overdraft. The Company is authorised to borrow money but it is not the Board's general policy to do so. The risk of the Company not having sufficient liquidity at any time is not considered by the Board to be significant, given: the number of quoted investments held in the Company's portfolio (52 at 30 June 2012 and 54 at 30 June 2011); the liquid nature of the portfolio of investments; and the industrial diversity of the portfolio (see note 11). 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 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
2012	
Creditors: amounts falling due within one year	**380**
2011	
Creditors: amounts falling due within one year	392

(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 regularly. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

To the extent that 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 (2011: none) and does not normally invest in them. None of the Company's financial liabilities is past its 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.

The Company does not hold any unquoted investments.

(e) Capital risk management

The objective of the Company is stated as being to invest primarily in quoted US smaller and medium sized companies in order to secure long-term capital growth. 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, to the extent that it is able to do so under company law, pay dividends to shareholders out of current year revenue earnings as well as out of brought forward revenue reserves.

Details of ordinary share capital are set out in note 12 on the accounts.

22. POST BALANCE SHEET MOVEMENT IN NET ASSETS

The net asset value per share as at close of business on 21 August 2012 was 481.95p (30 June 2012: 468.32p).

Ten Year Record

Assets

at 30 June

£'000s	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total assets	74,590	53,265	64,763	71,350	75,464	73,177	55,982	60,607	77,298	96,201	**99,248**
Loans	–	–	–	–	–	–	–	–	–	–	**–**
Net assets	74,590	53,265	64,763	71,350	75,464	73,177	55,982	60,607	77,298	96,201	**99,248**

Net asset value ("NAV")

at 30 June

pence	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NAV per share	227.1	200.1	244.5	296.0	318.5	336.1	269.3	292.7	373.3	464.6	**468.3**
NAV per share – diluted	218.4	†	†	†	†	†	†	†	†	†	**†**
NAV return on 100p – 5 years (per AIC)											**141.9**
NAV return on 100p – 10 years (per AIC)											**262.9**

Share price

at 30 June

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Middle market price per share – (pence)	207.0	192.0	216.5	263.5	287.5	300.5	245.5	253.5	354.5	433.9	**466.5**
Discount to NAV (%)	5.2	4.0	11.5	11.0*	9.7	10.6	8.8	13.4	5.0	6.6	**0.4**
Share price high (pence)	254.0	206.0	231.0	263.5	328.3	306.3	340.6	302.0	390.0	476.0	**495.0**
Share price low (pence)	168.0	142.5	190.5	189.5	259.5	260.5	219.2	179.0	242.5	312.0	**355.5**
Share price total return on 100p – 5 years (per AIC) (pence)											**158.1**
Share price total return on 100p – 10 years (per AIC) (pence)											**271.0**

Revenue

for the year ended 30 June

	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Available for ordinary shares – £'000s	(322.0)	(143.0)	(61.0)	222.0	164.0	94.0	40.0	7.0	(307.0)	(488.0)	**(277.0)**
Return per share (pence)	(1.0)	(0.5)	(0.2)	0.9	0.7	0.4	0.2	0.0	(1.5)	(2.4)	**(1.3)**
Dividends per share	–	–	–	–	–	–	–	–	–	–	**–**

Performance

(rebased at 100 at 30 June 2002)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NAV per share#	100.0	91.6	112.0	135.5	145.8	153.9	123.3	134.0	170.9	212.7	**214.4**
Middle market price per share	100.0	92.8	104.6	127.3	138.9	145.2	118.6	122.5	171.3	209.6	**225.4**
Russell 2000 Index (sterling adjusted)	100.0	89.5	107.5	117.6	129.1	136.9	114.2	101.7	134.2	169.8	**167.7**
RPI	100.0	102.9	106.0	109.1	112.7	117.7	123.0	121.1	127.2	133.5	**137.2**

* Restated to reflect change in accounting policy.

† There is no dilution. The warrants were exercised during the year ended 30 June 2003.

Using NAV per share – diluted where applicable.

Ten Year Record (continued)

Costs of running the Company (TER/ongoing charges)

for the year ended 30 June

%	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Expressed as a percentage of average net assets:											
TER											
– including performance fee	0.99	1.15	1.08	1.11	1.05	1.09	1.16	1.83	1.12	1.18	**1.12**
– excluding performance fee	0.99	1.15	1.08	1.11	1.05	1.09	1.16	1.15	1.12	1.18	**1.12**
Ongoing Charges											
– including performance fee										1.18	**1.12**
– excluding performance fee										1.18	**1.12**

Liquidity

at 30 June

%	2002	2003	2004	2005*	2006	2007	2008	2009	2010	2011	2012
Net liquidity	1.9	2.4	2.1	2.1	3.3	2.5	3.0	5.1	1.2	3.9	**5.6**

* Restated to reflect change in accounting policy.

Definitions

TER	Total Expense Ratio including costs charged to revenue and capital, excluding related taxation relief, interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling of investments.
Ongoing charges	All operational, recurring costs that are payable by the Company or suffered within underlying investee funds, in the absence of any purchases or sales of investments (per AIC guidelines issued in May 2012).
Net liquidity	Cash less loans, overdrafts and investment creditors plus investment debtors at balance sheet value as a percentage of net assets.
Total assets	Total assets less current liabilities (excluding loans).
NAV	Net asset value.
RPI	All-items retail price index.
Average net assets	Average of net assets at end of each business day (2010 and prior years, at the end of each quarter).
NAV return	Return on net assets per share.
Share price total return	Return to the investor on mid-market prices assuming that all dividends paid to shareholders were reinvested.
AIC	Association of Investment Companies.

Notice of Annual General Meeting

Notice is hereby given that the nineteenth annual general meeting of the Company will be held at Exchange House, Primrose Street, London EC2 on Thursday, 4 October 2012 at 12.30 p.m. for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions 1 to 8 as ordinary resolutions

1. To receive and adopt the Directors' report and accounts for the year ended 30 June 2012.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr N M Bachop as a Director.
4. To re-elect Mr M P S Barton as a Director.
5. To re-elect Mr G D Grender as a Director.
6. To re-elect Mr C A Parritt as a Director.
7. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
8. To authorise the Directors to determine the remuneration of the auditors.

Special Business

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

9. THAT:
   (a) the Directors be and they are hereby:
      (i) generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company under section 551 to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company (together being "**relevant securities**") up to an aggregate nominal amount of £535,500 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 2013 (the "**relevant period**"), and
      (ii) empowered, pursuant to section 571 of the Act, to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution as if section 561(1) of the Act did not apply to any such allotment, but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of the relevant period and notwithstanding such expiry the Directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements;
   (b) all authorities and powers previously conferred under section 551 or section 571 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and
   (c) words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

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

10. THAT the Company be and is hereby generally and unconditionally authorised, pursuant 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 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 3,211,000 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 the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased or (ii) an amount equal to the higher of

Notice of Annual General Meeting (continued)

the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the London Stock Exchange Daily Official List at the time the purchase is carried out;

(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

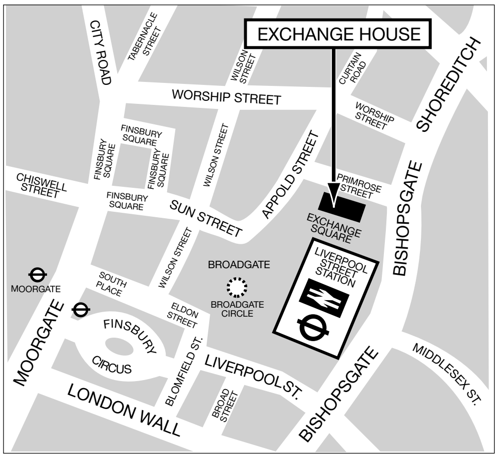
(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

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

11. 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	Registered office:
F&C Management Limited	Exchange House
Secretary	Primrose Street
23 August 2012	London EC2A 2NY

Location of meeting



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 2 October 2012 (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. 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 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 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 Services 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 Services 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 comply 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 21 August 2012, 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.fandcussmallers.com.

10. As at 21 August 2012, the latest practicable date prior to publication of this document, the Company had 21,422,135 ordinary shares in issue with a total of 21,422,135 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:

    i. answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    ii. the answer has already been given on a website in the form of an answer to a question; or

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

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 register of Directors' holdings, Directors' terms of appointment letters and a deed 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.

14. 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.

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 is shown in the investment trust or investment companies section of the stock market page in most leading newspapers, usually under "F&C US Smaller Cos".

Performance information

Information on the Company's performance is provided in the half-yearly and final reports which are made available to shareholders in February and August respectively.

More up-to-date performance information is available on the internet at www.fandcussmallers.com. This website also provides a monthly update on the Company's largest holdings with comments from the 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 £10,600 in the tax year ending 5 April 2013 without incurring any tax liability.

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

Association of Investment Companies ("AIC")

F&C US 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.

The Association of Investment Companies

London Stock Exchange LISTED PREMIUM

Warning to shareholders – Boiler Room 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 FSA before getting involved by visiting **www.fsa.gov.uk/pages/register/**
- Report the matter to the FSA by calling **0845 606 1234**
- If the calls persist, hang up.

More detailed information on this can be found on the CFEB website **www.moneyadviceservice.org.uk**

How to Invest

One of the most convenient ways to invest in F&C US 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, low cost 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 Investment Trust ISA

Use your ISA allowance to make an annual tax-efficient investment (£11,280 for the 2012/13 tax year) 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 Child Trust Fund ("CTF")

The CTF is a long-term tax-free savings account for eligible children born between 1 September 2002 and 2 January 2011, using the government's CTF voucher. If your child has a CTF with another provider, you can switch it to F&C – this is simple and straight forward. The maximum that can be invested annually is £3,600 and you can invest from as little as £25 a month.

F&C Children's Investment Plan

Aimed at children ineligible for a CTF, or if you need access to the funds before the child is 18. This flexible plan can easily be written under trust to help reduce inheritance tax liability. 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 saving plan for children who did not qualify for a CTF. It allows you to invest up to £3,600 each year, with all the tax benefits of the old CTF that it replaces. 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.

How to invest

You can invest in all our savings plans online, except for the CTF. It's simple to register and invest using your debit card. Alternatively, please contact us for application forms.

New customers:

Contact our Investor Services Team

Call:	**0800 136 420***
Email:	**info@fandc.com**
Investing online:	**www.fandc.com**

*8:30am – 5:30pm, weekdays, call may be recorded.

Existing plan holders:

Contact our Investor Services Team

Call:	**0845 600 3030****
Email:	**investor.enquiries@fandc.com**
By post:	F&C Plan Administration Centre PO Box 11114 Chelmsford CM99 2DG

**9:00am – 5:00pm, weekdays, call may be recorded.

If you have trouble reading small print, please let us know. We can provide literature in alternative formats, for example large print or on audiotape. Please call 0845 600 3030**.

The above has been approved by F&C Management Limited which is a member of the F&C Asset Management Group and is authorised and regulated in the UK by the Financial Services Authority.

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Tel: 020 7628 8000 Fax: 020 7628 8188

www.fandcussmallers.com

info@fandc.com

Registrars:

Computershare Investor Services PLC,

The Pavilions, Bridgwater Road,

Bristol BS99 6ZZ

Tel: 0870 889 4089 Fax: 0870 703 6142

www.computershare.com

web.queries@computershare.co.uk

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