BlackRock Smaller Companies

Investment companies | Initiation | 28 September 2026

Ready for a small-cap reset

The April 2026 combination with BlackRock Throgmorton reinforced BlackRock Smaller Companies Trust's (BRSC) position as the largest growth-focused trust in the UK smaller companies sector. The transaction also brought shareholders lower fees, an exit mechanism in the event of underperformance and greater flexibility to invest overseas.

The backdrop for UK small caps remains very difficult. Fund flows have been weak, and political uncertainty has weighed on confidence. However, valuations already reflect much of this pessimism, while continued M&A activity shows that corporate buyers are finding value that public-market investors are overlooking.

There are also signs of improvement beneath the surface, while the appointment of a new Prime Minister offers the prospect of a reset in perceptions of the domestic UK market. With growth shares unusually cheap relative to value, BRSC trading at a discount, and modest gearing providing additional upside potential, any sustained recovery in sentiment could have a powerful effect on returns.

UK smaller companies with a quality-growth focus

BRSC aims to achieve long-term capital growth by investing mainly in smaller UK quoted companies. It focuses on high-quality businesses with strong management teams, good cash generation and robust balance sheets. It is able to invest up to 15% of assets in overseas smaller companies.

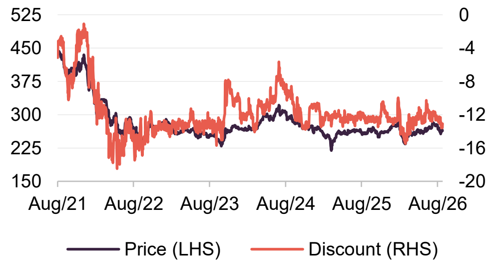
Year ended	Share price total return (%)	NAV total return (%)	Deutsche Numis Sm Cos +AIM, ex IC TR (%)	MSCI UK total return (%)
31/08/2022	(35.3)	(28.5)	(21.9)	11.4
31/08/2023	(3.9)	(5.8)	(4.1)	3.4
31/08/2024	23.9	18.5	14.6	17.6
31/08/2025	(11.6)	(9.7)	3.0	13.3
31/08/2026	10.7	11.0	15.3	21.7

Source: Bloomberg, Marten & Co

Sector	UK smaller companies
Ticker	BRSC LN
Base currency	GBP
Price	264.0p
NAV	303.8p
Premium/(discount)	(13.1%)
Yield	3.4%

Share price and discount

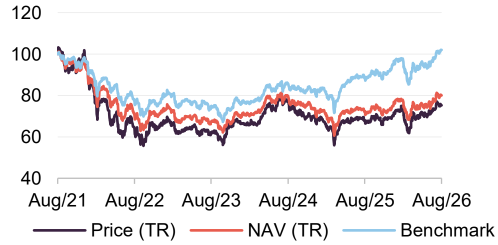
Time period 31/08/2021 to 24/09/2026



Source: Bloomberg, Marten & Co

Performance over five years

Time period 31/08/2021 to 31/08/2026



Source: Bloomberg, Marten & Co

Contents

Domicile	England & Wales
Inception date	2 May 1906
Manager	Roland Arnold
Market cap	£631m
Shares outstanding (exc. treasury shares)	238.9m
Daily vol. (1-yr. avg.)	244k shares
Net gearing	10.8%

Click for updated BRSC factsheet

Click for BRSC's peer group analysis

Analysts

David Batchelor
db@quoteddata.com

Matthew Read
mr@quoteddata.com

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Fund profile

BRSC aims for capital growth through smaller UK quoted companies.

BRSC aims to achieve long-term capital growth by investing predominantly in smaller UK quoted companies. Established in 1906, the trust adopted its small-cap focus in the early 1990s and has refined the approach over time. It provides exposure to a comparatively under-researched part of the market, where the manager believes active stock picking can uncover businesses capable of substantial long-term growth.

BRSC is benchmarked against the Deutsche Numis Smaller Companies plus AIM (excluding Investment Companies) Index, although the portfolio is constructed on a bottom-up basis and can differ materially from the benchmark (an active share typically between 70-78%, which was 77.7% as at 31 August). The investment approach has a quality-growth bias, with the manager looking for businesses with strong management teams, leading positions in their markets and the ability to generate sustainable growth and cash flow.

Roland Arnold is BRSC's portfolio manager. He has managed UK small- and mid-cap portfolios since 2006. Roland is supported by BlackRock's wider Emerging Companies team, which comprises three portfolio managers within its Fundamental Equities platform. The team conducts its own company research while drawing on BlackRock's broader resources, including its global research platform, corporate access, equity capital markets expertise and specialist sector teams. Matt Betts provides additional input and ideas for the overseas portion of BRSC's portfolio.

BRSC can gear by up to 20% of net assets, although the board expects gearing to remain within a range of 0-15% under normal market conditions. Current gearing is around 8%.

Combination with Throgmorton

The combination with THRG cemented BRSC's position as the largest growth-focused UK smaller companies fund.

BRSC completed its combination with BlackRock Throgmorton (THRG) in April 2026, bringing together two UK smaller-company trusts with similar investment approaches and significant portfolio overlap. We covered the transaction at the time here. The deal increased BRSC's scale and liquidity, broadened its shareholder base and reinforced its position as the largest growth-focused trust in the UK smaller companies sector.

Although a significant proportion of THRG shareholders exited through a tender offer, BRSC still acquired approximately £303m of net assets and issued 20.9m new shares to those who rolled their holdings into the enlarged trust.

The merger also brought lower management fee rates and a performance-related tender mechanism. Specifically, if BRSC underperforms its benchmark over a three-year assessment period, shareholders will be offered a 100% tender at a 4% discount to NAV. The first potential tender is in 2029.

Separately, a quarterly dividend was announced in October 2025 and became effective in March 2026.

The transaction also addressed the position of Saba Capital, the activist US hedge fund that has targeted several UK investment trusts in recent years. Saba elected to tender its shares in full and agreed to an extension of its standstill agreement with the board until June 2030. However, because the tender was oversubscribed, Saba's tendered shares were scaled back. It has also subsequently added to its holding to build a material economic interest in BRSC and, at 24 July 2026, disclosed aggregate exposure equivalent to 14.2% of the trust, predominantly through a total return swap.

Ability to go overseas

After the THRG combination, BRSC can now invest overseas.

One significant change following the combination with THRG is BRSC's ability to invest up to 15% of gross assets, at the time of acquisition, in overseas-listed small-cap stocks. Roland says that the intention is to run this allocation at around 10%, which will give him flexibility to buy into more dynamic themes. One example is Construction Partners, a civil infrastructure company that gives pure exposure to the US market. However, he stresses that this additional flexibility is not enough on its own to offset the challenges facing the UK market.

Unlike THRG, BRSC does not have the ability to short stocks.

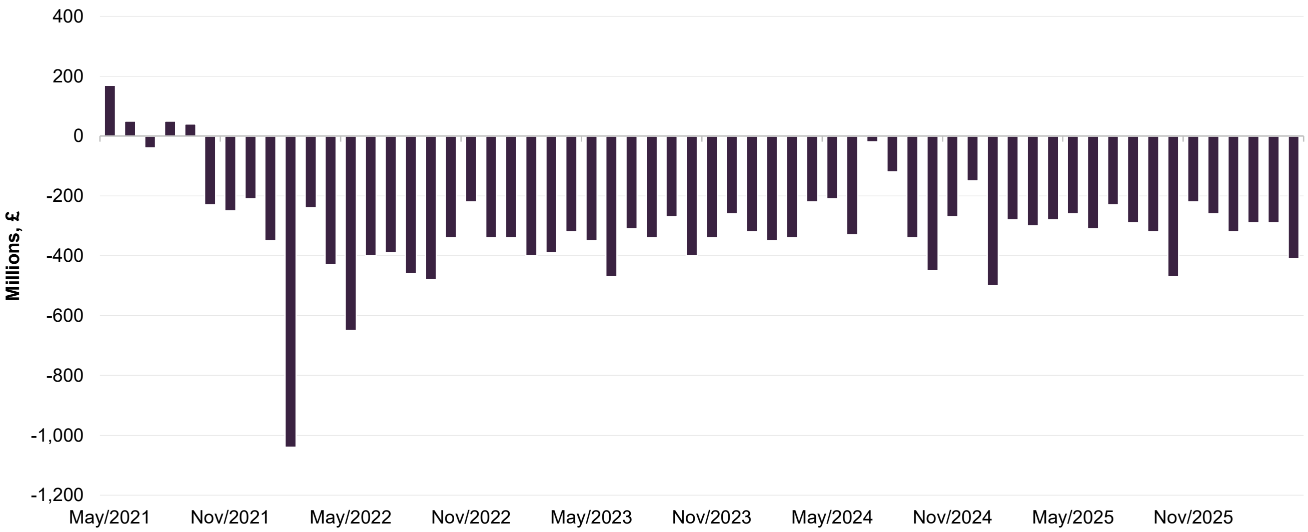
Market update – difficult backdrop, but attractive valuations

Roland believes the UK smaller companies market faces a number of challenges.

Roland is cautious on the near-term outlook for UK smaller companies. He believes the UK faces significant structural challenges, while the prospect of another difficult Budget in the autumn is adding to uncertainty around taxation, inflation and employment. Investor flows into UK smaller companies also remain weak, leaving buybacks and M&A some of the few consistent sources of demand. Takeover activity reflects the low valuations available to corporate and private equity buyers, but this cannot compensate indefinitely for persistent outflows.

Figure 1 shows the scale of active flows out of UK small- and mid-cap funds over recent years.

Figure 1: Active UK equity small- and mid-cap fund flows over five years to 30 April 2026



Source: Broadridge, Lipper, BlackRock Smaller Companies

There are, however, some more encouraging signs beneath the surface. Roland sees evidence of an industrial recovery, particularly from the very depressed levels reached across parts of the engineering and capital goods sectors. He cautions, though, that some of the improvement is being driven by spending on data centres and AI-related infrastructure, making it difficult to judge how broad-based or durable the recovery will be. At the same time, many of the companies exposed to these trends have continued to become cheaper despite little change in their longer-term prospects.

New government – chance for a reset

New Prime Minister Andy Burnham offers the possibility of a reset.

Roland believes that much of the recent negativity around the UK domestic economy has reflected political uncertainty rather than economic weakness. He was critical of the Starmer government's handling of the economy but sees scope for a reset under the new prime minister Andy Burnham. Burnham has so far emphasised growth, while the appointment of John Healey as chancellor is reassuring.

If the government demonstrates fiscal discipline, manages its parliamentary party and brings public borrowing under control, there could be scope to help consumers and businesses. In this scenario, the current vicious cycle could reverse quite quickly, with the UK smaller companies sector coming back into favour.

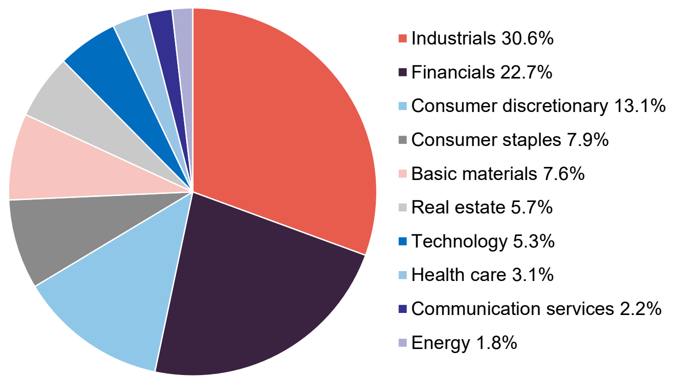
Despite his cautious view, Roland does not believe the underlying UK economy is as weak as sentiment suggests. Productivity is showing signs of improvement after a long period of stagnation, albeit partly at the expense of employment, while corporate and household balance sheets remain relatively cash rich.

With UK smaller companies cheap in absolute terms, valuations already discounting a considerable amount of bad news and growth stocks particularly depressed relative to value, any sustained improvement in sentiment could produce a powerful recovery.

Asset allocation

As shown in Figure 2, BRSC's two largest sector allocations are to industrials and financials. Both are overweight positions versus the benchmark.

Figure 2: BRSC sector allocation as at 31 July 2026



Source: BlackRock Smaller Companies

Figure 3: BRSC's top 10 holdings at 31 July 2026

Company	(%)
Greencore Group	3.5
Great Portland Estates	3.2
XPS Pensions	3.2
Tatton Asset Management	2.9
Morgan Sindall	2.7
IntegraFin	2.6
discoverIE	2.5
Young's & Co Brewery	2.3
SigmaRoc	2.1
AJ Bell	2.1
Total top 10	27.1

Source: BlackRock Smaller Companies

BRSC's portfolio has been relatively stable over the past financial year. Roland highlighted two of the top 10 holdings where prospects have improved markedly:

Greencore Group

Figure 4: Greencore Group (GBp)

Source: Bloomberg

Greencore (www.greencore.com) is a UK and Ireland food producer supplying a wide range of products to major retailers and foodservice customers. The business endured a very difficult period, including a poorly timed acquisition in the US that was subsequently unwound, alongside cost pressures and weaker margins closer to home.

More recently, performance has improved materially. A refreshed management team has focused on restoring profitability through better pricing, tighter cost control and improved operational execution, helping margins recover.

Greencore has also benefitted from a broader improvement across the food manufacturing sector, as easing input-cost pressures and more-rational pricing have improved the outlook for profitability. With earnings momentum strengthening and confidence in the recovery building, the shares have rerated sharply and have been among the portfolio's stronger recent performers.

discoverIE

Figure 5: discoverIE (GBp)

Source: Bloomberg

discoverIE (www.discovereplc.com) designs and manufactures customised and niche electronic components for a range of industrial applications. The group focuses on specialist products where technical expertise and close customer relationships can create relatively high barriers to entry and support attractive margins.

The company was affected by a prolonged period of destocking as customers that had built up excess inventories during earlier supply-chain disruption cut orders. This took longer than expected to unwind, weighing on growth and sentiment.

More recently, conditions have begun to improve, with the order book increasing by around 30%. Roland hopes this could mark the early stages of a broader recovery in capital goods. If customer inventories have now normalised, a recovery in underlying demand could provide a meaningful tailwind to revenues and profitability.

Performance

Figure 6: Cumulative total return performance over periods ending 31 August 2026

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
BRSC NAV	3.8	5.2	2.8	11.0	18.8	(19.9)
BRSC share price	2.8	5.1	1.7	10.7	21.2	(24.7)
Deutsche Numis Smaller Cos plus AIM ex IC	4.2	5.8	4.3	15.3	36.2	2.0
MSCI UK	0.0	4.7	1.1	21.7	62.2	86.8

Source: Bloomberg, Marten & Co.

As Figure 6 shows, BRSC's recent performance has been encouraging, although it has yet to fully recover the ground lost over the past few years. This longer-term shortfall versus the benchmark and wider market reflects an unusually difficult backdrop for the manager's quality-growth style, as value and larger companies have led the market. Growth-oriented UK smaller companies have endured a prolonged period of underperformance, leaving the valuation gap versus value close to its widest in 20 years.

Roland does not expect this gap to close simply because it has become extreme, but believes the starting point is increasingly attractive. Many growth companies are generating substantial cash flow and, in some cases, now offer unusually high dividend yields simply because their share prices have fallen so far.

Dividend

Although BRSC's primary objective is capital growth, it has a strong record of dividend growth, having increased its annual payment every year since 2003, which has earned it AIC Dividend Hero status. In October 2025, BRSC announced it would move from semi-annual to quarterly distributions for the next financial year, while retaining its progressive dividend policy. The first quarterly payment, due in

September 2026, is 2.225p per share following July's five-for-one share split, equivalent to a quarter of the dividend paid for the previous financial year.

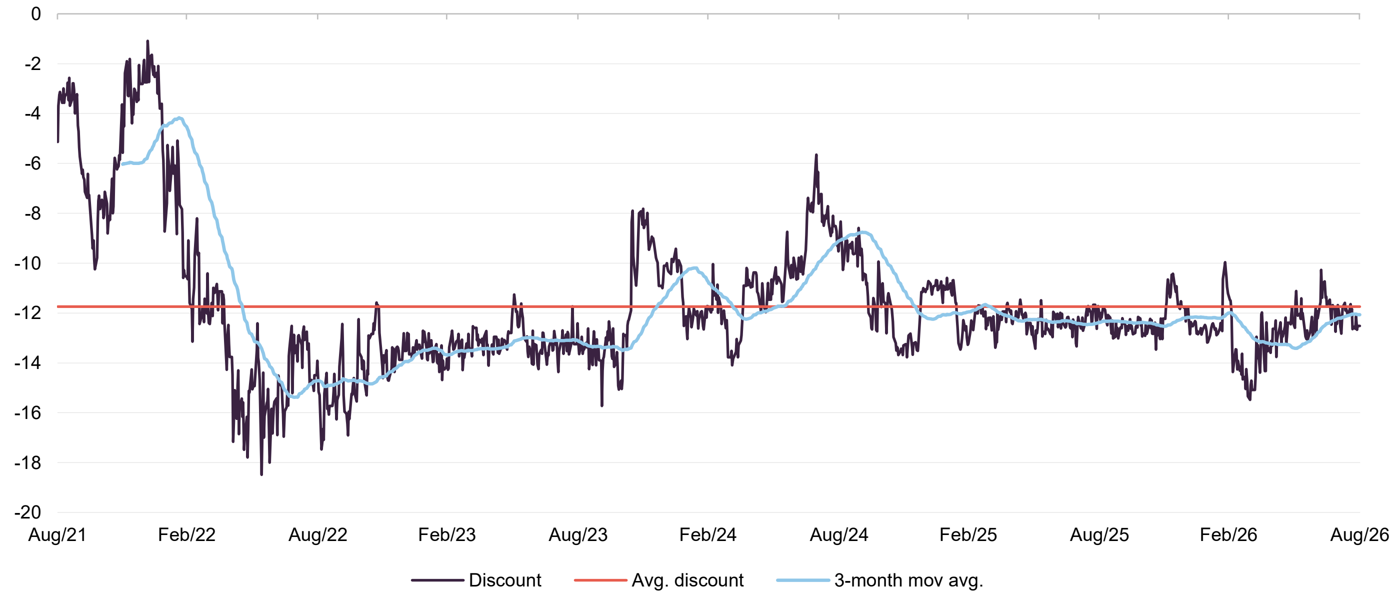
Revenue reserves provide additional flexibility to support the dividend during weaker periods for portfolio income. However, the dividend has been fully covered by earnings in every year apart from 2020, in the midst of the Covid pandemic.

Premium/(discount)

As shown in Figure 7, the discount widened sharply in the first half of 2022, as growth investing came under pressure from rising inflation and interest rates. Since then, the broad trend has generally been a gradual discount narrowing.

Over the 12 months to 31 August 2026, the average discount was 12.5%, ranging from 10.0% to 15.5%.

Figure 7: BRSC premium/(discount) over five years to 31 August 2026



Source: Bloomberg, Marten & Co

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50 Gresham Street, London EC2V 7AY
0203 691 9430

www.QuotedData.com

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Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ