



**Registered office:**

Exchange House, Primrose Street  
London EC2A 2NY  
Tel: 020 7628 8000 Fax: 020 7628 8188  
[www.fandcussmallers.com](http://www.fandcussmallers.com)  
[info@fandc.com](mailto:info@fandc.com)

**Registrars:**

Computershare Investor Services PLC  
PO Box 82, The Pavilions  
Bridgwater Road, Bristol BS99 7NH  
Tel: 0870 889 4089 Fax: 0870 703 6142  
[www.computershare.com](http://www.computershare.com)  
[web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

## F&C US Smaller Companies PLC

Report and accounts

for the half-year ended **31 December 2009**

## Objective

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

### Directors

Gordon Grender (Chairman)  
Peter Barton  
Norman Bachop  
Clive Parritt

### Manager

Robert Siddles  
F&C Management Limited

Visit the website at [www.fandcusmallers.com](http://www.fandcusmallers.com)

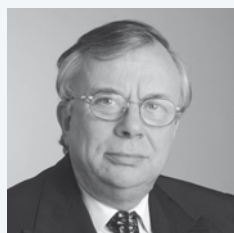
Registered in England, company registration number: 02781968

## Summary of Unaudited Results

### Attributable to equity shareholders

	31 December 2009	30 June 2009	% Change
Net assets	<b>£73.48m</b>	£60.61m	21.2
Net asset value per share	<b>354.85p</b>	292.69p	21.2
Russell 2000 Index (sterling adjusted)	<b>387.27</b>	308.64	25.5
Share price	<b>304.50p</b>	253.50p	20.1
Increase in net asset value per share since inception on 8 March 1993			267.7%
Increase in the Russell 2000 Index (sterling adjusted) since 8 March 1993			145.0%

# Chairman's Statement

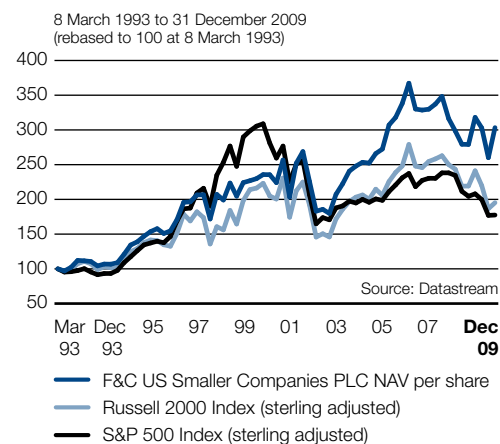


Gordon Grender, Chairman

*Dear Shareholders*

During the period under review the US stock market continued the rally that began in March. Shares were helped by substantial monetary stimulus and the revival was in spite of a poor economic background and rising unemployment. The exchange rate between the dollar and sterling was relatively stable.

## Net asset value (NAV) per share performance since launch



## Performance

I am pleased to report that the net asset value ("NAV") per share of your Company rose significantly in the six month period to 31 December 2009, gaining 21.2%. The Company's benchmark, the sterling-adjusted Russell 2000 Index, advanced 25.5% which was somewhat better than the NAV performance. It is worth pointing out that the six month period under review followed an extended period of strong performance by the Company compared to its benchmark: over the two years to 31 December 2009, NAV per share grew 23.2% compared to an increase of only 0.6% for the benchmark.

The recovery in the stock market is most welcome and the size of the gain was quite remarkable, rivalling the other great recovery rallies of modern history, such as the ones beginning in 1974 and 1982. The advance reflects the enormous amount of monetary and other stimuli.

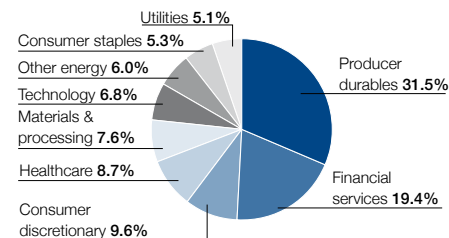
## Market review

During the six month period, the US equity market rallied strongly. The Russell 2000 Index gained 23.0% in dollar terms, which was more than the Standard & Poors Composite Index, which advanced 21.3% but slightly less than the technology-orientated NASDAQ Composite Index, which added 23.7%.

Sterling investors benefited slightly from the exchange rate as the US dollar gained 2.0% over the six months. The exchange rate was far more stable in this period than in the previous six months. It seems that the earlier flight from the dollar, when investors moved back into risky assets, is over.

## Industrial classification of the investment portfolio

at 31 December 2009



Source: F&C Management Limited

Smaller companies paused twice in their run up in the period, firstly in early July and secondly in late October. In both cases, after a short rest, the bulls returned and pushed the Russell 2000 to new highs. Given the extraordinary low level of interest rates, this kind of behaviour is not surprising. Although the decisive turn in the market occurred in March, when credit markets eased, it was not until late summer that the first firm signs that the economy might be heading out of recession appeared. The Institute of Supply Managers Index broke through the critical level of 50 in August, indicating that manufacturing was once again expanding, after having spent 18 months below that level.

The overall sentiment in the market was towards economic recovery, and this was reflected in the leading and laggard sectors: best performing sectors were energy, materials and processing, and consumer discretionary, whereas the laggards were utilities, healthcare and consumer staples.

## Portfolio review

The portfolio benefited most from ACCO Brands, Bottomline Technologies and Avocent. New management at office supplies manufacturer ACCO Brands appears to have brought the company back from the brink with drastic action on costs and underperforming businesses, as well as a successful refinancing. Bottomline Technologies began to see dramatic improvements in profitability from its new payment automation software and an alliance with Bank of America. Avocent, whose products automate data centres, received an agreed bid from Emerson Electric. On the negative side, retailer Conn's fell as a result of a weak Texas economy, discounting and the need to tighten customer credit. United Community Banks suffered from deteriorating commercial real estate conditions and the need to raise additional capital. Premiere Global Services fell as its conference calling business was hit by the lagged effect of falling employment.

Over the six months to 31 December, the manager focused on two areas for new investment, both of which had lagged the market. The first was aerospace and defence, where new stocks included Orbital Sciences, a manufacturer of small rockets, and FLIR Systems, a producer of infrared vision equipment. The second area was defensive stocks, such as, baked products company, Flowers Foods and regional telecommunications provider, NTELOS Holdings. As the oil price rose, profits were taken in energy-related stocks, and several positions were sold in their entirety, including Helmerich and Payne and Pride International, two energy service

## Chairman's Statement (continued)

companies. Sales were also made where stocks had largely recovered from balance sheet concerns and growth prospects were thought to be limited, for example, Community Health Systems, the rural hospital operator. Very strong performance by metals-related Walter Energy (a metallurgical coal producer) also led to a sale, as did the bid for Avocent. Foundation Coal received a bid from Alpha Natural Resources, another coal mining company, and we accepted shares in Alpha because of that company's strong balance sheet and respected management.

Overall, the portfolio emphasises manufacturing, with a focus on, among others, metals and aerospace. Energy is still over-weighted but less than it was. Within financials we still favour insurance. Health and technology are underweight, reflecting the Company's risk averse investment philosophy.

### Buy-backs and discount

The Company bought back no shares in the six-month period. 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%.

The discount widened from 13.4% at 30 June 2009 to 14.2% at 31 December 2009. As at 18 February 2010, the discount was 12.9%. One factor affecting the discount at the year end was the speed of the market's rise in December, which meant that the price of the Company's shares did not always keep up.

### Outlook

The manufacturing side of the US economy appears to be gradually recovering; however the prospects for the consumer appear less favourable given the continuing weakness in the housing market and weak employment trends. The stock market is supported by very low interest rates and anticipation of improving corporate profits. Rates may rise and there is a danger that investor psychology may become too optimistic: either factor could lead to a correction in equities. Small companies should benefit from economic recovery and provide a hedge, should inflation accelerate. The outlook for the dollar could improve as the economy regains strength.



Gordon Grender  
22 February 2010

## Directors' Statement of Principal Risks and Uncertainties

The Company's assets consist mainly of listed equities and its principal risks are therefore market related.

Other key risks faced by the Company relate to investment strategy, currency, gearing, investment management resources, regulation, financial control and counterparties (including custodian default). These risks, and the way in which they are managed, are described in

more detail under the heading "Principal risks and their management" within the Directors' Report and Business Review contained within the Company's annual report for the year ended 30 June 2009. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remainder of the Company's financial year.

## Directors' Statement of Responsibilities in Respect of the Financial Statements

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

- the condensed set of financial statements has been prepared in accordance with applicable UK Accounting Standards and gives a true and fair view of the assets, liabilities, financial position and return of the Company;
- the half-yearly report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;

- the Directors' Statement of Principal Risks and Uncertainties shown above is a fair review of the principal risks and uncertainties for the remainder of the financial year; and
- the half-yearly report includes details on related party transactions.

Signed on behalf of the Board

Gordon Grender  
Chairman

22 February 2010

## Twenty Largest Equity Holdings at 31 December 2009

31 Dec 2009	30 June 2009	Company	Description	Stock Exchange	% of total investments	Value £'000s
1	52	<b>Allegheny Technologies</b>	Specialist alloys producer.	NYSE	2.5	1,773
2	3	<b>Amedisys</b>	Provider of home nursing services.	NASDAQ	2.1	1,516
3	24	<b>CRA International</b>	Management consultant specialising in litigation.	NASDAQ	2.0	1,456
4	–	<b>AMERIGROUP</b>	Healthcare provider.	NYSE	2.0	1,415
5	–	<b>Orbital Sciences</b>	Spacecraft manufacturer.	NYSE	1.9	1,395
6	42	<b>Astec Industries</b>	Road repair equipment.	NASDAQ	1.9	1,365
7	46	<b>Actuant “A”</b>	Diversified manufacturer.	NYSE	1.9	1,357
8	–	<b>FLIR Systems</b>	Infra-red equipment producer.	NASDAQ	1.9	1,356
9	2	<b>Career Education</b>	Provider of post secondary education.	NASDAQ	1.9	1,349
10	6	<b>GATX</b>	Railcar leasing.	NYSE	1.8	1,324

31 Dec 2009	30 June 2009	Company	Description	Stock Exchange	% of total investments	Value £'000s
11	55	<b>Sanderson Farms</b>	Chicken producer.	NASDAQ	1.8	1,319
12	43	<b>Airgas</b>	Distributor of industrial gases.	NYSE	1.8	1,316
13	47	<b>Premiere Global Services</b>	Outsourced communication services.	NYSE	1.8	1,315
14	8	<b>Markel</b>	Specialist insurance underwriter.	NYSE	1.8	1,310
15	13	<b>Service Corporation International</b>	Funeral homes operator.	NYSE	1.8	1,309
16	53	<b>ACI Worldwide</b>	Financial processing software.	NASDAQ	1.8	1,304
17	15	<b>Prestige Brands</b>	Consumer brands.	NYSE	1.8	1,293
18	45	<b>Simpson Manufacturing</b>	Building reinforcement products.	NYSE	1.8	1,292
19	4	<b>CapitalSource</b>	Lender to small and medium-sized businesses.	NYSE	1.8	1,282
20	12	<b>HCC Insurance Holdings</b>	Specialist insurance underwriter.	NYSE	1.7	1,263

The value of the twenty largest equity holdings represents 37.8% (30 June 2009: 35.8%) of the Company's total investments.

# Unaudited Condensed Income Statement

Notes	Half-year ended 31 December 2009			Half-year ended 31 December 2008			Year ended 30 June 2009		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
	–	12,983	12,983	–	3,995	3,995	–	4,631	4,631
	–	41	41	–	768	768	–	605	605
2 Income	319	–	319	418	–	418	837	–	837
3 Management fee	(295)	–	(295)	(249)	–	(249)	(474)	–	(474)
3 Performance fee	–	–	–	–	(10)	(10)	–	(416)	(416)
Other expenses	(132)	(2)	(134)	(115)	(5)	(120)	(232)	(4)	(236)
<b>Net return before finance costs and taxation</b>	<b>(108)</b>	<b>13,022</b>	<b>12,914</b>	54	4,748	4,802	131	4,816	4,947
Finance costs	–	–	–	–	–	–	–	–	–
<b>Net return on ordinary activities before taxation</b>	<b>(108)</b>	<b>13,022</b>	<b>12,914</b>	54	4,748	4,802	131	4,816	4,947
5 Taxation on ordinary activities	(41)	–	(41)	(59)	–	(59)	(124)	–	(124)
<b>Net return attributable to equity shareholders</b>	<b>(149)</b>	<b>13,022</b>	<b>12,873</b>	(5)	4,748	4,743	7	4,816	4,823
6 <b>Return per share – pence</b>	<b>(0.72)</b>	<b>62.89</b>	<b>62.17</b>	(0.02)	22.88	22.86	0.03	23.22	23.25

The total column 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.

## Unaudited Condensed Reconciliation of Movements in Shareholders' Funds

Notes	Share capital £'000s	Share premium account £'000s	Non- distributable reserve £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
<b>Half-year ended 31 December 2009</b>							
Balance at 30 June 2009	5,177	2,468	841	8,175	45,018	(1,072)	60,607
<b>Movements during the half-year ended 31 December 2009</b>							
Return attributable to equity shareholders	–	–	–	–	13,022	(149)	12,873
<b>Balance at 31 December 2009</b>	<b>5,177</b>	<b>2,468</b>	<b>841</b>	<b>8,175</b>	<b>58,040</b>	<b>(1,221)</b>	<b>73,480</b>
<b>Half-year ended 31 December 2008</b>							
Balance at 30 June 2008	5,197	2,468	841	8,155	40,400	(1,079)	55,982
<b>Movements during the half-year ended 31 December 2008</b>							
Shares purchased and cancelled by the Company	(12)	–	–	12	(129)	–	(129)
Return attributable to equity shareholders	–	–	–	–	4,748	(5)	4,743
<b>Balance at 31 December 2008</b>	<b>5,185</b>	<b>2,468</b>	<b>841</b>	<b>8,167</b>	<b>45,019</b>	<b>(1,084)</b>	<b>60,596</b>
<b>Year ended 30 June 2009</b>							
Balance at 30 June 2008	5,197	2,468	841	8,155	40,400	(1,079)	55,982
<b>7 Movements during the year ended 30 June 2009</b>							
Shares purchased and cancelled by the Company	(20)	–	–	20	(198)	–	(198)
Return attributable to equity shareholders	–	–	–	–	4,816	7	4,823
<b>Balance at 30 June 2009</b>	<b>5,177</b>	<b>2,468</b>	<b>841</b>	<b>8,175</b>	<b>45,018</b>	<b>(1,072)</b>	<b>60,607</b>

## Unaudited Condensed Balance Sheet

Notes	31 Dec 2009 £'000s	31 Dec 2008 £'000s	30 June 2009 £'000s
<b>Fixed assets</b>			
Listed investments	72,185	57,363	58,101
<b>Current assets</b>			
Debtors	191	454	250
Cash at bank and short-term deposits	1,393	3,092	3,182
	<b>1,584</b>	3,546	3,432
<b>Creditors: amounts falling due within one year</b>	<b>(289)</b>	(313)	(926)
<b>Net current assets</b>	<b>1,295</b>	3,233	2,506
<b>Net assets</b>	<b>73,480</b>	60,596	60,607
<b>Capital and reserves</b>			
7 Share capital	5,177	5,185	5,177
Share premium account	2,468	2,468	2,468
Non-distributable reserve	841	841	841
Capital redemption reserve	8,175	8,167	8,175
Capital reserves	58,040	45,019	45,018
Revenue reserve	(1,221)	(1,084)	(1,072)
<b>Total shareholders' funds</b>	<b>73,480</b>	60,596	60,607
8 <b>Net asset value per share – pence</b>	<b>354.85</b>	292.21	292.69

## Unaudited Condensed Cash Flow Statement

Notes	Half-year ended 31 Dec 2009 £'000s	Half-year ended 31 Dec 2008 £'000s	Year ended 30 June 2009 £'000s
9 Net cash (outflow)/inflow from operating activities	(594)	15	(11)
Net cash (outflow)/inflow from financial investment	(1,200)	757	1,067
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>	<b>(1,794)</b>	772	1,056
Decrease/(increase) in short-term deposits	1,889	(612)	(1,531)
Net cash outflow from financing	–	(129)	(198)
<b>Increase/(decrease) in cash</b>	<b>95</b>	31	(673)
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase/(decrease) in cash	95	31	(673)
(Decrease)/increase in short-term deposits	(1,889)	612	1,531
Foreign exchange movement	41	768	605
<b>Movement in net funds</b>	<b>(1,753)</b>	1,411	1,463
Net funds at the beginning of the period	3,144	1,681	1,681
<b>Net funds at the end of the period</b>	<b>1,391</b>	3,092	3,144
<b>Represented by:</b>			
Short-term deposits	1,393	3,074	3,182
(Bank overdraft)/cash at bank	(2)	18	(38)
	<b>1,391</b>	3,092	3,144

## Notes on the Condensed Accounts

### 1 Accounting policies

These financial statements have been prepared on the basis of the accounting policies set out in the Company's financial statements at 30 June 2009. These accounting policies are expected to be followed throughout the year ending 30 June 2010.

### 2 Income

	Half-year ended 31 Dec 2009 £'000s	Half-year ended 31 Dec 2008 £'000s	Year ended 30 June 2009 £'000s
Overseas dividends	302	380	764
Overseas scrip dividends	14	14	45
Interest on cash and short-term deposits	3	24	16
Other income	–	–	12
	<b>319</b>	418	837

### 3 Management fee

The Manager provides investment management 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 outperformance 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 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 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 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-related fee has been provided for in the period ended 31 December 2009 (31 December 2008: £10,000, 30 June 2009: £416,000).

### 4 Dividend

The Directors do not propose to pay an interim dividend.

### 5 Taxation

The taxation charge of £41,000 (31 December 2008: £59,000 and 30 June 2009: £124,000) relates to overseas taxation.

### 6 Return per share

Return per share attributable to shareholders reflects the overall performance of the Company in the period. Net revenue recognised in the first six months is not indicative of the total likely to be received in the full accounting year.

	Half-year ended 31 Dec 2009 £'000s	Half-year ended 31 Dec 2008 £'000s	Year ended 30 June 2009 £'000s
Revenue return	(149)	(5)	7
Capital return	13,022	4,748	4,816
Total return	<b>12,873</b>	4,743	4,823
Weighted average number of shares in issue	<b>20,707,135</b>	20,753,803	20,737,606

### 7 Share capital

	Authorised nominal number	£'000s	Issued and fully paid nominal number	£'000s
Equity share capital				
Ordinary shares of 25p each at				
31 December 2009	<b>75,000,000</b>	<b>18,750</b>	<b>20,707,135</b>	<b>5,177</b>

There were no share buybacks during the period or since the period end.

### 8 Net asset value per share

The net asset value per share is based on 20,707,135 ordinary shares of 25p each in issue at 31 December 2009 (31 December 2008: 20,737,135 and 30 June 2009: 20,707,135).

## Notes on the Condensed Accounts (continued)

### 9 Reconciliation of net return before finance costs and taxation to net cash (outflow)/inflow from operating activities

	Half-year ended 31 Dec 2009 £'000s	Half-year ended 31 Dec 2008 £'000s	Year ended 30 June 2009 £'000s
Total return before finance costs and taxation	12,914	4,802	4,947
Adjust for returns from non-operating activities:			
– Gains on investments	(12,983)	(3,995)	(4,631)
– Exchange gains of a capital nature	(41)	(768)	(605)
– Non-operating expenses of a capital nature	2	5	4
Return from operating activities	(108)	44	(285)
(Increase)/decrease in accrued income	(21)	8	16
(Increase)/decrease in other debtors	(10)	(7)	2
(Decrease)/increase in creditors	(396)	45	420
Scrip dividends	(14)	(14)	(45)
Overseas taxation	(45)	(61)	(119)
Net cash (outflow)/inflow from operating activities	(594)	15	(11)

### 10 Results

The results for the half-year ended 31 December 2009 and 31 December 2008, which are unaudited, constitute non-statutory accounts within the meaning of Section 434 of the Companies Act 2006. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 June 2009; the report of the independent auditors thereon was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The abridged financial statements shown above for the year ended 30 June 2009 are an extract from those accounts.

By order of the Board  
F&C Management Limited, Secretary  
Exchange House, Primrose Street, London EC2A 2NY  
22 February 2010

## How to invest

Our Manager, F&C, runs a number of savings products which have been set up to provide cost effective and flexible ways to invest. Details of these products are listed below. You can buy F&C US Smaller Companies PLC shares using a bank or stockbroker or through a telephone dealing service. The shares can also be bought online; the F&C website at [www.fandc.com](http://www.fandc.com) has a link to Selftrade, one of Europe's biggest online stockbrokers.

Gains arising from assets held in an Individual Savings Account and Child Trust Fund are exempt from tax. Interest and dividends received on assets in these savings products are free of income tax, and there are income tax savings for higher rate taxpayers.

### Private Investor Plan (“PIP”)

It only costs 0.2% (plus 0.5% government stamp duty) to invest in F&C US Smaller Companies PLC via this simple savings plan and there are no ongoing charges. You can invest from £50 each month via a direct debit (£25 on behalf of a child) or from £500 as a lump sum. The minimum for top-up investments is £250. Investments in the PIP can be made online.

### Pension Savings Plan (“PSP”)

You can maximise your tax benefits and save for your retirement using this low cost personal pension plan. There is only a 0.5% management fee and this is capped at £500. Contributions can be made via a minimum £1,000 lump sum or by a monthly minimum direct debit of £50.

The minimum top-up is £500. Now that personal pensions are no longer restricted to those with earnings of their own, almost everyone under the age of 75 is eligible. This means that you can invest on behalf of non-working spouses or partners and children.

### Child Trust Fund (“CTF”)

Parents can invest the government voucher issued to all children born since 1 September 2002 in a CTF. There are no initial or annual plan charges and there is only 0.5% government stamp duty on any purchases. Parents and grandparents (or other relatives or friends) can add contributions totalling £1,200 a year. You can invest from £25 each month via direct debit or from £100 for lump sums once you have invested your voucher.

### Individual Savings Account (“ISA”)

Individuals can invest up to £7,200 each year in F&C's Stocks and Shares ISA. The limit was raised to £10,200 per annum, for individuals over 50 years old, with effect from 6 October 2009 and will be for all other individuals with effect from 6 April 2010.

The minimum monthly direct debit is £50, minimum lump sum investment is £500 and the minimum top-up is £250. Investments in the ISA can be made online.

ISA investments can also be phased over three or six months. This is especially useful near the end of the tax year when the option for monthly investment is no longer viable.

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.

## How to invest (continued)

In addition to the 0.2% dealing charge (plus 0.5% government stamp duty on purchases), F&C charges £60 + VAT a year ISA plan charge to cover any ISAs held, no matter how many tax years' ISAs have been taken out with them, or how many ISAs have been transferred to them.

### Contact details

For further details on the savings plans and application forms, please contact Investor Services on

**0800 136 420**

**info@fandc.com**

or broker support on

**08457 992 299**

**adviser.enquiries@fandc.com**

(UK calls charged at the local rate)

Fax **0131 243 1315**

You can also find more information on the website:

**www.fandc.com**

If you wish to write to us, the address is:

Investor Services Team,

F&C Management Limited,

80 George Street, Edinburgh EH2 3BU

### Availability of report and accounts

The Company's report and accounts are available on the internet at [www.fandcussmallers.com](http://www.fandcussmallers.com). Printed copies may be obtained from the Company's registered office, Exchange House, Primrose Street, London EC2A 2NY

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 for more details.

The information on pages 17 and 18 has been issued and approved by F&C Management Limited, authorised and regulated in the UK by the Financial Services Authority.

## Notes