Aberforth UK Small Companies Fund

Interim Report
30 June 2012

Investment Objective & Policy

The objective of Aberforth UK Small Companies Fund (the Fund) is to achieve a total return (with income reinvested) greater than on the Numis Smaller Companies Index (excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies.

Fund Information

Prices & Yield		02.07.12[1]	03.01.12[1]
Accumulation Units	Issue Price	**£111.23**	£100.65
	Cancellation Price	**£108.74**	£98.17
Income Units	Issue Price	**£98.11**	£90.46
	Cancellation Price	**£95.91**	£88.23
	Yield	**3.3%**	3.1%

Charges	30.06.12	31.12.11
Initial Charge	**Nil**	Nil
Dealing Spread	**2.3%**	2.5%
Ongoing Charges	**0.85%**	0.86%

[1] Prices stated are for the first valuation point being the distribution xd date.

Performance Summary

Return	The Fund[1] (%)	Index[2] (%)
6 months to 30 June 2012	**11.7**	**11.6**

Net Asset Value

Period (Post Distribution)	30.06.12	31.12.11
Total Net Assets	**£164.2m**	£170.2m
Accumulation units in issue	**1,204,304.376**	1,384,131.836
Income units in issue	**351,599.325**	410,596.916
NAV per unit – accumulation	**£108.44**	£97.07
NAV per unit – income	**£95.65**	£87.24

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 30 June 2012	–7.8	–4.1
1 year to 30 June 2011	33.5	34.2
1 year to 30 June 2010	18.0	28.0
1 year to 30 June 2009	–13.9	–12.4
1 year to 30 June 2008	–25.7	–24.8

Periods to 30 June 2012	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2009	45.3	64.8
5 years from 30 June 2007	–7.1	8.6
10 years from 30 June 2002	137.3	161.9
15 years from 30 June 1997	352.0	240.5
Since inception on 20 March 1991	1,042.0	585.6

Periods to 30 June 2012	Compound Annual Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2009	13.3	18.1
5 years from 30 June 2007	–1.5	1.7
10 years from 30 June 2002	9.0	10.1
15 years from 30 June 1997	10.6	8.5
Since inception on 20 March 1991	12.1	9.5

1 Represents cancellation price to cancellation price.

2 Represents capital appreciation on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with dividends reinvested (prior to 1 January 1997 in its "Extended" version). This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2012 consisted of 422 companies, the largest market capitalisation of which was £1.264 billion and the aggregate market capitalisation of which was £134 billion.

Past performance is not a guide to future performance. Stockmarket movements may cause the capital value of an investment and the income derived from it to go down as well as up and investors may get back less than they originally invested.

Manager's Report

This Interim Report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority.

Status

Aberforth UK Small Companies Fund (the Fund) was constituted by a Trust Deed dated 17 December 1990 and is an authorised unit trust scheme under the Financial Services & Markets Act 2000 (the Act). The Fund is a UCITS scheme as defined by the Collective Investment Schemes Sourcebook.

Changes to Prospectus

There were no material changes to the Prospectus of the Fund in the period.

Introduction

During the first half, the Fund's benchmark was renamed. The RBS Hoare Govett Smaller Companies Index (excluding investment companies) became the Numis Smaller Companies Index (excluding investment companies) or NSCI (XIC). The underlying historical data and index methodology are unchanged.

The Fund performed well in absolute terms over its first half, with an 11.7% total return. This marginally exceeded the NSCI (XIC)'s 11.6%, which was itself some way ahead of the FTSE All-Share's 3.3%. These six month figures mask a volatile period for equities. The first quarter was particularly strong: the NSCI (XIC)'s 18.1% return was the sixth strongest quarterly performance in Aberforth's 22 year history. The second quarter was rather different. In stockmarket conditions reminiscent of the second half of 2011, the NSCI (XIC)'s total return was -5.6%.

Such swings in sentiment have been a feature of financial markets since the global financial crisis and recession. Associated with this "risk-on, risk-off" behaviour have been higher correlations between asset classes: risk assets such as equities and commodities have tended to move en masse as allocations to supposedly safe government bonds are nudged higher or lower in response to changes in confidence.

The overwhelming influences on confidence have been macro economic and political. The most significant for two years now has been the turmoil within the Eurozone. Entering 2012, it seemed that the Long Term Refinancing Operation had succeeded at least in buying time for a lasting solution to be found, whether that was to embrace Federalism with a banking union or to manage an orderly exit for those no longer able to remain within the single currency zone. However, financial markets have proved impatient, with Greece's elections and Spain's troubled banking sector raising the stakes. Despite some progress from yet another EU summit at the period end, the days of "muddling-through", which have allowed Germany to enjoy its most competitive currency for decades, appear numbered.

Developments elsewhere added to uncertainty. Entering 2012, economic data were on an improving trend, particularly in the US. However, this was not sustained, with weaker indicators in the US, China and the UK. Indeed, the UK is back in technical recession, with consecutive quarters of contracting GDP influenced by the problems of the major trading partner, the Eurozone. Familiar themes characterise the domestic economy: austerity-driven government sector retrenchment, households beset by pressure on real disposable incomes and inclined to save rather than spend, and a robust corporate sector continuing to operate in financial surplus.

Manager's Report

The health of businesses is illustrated by results issued in the first half by companies in the Manager's tracked universe, which accounts for 96% by value of the NSCI (XIC). Aggregate revenues of companies reporting final results rose by 5%, with operating profits up by 9%. Cumulative capital expenditure was well ahead of depreciation, though this was driven by the very large investment programmes of a small number of resources companies. In aggregate, net debt was reduced again and balance sheets strengthened further.

Investment Performance

The Fund's total return was 11.7% over the first half, marginally higher than the NSCI (XIC)'s 11.6%. Relative performance is driven by the Manager's bottom-up investment process, with the principal selection criteria being the sustainable profitability of the underlying business and the valuation accorded to the business by the stockmarket. That said, there are several themes inherent in the portfolio that have influenced the Fund's performance. These themes are explained in the following paragraphs.

Investment Style

There are signs that the headwinds confronting the Manager's value style are becoming less severe, but growth stocks nevertheless managed to out-perform value stocks by around 2% over the first half, according to data from Style Research (an independent analysis firm). With doubts over general economic growth, the relative ratings of growth companies have improved as their prospects for secular profit progression have been rewarded. Concurrently, the very low interest rates of recent years have favoured the growth style, since a greater proportion of the worth of a growth stock is the discounted value of its mid to long term profits. In this respect, small cap resources stocks, which are generally cash consuming exploration businesses, may be considered aligned with the growth style. These twin dynamics have resulted in the largest recorded bull market over the last five years for small cap growth stocks since 1955 and in exaggerated gaps between the valuations of growth and value stocks that the Manager considers unsustainable.

Size

Of the total value of the NSCI (XIC), 78% is accounted for by the overlap with the FTSE 250. In contrast, the portfolio has an exposure of just 51% to these mid cap companies. The consequent over-weight positioning in "smaller small" companies proved beneficial over the first half, which can be gauged by comparing the performance of the FTSE 250, up by 11.0%, with that of the FTSE SmallCap, up by 13.4%. However, this represents only the second instance of "smaller small" out-performance in the ten six-month periods since 2007. Such is the extremity of risk aversion and concern about illiquidity that underlying business characteristics and prospects are being overlooked. "Smaller small" companies are valued on wide discounts to the mid cap constituents of the NSCI (XIC), a state of affairs that allows the Manager to buy smaller businesses with above average growth prospects – value investors do not dislike growth, though they do dislike paying for it.

Overseas exposure

Last year's interim report noted that just over half the revenues of the companies in the portfolio were generated outside the UK, which represented rather more overseas exposure than is traditionally associated with small UK companies. This analysis has been updated and extended to quantify exposure to the Eurozone: of the revenues of the 90 companies in the portfolio at 30 June 2012, 48% came from the UK, 18% from the Eurozone, 15%

from the Americas, and 19% from the rest of the world. Thus, while some Eurozone exposure is unavoidable, it is not particularly high. It should be noted that a particular geographical profile for the portfolio is not targeted; rather, the present distribution is the result of accumulated decisions about individual businesses. Moreover, this form of analysis risks over-simplifying what would be a horrendously complicated turn of events should the Eurozone fragment. For example, while the stockmarket has discounted – arguably over discounted – the risks of exposure to Spain, it may not have grasped the implications of the re-emergence of a Deutsche Mark bloc for those businesses that have thrived in recent years on selling to Germany's extremely competitive export sector.

Strong Balance Sheets

Another demonstration of the peculiar behaviour of the stockmarket at present regards balance sheet strength. While the valuations of very highly geared companies within the NSCI (XIC) are penalised, there is little evidence that companies at the other end of the balance sheet spectrum are rewarded. This has allowed the Manager to tilt the portfolio towards companies with strong balance sheets without compromising their value investment principles: 39% of the portfolio is invested in companies with net cash, which compares with the NSCI (XIC)'s 31%. Strong balance sheets offer flexibility to invest and acquire, or, in the absence of such opportunities, to return surplus funds to shareholders.

M&A

Despite a relapse into "risk-off" conditions in the second quarter, there was a notable upsurge in M&A activity. While deals for seven NSCI (XIC) constituents had been completed in the first half, another eight companies were at some stage of takeover discussions at 30 June. M&A activity is still well down on the levels before the global financial crisis, but the exciting aspect of recent deals has been the takeover premiums. Exit multiples of EBITA have held up well and so premiums of 50-60% are now more common than the traditional 30%. These high premiums reflect the low valuations currently accorded to small companies by the stockmarket and the determination of fund managers such as Aberforth to reject mooted takeovers at inappropriately low valuations. The Fund itself saw two deals completed for its holdings during the first half, with another outstanding at the period end. On top of this direct boost to performance, there has probably been an indirect benefit as the scale of premiums has drawn attention to the opportunities within the asset class.

Income

The dividend experience through the first half has been positive, continuing the recovery that began early in 2010. The following table classifies the Fund's 90 holdings at 30 June by their most recent dividend action. The "Nil" category contains those companies that do not currently pay dividends. The Manager considers that the majority of these will appear on the dividend register within the next two years, at which point they will move into the "New" category. At the current stage in the cycle, this phenomenon can have a substantial effect on reported dividend growth across both the portfolio and the NSCI (XIC).

Band	Nil	IPOs	Down	Flat	+0-10%	+10-20%	+ >20%	New
No. of holdings	15	1	10	8	27	14	10	5

Manager's Report

Helped by this dividend experience, the portfolio and, by extension, the Fund itself continue to offer attractive income characteristics. The historic yield of the portfolio at the end of June was 3.4%, with 14% of the portfolio still nil yielding. This compares with the FTSE All-Share's 3.7%, the NSCI (XIC)'s 3.0% and a ten year gilt yield of 1.7%. With strong balance sheets, scope for current nil yielders to return to the dividend register, and a historic dividend cover well above its historic average, prospects for income growth from the portfolio are realistic, notwithstanding the obvious macro economic concerns.

Valuations

	30 June 2012		30 June 2011	
Characteristics	**The Fund**	**Index**	The Fund	Index
Number of companies	**90**	**413**	92	417
Weighted average market capitalisation	**£420m**	**£806m**	£430m	£780m
Price earnings ratio (historic)	**9.7x**	**12.8x**	10.8x	13.4x
Dividend yield (historic)	**3.4%**	**3.0%**	2.9%	2.4%
Dividend cover	**3.0x**	**2.6x**	3.2x	3.1x

The preceding table sets out the historic PE ratios and yields of the Fund's portfolio and the NSCI (XIC). On both measures, the portfolio compares well. Moreover, the valuations at the end of June also compared well with the long term averages: since 1990, the average portfolio PE, yield and dividend cover have been 12.8x, 3.4% and 2.5x respectively.

The principal valuation metric in the Manager's investment process is the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). This is because, with cash yielding so little at the current time, the PE ratio of a company is affected by the liability structure of its balance sheet: other things being equal, a company with a high amount of net debt will have a lower PE ratio than a company with net cash. The following table demonstrates the progression of the EV/EBITA ratios of the portfolio and the NSCI (XIC). This progression is influenced both by expectations of higher profits and by a declining EV, as surplus cash is generated to reduce debt or increase cash balances. This second dynamic typically accounts for around 20% of the movement in the ratio from one year to the next. The portfolio's valuation advantage over the small company universe is again evident.

EV/EBITA	**2011**	**2012e**	**2013e**
Fund portfolio	7.5x	7.1x	6.1x
Tracked NSCI (XIC)	9.6x	8.7x	7.6x

Outlook

There is plenty to worry about. The macro economic issues are obvious. But logical analysis of these issues only gets you so far. Eventually politics and national self-interest get in the way. Official policy in several major economies has brought interest rates close to zero. This financial repression complicates the appraisal of investments since it introduces extra doubt about the appropriate discount rate. The reverse yield gap is a thing of the past, with the yield premium of equities over gilts reinforced by regulatory shifts in asset allocation. Prospects for equities often appear rooted in the short term, with an obsession about whether the next quarterly statement will precipitate upgrades or downgrades. Within the NSCI (XIC), "larger small" companies are accorded exaggerated premiums against "smaller small" companies. Related to this, growth companies enjoy historically high premiums over value companies. Primary and secondary issuance has dwindled, with the resources sectors dominating what little there has been. At the same time, de-equitisation has continued to shrink the UK's stock of quoted equity capital.

Notwithstanding all of the above and taking a step back from the short term "risk-on, risk-off" noise, the small company universe offers abundant investment opportunities. The businesses are run by boards with recent experience of managing in a severe recession. Industrial exposures are very different from the financials and resources heavy large cap world, and, despite greater reliance on the UK than large caps, geographic diversification is still available. Businesses are well funded, with balance sheets never so strong in Aberforth's experience. And profit margins have recovered well over the last two years, offering protection should trading conditions deteriorate.

However, a skittish stockmarket is reluctant to reflect these fundamental strengths in valuations. The majority of small businesses are valued well below their long term averages. A fortunate few – large growth companies – have been able to break free but trade on exaggerated valuations compared with most small companies. It is from this silent majority of the UK stockmarket that the Fund's portfolio is selected.

Looking at the value proposition in another way, small companies have generated an average annual total return of 15.3% since 1955. Adjusted for inflation, the return has been 9.1%, which compares with 5.8% from the wider UK market. The components of the real return from small companies are an average starting yield of 4.8%, real dividend growth of 2.1% and an annual valuation change of 1.9%.

Moving on to the situation at the end of June, the average current year yield from the portfolio's holdings was 3.6%. However, with above average dividend cover and the likelihood of nil yielders starting to pay dividends again, near term prospects for dividend growth are good: the Manager estimates 7.5% per annum over the next two years, or, assuming a 3.0% inflation rate, 4.5% in real terms. Clearly, extrapolation of such rates of growth into the medium and long term is too ambitious, but the Manager believes that over time the value investment style ought to be capable of generating incremental income growth as holdings are re-rated and sold, with the proceeds reinvested in cheaper and higher yielding companies. On top of this, with valuations for the asset class below their long term average and with value stocks particularly cheap, it might also be reasonable to expect some extra return from re-rating. Thus, small UK quoted companies selected according to a value discipline offer a medium to long term investment proposition that stacks up well in comparison with history and, indeed, with other financial assets.

A P Bamford, *Director*
R M J Newbery, *Director*
Aberforth Unit Trust Managers Limited

18 July 2012

Long Term Investment Record

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index
1 year to 30.6.12	–7.8	–4.1
1 year to 30.6.11	33.5	34.2
1 year to 30.6.10	18.0	28.0
1 year to 30.6.09	–13.9	–12.4
1 year to 30.6.08	–25.7	–24.8
1 year to 30.6.07	27.0	25.4
1 year to 30.6.06	19.4	25.9
1 year to 30.6.05	25.0	18.2
1 year to 30.6.04	34.6	32.7
1 year to 30.6.03	0.0	–2.6
1 year to 30.6.02	4.1	–13.0
1 year to 30.6.01	25.9	–4.4
1 year to 30.6.00	11.9	19.0
1 year to 30.6.99	11.3	6.8
1 year to 30.6.98	16.7	22.9
1 year to 30.6.97	2.5	4.5
1 year to 30.6.96	32.8	27.2
1 year to 30.6.95	10.3	4.4
1 year to 30.6.94	13.5	11.9
1 year to 30.6.93	26.5	25.8
1 year to 30.6.92	22.8	9.4

Periods to 30.6.12	Compound Annual Returns (%)		Cumulative Returns (%)	
	The Fund[1]	Index	The Fund[1]	Index
2 years from 30.6.10	11.0	13.5	23.1	28.7
3 years from 30.6.09	13.3	18.1	45.3	64.8
4 years from 30.6.08	5.8	9.6	25.1	44.4
5 years from 30.6.07	–1.5	1.7	–7.1	8.6
6 years from 30.6.06	2.8	5.3	18.0	36.2
7 years from 30.6.05	5.0	8.0	41.0	71.5
8 years from 30.6.04	7.3	9.2	76.2	102.7
9 years from 30.6.03	10.1	11.6	137.2	169.0
10 years from 30.6.02	9.0	10.1	137.3	161.9
15 years from 30.6.97	10.6	8.5	352.0	240.5
21.3 years from inception on 20.03.1991	12.1	9.5	1,042.0	585.6

1 Represents cancellation price to cancellation price (accumulation units).

Past performance is not a guide to future performance.

Portfolio Statement

As at 30 June 2012

Holding	Security	Value £'000	30 June 2012 % of Total Net Assets	30 June 2012 % of the Index	31 December 2011 % of Total Net Assets	31 December 2011 % of the Index
Oil & Gas Producers		**4,158**	**2.5**	**4.3**	2.5	4.1
1,274,007	EnQuest	1,372	0.8			
1,439,404	JKX Oil & Gas	1,418	0.9			
1,121,484	Melrose Resources	1,368	0.8			
Oil Equipment, Services & Distribution		**–**	**–**	**1.4**	–	2.0
Alternative Energy		**–**	**–**	**0.1**	–	–
Chemicals		**4,517**	**2.8**	**2.7**	3.2	2.5
970,475	AZ Electronic Materials	2,780	1.7			
1,198,774	Yule Catto & Co	1,737	1.1			
Industrial Metals & Mining		**854**	**0.5**	**0.4**	0.7	0.5
6,099,184	International Ferro Metals	854	0.5			
Mining		**3,507**	**2.2**	**4.7**	1.0	6.1
579,730	Anglo Pacific Group	1,415	0.9			
635,255	Aquarius Platinum	290	0.2			
2,602,368	Centamin	1,802	1.1			
Construction & Materials		**7,916**	**4.8**	**1.7**	4.3	1.6
791,822	Galliford Try	5,004	3.0			
5,199,452	Low & Bonar	2,912	1.8			
Aerospace & Defence		**3,213**	**2.0**	**2.6**	1.4	2.7
586,881	UMECO	3,213	2.0			
General Industrials		**6,405**	**3.9**	**1.2**	4.1	1.2
1,650,831	RPC Group	6,405	3.9			
Electronic & Electrical Equipment		**7,886**	**4.8**	**3.1**	4.3	2.8
4,155,146	e2v technologies	5,786	3.5			
754,798	Morgan Crucible Company	2,100	1.3			
Industrial Engineering		**7,751**	**4.7**	**1.7**	4.4	1.7
1,294,000	Bodycote	4,310	2.6			
779,647	Castings	2,417	1.5			
320,103	Hill & Smith Holdings	1,024	0.6			
Industrial Transportation		**418**	**0.2**	**1.8**	0.3	1.9
3,900	Clarkson	51	–			
889,000	Wincanton	367	0.2			

Portfolio Statement

As at 30 June 2012

Holding	Security	30 June 2012 Value £'000	% of Total Net Assets	% of the Index	31 December 2011 % of Total Net Assets	% of the Index
Support Services		**22,469**	**13.7**	**13.9**	12.1	13.7
605,300	Acal	1,077	0.7			
837,400	Capital Drilling	511	0.3			
1,157,355	CPPGroup	495	0.3			
880,220	Fiberweb	563	0.3			
2,389,409	Howden Joinery Group	3,047	1.9			
130,900	Hyder Consulting	524	0.3			
2,296,560	Lavendon Group	2,509	1.5			
1,395,708	Northgate	2,896	1.8			
1,057,578	office2office	1,502	0.9			
2,516,003	Regus	2,262	1.4			
691,600	Robert Walters	1,418	0.9			
1,980,146	RPS Group	4,129	2.5			
1,209,186	Smiths News	1,152	0.7			
1,632,600	Speedy Hire	384	0.2			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**–**	**–**	**0.9**	–	0.9
Food Producers		**3,019**	**1.8**	**2.4**	0.6	2.5
231,562	Cranswick	1,876	1.1			
431,250	Hilton Food Group	1,143	0.7			
Household Goods & Home Construction		**4,345**	**2.7**	**3.7**	4.4	3.3
1,751,100	Barratt Developments	2,436	1.5			
24,800	Bovis Homes Group	117	0.1			
455,600	Headlam Group	1,260	0.8			
441,219	Redrow	532	0.3			
Leisure Goods		**–**	**–**	**0.3**	–	0.3
Personal Goods		**–**	**–**	**0.2**	–	0.3
Health Care Equipment & Services		**3,033**	**1.8**	**0.6**	1.9	0.6
771,382	Corin Group	378	0.2			
1,344,204	Optos	2,655	1.6			
Pharmaceuticals & Biotechnology		**2,879**	**1.8**	**2.9**	1.4	2.7
4,190,876	Ark Therapeutics Group	122	0.1			
3,603,914	Vectura Group	2,757	1.7			
Food & Drug Retailers		**435**	**0.3**	**1.7**	1.5	1.5
86,240	Greggs	435	0.3			
General Retailers		**12,817**	**7.8**	**6.9**	6.2	6.3
2,862,872	Debenhams	2,475	1.5			
621,568	Halfords Group	1,424	0.9			
678,578	JD Sports Fashion	4,801	2.9			
395,900	Mothercare	785	0.5			
3,131,336	Topps Tiles	1,213	0.7			
389,200	WH Smith	2,119	1.3			

Portfolio Statement

As at 30 June 2012

Holding	Security	30 June 2012 Value £'000	% of Total Net Assets	% of the Index	31 December 2011 % of Total Net Assets	% of the Index
Media		**9,881**	**6.1**	**4.1**	7.7	3.9
572,402	4imprint Group	1,631	1.0			
1,914,617	Centaur Media	684	0.4			
529,939	Chime Communications	824	0.5			
9,684,633	Future	1,162	0.7			
5,524,058	Huntsworth	2,472	1.5			
1,890,422	Mecom Group	1,257	0.8			
1,275,914	Moneysupermarket.com Group	1,597	1.0			
941,800	Trinity Mirror	254	0.2			
Travel & Leisure		**7,952**	**4.8**	**7.7**	4.8	7.8
167,600	Air Partner	448	0.3			
1,286,507	National Express Group	2,753	1.7			
8,076,384	Punch Taverns	511	0.3			
6,377,643	Spirit Pub Company	3,173	1.9			
1,871,885	Sportech	1,067	0.6			
Fixed Line Telecommunications		**1,966**	**1.2**	**3.8**	1.3	3.2
2,750,094	KCOM Group	1,966	1.2			
Electricity		**–**	**–**	**0.9**	–	1.2
Gas, Water & Multiutilities		**–**	**–**			
Nonlife Insurance		**3,039**	**1.8**	**1.7**	2.1	1.7
1,460,658	Beazley	2,011	1.2			
281,667	Novae Group	1,028	0.6			
Life Insurance		**1,644**	**1.0**	**0.9**	1.2	1.0
1,284,452	Hansard Global	1,644	1.0			
Real Estate Investment & Services		**6,350**	**3.9**	**3.1**	3.2	3.4
1,617,607	Safestore Holdings	1,642	1.0			
1,739,471	St. Modwen Properties	2,931	1.8			
928,128	Unite Group	1,777	1.1			
Real Estate Investment Trusts		**3,740**	**2.3**	**3.5**	1.7	3.5
2,484,058	Hansteen Holdings	1,786	1.1			
838,420	Workspace Group	1,954	1.2			
Financial Services		**9,160**	**5.5**	**7.3**	8.4	7.5
1,733,100	Brewin Dolphin Holdings	2,381	1.4			
273,173	Canaccord Financial	874	0.5			
374,818	Charles Stanley Group	945	0.6			
1,833,400	F&C Asset Management	1,522	0.9			
308,400	Jupiter Fund Management	664	0.4			
978,279	Tullett Prebon	2,774	1.7			

Portfolio Statement

As at 30 June 2012

Holding	Security	Value £'000	30 June 2012 % of Total Net Assets	30 June 2012 % of the Index	31 December 2011 % of Total Net Assets	31 December 2011 % of the Index
Software & Computer Services		**14,428**	**8.7**	**5.8**	9.5	5.9
2,200,964	Anite	2,661	1.6			
128,600	Computacenter	385	0.2			
538,368	Kofax	1,351	0.8			
679,052	Micro Focus	3,602	2.2			
1,349,514	Microgen	1,862	1.1			
1,813,690	Phoenix IT Group	3,292	2.0			
1,689,227	RM	1,275	0.8			
Technology Hardware & Equipment		**8,944**	**5.5**	**2.0**	4.9	1.7
2,157,367	CSR	4,755	2.9			
3,114,539	Filtronic	1,004	0.6			
1,375,110	Laird	2,573	1.6			
2,782,010	Promethean World	612	0.4			
Investments as shown in the Balance Sheet		**162,726**	**99.1**	**100.00**	99.1	100.0
Net Current Assets		**1,493**	**0.9**	**–**	0.9	–
Total Net Assets		**164,219**	**100.0**	**100.00**	100.0	100.0

All investments are in ordinary shares and, unless otherwise indicated, are listed on the London Stock Exchange.

Additional Portfolio Information

For the six months ended	30 June 2012 £'000	30 June 2011 £'000
Purchases	**20,313**	33,148
Sales	**44,336**	83,851

Statement of total return

For the six months ended 30 June 2012 *(unaudited)*

	30 June 2012		30 June 2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains/(losses)		18,059		12,854
Revenue	3,698		4,119	
Expenses	(778)		(1,013)	
Finance costs: interest	(2)		(8)	
Net revenue before taxation	2,918		3,098	
Taxation	(4)		(2)	
Net revenue after taxation		2,914		3,096
Total return before distributions		20,973		15,950
Finance costs: distributions		(3,375)		(3,096)
Change in net assets attributable to unitholders from investment activities		17,598		12,854

Statement of change in unitholders' net assets

For the six months ended 30 June 2012 *(unaudited)*

	30 June 2012		30 June 2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		170,175		253,242
Amounts receivable on issue of units	852		866	
Amounts payable on cancellation of units	(26,884)		(57,870)	
		(26,032)		(57,004)
Stamp duty reserve tax		(1)		(4)
Change in net assets attributable to unitholders from investment activities		17,598		12,854
Retained distribution on accumulation units		2,479		2,187
Closing net assets attributable to unitholders		164,219		211,275

Balance sheet
As at 30 June 2012 *(unaudited)*

	30 June 2012		31 December 2011	
	£'000	£'000	£'000	£'000
ASSETS				
Investment assets		**162,726**		168,690
Debtors	**3,684**		640	
Cash and bank balances	**2,795**		1,811	
Total other assets		**6,479**		2,451
Total assets		**169,205**		171,141
LIABILITIES				
Creditors	**(4,336)**		(427)	
Distribution payable on income units	**(650)**		(539)	
Total liabilities		**(4,986)**		(966)
Net assets attributable to unitholders		**164,219**		170,175

Notes to the Financial Statements *(unaudited)*

These accounts have been prepared in accordance with the Manager's Statement of Responsibilities which is included in the annual financial statements.

1. Accounting Standards

Basis of accounting

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds (SORP) issued by the Investment Management Association in October 2010. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011 and are described in those financial statements.

2. Finance Costs

Distributions and interest

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

	June 2012 £'000	June 2011 £'000
Interim distribution	**3,129**	2,794
Add: Income deducted on cancellation of units	**260**	306
Less: Income received on creation of units	**(14)**	(4)
Distributions:	**3,375**	3,096
Bank overdraft interest	**2**	8
Total finance cost	**3,377**	3,104

The difference between the net revenue after taxation and the distributions for the period are as follows:

	June 2012 £'000	June 2011 £'000
Net revenue after taxation	**2,914**	3,096
Add: Manager's periodic fee taken to capital	**461**	–
Distributions:	**3,375**	3,096

With effect from 1 October 2011, 5/8ths of the Manager's periodic fee has been allocated to capital and the remaining 3/8ths been allocated to revenue. Previously this fee was allocated wholly to revenue.

Financial instruments exposure

In pursuing its investment objective certain risks arise for the Fund in relation to the investment portfolio and cash balances held.

The main risks arising are from market price, liquidity, credit and interest rate risks. The Manager has policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the period to which these financial statements relate.

Market Price Risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements.

Liquidity Risk

The Fund's assets comprise mainly of securities which are considered to be readily realisable in accordance with the market practices of the London Stock Exchange. Liquidity may, however, be affected by market events.

The risk of low market liquidity through reduced trading volumes may affect the Fund's ability to trade investments at values previously indicated by brokers.

The main liability of the Fund is the redemption of units that investors wish to sell. In general the cash levels of the Fund are managed to ensure liabilities can be met. Where investments cannot be realised to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement. In addition, in accordance with the Prospectus terms, redemptions may be settled by an in specie transfer of assets.

Credit Risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its responsibilities.

The investment transactions of the Fund are generally undertaken on a delivery versus payment basis. In addition, the Manager only buys and sells investments through brokers which are authorised and regulated by the Financial Services Authority, who have formally agreed terms of business with the Manager, and who are considered to have execution arrangements that enable the Manager to comply with its obligation to obtain the best possible result for its clients.

The Manager closely monitors market developments that may impact a broker's creditworthiness, market reputation and expectations of future financial performance. A range of brokers is utilised by the Manager.

Interest Rate Risk

The majority of the Fund's financial assets are equity shares, which do not pay interest or have a maturity date. The Fund's exposure to interest rate risk is therefore insignificant.

Distribution Table

For the six months to 30 June 2012

Group 1: Units purchased prior to 1 January 2012
Group 2: Units purchased on or after 1 January 2012

Interim Distribution	Net Income June 2012	Equalisation† June 2012	Distribution/ Accumulation June 2012	Distribution/ Accumulation June 2011
Income units				
Group 1	**185.02586p**	**–**	**185.02586p**	143.33757p
Group 2	**33.90277p**	**151.12309p**	**185.02586p**	143.33757p
Accumulation units				
Group 1	**205.86125p**	**–**	**205.86125p**	155.13053p
Group 2	**37.72049p**	**168.14076p**	**205.86125p**	155.13053p

† When buyers purchase units, the purchase price includes the value of securities and revenue up to the date of purchase. All unitholders receive the same distribution, in pence per unit, however, equalisation applies only to units purchased during the distribution period (Group 2 Units). Equalisation is the average amount of income included in the purchase of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Management and Administration

Manager

Aberforth Unit Trust Managers Limited*
14 Melville Street
Edinburgh EH3 7NS
Telephone – Dealing: 0845 608 0940
– Enquiries: 0131 220 0733
Email: enquiries@aberforth.co.uk
Email (Dealing):
ordergroup@capitafinancial.com
Website: www.aberforth.co.uk

Trustee

National Westminster Bank plc*
Trustee & Depositary Services
The Broadstone
50 South Gyle Crescent
Edinburgh EH12 9UZ

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Capita Financial Administrators Limited*
2 The Boulevard
City West One Office Park
Gelderd Road
Leeds LS12 6NT
Telephone: 0845 608 0940

Custodian

The Northern Trust Company*
50 Bank Street
Canary Wharf
London E14 5NT

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

**Authorised and regulated by the Financial Services Authority*

Buying and Selling

Units may be bought and sold by contacting the Manager by telephone, at the address above or by email (ordergroup@capitafinancial.com). In addition orders can be placed electronically via EMX and Calastone transaction networks. Valuation of the fund takes place each business day at 4.30 pm on a forward pricing basis.

Copies of the Prospectus are available, free of charge, from the Manager or on-line at www.aberforth.co.uk.

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