# Aberforth UK Small Companies Fund

## Interim Report

**30 June 2014**

# 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 | | 01.07.14[1] | 02.01.14[1] |
|---|---|---|---|
| Accumulation Units | Issue Price | £192.20 | £189.92 |
| | Cancellation Price | £188.95 | £186.57 |
| Income Units | Issue Price | £161.38 | £161.24 |
| | Cancellation Price | £158.65 | £158.40 |
| | Yield | 2.1% | 2.2% |

| Charges | 01.07.14 | 02.01.14 |
|---|---|---|
| Initial charge | Nil | Nil |
| Dealing spread | 1.7% | 1.8% |
| Ongoing charges | 0.83% | 0.84% |
| Exit charge | Nil | Nil |

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

# Performance Summary

| Return | The Fund[1] (%) | Index[2] (%) |
|---|---|---|
| 6 months to 30 June 2014 | 1.1 | -0.6 |

## Net Asset Value (Post Distribution)

| | 30.06.14 | 31.12.13 |
|---|---|---|
| Total Net Assets | £203.0m | £168.8m |
| Accumulation units in issue | 658,438.622 | 597,739.561 |
| Income units in issue | 497,558.798 | 362,124.095 |
| NAV per unit – accumulation | £188.58 | £186.48 |
| NAV per unit – income | £158.35 | £158.32 |

## Historic Returns

| Period | Discrete Annual Returns (%) The Fund[1] | Index[2] |
|---|---|---|
| 1 year to 30 June 2014 | 30.5 | 20.3 |
| 1 year to 30 June 2013 | 33.3 | 31.8 |
| 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 |

| Periods to 30 June 2014 | Cumulative Returns (%) The Fund[1] | Index[2] |
|---|---|---|
| 3 years from 30 June 2011 | 60.5 | 52.0 |
| 5 years from 30 June 2009 | 152.9 | 161.2 |
| 10 years from 30 June 2004 | 206.6 | 221.4 |
| 15 years from 30 June 1999 | 505.4 | 311.3 |
| Since inception on 20 March 1991 | 1,886.9 | 986.9 |

| Periods to 30 June 2014 | Annualised Returns (%) The Fund[1] | Index[2] |
|---|---|---|
| 3 years from 30 June 2011 | 17.1 | 15.0 |
| 5 years from 30 June 2009 | 20.4 | 21.2 |
| 10 years from 30 June 2004 | 11.9 | 12.4 |
| 15 years from 30 June 1999 | 12.8 | 9.9 |
| Since inception on 20 March 1991 | 13.7 | 10.8 |

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. This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2014 consisted of 363 companies, the largest market capitalisation of which was £1.503 billion and the aggregate market capitalisation of which was £163 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 Conduct 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

Most equity markets around the globe have made further progress in 2014. However, in a general theme of reversal, the stronger performing parts of the financial markets in 2013 have tended to under-perform so far this year, while many of last year’s weaker performing areas have out-performed in 2014. Thus, in the context of the UK stockmarket, large companies have out-paced small companies: the FTSE All-Share has generated a total return of +1.6%, while the NSCI (XIC) has struggled to maintain its spectacular gains of 2013 with a total return of -0.6%. The Fund’s total return over the six month period was +1.1%. This performance is examined in the Investment Performance section of this report.

In the last annual report, the Manager cautioned that “the absolute returns that the Fund generates in 2014 and beyond will be heavily influenced by global financial and macro economic factors that can seem very distant from the parochiality of small UK quoted companies”. So far in 2014, there have been several such challenges – Cold War tensions in the Ukraine, volatility in emerging markets, renewed hostilities in Iraq, even more concern about the Chinese shadow-banking system, ambiguous US data following a harsh winter, and some confusing commentary on monetary tightening by central bankers. Against this background and in view of 2013’s strong returns, 2014’s modest decline from small company equities, which tend to be more volatile and less defensive than their larger peers, might be considered unsurprising.

A further challenge, which plays to the theme of reversal, has come from a rally in government bond prices. Ten year gilt yields fell from 3.0% at 31 December 2013 to 2.7% at the end of June. This has come despite a continued improvement in the domestic UK economy, which has recently given rise to speculation about an interest rate increase in 2014. The drop in yields has also been evident in the US and has wrong-footed many market observers, who had been forecasting a continuation of the trends of 2013, when yields rose sharply from 1.8% to 3.0%.

That rise played to the theme of “great rotation”, which was addressed in last year’s interim report. The “great rotation” describes a strengthening of economic growth and normalisation of monetary conditions that create conditions favourable to equity investment. The relapse in government bond yields is therefore rather inconvenient for this scenario, potentially indicating deteriorating prospects for economic growth. However, this interpretation is complicated by central banks’ bond purchases. Although the US is tapering its quantitative easing programme, additional extraordinary stimulus may be forthcoming from the Eurozone: Mario Draghi has indicated that, on top of recently announced measures, quantitative easing will be deployed if the threat of deflation remains.

Perhaps the lesson to learn from the past year or so, with yields testing the 3.0% level, is that economies are still not sufficiently resilient to cope with this degree of effective monetary tightening. Thus, while the logic of the "great rotation" is sound, the conditions necessary for it to play out in full are not yet in place. Financial markets will continue to test the strength of the real economy, but recovery will be drawn out and monetary conditions will remain looser for longer, even in the UK.

## Investment Performance

The Fund's total return over the six months to 30 June 2014 was +1.1%, which compares with -0.6% for the NSCI (XIC). The following table and paragraphs describe the significant influences on the relative performance.

| For the six months ended 30 June 2014 | Basis points |
|---|---|
| Stock selection | 165 |
| Sector selection | 39 |
| Attributable to the portfolio of investments, based on mid prices | 204 |
| Movement in mid to bid price spread | (3) |
| Cash/overdraft | 18 |
| Management fee | (46) |
| Other expenses | (2) |
| Total attribution based on bid prices | 171 |

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 1.12%; Benchmark Index = -0.59%; difference is 1.71% being 171 basis points).

### *Size*

The "smaller small" companies within the NSCI (XIC) performed slightly better than the "larger small" companies. An indication of this is the relative performance of the FTSE 250 and the FTSE SmallCap, whose total returns over the first half were -0.4% and +0.4% respectively. This was beneficial to the portfolio's relative performance since it has a relatively low exposure – 48% against 72% for the index – to the "larger small" companies. This positioning is motivated by the more attractive valuations still available among companies with market capitalisations less than £500m.

Despite the superior returns from "smaller smalls" over the past 18 months, the FTSE 250 remains by some way the most buoyant component of the UK stockmarket since the turn of the millennium, having generated a total return of 301%, against 98% for the FTSE SmallCap and 79% for the FTSE All-Share. These performance figures, which are influenced by the peculiarities of the TMT bubble and the global financial crisis, are inconsistent with academic theory, which suggests that investors in smaller companies should be compensated for greater illiquidity by superior returns.

### *Style*

Investment style was also helpful to returns, with the value component of the NSCI (XIC) out-pacing the growth component over the first six months of the year. This reflects specific problems confronting several growth companies over the period, but might be considered surprising from another perspective. The drop in gilt yields and consequent flattening of the yield curve, which were described in the opening section of this report, are often associated with headwinds to the value style. There are two reasons for this. First, falling long term gilt yields should, other things being equal, lower the discount rates applicable to profit streams over the mid to long term; since a greater proportion of growth companies' profits come over the mid to long term, the valuations of growth companies should benefit disproportionately. Second, flattening yield curves can reflect tighter monetary conditions, with short term rates rising to quell inflationary pressures; a subsequent slowdown in economic activity would usually affect value companies disproportionately since they tend to be more cyclical, lacking the secular growth opportunities of growth companies.

*Corporate activity*

The quietest year for small cap M&A in Aberforth's history was 2013, when only five acquisitions of NSCI (XIC) constituents were completed. However, as confidence has continued to improve around board room tables, there has been a pick-up in activity in 2014. As at 30 June, bids for 13 companies had either completed or were outstanding. The acquirers tend to be overseas companies. The average premium to the share price before announcement was 30%. Five of these were holdings in the portfolio. However, the real excitement for the investment bankers has come from the continued strength of the IPO market, which started in earnest in the middle of 2013. In the first half of 2014, 22 companies potentially eligible for inclusion in the NSCI (XIC) had floated on the main market of the London Stock Exchange. The combined market capitalisation of these companies was £15bn, roughly double the value of the 13 companies subject to M&A. A continuation of the recent rate of IPOs would render 2014 the busiest year since 2000.

The Manager tends to be wary of IPOs since the vendors, typically private equity houses, should know a lot more about the businesses than the acquirers. Moreover, IPO markets in full flood are particularly dangerous, as prices tend to be set by the vendors. Over-ambitious valuations can result in disappointing share price performance of the companies once on the stockmarket, an increasingly frequent phenomenon as the year has progressed. Within the portfolio at the end of the period were three 2014 IPOs. One of these positions was taken after the company had floated and its share price had dropped sharply. Other opportunities among the recent IPOs may be forthcoming over the coming year or so if IPO prices do indeed turn out to have been over-ambitious.

The likely net effect of M&A and IPOs is a year of re-equitisation, as the stock of small company equity capital is replenished. This follows four years of de-equitisation. While the enthusiastic reception for IPOs might be viewed as part of the "great rotation", it could be argued that the supply-demand balance is being altered to the disadvantage of small company valuations.

*Results*

The 36.9% total return enjoyed by the NSCI (XIC) in 2013 came despite a lack of profits growth. There are 358 companies within the NSCI (XIC), of which Aberforth tracks closely 282. This "tracked universe" represents 98% by value of the total index. Of the 282, 138 have December year ends and reported their 2013 results in the first quarter of this year. The aggregate sales of these companies rose by 1% in 2013, while their operating profits dropped by 3%. There is a distortion from 21 resources companies: with these stripped out of the analysis, the sales of the remainder grew by 2% and the operating profits by 4%. Nevertheless, these are hardly rates of growth that justify last year's surge in share prices. The market was therefore prepared to look further ahead. The outlook for 2014 does seem brighter, as the domestic economy, which accounts for roughly 50% of the aggregate sales of NSCI (XIC) constituents, continues to recover. However, as factors such as sterling's strength gnaw away at the value of sales generated outside the UK, the small cap universe

# Manager’s Report

continues to witness net downgrades to profit estimates. It is by no means certain that the market would take a repeat of 2013 with such insouciance.

However, more positive evidence is emerging for the medium term. The 138 companies noted above are investing. The ratio of aggregate capital expenditure to depreciation was 1.8x in 2013. A number above 1.0x suggests that companies are doing more than just replacing existing productive capacity. Even when the resources companies are again eliminated, the ratio for the remainder is a healthy 1.4x: the majority of companies in this cross section of small UK quoted companies, contrary to the rhetoric of some commentators, do appear to be investing for future growth.

### *Income*

Despite the disappointing progress of profits in 2013, the income performance of small companies has remained strong. Another year of mid to high single digit growth across the asset base is plausible, as is a continuation of the phenomenon of special dividends. The impact of this encouraging backdrop on the Fund’s distribution can be affected by the timing of special dividends and changes to the portfolio. However, the positive underlying dividend experience among investee companies is evident from the following analysis. Within the portfolio of 95 holdings, 46 increased their most recent dividends, 12 made no change, 25 currently pay no dividend, 5 cut, 4 are IPOs that have not yet paid a dividend, and 3 pay dividends but have no meaningful comparison. The number of nil payers, which account for 23% by value of the portfolio, is unusually high and helps boost the portfolio’s average historic dividend cover, which, at 3.2x, is towards its highest ever level. The Manager has not lost its fondness for dividends. However, it seems likely that the market, inspired by quantitative easing to a pursuit of yield in recent years, has overlooked companies that at the present time are not paying dividends. Crucially, most of the current nil yielders should be capable of returning to the dividend register over the short to medium term. As they do so, the average dividend cover of the portfolio will decline but the Fund’s income account will benefit.

### *Strong balance sheets*

Balance sheets across the small company universe remain among the strongest seen in the Fund’s history. At 30 June, 36% and 33% of the portfolio and the tracked universe respectively were represented by companies with net cash on their balance sheets. In the case of the portfolio, this robustness was a feature even before the onset of the global financial crisis. And it persists despite encouraging evidence that company boards are willing to put some of their cash resource to use, either through higher investment or through returns of cash to shareholders in the form of special dividends or buy-backs.

### *Turnover*

Over the 12 months to 30 June 2014, portfolio turnover was 28%. Turnover is calculated by taking the lower of purchases or sales for the period, divided by the average market value of the portfolio. The level of turnover can be affected by the Manager’s value investment style. When equity prices rise sharply, as they did through 2013, target valuations for portfolio companies are reached: the natural inclination of the value investor is to attempt to redeploy the capital invested in such companies into more attractively valued companies. There is an additional influence. An element of turnover can be effectively forced: when holdings leave the NSCI (XIC) after growing too large or when holdings are subject to M&A, the Manager is required to sell.

# Manager's Report

### *Active share*

Active share, or active money, is a measure of how different a portfolio is from its benchmark and thus of fund managers' conviction in the stocks they choose to own. It may be calculated by summing the active weights (i.e. the portfolio weight less the benchmark weight) for each stock in the portfolio. A higher active share ratio implies a lower probability that the portfolio will perform like the benchmark. Active share may be flattered by owning stocks that are not constituents of the benchmark; since the Manager sells stocks that grow too large to be included in the NSCI (XIC), the Fund's level of mismatch with the benchmark is low. Indeed, the present mismatch is accounted for by companies that will be eligible for membership of the NSCI (XIC) on its next rebalancing. The Manager targets an active share ratio of at least 70%, though will tolerate a temporarily depressed number. At 30 June 2014, the ratio for the Fund's portfolio stood at 73%. The Manager believes that this demonstrates conviction in the Fund's holdings. However, while performance should differ from that of the benchmark, there is no guarantee that it will do so in a positive fashion!

## Valuation & conclusion

| Characteristics | 30 June 2014<br>The Fund | 30 June 2014<br>NSCI (XIC) | 30 June 2013<br>The Fund | 30 June 2013<br>NSCI (XIC) |
|---|---|---|---|---|
| Number of companies | **95** | **358** | 98 | 383 |
| Weighted average market capitalisation | **£634m** | **£812m** | £562m | £882m |
| Price earnings ratio (historic) | **13.4x** | **15.2x** | 11.3x | 14.3x |
| Dividend yield (historic) | **2.3%** | **2.4%** | 2.9% | 2.5% |
| Dividend cover | **3.2x** | **2.8x** | 3.0x | 2.8x |

The very strong performance from equities in 2013, coupled with lacklustre profit growth, resulted in a substantial upwards revaluation. This re-rating was by no means confined to small UK quoted companies, but is evident in the movement in the NSCI (XIC)'s historic PE from 12.8x at the start of 2013 to 15.2x at 30 June 2014. This most recent multiple represents a 13% premium to the average historic PE of the NSCI (XIC) over the Fund's 24 year history of 13.4x. It also represents a 3% premium to the 14.8x historic PE of large companies at the end of June, which compares with an average discount of small to large over the Fund's history of 8%.

There are potentially extenuating circumstances. Other things being equal, the very strong balance sheets enjoyed by small companies would merit a higher PE. And, in relation to large companies, radically different sector exposures can be more important than a direct size effect in explaining relative valuations. But it is difficult to argue that small companies as a whole are now cheap, at least on the basis of historic PE ratios. Of course, the market's purpose is to look ahead and discount what is to come and thus today's valuations may be justified by the imminence of strong profit growth. On this front, immediate prospects are clouded by sterling's strength and by a still uncertain recovery path in Europe. Over the medium term, stronger than average profit growth should be achievable if and when Europe recovers properly, but over the long term profit progression in line with nominal GDP is probably not too far from the mark. On balance, therefore, from a starting dividend yield of 2.4%, modest single digit total returns for small companies look likely over coming years.

These comments pertain to the asset class as a whole, but it is still possible to differentiate within the confines of the NSCI (XIC). The valuation characteristics of the Fund's portfolio differ from those of the asset class. The historic PE of 13.4x is 12% below that of the NSCI (XIC). The table below shows

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the valuation on a forward looking basis to December 2015, using the ratio of enterprise value to earning before interest, tax and amortisation (EV/EBITA), a metric that is unaffected by companies' balance sheet financing structures.

| 2015 EV/EBITA ratio | | | |
|---|---|---|---|
| *38 growth companies* | *244 other companies* | *Tracked NSCI (XIC)* | *The Fund's portfolio* |
| 13.2x | 9.4x | 9.9x | 8.5x |

This analysis demonstrates the differentiation possible through a value investment discipline, with the growth companies in the index on a 55% premium to the constituents of the portfolio. Part of this valuation advantage reflects the portfolio's exposure to the cheaper "smaller small" companies that the market at large still seems reluctant to embrace.

It is necessary to be realistic: macro economics, geopolitics and the vagaries of the yield curve will buffet the stockmarket over the short term, determining its appetite for smaller companies and for the value investment style. However, the Manager is encouraged by the still wide disparity in valuations evident within the NSCI (XIC). The attractively valued businesses within the portfolio give the Fund's investors exposure to the value investment style, which, in the recent past and over the long term, has delivered demonstrably superior returns.

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

25 July 2014

# Distribution Table

## For the six months to 30 June 2014

Group 1: Units purchased prior to 1 January 2014

Group 2: Units purchased on or after 1 January 2014

| **Interim Distribution** | **Net Income June 2014** | **Equalisation† June 2014** | **Distribution/ Accumulation June 2014** | Distribution/ Accumulation June 2013 |
|---|---|---|---|---|
| Income units | | | | |
| Group 1 | 178.7925p | – | **178.7925p** | 193.1935p |
| Group 2 | 118.6668p | 60.1257p | **178.7925p** | 193.1935p |
| Accumulation units | | | | |
| Group 1 | 210.5902p | – | **210.5902p** | 222.0124p |
| Group 2 | 139.7713p | 70.8189p | **210.5902p** | 222.0124p |

† 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.

# Long Term Investment Record

## Historic Returns

| Period | Discrete Annual Returns (%) The Fund[1] | Index |
|---|---|---|
| 1 year to 30 June 2014 | 30.5 | 20.3 |
| 1 year to 30 June 2013 | 33.3 | 31.8 |
| 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 |

| Periods to 30.6.14 | Annualised Returns (%) | | Cumulative Returns (%) | |
|---|---|---|---|---|
| | The Fund[1] | Index | The Fund[1] | Index |
| 2 years from 30 June 2012 | 31.9 | 25.9 | 74.0 | 58.5 |
| 3 years from 30 June 2011 | 17.1 | 15.0 | 60.5 | 52.0 |
| 4 years from 30 June 2010 | 21.0 | 19.5 | 114.3 | 104.1 |
| 5 years from 30 June 2009 | 20.4 | 21.2 | 152.9 | 161.2 |
| 6 years from 30 June 2008 | 13.8 | 14.8 | 117.6 | 128.9 |
| 7 years from 30 June 2007 | 7.1 | 8.1 | 61.7 | 72.1 |
| 8 years from 30 June 2006 | 9.4 | 10.1 | 105.3 | 115.9 |
| 9 years from 30 June 2005 | 10.5 | 11.8 | 145.2 | 171.8 |
| 10 years from 30 June 2004 | 11.9 | 12.4 | 206.6 | 221.4 |
| 15 years from 30 June 1999 | 12.8 | 9.9 | 505.4 | 311.3 |
| 23.3 years from inception on 20 March 1991 | 13.7 | 10.8 | 1,886.9 | 986.9 |

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

Past performance is not a guide to future performance.

# Portfolio Statement

## As at 30 June 2014

| Holding | Security | 30 June 2014 Value £'000 | 30 June 2014 % of Total Net Assets | 30 June 2014 % of the Index | 31 December 2013 % of Total Net Assets | 31 December 2013 % of the Index |
|---|---|---|---|---|---|---|
| **Oil & Gas Producers** | | **9,954** | **4.9** | **2.9** | 3.7 | 3.4 |
| 2,191,251 | EnQuest | 3,092 | 1.5 | | | |
| 1,119,987 | Hardy Oil & Gas | 1,120 | 0.6 | | | |
| 1,234,766 | JKX Oil & Gas | 713 | 0.3 | | | |
| 1,326,296 | Petroceltic International | 2,079 | 1.0 | | | |
| 716,600 | Soco International | 2,950 | 1.5 | | | |
| **Oil Equipment, Services & Distribution** | | **1,505** | **0.7** | **2.0** | – | 1.6 |
| 972,300 | Gulf Marine Services | 1,505 | 0.7 | | | |
| **Alternative Energy** | | **–** | **–** | **0.1** | – | 0.1 |
| **Chemicals** | | **2,075** | **1.0** | **2.1** | 1.0 | 3.1 |
| 894,418 | Synthomer | 2,075 | 1.0 | | | |
| **Industrial Metals & Mining** | | **642** | **0.3** | **0.6** | 0.3 | 0.8 |
| 8,076,152 | International Ferro Metals | 642 | 0.3 | | | |
| **Mining** | | **4,137** | **2.1** | **3.8** | 1.9 | 3.4 |
| 786,430 | Anglo Pacific Group | 1,366 | 0.7 | | | |
| 2,723,510 | Centamin | 1,729 | 0.9 | | | |
| 6,788,100 | Kenmare Resources | 1,035 | 0.5 | | | |
| 543,440 | Kenmare Resources Warrants 2019[1] | 7 | – | | | |
| **Construction & Materials** | | **2,631** | **1.3** | **3.0** | 1.7 | 2.9 |
| 148,347 | Galliford Try | 1,694 | 0.8 | | | |
| 1,216,245 | Low & Bonar | 937 | 0.5 | | | |
| **Aerospace & Defence** | | **6,976** | **3.4** | **2.9** | 3.5 | 2.9 |
| 609,964 | Chemring Group | 1,253 | 0.6 | | | |
| 2,767,285 | QinetiQ Group | 5,723 | 2.8 | | | |
| **General Industrials** | | **10,385** | **5.2** | **1.6** | 4.9 | 1.6 |
| 797,253 | RPC Group | 4,999 | 2.5 | | | |
| 1,177,172 | Vesuvius | 5,386 | 2.7 | | | |
| **Electronic & Electrical Equipment** | | **10,392** | **5.1** | **3.8** | 5.3 | 4.3 |
| 2,967,617 | e2v technologies | 4,941 | 2.4 | | | |
| 1,020,688 | Morgan Advanced Materials | 3,310 | 1.6 | | | |
| 1,036,670 | TT Electronics | 2,141 | 1.1 | | | |
| **Industrial Engineering** | | **6,713** | **3.4** | **2.3** | 3.5 | 2.3 |
| 253,986 | Bodycote | 1,746 | 0.9 | | | |
| 374,390 | Castings | 1,742 | 0.9 | | | |
| 147,197 | Hill & Smith Holdings | 740 | 0.4 | | | |
| 438,287 | Vitec Group | 2,485 | 1.2 | | | |
| **Industrial Transportation** | | **2,010** | **1.0** | **1.8** | 0.9 | 1.6 |
| 1,462,173 | Wincanton | 2,010 | 1.0 | | | |

# Portfolio Statement

## As at 30 June 2014

| Holding | Security | 30 June 2014 Value £'000 | 30 June 2014 % of Total Net Assets | 30 June 2014 % of the Index | 31 December 2013 % of Total Net Assets | 31 December 2013 % of the Index |
|---|---|---|---|---|---|---|
| **Support Services** | | **25,637** | **12.7** | **12.3** | 14.9 | 12.3 |
| 331,817 | Acal | 803 | 0.4 | | | |
| 331,817 | Acal Nil Paid Rights | 219 | 0.1 | | | |
| 626,185 | Capital Drilling | 180 | 0.1 | | | |
| 1,019,277 | Connect Group | 1,858 | 0.9 | | | |
| 2,738,700 | Hogg Robinson Group | 1,979 | 1.0 | | | |
| 376,961 | Hyder Consulting | 1,743 | 0.9 | | | |
| 258,900 | Interserve | 1,552 | 0.8 | | | |
| 72,027 | Lavendon Group | 148 | 0.1 | | | |
| 3,365,977 | Management Consulting Group | 833 | 0.4 | | | |
| 832,221 | Northgate | 4,361 | 2.1 | | | |
| 345,512 | office2office | 95 | – | | | |
| 789,927 | Robert Walters | 2,415 | 1.2 | | | |
| 1,073,361 | RPS Group | 2,984 | 1.5 | | | |
| 4,437,542 | Shanks Group | 4,726 | 2.3 | | | |
| 3,316,113 | Speedy Hire | 1,741 | 0.9 | | | |
| **Automobiles & Parts** | | **–** | **–** | **–** | – | – |
| **Beverages** | | **1,058** | **0.5** | **0.9** | 0.3 | 0.8 |
| 354,400 | Stock Spirits Group | 1,058 | 0.5 | | | |
| **Food Producers** | | **4,222** | **2.0** | **3.0** | 1.2 | 2.8 |
| 531,568 | Hilton Food Group | 2,658 | 1.3 | | | |
| 2,269,800 | Premier Foods | 1,197 | 0.6 | | | |
| 75,900 | R.E.A. Holdings | 367 | 0.1 | | | |
| **Household Goods & Home Construction** | | **5,197** | **2.5** | **2.4** | 2.8 | 2.4 |
| 471,105 | Bovis Homes Group | 3,726 | 1.8 | | | |
| 949,500 | McBride | 914 | 0.4 | | | |
| 204,625 | Redrow | 557 | 0.3 | | | |
| **Leisure Goods** | | **1,192** | **0.6** | **0.5** | – | 0.5 |
| 192,100 | Games Workshop Group | 1,192 | 0.6 | | | |
| **Personal Goods** | | **–** | **–** | **1.1** | – | 1.3 |
| **Health Care Equipment & Services** | | **2,414** | **1.2** | **2.2** | 1.2 | 1.9 |
| 1,344,627 | Optos | 2,414 | 1.2 | | | |
| **Pharmaceuticals & Biotechnology** | | **2,614** | **1.3** | **1.4** | 2.0 | 1.3 |
| 1,968,853 | Vectura Group | 2,614 | 1.3 | | | |
| **Food & Drug Retailers** | | **862** | **0.4** | **0.9** | – | 0.8 |
| 521,600 | McColl's Retail Group | 862 | 0.4 | | | |
| **General Retailers** | | **12,154** | **6.0** | **5.6** | 6.1 | 5.7 |
| 819,500 | Card Factory | 1,688 | 0.8 | | | |
| 61,000 | Findel | 162 | 0.1 | | | |
| 296,766 | Halfords Group | 1,403 | 0.7 | | | |
| 1,784,288 | JD Sports Fashion | 7,137 | 3.5 | | | |
| 745,966 | Mothercare | 1,764 | 0.9 | | | |

# Portfolio Statement

## As at 30 June 2014

| Holding | Security | 30 June 2014 Value £'000 | 30 June 2014 % of Total Net Assets | 30 June 2014 % of the Index | 31 December 2013 % of Total Net Assets | 31 December 2013 % of the Index |
|---|---|---|---|---|---|---|
| **Media** | | **12,533** | **6.3** | **3.6** | 6.8 | 3.5 |
| 1,843,034 | Centaur Media | 1,138 | 0.6 | | | |
| 569,108 | Chime Communications | 2,016 | 1.0 | | | |
| 8,604,567 | Future | 801 | 0.4 | | | |
| 4,788,581 | Huntsworth | 2,574 | 1.3 | | | |
| 2,222,342 | Mecom Group | 3,395 | 1.7 | | | |
| 1,728,107 | Trinity Mirror | 2,609 | 1.3 | | | |
| **Travel & Leisure** | | **22,975** | **11.3** | **8.5** | 8.4 | 8.2 |
| 110,509 | Air Partner | 509 | 0.2 | | | |
| 3,956,308 | FirstGroup | 5,009 | 2.5 | | | |
| 3,720,500 | Flybe Group | 4,427 | 2.2 | | | |
| 182,084 | Go-Ahead Group | 4,312 | 2.1 | | | |
| 848,635 | National Express Group | 2,221 | 1.1 | | | |
| 5,282,246 | Punch Taverns | 476 | 0.2 | | | |
| 6,013,358 | Spirit Pub Company | 4,435 | 2.2 | | | |
| 1,723,783 | Sportech | 1,586 | 0.8 | | | |
| **Fixed Line Telecommunications** | | **2,278** | **1.1** | **2.6** | 0.8 | 2.8 |
| 136,400 | Colt Group | 188 | 0.1 | | | |
| 2,271,434 | KCOM Group | 2,090 | 1.0 | | | |
| **Electricity** | | **–** | **–** | **0.6** | – | 0.6 |
| **Gas, Water & Multiutilities** | | **–** | **–** | **0.1** | – | – |
| **Banks** | | **–** | **–** | **0.5** | – | 0.5 |
| **Nonlife Insurance** | | **2,381** | **1.2** | **2.5** | 0.9 | 2.7 |
| 450,136 | Novae Group | 2,381 | 1.2 | | | |
| **Life Insurance** | | **1,073** | **0.5** | **1.1** | 0.4 | 1.6 |
| 1,144,424 | Hansard Global | 1,073 | 0.5 | | | |
| **Real Estate Investment & Services** | | **15,710** | **7.8** | **6.4** | 6.2 | 6.2 |
| 576,300 | Countrywide | 2,962 | 1.5 | | | |
| 1,491,878 | Grainger | 3,136 | 1.5 | | | |
| 1,335,405 | St. Modwen Properties | 4,789 | 2.4 | | | |
| 779,217 | Unite Group | 3,069 | 1.5 | | | |
| 730,900 | Urban&Civic | 1,754 | 0.9 | | | |
| **Real Estate Investment Trusts** | | **6,075** | **3.0** | **2.9** | 1.9 | 2.8 |
| 4,978,117 | Assura Group | 2,116 | 1.0 | | | |
| 2,730,986 | Hansteen Holdings | 2,807 | 1.4 | | | |
| 520,215 | McKay Securities | 1,152 | 0.6 | | | |
| **Financial Services** | | **7,366** | **3.6** | **5.7** | 7.1 | 5.6 |
| 989,554 | Brewin Dolphin Holdings | 3,063 | 1.5 | | | |
| 283,031 | Charles Stanley Group | 1,175 | 0.6 | | | |
| 1,184,576 | Tullett Prebon | 3,128 | 1.5 | | | |

# Portfolio Statement

## As at 30 June 2014

| Holding | Security | Value £'000 | 30 June 2014 % of Total Net Assets | % of the Index | 31 December 2013 % of Total Net Assets | % of the Index |
|---|---|---|---|---|---|---|
| **Software & Computer Services** | | **15,034** | **7.4** | **5.2** | 7.6 | 4.9 |
| 2,641,586 | Anite | 2,490 | 1.2 | | | |
| 359,382 | Computacenter | 2,153 | 1.1 | | | |
| 214,476 | Kofax | 1,070 | 0.5 | | | |
| 423,556 | Micro Focus | 3,672 | 1.8 | | | |
| 981,072 | Microgen | 1,207 | 0.6 | | | |
| 1,548,167 | Phoenix IT Group | 1,351 | 0.7 | | | |
| 1,225,926 | RM | 2,026 | 1.0 | | | |
| 311,852 | SDL | 1,065 | 0.5 | | | |
| **Technology Hardware & Equipment** | | **4,676** | **2.2** | **3.1** | 3.3 | 2.8 |
| 496,534 | CSR | 2,937 | 1.4 | | | |
| 2,838,046 | Filtronic | 681 | 0.3 | | | |
| 3,360,090 | Promethean World | 1,058 | 0.5 | | | |
| **Investments as shown in the Balance Sheet** | | **202,871** | **100.0** | **100.0** | 98.6 | 100.0 |
| **Net Current Assets** | | **86** | **0.0** | **–** | 1.4 | – |
| **Total Net Assets** | | **202,957** | **100.0** | **100.0** | 100.0 | 100.0 |

All investments are listed on the London Stock Exchange unless otherwise stated.

[1] Unquoted security.

# Additional Portfolio Information

| For the six months ended | 30 June 2014 £'000 | 30 June 2013 £'000 |
|---|---|---|
| Total Purchases | **65,551** | 45,111 |
| Total Sales | **27,897** | 130,628 |

# Statement of total return

For the six months ended 30 June 2014 *(unaudited)*

| | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Income** | | | | |
| Net capital (losses)/gains | | **(1,160)** | | 19,241 |
| Revenue | **2,506** | | 3,075 | |
| Expenses | **(809)** | | (739) | |
| Finance costs: interest | **–** | | – | |
| Net revenue before taxation | **1,697** | | 2,336 | |
| Taxation | **–** | | – | |
| Net revenue after taxation | | **1,697** | | 2,336 |
| **Total return before distributions** | | **537** | | 21,577 |
| Finance costs: distributions | | **(2,181)** | | (2,770) |
| **Change in net assets attributable to unitholders from investment activities** | | **(1,644)** | | 18,807 |

# Statement of change in unitholders' net assets

For the six months ended 30 June 2014 *(unaudited)*

| | 30 June 2014 | | 30 June 2013 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Opening net assets attributable to unitholders** | | **168,796** | | 151,334 |
| Amounts receivable on issue of units | **38,482** | | 16,771 | |
| Amounts payable on cancellation of units | **(4,060)** | | (102,418) | |
| | | **34,422** | | (85,647) |
| Stamp duty reserve tax | | **(4)** | | (4) |
| Change in net assets attributable to unitholders from investment activities | | **(1,644)** | | 18,807 |
| Retained distribution on accumulation units | | **1,387** | | 1,025 |
| Closing net assets attributable to unitholders | | **202,957** | | 85,515 |

# Balance sheet

## As at 30 June 2014 *(unaudited)*

| | 30 June 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 |
| **ASSETS** | | | | |
| Investment assets | | **202,871** | | 166,378 |
| Debtors | **1,182** | | 1,509 | |
| Cash and bank balances | **1,225** | | 2,100 | |
| Total other assets | | **2,407** | | 3,609 |
| Total assets | | **205,278** | | 169,987 |
| **LIABILITIES** | | | | |
| Creditors | **(1,432)** | | (639) | |
| Distribution payable on income units | **(889)** | | (552) | |
| Total liabilities | | **(2,321)** | | (1,191) |
| **Net assets attributable to unitholders** | | **202,957** | | 168,796 |

# 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 2013 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 2014 £'000** | June 2013 £'000 |
|---|---|---|
| Interim distribution | **2,276** | 1,318 |
| Add: Income deducted on cancellation of units | **30** | 1,580 |
| Less: Income received on creation of units | **(125)** | (128) |
| Distributions: | **2,181** | 2,770 |
| Bank overdraft interest | **–** | – |
| Total finance cost | **2,181** | 2,770 |

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

| | **June 2014 £'000** | June 2013 £'000 |
|---|---|---|
| Net revenue after taxation | **1,697** | 2,336 |
| Add: Manager's periodic fee taken to capital | **484** | 434 |
| Distributions: | **2,181** | 2,770 |

5/8ths of the Manager's periodic fee is allocated to capital and the remaining 3/8ths is allocated to revenue.

# Risk and Reward Profile

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

Lower potential risk/reward higher potential risk/rewards

The indicator above illustrates the position of this fund on a standard risk/reward category scale. The category reflects the volatility of returns over the past 5 years.

Please note that past performance is not a guide to future performance. The risk category is not guaranteed and may shift over time. The lowest category does not mean 'risk free'.

The performance of shares in smaller companies may be more volatile than shares in larger companies over short time periods and therefore the realisable value of the units may be more volatile.

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 counterparty 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 Conduct 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.

# 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
www.aberforth.co.uk

## Trustee

National Westminster Bank plc*
Corporate Banking
The Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH

## 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
Atria One
144 Morrison Street
Edinburgh EH3 8EX

**Authorised and regulated by the Financial Conduct 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.

## Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP (the "firm"). The predecessor business of the firm, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.3 billion (as at 30 June 2014). The firm is wholly owned by six partners – five investment managers and a Head of Operations, who is responsible for the firm's administration. The investment managers work as a team managing the Fund's portfolio on a collegiate basis.

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