Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2016

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		**01.07.16[1]**	**04.01.16[1]**
Accumulation Units	Issue Price	£188.08	£208.46
	Cancellation Price	£184.61	£204.59
Income Units	Issue Price	£149.23	£168.73
	Cancellation Price	£146.48	£165.60
	Yield	3.2%	2.7%
	Dealing spread	1.9%	1.9%

Charges	**30.06.16**	**31.12.15**
Initial charge	Nil	Nil
Ongoing charges	0.82%	0.83%
Exit charge	Nil	Nil

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

Performance Summary

	The Fund[1] (%)	Index[2] (%)
6 months to 30 June 2016	-10.8	-5.6

Net Asset Value (Post Distribution)

	30.06.16	31.12.15
Total Net Assets	£182.0m	£168.5m
Accumulation units in issue	682,424.947	516,414.412
Income units in issue	393,117.969	376,364.352
NAV per unit – accumulation	£183.04	£205.20
NAV per unit – income	£145.24	£166.09

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 30 June 2016	-14.5	-6.6
1 year to 30 June 2015	13.5	10.4
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

Periods to 30 June 2016	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2013	26.7	24.0
5 years from 30 June 2011	55.9	56.7
10 years from 30 June 2006	99.4	122.6
15 years from 30 June 2001	317.5	272.5
Since inception on 20 March 1991	1,829.7	1,020.5

Periods to 30 June 2016	Annualised Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2013	8.2	7.4
5 years from 30 June 2011	9.3	9.4
10 years from 30 June 2006	7.1	8.3
15 years from 30 June 2001	10.0	9.2
Since inception on 20 March 1991	12.4	10.0

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

2 Represents capital appreciation on the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) with net dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2016 included some 349 companies, the largest market capitalisation of which was £1.3 billion and the aggregate market capitalisation of which was £150 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

During the period, the prospectus was updated:-

- To reflect the retirement of a director of the manager on 31 December 2015.
- To reflect a change in address for the registered office of the Registrar.

Introduction

What had already proved a challenging start to 2016 became distinctly more so with the outcome of the EU referendum at the end of June. The year had commenced with familiar concerns about US and Chinese economic growth affecting stockmarket sentiment. A powerful rally, led by the resources companies, then commenced in mid February. Its momentum diminished as the EU referendum campaign progressed and the chance of an "out" vote rose. Still, the eventual outcome was unexpected and initiated what could be a protracted period of intense uncertainty for the UK and for Europe more broadly.

The net effect of these developments was a total return of 4.3% for the FTSE All-Share over the six months to 30 June 2016. Large companies benefited from their substantial exposure to overseas earners and to resources companies, though they also had to contend with the drag from banks in the wake of the "out" vote. Small companies have less exposure than large to both banks and resources, but they have a greater reliance on the domestic economy, which seems likely to experience a slowdown as a result of the referendum. Hence the NSCI (XIC) experienced a total return of -5.6%. The Fund's total return was -10.8%. This was clearly a disappointing result in both absolute and relative terms. While the greatest impact on the absolute number was the referendum outcome, the more significant relative influence came earlier in the period and was related to the resources rebound. This is explained in more detail in the Investment Performance section of this report.

It is probable that Brexit will undermine the UK's economic growth in the near term. Small companies have less overseas exposure and so, all else being equal, will suffer more than their larger peers from a UK recession. The referendum result also ushers in an indeterminate period of intense uncertainty for financial markets. Crucial issues – such as government, the timescales for the exit itself, terms of trade, the make-up of the UK – are up in the air. Accordingly, it is difficult to argue that UK equities do not now merit lower valuations, even if, over the longer term, the "Brexiteers" are proved right in their belief that the economy has been stifled by EU membership.

Of course, the implications of the Brexit vote are not confined to the UK. Political risk across Europe has risen as a result of the UK's decision: with the arguments of break-away parties in other countries now carrying more weight, the threat to the stability of the Eurozone, with its structural

Manager's Report

challenges, has undoubtedly risen. More broadly, Brexit may embolden populist anti-establishment movements around the world and confirms that politics is creating more volatility in equity valuations than at any time since the end of the Cold War.

Investment performance

Over the six months to 30 June 2016, the Fund's total return was -10.8% against -5.6% for the NSCI (XIC). The following table analyses the difference between these numbers, while the subsequent paragraphs give additional detail about the influences on performance.

For the 6 months ended 30 June 2016	Basis points
Stock selection	(402)
Sector selection	(145)
Attributable to the portfolio of investments, based on mid prices	(547)
Movement in mid to bid price spread	30
Cash/overdraft	37
Management fee	(37)
Other expenses	(3)
Total attribution based on bid prices	(520)

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the Fund and the Benchmark Index (i.e. Fund = -10.8%; Benchmark Index = -5.60%; difference is 5.20% being 520 basis points).

Size

For reasons that are set out in the **Valuation** section of this report, the Fund's portfolio remains biased to the "smaller small" companies within the NSCI (XIC). This positioning was modestly helpful in the first six months of 2016, as may be demonstrated by comparing the total returns of the FTSE SmallCap index and the FTSE 250 index. The former was down by 4.6%, whereas the latter experienced a decline of 6.2%, which suggests that "smaller small" companies performed less weakly.

Style & sectors

The fortunes of Aberforth's value investment style were bound up with those of the resources sectors in the first half of 2016. As was the case in the large cap world, within the NSCI (XIC) value out-performed growth in headline terms. This was because nearly all the resources companies within the index are classified as value stocks at the present time and their share prices rebounded significantly. With the resources companies excluded, the value style under-performed growth in the six months.

In 2015, the Fund benefited from its under-weight position in resources and the miners in particular. However, the Manager did not possess sufficient foresight to embrace the sector in advance of its bounce, which commenced in mid February. Through the first half of 2016, the continuing under-weight in resources was therefore a drag to relative returns and the resources sectors in aggregate cost the portfolio 189 basis points of relative performance.

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Resources companies, especially the miners, represent a particular challenge for the Manager. Small cap miners are typically focused on one asset, which is often located in a part of the world that does not enjoy the established property rights of the UK. Cash flows are weak as a result of large investment programmes and dividends are unusual. Moreover, the ownership structures of small resources companies are frequently such that corporate governance standards are in doubt. To be clear, none of these are reasons to justify ignoring the resources sector: the Manager carries out the analysis that they would on any company and, indeed, the portfolio contained nine resources companies at 30 June 2016. However, the risks already highlighted are reflected in the requirement for a higher margin of safety to be embedded in the valuation and in a smaller than average holding size in individual companies. The recent flurry of interest in the resources sector has not altered this approach and has not given extra impetus to increase exposure to that area of the market.

The EU referendum is also relevant to sector performance. The higher chance of a domestic recession and the weakness of sterling since the "out" vote have seen significant differentiation in sector performance: those parts of the market close to the domestic economy – such as the housebuilders, retailers and property companies – have been weaker than those parts with an overseas orientation that are beneficiaries of a weaker currency. The portfolio's exposure to the domestic economy is similar to that of the NSCI (XIC): the companies in the portfolio derive 52% of their revenues from the UK against 54% for the index. In most cases, the stockmarket has been reasonably efficient and has already built in the heightened risk faced by domestic businesses into their valuations. However, there are anomalies and the Manager expects opportunities to arise among both the overseas and domestic earners.

Corporate activity

M&A and IPOs abounded in 2015. This was not the case in the first half of 2016. Concerns about the EU referendum appear to be responsible: reluctance on the part of an overseas company to commit to acquiring sterling assets is understandable. In total, bids for nine constituents of the NSCI (XIC) have been announced over the past six months. Of those, the Fund held three in its portfolio. The paucity of bid activity is a hindrance to the Manager's value investment style: history suggests that corporate acquirers are often more prepared to recognise value than other stockmarket participants. While the uncertainty of Brexit complicates a recovery in M&A, the fall in sterling has rendered UK assets more affordable for overseas buyers. It is notable that there have been deal announcements since the referendum. As regards IPOs, there were eight in the first half. None of these was taken by the Fund: the Manager spent time to understand the underlying businesses but was dissuaded from investing by the valuations demanded by the vendors.

Income

The dividend performance of small companies remained strong through the first six months of 2016. In contrast to that of the FTSE All-Share, the income generated from the NSCI (XIC) stands out for its good dividend cover – 2.9x against 1.5x – and for its low reliance on a handful of very large dividend payers. It is likely that dividend growth across the NSCI (XIC) in 2016 will for another year exceed the long term average of 2.5% in real terms and that companies will continue to supplement ordinary dividend payments with special dividends.

Manager’s Report

The Fund has benefited from these trends in recent years and, indeed, in the first half of 2016. This bodes well for the year as a whole. It is worth noting that, had the Manager anticipated the rally in the share prices of the nil yielding resources companies, the income performance of the portfolio would, all else being equal, be less robust. It also bears repeating that, in this world of zero or negative interest rate policy, there is a clamouring for income. Company boards are alive to this and, in certain cases, their dividend decisions may have been influenced accordingly. The risk is that some of these decisions will prove to have been ill-judged when the next recession happens. Following the EU referendum, the test might now come sooner than previously expected.

Turnover

Portfolio turnover in the first six months of 2016 was unusually low, annualising at 18%. This compares with a long term average of around 38%. There is a connection between investment style and the rate of turnover: if the broader stockmarket is uninterested in the value stocks within the portfolio and is therefore not revaluing them, there is little motivation for the Manager to sell and reinvest. Hence for a value manager, a pick-up in turnover can be associated with improved relative performance.

Active share

This is a measure of how different a portfolio is from an index. The higher the active share ratio, the greater the difference. A higher ratio increases the probability that the portfolio will perform differently from the index, though it offers no guarantees as to direction. The Manager uses active share as a tool to ensure that the portfolio does not become a closet index tracker and targets a ratio of at least 70%. At 30 June 2016, the ratio was 78%.

Valuations

Characteristics	**30 June 2016** The Fund	**30 June 2016** NSCI (XIC)	30 June 2015 The Fund	30 June 2015 NSCI (XIC)
Number of companies	**83**	**339**	89	357
Weighted average market capitalisation	**£516m**	**£823m**	£697m	£874m
Price earnings (PE) ratio (historic)	**10.5x**	**12.4x**	14.1x	15.7x
Dividend yield (historic)	**3.4%**	**2.8%**	2.6%	2.4%
Dividend cover	**2.8x**	**2.9x**	2.7x	2.6x

The valuation metrics in the table above are consistent with the Manager’s value investment style: the portfolio has a lower PE ratio and a higher dividend yield than the NSCI (XIC). The historic PE ratio of the FTSE All-Share was 18.0x. Therefore, large companies presently command a substantial 45% PE premium to small, compared with a 9% premium on average over the past 25 years. The greater weighting of the resources sectors in the FTSE All-Share is influential: many resources companies are currently very highly rated as the stockmarket anticipates a recovery in profits.

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EV/EBITA	43 growth companies	240 other companies	Tracked Universe	Portfolio
2016	15.6x	11.3x	12.0x	9.8x
2017 pre Brexit	13.8x	9.8x	10.4x	8.5x
assuming recession	14.8x	11.5x	12.0x	9.8x

The table above examines the valuation of the portfolio and the tracked universe on the basis of the Manager’s favoured metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Given the uncertainties of Brexit and the likelihood of a UK downturn, it shows two scenarios for 2017. The principal assumptions behind the recession scenario are that the downturn starts on 1 January 2017 and that the profits of domestic businesses decline by 25% on average. It can be inferred that this would result in little profit growth for the portfolio and the tracked universe as a whole, but that the 43 growth companies still make progress. This resilience on the part of the growth companies is precisely why they are accorded high valuations. However, this scenario still leaves growth companies on a 51% premium to the portfolio. This might suggest that recession risk is already substantially discounted in present valuations. A narrowing of that premium should be consistent with superior performance from the portfolio.

Market capitalisation range:	< £100m	£100-250m	£250-500m	£500-750m	> £750m
Portfolio weight	6%	27%	23%	18%	25%
Tracked universe weight	1%	8%	20%	19%	52%
Tracked universe 2016 EV/EBITA	7.8x	8.8x	10.7x	11.5x	13.9x

The final valuation table examines the interplay of valuation and size. The Fund’s portfolio is heavily under-exposed to the “larger small” companies within the NSCI (XIC). Higher weightings in the “smaller small” companies make up for this. The rationale for this positioning is clear from the final row: the “smaller small” companies are on substantially lower valuations, despite being anticipated to grow more quickly. From a long term perspective, this is an unusual state of affairs but has persisted for several years since the financial crisis. The explanation probably resides in a more pervasive and intense reluctance since the crisis to take on the risk of lower liquidity that comes with investment in “smaller small” companies. For the Manager this is anomalous and represents a compelling opportunity.

Manager's Report

Outlook & conclusion

The modest valuations that characterise the portfolio, and indeed much of the UK small company universe, declined in the wake of the EU referendum. The coming months will determine whether investors in general deem these valuations to be sufficiently low to compensate for greater uncertainty. The "out" vote undeniably complicates the outlook for the UK economy and therefore for many small UK quoted companies. It comes at a time of a wide current account deficit and a still large public sector borrowing requirement. With interest rates already very low, the monetary policy response is limited, but a relaxation of the austerity strategy might allow fiscal policy to take the strain. Sterling has already offered some relief, but it would not surprise were the economy to enter recession as spending and investment decisions continue to be deferred.

This is a somewhat downbeat prospect for small companies. However, the passage of time will see today's uncertainties addressed, as has been seen already with the prompt appointment of a new Prime Minister. Moreover, it is worth recalling the nimbleness and resilience that small companies displayed in the last downturn eight years ago: they emerged from a global recession in a better state than they had entered it, to which their subsequent outstanding dividend performance attests. Beyond that, the structural advantages enjoyed by the UK, which have helped small companies generate such strong returns over the long term, remain largely intact: language, time-zone, property rights, corporate governance and, perhaps now debatably, political stability and openness.

Notwithstanding the ramifications of Brexit, the Manager believes that small companies can continue their long term record of strong returns. As a reminder, the NSCI (XIC) has seen £1,000 invested on 31 December 1990 grow to £13,545 on a total return basis, which compares with £8,351 for large companies. This superior performance has been achieved in a volatile fashion: were an investor to have missed the best five months for small companies in this period, the premium over large companies would be eliminated. This predicament for small cap investors is demonstrated by the suddenness of the rebound in small company share prices during the last slowdown in 2009.

History is a useful guide but, with no precedent for Brexit, can offer no guarantees. The Manager nevertheless retains confidence in the Fund's diversified portfolio of companies and in its ability to recover from a period of weak performance, as it has in the past. With valuations at current levels, much of the downside seems already to have been discounted and the number of attractive investment opportunities has increased.

E R Macdonald, *Director*
R M J Newbery, *Director*
Aberforth Unit Trust Managers Limited

27 July 2016

Long Term Investment Record

Historic Returns

Periods to 30 June 2016	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2014	-1.5	1.5	-2.9	3.1
3 years from 30 June 2013	8.2	7.4	26.7	24.0
4 years from 30 June 2012	14.0	13.1	69.0	63.4
5 years from 30 June 2011	9.3	9.4	55.9	56.7
6 years from 30 June 2010	13.0	13.2	108.1	110.4
7 years from 30 June 2009	13.7	15.2	145.6	169.3
8 years from 30 June 2008	9.8	11.3	111.4	136.0
9 years from 30 June 2007	5.1	6.6	57.0	77.5
10 years from 30 June 2006	7.1	8.3	99.4	122.6
15 years from 30 June 2001	10.0	9.2	317.5	272.5
Since inception on 20 March 1991	12.4	10.0	1,829.7	1,020.5

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

Past performance is not a guide to future performance.

Distribution Table

For the six months to 30 June 2016

Group 1: Units purchased prior to 1 January 2016

Group 2: Units purchased on or after 1 January 2016

Interim Distribution	Net Income June 2016	Equalisation† June 2016	Distribution/ Accumulation June 2016	Distribution/ Accumulation June 2015
Income units (payable 31 August 2016)				
Group 1	296.6426p	–	**296.6426p**	275.8100p
Group 2	112.4334p	184.2092p	**296.6426p**	275.8100p
Accumulation units				
Group 1	366.4933p	–	**366.4933p**	332.0761p
Group 2	138.9082p	227.5851p	**366.4933p**	332.0761p

† 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.

Portfolio Statement

As at 30 June 2016

Holding	Security	30 June 2016 Value £'000	30 June 2016 % of Total Net Assets	30 June 2016 % of the Index	31 December 2015 % of Total Net Assets	31 December 2015 % of the Index
Oil & Gas Producers		**6,770**	**3.7**	**3.2**	2.7	3.0
7,201,751	EnQuest	2,305	1.3			
1,200,287	Hardy Oil & Gas	228	0.1			
855,139	Nostrum Oil & Gas	2,600	1.4			
1,150,640	SOCO International	1,637	0.9			
Oil Equipment, Services & Distribution		**1,217**	**0.7**	**1.0**	1.2	1.0
2,602,700	Gulf Marine Services	1,217	0.7			
Alternative Energy		**–**	**–**	**–**	–	0.1
Chemicals		**1,324**	**0.7**	**1.8**	0.6	1.7
876,960	Carclo	1,324	0.7			
Industrial Metals & Mining		**–**	**–**	**1.5**	–	0.8
9,832,752	International Ferro Metals[1]	–	–			
Mining		**6,949**	**3.8**	**5.7**	1.8	2.9
1,986,733	Anglo Pacific Group	1,609	0.9			
3,250,910	Centamin	4,278	2.3			
843,037	Gem Diamonds	1,062	0.6			
543,440	Kenmare Resources Wts 2019[2]	–	–			
Construction & Materials		**6,033**	**3.3**	**3.2**	2.6	3.6
1,085,476	Eurocell	1,661	0.9			
398,353	Keller	3,601	2.0			
1,376,645	Low & Bonar	771	0.4			
Aerospace & Defence		**3,048**	**1.7**	**1.0**	1.8	1.1
1,486,590	Senior	3,048	1.7			
General Industrials		**6,147**	**3.4**	**1.1**	3.1	1.0
7,049,154	Coats Group	1,850	1.0			
1,498,291	Vesuvius	4,297	2.4			
Electronic & Electrical Equipment		**10,732**	**5.9**	**1.9**	6.2	1.8
2,391,684	e2v technologies	4,783	2.6			
1,348,587	Morgan Advanced Materials	3,130	1.7			
2,185,170	TT Electronics	2,819	1.6			
Industrial Engineering		**7,785**	**4.3**	**2.3**	4.1	2.1
560,638	Bodycote	2,887	1.6			
459,416	Castings	1,967	1.1			
564,216	Vitec Group	2,931	1.6			
Industrial Transportation		**3,295**	**1.8**	**2.2**	1.7	1.9
1,776,173	Wincanton	3,295	1.8			

Portfolio Statement

As at 30 June 2016

Holding	Security	Value £'000	30 June 2016 % of Total Net Assets	30 June 2016 % of the Index	31 December 2015 % of Total Net Assets	31 December 2015 % of the Index
Support Services		**28,406**	**15.6**	**11.9**	15.3	12.1
157,100	Brammer	94	0.1			
1,066,393	Capital Drilling	341	0.2			
2,009,811	Connect Group	2,954	1.6			
696,206	De La Rue	3,547	1.9			
5,565,428	Hogg Robinson Group	3,994	2.2			
4,891,177	Management Consulting Group	770	0.4			
1,054,751	Northgate	3,428	1.9			
1,399,300	Premier Farnell	2,305	1.3			
976,027	Robert Walters	2,538	1.4			
1,730,763	RPS Group	2,973	1.6			
4,883,276	Shanks Group[1]	3,433	1.9			
6,149,613	Speedy Hire	2,029	1.1			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**–**	**–**	**0.7**	–	0.6
Food Producers		**4,093**	**2.2**	**2.8**	2.7	2.8
696,552	Hilton Food Group	3,810	2.0			
120,482	R.E.A. Holdings	283	0.2			
Household Goods & Home Construction		**3,018**	**1.7**	**1.5**	2.7	1.8
414,032	Bovis Homes Group	3,018	1.7			
Leisure Goods		**1,645**	**0.9**	**0.5**	0.9	0.5
364,649	Games Workshop Group	1,645	0.9			
Personal Goods		**–**	**–**	**2.2**	–	2.1
Health Care Equipment & Services		**–**	**–**	**3.0**	–	2.8
Pharmaceuticals & Biotechnology		**3,008**	**1.7**	**2.4**	1.6	2.8
1,868,353	Vectura Group	3,008	1.7			
Food & Drug Retailers		**1,400**	**0.8**	**0.8**	0.7	1.0
1,077,170	McColl's Retail Group	1,400	0.8			
General Retailers		**9,878**	**5.4**	**7.4**	7.1	7.7
622,400	Carpetright	1,432	0.8			
447,300	DFS Furniture	936	0.5			
673,600	Findel	1,177	0.6			
439,700	Halfords Group	1,413	0.8			
2,234,235	Mothercare	3,033	1.7			
6,772,203	Pendragon	1,887	1.0			
Media		**8,632**	**4.7**	**3.9**	5.7	3.8
2,394,614	Centaur Media	958	0.5			
9,364,667	Future	833	0.5			
5,731,081	Huntsworth	2,206	1.2			
670,600	ITE Group	959	0.5			
2,726,267	Trinity Mirror	2,385	1.3			
416,435	Wireless Group	1,291	0.7			

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As at 30 June 2016

Holding	Security	30 June 2016 Value £'000	% of Total Net Assets	% of the Index	31 December 2015 % of Total Net Assets	% of the Index
Travel & Leisure		**17,280**	**9.5**	**7.0**	10.5	8.1
121,505	Air Partner	462	0.3			
5,463,381	FirstGroup	5,480	3.0			
3,723,679	Flybe Group	1,462	0.8			
153,659	Go-Ahead Group	3,004	1.7			
3,146,712	Ladbrokes	3,509	1.9			
1,177,873	Punch Taverns	1,090	0.6			
443,100	Restaurant Group	1,274	0.7			
587,828	Revolution Bars Group	999	0.5			
Fixed Line Telecommunications		**1,708**	**0.9**	**1.0**	1.6	1.0
1,621,407	KCOM Group	1,708	0.9			
Electricity		**–**	**–**	**1.1**	–	0.7
Gas, Water & Multiutilities		**–**	**–**	**–**	–	–
Banks		**–**	**–**	**1.4**	–	1.6
Nonlife Insurance		**2,174**	**1.2**	**3.0**	1.6	2.7
289,728	Novae Group	2,174	1.2			
Life Insurance		**2,559**	**1.4**	**0.8**	0.8	1.4
1,353,418	Hansard Global	1,408	0.8			
1,047,501	JRP Group	1,151	0.6			
Real Estate Investment & Services		**9,583**	**5.3**	**5.2**	5.5	6.3
568,436	Countrywide	1,396	0.8			
1,841,701	Grainger	3,899	2.1			
578,911	U and I Group	915	0.5			
1,629,600	Urban&Civic	3,373	1.9			
Real Estate Investment Trusts		**5,114**	**2.8**	**4.9**	3.1	4.8
3,065,044	Hansteen Holdings	3,123	1.7			
1,206,715	McKay Securities	1,991	1.1			
Financial Services		**15,156**	**8.4**	**7.1**	7.8	7.9
1,638,154	Brewin Dolphin Holdings	3,930	2.2			
425,931	Charles Stanley Group	1,116	0.6			
1,655,645	International Personal Finance	4,715	2.6			
899,700	John Laing Group	2,023	1.1			
1,390,992	Paragon Group	3,372	1.9			

Portfolio Statement

As at 30 June 2016

Holding	Security	Value £'000	30 June 2016 % of Total Net Assets	30 June 2016 % of the Index	31 December 2015 % of Total Net Assets	31 December 2015 % of the Index
Software & Computer Services		**9,074**	**4.9**	**4.8**	5.3	4.9
364,606	Computacenter	2,689	1.5			
978,752	Microgen	1,351	0.7			
1,631,343	RM	1,892	1.0			
817,137	SDL	3,142	1.7			
Technology Hardware & Equipment		**2,415**	**1.3**	**1.7**	1.0	1.6
4,195,541	Filtronic[3]	409	0.2			
2,477,000	Spirent Communications	2,006	1.1			
Investments as shown in the Balance Sheet		**178,443**	**98.0**	**100.0**	99.7	100.0
Net Current Assets		**3,564**	**2.0**	**–**	0.3	–
Total Net Assets		**182,007**	**100.0**	**100.0**	100.0	100.0

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

[1] Suspended security.

[2] Unquoted security.

[3] Alternative Investment Market.

Additional Portfolio Information

For the six months ended	30 June 2016 £'000	30 June 2015 £'000
Total Purchases	**50,011**	32,266
Total Sales	**15,061**	52,654

Statement of Total Return

For the six months ended 30 June 2016 *(unaudited)*

	30 June 2016		30 June 2015	
	£'000	**£'000**	£'000	£'000
Income				
Net capital (losses)/gains		**(24,470)**		22,804
Revenue	**3,432**		3,310	
Expenses	**(667)**		(782)	
Interest payable and similar charges	**(6)**		(6)	
Net revenue before taxation	**2,759**		2,522	
Taxation	**(5)**		–	
Net revenue after taxation		**2,754**		2,522
Total return before distributions		**(21,716)**		25,326
Distributions		**(3,137)**		(2,980)
Change in net assets attributable to unitholders from investment activities		**(24,853)**		22,346

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2016 *(unaudited)*

	30 June 2016		30 June 2015	
	£'000	**£'000**	£'000	£'000
Opening net assets attributable to unitholders		**168,481**		195,811
Amounts receivable on issue of units	**51,927**		2,591	
Amounts payable on cancellation of units	**(16,048)**		(36,463)	
		35,879		(33,872)
Change in net assets attributable to unitholders from investment activities		**(24,853)**		22,346
Retained distribution on accumulation units		**2,501**		1,704
Closing net assets attributable to unitholders		**182,008**		185,989

Balance Sheet

As at 30 June 2016 *(unaudited)*

	30 June 2016 £'000	30 June 2016 £'000	31 December 2015 £'000	31 December 2015 £'000
Assets				
Fixed Assets:				
Investments		**178,443**		168,001
Current Assets:				
Debtors	**1,127**		1,292	
Cash and bank balances	**4,149**		50	
Total other assets		**5,276**		1,342
Total assets		**183,719**		169,343
Liabilities				
Creditors:				
Other creditors	**(545)**		(195)	
Distribution payable on income units	**(1,166)**		(667)	
Total liabilities		**(1,711)**		(862)
Net assets attributable to unitholders		**182,008**		168,481

Cash Flow Statement

For the six months ended 30 June 2016 *(unaudited)*

	30 June 2016 £'000	30 June 2015 £'000
Net cash inflow from operating activities	**2,138**	2,584
Investing activities		
Purchases of investments	**(49,768)**	(31,944)
Sales of investments	**14,994**	52,682
Cash (outflow)/inflow from investing activities	**(34,774)**	20,738
Financing activities		
Amounts received from issue of units	**53,463**	11,858
Amounts paid on cancellation of units	**(16,055)**	(36,714)
Distributions paid	**(667)**	(922)
Interest paid	**(6)**	(6)
Cash inflow/(outflow) from financing activities	**36,735**	(25,784)
Increase/(decrease) in cash and cash equivalents	**4,099**	(2,462)
Cash and cash equivalents at the start of the period	**50**	1,866
Cash and cash equivalents at the end of the period	**4,149**	(596)

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

The accounting and distribution policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015 and are described in those financial statements. The investments of the Fund have been valued at their fair value, which is generally represented by the bid price at the close of business on 30 June 2016. Suspended securities are initially valued at the suspension price but are subject to constant review.

The interim financial statements have been prepared in accordance with Financial Reporting Standard (FRS) 102 and the Statement of Recommended Practice for UK Authorised Funds (SORP) issued by the Investment Association in May 2014.

2. Distributions

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

	June 2016 £'000	June 2015 £'000
Interim distribution	**3,667**	2,904
Income deducted on cancellation of units	**96**	104
Income received on creation of units	**(626)**	(28)
Distributions	**3,137**	2,980

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

	June 2016 £'000	June 2015 £'000
Net revenue after taxation	**2,754**	2,522
Add: Manager's periodic fee taken to capital	**381**	458
Add: Safe custody fee taken to capital	**2**	–
Distributions	**3,137**	2,980

5/8ths of the Manager's periodic fee is allocated to capital and the remaining 3/8ths is allocated to revenue. A proportion of the safe custody fees are taken to capital which relate to purchases and sales transactions.

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: 0345 608 0940
– Enquiries: 0131 220 0733
Email – Dealing: ordergroup@capitafinancial.com
– enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

Trustee

National Westminster Bank plc*
Trustee & Depositary Services
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*
PO Box 388
Unit 1, Roundhouse Road
Darlington
DL1 9UE
Telephone: 0345 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 using the dealing number shown above. Alternatively, please contact Capita, the Registrar, using the address above or by email (ordergroup@capitafinancial.com). In addition, orders can be placed electronically via various transaction networks including EMX and Calastone. 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 online at www.aberforth.co.uk.

Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP ("Aberforth"). The business 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 £1.9 billion (as at 30 June 2016). The Fund's portfolio is managed on a collegiate basis by seven investment managers. Aberforth is wholly owned by five partners – four investment managers and an Operations Partner.

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