Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2017

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		03.07.17[1]	03.01.17[1]
Accumulation Units	Issue Price	£249.88	£221.32
	Cancellation Price	£245.44	£217.52
Income Units	Issue Price	£193.14	£173.76
	Cancellation Price	£189.71	£170.77
	Yield	2.5%	2.8%
	Dealing spread	1.8%	1.7%

Charges	30.06.17	31.12.16
Initial charge	Nil	Nil
Ongoing charges	0.78%	0.80%
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 2017	13.5	9.7

Net Asset Value (Post Distribution)

	30.06.17	31.12.16
Total Net Assets	£255.6m	£201.8m
Accumulation units in issue	751,893.147	641,058.237
Income units in issue	371,777.897	369,607.953
NAV per unit – accumulation	£245.98	£216.72
NAV per unit – income	£190.12	£170.14

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 30 June 2017	34.4	29.1
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

Periods to 30 June 2017	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2014	30.5	33.1
5 years from 30 June 2012	127.1	111.0
10 years from 30 June 2007	111.0	129.1
15 years from 30 June 2002	438.7	452.6
Since inception on 20 March 1991	2,493.1	1,346.7

Periods to 30 June 2017	Annualised Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2014	9.3	10.0
5 years from 30 June 2012	17.8	16.1
10 years from 30 June 2007	7.8	8.6
15 years from 30 June 2002	11.9	12.1
Since inception on 20 March 1991	13.2	10.7

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 2017 included some 349 companies, the largest market capitalisation of which was £1.4 billion and the aggregate market capitalisation of which was £157 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 appointment of two directors of the Manager on 1 May 2017.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. The Investment Manager is not subject to the UCITS remuneration code. It is subject to regulatory requirements on remuneration that are equally effective under BIPRU and AIFMD. Details of its remuneration policy are available on request.

Introduction

In common with many stockmarkets around the world, UK equities performed well in the first six months of 2017. The FTSE All-Share, which is illustrative of large companies, produced a total return of 5.5%. This was surpassed by the 9.7% return from the small companies that make up the NSCI (XIC). The Fund’s total return in the six months was 13.5%, which, in comparison with the NSCI (XIC), represents a pleasing recovery in performance from the disappointment of 2016.

The superior performance of small companies against large companies so far in 2017 has seen them recover all of the ground lost in the immediate aftermath of the EU referendum result in June 2016. That initial negative reaction was prompted by the greater exposure of the NSCI (XIC)’s constituents to the domestic economy, which is vulnerable to a poorly handled Brexit. It would be pleasing to conclude from the subsequent recovery in small company share prices that Brexit has been well handled and that its attendant risks have diminished – unfortunately this is not the case. Rather, the bounce back enjoyed by small companies has been led by overseas oriented sectors.

Nevertheless, domestic sectors have made positive absolute returns, which reflect the fact that fears of an immediate impact on economic activity from the “out” vote have not come to pass. Indeed, macro economic data and the trading progress of domestically oriented small companies have proved remarkably resilient, which is also testament to how tightly run these businesses are. However, challenges remain, as the weakness of the pound in the wake of the referendum puts pressure on costs, eating into real wages, and as Brexit threatens the movement of labour.

On top of these issues, the outcome of the latest General Election introduces further uncertainty. While political surprises in recent times have not been confined to the UK, the days of its status as a haven of political stability now seem long gone. From the perspective of the typical small UK quoted company, the implications of the Conservative Party’s failure to secure an overall majority are moot. The chances of a badly handled divorce from the EU have undoubtedly risen, but so have the chances of a “softer” Brexit, which may explain the phlegmatic reaction thus far of sterling and of share prices to the result.

Manager's Report

Indeed, the strength of equity markets since early 2016 has been notable despite heightened political uncertainty around the globe. This buoyancy has its roots in improved economic activity in both China and Europe and received a boost with the election of Donald Trump and his promise of increased fiscal stimulus. Commodities were the initial beneficiaries, but the effect spread through other cyclical sectors of the stockmarket to the benefit of the value investment style followed by the Manager. Within financial markets, which are fond of snappy terms for complex developments, this pick-up in activity and optimism has been termed the "reflation trade". It has certainly influenced the Fund's good returns in the first half of 2017.

Over the six months to 30 June 2017, the Fund's total return was 13.5% against 9.7% for the NSCI (XIC). The following table, which analyses the difference between these numbers, shows a large positive contribution from stock selection. While that outcome is influenced by other factors, which are addressed in the subsequent paragraphs, it is noteworthy that several of the portfolio's larger holdings performed particularly well and that there were few significant large share price declines among the holdings – this will not always be the case!

For the six months ended 30 June 2017	Basis points
Stock selection	377
Sector selection	46
Attributable to the portfolio of investments, based on mid prices	423
Movement in mid to bid price spread	4
Cash/overdraft	(1)
Management fee	(44)
Other expenses	(3)
Total attribution based on bid prices	379

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the Fund and the Benchmark Index (i.e. the Fund = 13.51%; Benchmark Index = 9.72%; difference is 3.79% being 379 basis points).

Size & Style

For reasons set out in the Valuations section below, the Fund retains a relatively high exposure to the "smaller small" companies within the NSCI (XIC). To assess the appropriateness of this positioning the return from the FTSE Small Cap may be compared with that from the FTSE 250 index. Over the first half of 2017, the FTSE Small Cap performed slightly better, suggesting that size had a small positive effect on the Fund's return relative to the NSCI (XIC) in that period.

The style picture is altogether more complicated. The Manager uses analysis from the London Business School and Style Research to assess style influences on the Fund's performance. Both these houses suggest that the NSCI (XIC)'s growth stocks generated much better returns than did its value stocks in the first half of 2017, which would have represented a headwind to the Fund. However, it is unlikely that the Fund's relative performance would have been so strong had investment style proved adverse.

So what was going on? Although these style series are a useful indicator over longer time periods, they can be susceptible to other influences in the short term. In the six months under review, the Manager believes that a sector effect introduced such noise. So far in 2017, the resources companies that performed so well through 2016 have given up some of their gains. Most of these are still classified as value stocks and so their weakness disproportionately affected the value component of the NSCI (XIC). Excluding resources companies from the analysis, there was little to choose between the returns from value and growth over the past six months.

Corporate activity

Both M&A and IPO activity were subdued in the opening months of 2017. This probably reflected the on-going uncertainty stemming from last year's EU referendum and the additional impact of June's General Election. Through the six months to 30 June 2017, six new bids or approaches for companies in the NSCI (XIC) were made and remain likely to complete. Meanwhile, IPO activity was confined to eight new listings. An upturn in M&A still looks likely: small company valuations remain relatively low, particularly for overseas buyers who can take advantage of sterling's weakness since the Brexit vote.

Strong balance sheets

Balance sheets of both the Fund's investee companies and the broader NSCI (XIC) remain in robust shape. In the case of the portfolio, 20% is invested in companies with net cash on their balance sheets. While still high, this proportion has declined from 36% three years ago. The Manager considers the reduction to be healthy since it reflects greater confidence on the part of company boards to invest, acquire or return surplus cash balances to shareholders. Appetite for investment may be gauged by the ratio of capital expenditure to depreciation: a ratio above one indicates investment for future growth. The Manager follows closely a subset 281 companies within the NSCI (XIC), which represents 98% by value of the overall index and is termed the "tracked universe". Even with capital intensive resources companies excluded, the capital expenditure to depreciation ratio for the tracked universe was 1.5x in 2016. All else being equal, this augurs well for future profit growth for small companies.

Income

Supported by those strong balance sheets, the dividend environment for the portfolio and for small companies in general remained encouraging through the first half of 2017. As the table below shows, almost half of the 84 holdings at 30 June 2017 announced higher dividends.

Down	Nil payers	No change	Increase	Other
7	14	19	41	3

Dividend growth has also been buoyed by healthy dividend cover of 2.9x for the portfolio and 2.7x for the NSCI (XIC). These are higher than the averages since 1990 – 2.6x in both cases – and much higher than the FTSE All-Share's present dividend cover of 1.3x. It should be noted that fashion has played a part in the strong dividend growth record of recent years. One of the longer lasting legacies of the TMT bubble was that "dividend" became a dirty word for many companies, an admission of failure to find something else to do with shareholders' money. However, as bond yields have fallen in the period since the financial crisis, the investment world has experienced income starvation. Company boards have realised that they can help address this problem by paying higher dividends and have no doubt been encouraged to do so by positive share price reaction to the announcement of a more progressive pay-out policy. The Manager suspects that the next economic downturn will prove that not all such dividend decisions will prove sustainable.

Manager's Report

Turnover

Annualised portfolio turnover over the six months to 30 June 2017 was 26%. This is up from 18% in the first half of 2016. The increase is related to the improvement in the Fund's performance: as share prices of investee companies rise and price targets are achieved, the Manager typically looks to recycle capital into companies with greater upside.

Active share

Active share is a gauge of how different a portfolio is from an index. The higher the ratio, the higher the likelihood that the performance of the portfolio will differ from that of the index. The Manager targets a ratio of at least 70%, though would tolerate a temporarily lower number. At 30 June 2017, the active share ratio was 76%.

Valuations

	30 June 2017		30 June 2016	
Characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**84**	**339**	83	339
Weighted average market capitalisation	**£663m**	**£894m**	£516m	£823m
Price earnings (PE) ratio (historic)	**11.8x**	**13.8x**	10.5x	12.4x
Dividend yield (historic)	**3.0%**	**2.7%**	3.4%	2.8%
Dividend cover	**2.9x**	**2.7x**	2.8x	2.9x

The table above shows the average PE ratio and dividend yield of the Fund's portfolio and of the NSCI (XIC). Consistent with the Manager's value investment style, the portfolio compares well on both measures. A more stark contrast at the present time is with large companies: the historic PE of the FTSE All-Share was 20.8x at the end of June. This premium valuation reflects the greater bias of large companies to overseas markets that would be less vulnerable to a badly handled Brexit. However, the premium is very wide: over the Fund's history, large companies have been 23% more expensive than the portfolio on average; currently they are 76% more expensive. The Manager is therefore of the view that much of the risk associated with Brexit may already be incorporated in share prices.

EV/EBITA	**2016**	**2017**	**2018**
The Fund	11.8x	11.3x	9.3x
Tracked universe (281 stocks)	13.8x	13.0x	11.4x
– 40 growth stocks	19.6x	16.9x	14.8x
– 241 other stocks	13.0x	12.3x	10.9x

The table above sets out the valuation of the portfolio on the Manager's favoured metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). It also sets out the corresponding ratios for the tracked universe and two subsets, being 40 growth stocks and 241 other stocks. Again, the portfolio compares well on this analysis, with the premium of the growth stocks to the portfolio particularly wide at 50% for 2017.

Manager's Report

One of the reasons for the portfolio's relatively attractive valuation is brought out in the following table, which shows the EV/EBITA ratio for four market capitalisation bands, along with the exposure of both the portfolio and the tracked universe to those bands. The message is that, in today's UK stockmarket, the smaller the company the lower the valuation, which is an unusual state of affairs since the "smaller small" companies have superior growth prospects. At work is a general reluctance on the part of investors since the financial crisis to entertain relatively illiquid investment propositions. As an open end fund able to adopt a long term investment horizon, the Fund is well placed to exploit this anomaly and therefore has above average exposure to the NSCI (XIC)'s "smaller small" companies.

Market capitalisation range:	< £100m	£100-250m	£250-750m	> £750m
Portfolio weight	3%	17%	42%	38%
Tracked universe weight	1%	5%	30%	64%
Tracked universe 2017 EV/EBITA	9.2x	10.6x	12.4x	13.6x

Outlook & conclusion

The Fund has enjoyed a period of strong performance as the effects of the reflation trade, with its positive implications for the value investment style, permeated the universe of small UK quoted companies. Given the leads and lags that characterise this relatively inefficient part of the stockmarket, and the inconvenience of stockmarket trends seldom fitting neatly into calendar years, it is perhaps more useful to view this particularly strong period in the context of the weaker relative returns of 2016. What the past one and a half years demonstrates is that value style fares better when optimism about economic activity rises. Conversely, and as explained in several Manager's Reports over recent years, deflationary forces represent a challenge to value but a boon to the growth style.

The first six months of 2017 highlighted threats to the continuation of the reflation trade. In the US, Donald Trump's ability to deliver his vaunted fiscal stimulus has been undermined by the investigation into Russian interference in the election. Meanwhile, it would appear unlikely that the political fluidity that has characterised the UK in recent years is set to change in the near future, notwithstanding the higher chance of a softer Brexit that has come with the election result. Indeed, given such political uncertainty, it is remarkable that economies themselves have not proved more vulnerable. As the half year mark approached, a further complication arose. Whether coincidental or co-ordinated, the actions and comments from central banks in the last week of June suggested concern about reflationary pressures and a more hawkish stance on monetary policy. As long as the central bankers have correctly assessed the risks, higher interest rates and by extension higher government bond yields should be good news: ten years from the start of the financial crisis, a normalisation of monetary conditions would suggest improved economic prospects and would bode well for the value style. However, the condition at the start of the previous sentence is important: if interest rate rises prove too aggressive, they will stifle the recovery, suppress bond yields and prolong the stockmarket trends with which we have become familiar since the financial crisis.

Manager's Report

While the issues addressed in the preceding paragraph will influence the Fund's returns over the short term, they should have limited relevance over the long term as economic and financial conditions normalise and stagnation proves not to be inevitable. Looked at through a longer term lens, the more significant influences on the Fund's prospects are likely to be the underlying companies in which the Fund invests, how these are combined in a portfolio, and the valuations presently accorded to these companies by the stockmarket. In each respect, the Manager remains confident. The Fund's typical holding is in a business that was well tested in the financial crisis and subsequent recession, and that is now, supported by a strong balance sheet and growing profits, able both to invest for future progress and to pay its shareholders an acceptable dividend. Although the typical holding may be classified as cyclical rather than defensive, the cycles to which each of the 84 holdings is exposed are not the same and individual cyclical risks are diluted within the context of the portfolio. Moreover, in view of the attractive valuations of the portfolio, it is likely that some of the risk of a Brexit-inspired economic downturn is already embedded in share prices.

Indeed, herein lies the specific opportunity for the Fund today. Fear of volatility and illiquidity has been elevated since the financial crisis and remains so. The valuations of companies whose profits grow, albeit not in a smooth fashion, are penalised, all the more so if these companies are small and their shares happen to be traded infrequently. The Manager believes that, unless we are now doomed to a future without economic progress, it is likely that the valuations presently available to the Fund will continue to support further good rates of returns for unitholders over the long term.

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

27 July 2017

Long Term Investment Record

Historic Returns

Periods to 30 June 2017	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2015	7.2	9.8	14.9	20.6
3 years from 30 June 2014	9.3	10.0	30.5	33.1
4 years from 30 June 2013	14.2	12.5	70.3	60.1
5 years from 30 June 2012	17.8	16.1	127.1	111.0
6 years from 30 June 2011	13.1	12.5	109.4	102.4
7 years from 30 June 2010	15.8	15.3	179.6	171.7
8 years from 30 June 2009	16.1	16.9	230.0	247.7
9 years from 30 June 2008	12.3	13.2	184.0	204.7
10 years from 30 June 2007	7.8	8.6	111.0	129.1
15 years from 30 June 2002	11.9	12.1	438.7	452.6
Since inception on 20 March 1991	13.2	10.7	2,493.1	1,346.7

[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 2017

Group 1: Units purchased prior to 1 January 2017

Group 2: Units purchased on or after 1 January 2017

Interim Distribution	Net Income June 2017	Equalisation† June 2017	Distribution/ Accumulation June 2017	Distribution/ Accumulation June 2016
Income units (payable 31 August 2017)				
Group 1	303.3928p	–	**303.3928p**	296.6426p
Group 2	201.9968p	101.3960p	**303.3928p**	296.6426p
Accumulation units				
Group 1	386.4433p	–	**386.4433p**	366.4933p
Group 2	257.2912p	129.1521p	**386.4433p**	366.4933p

† 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 2017

Holding	Security	30 June 2017 Value £'000	% of Total Net Assets	% of the Index[3]	31 December 2016 % of Total Net Assets	% of the Index
Oil & Gas Producers		**12,853**	**5.1**	**2.6**	5.7	3.3
14,116,466	EnQuest	4,482	1.8			
1,387,587	Hardy Oil & Gas	271	0.1			
1,386,428	Nostrum Oil & Gas	6,673	2.6			
1,222,140	Soco International	1,427	0.6			
Oil Equipment, Services & Distribution		**2,361**	**0.9**	**1.0**	0.6	1.1
4,371,803	Gulf Marine Services	2,361	0.9			
Alternative Energy		**–**	**–**	**–**	–	–
Chemicals		**1,623**	**0.7**	**2.1**	0.6	1.9
958,860	Carclo	1,623	0.7			
Industrial Metals & Mining		**–**	**–**	**0.7**	–	0.5
9,832,752	International Ferro Metals[1]	–	–			
Mining		**3,375**	**1.3**	**1.8**	2.7	2.1
2,068,365	Anglo Pacific Group	2,291	0.9			
1,188,037	Gem Diamonds	1,084	0.4			
2,717	Kenmare Resources Wts 2019[2]	–	–			
Construction & Materials		**14,188**	**5.5**	**4.9**	3.4	4.3
1,409,576	Eurocell	3,594	1.4			
1,502,000	Forterra	3,826	1.5			
562,853	Keller	4,939	1.9			
2,151,445	Low & Bonar	1,829	0.7			
Aerospace & Defence		**4,486**	**1.8**	**2.0**	1.6	1.9
1,915,590	Senior	4,486	1.8			
General Industrials		**15,370**	**6.0**	**1.6**	4.6	1.2
8,361,854	Coats Group	6,518	2.5			
1,670,091	Vesuvius	8,852	3.5			
Electronic & Electrical Equipment		**7,508**	**2.9**	**2.0**	6.0	2.1
828,687	Morgan Advanced Materials	2,347	0.9			
2,670,670	TT Electronics	5,161	2.0			
Industrial Engineering		**11,895**	**4.6**	**2.8**	4.3	2.5
516,883	Bodycote	3,892	1.5			
467,716	Castings	2,105	0.8			
583,416	Vitec Group	5,898	2.3			
Industrial Transportation		**4,867**	**1.9**	**2.4**	2.1	2.1
1,954,453	Wincanton	4,867	1.9			

Portfolio Statement

As at 30 June 2017

Holding	Security	Value £'000	30 June 2017 % of Total Net Assets	30 June 2017 % of the Index	31 December 2016 % of Total Net Assets	31 December 2016 % of the Index
Support Services		**37,226**	**14.5**	**11.0**	15.4	11.5
1,066,393	Capital Drilling	512	0.2			
2,356,971	Connect Group	2,652	1.0			
550,040	De La Rue	3,669	1.4			
687,707	Essentra	3,872	1.5			
5,883,428	Hogg Robinson Group	3,854	1.5			
8,582,977	Management Consulting Group	669	0.3			
190,100	Menzies (John)	1,339	0.5			
1,227,026	Northgate	5,436	2.1			
1,076,398	Robert Walters	4,518	1.8			
1,768,363	RPS Group	4,629	1.8			
1,824,876	SIG	2,708	1.1			
5,807,713	Speedy Hire	3,368	1.3			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**–**	**–**	**0.6**	–	0.6
Food Producers		**1,460**	**0.5**	**2.8**	1.6	2.6
44,200	Devro	91	–			
6,600	Hilton Food Group	49	–			
417,721	R.E.A. Holdings	1,320	0.5			
Household Goods & Home Construction		**6,771**	**2.6**	**4.8**	1.6	4.5
708,982	Bovis Homes Group	6,771	2.6			
Leisure Goods		**2,709**	**1.1**	**0.6**	1.3	0.6
225,955	Games Workshop Group	2,709	1.1			
Personal Goods		**–**	**–**	**1.9**	–	2.0
Health Care Equipment & Services		**–**	**–**	**1.9**	–	1.9
Pharmaceuticals & Biotechnology		**2,803**	**1.1**	**2.6**	1.4	2.6
2,507,292	Vectura Group	2,803	1.1			
Food & Drug Retailers		**2,523**	**1.0**	**0.8**	1.1	0.8
1,294,070	McColl's Retail Group	2,523	1.0			
General Retailers		**13,546**	**5.3**	**4.9**	5.1	5.5
874,395	Carpetright	1,600	0.6			
999,700	DFS Furniture	2,052	0.8			
657,800	Findel	1,296	0.5			
492,400	Halfords Group	1,684	0.7			
836,023	N Brown Group	2,592	1.0			
8,445,703	Pendragon	2,597	1.0			
2,091,100	Topps Tiles	1,725	0.7			
Media		**10,776**	**4.2**	**4.0**	3.7	3.9
2,686,614	Centaur Media	1,236	0.5			
898,412	Future	2,363	0.9			
7,194,281	Huntsworth	4,173	1.6			
3,073,497	Trinity Mirror	3,004	1.2			

Portfolio Statement

As at 30 June 2017

Holding	Security	30 June 2017 Value £'000	30 June 2017 % of Total Net Assets	30 June 2017 % of the Index[3]	31 December 2016 % of Total Net Assets	31 December 2016 % of the Index
Travel & Leisure		**22,637**	**8.8**	**8.9**	9.9	8.8
556,525	Air Partner	619	0.2			
6,471,141	FirstGroup	8,128	3.2			
5,262,279	Flybe Group	1,881	0.7			
214,859	Go-Ahead Group	3,779	1.5			
901,212	Ladbrokes Coral	1,031	0.4			
1,479,300	Restaurant Group	4,845	1.9			
1,263,800	Stagecoach Group	2,354	0.9			
Fixed Line Telecommunications		**1,214**	**0.6**	**1.0**	0.1	1.1
1,364,389	KCOM Group	1,214	0.6			
Electricity		**–**	**–**	**0.1**	–	0.1
Gas, Water & Multiutilities		**–**	**–**	**–**	–	0.1
Banks		**–**	**–**	**3.2**	–	3.3
Nonlife Insurance		**2,256**	**0.9**	**1.8**	1.0	1.7
395,718	Novae Group	2,256	0.9			
Life Insurance		**4,749**	**1.9**	**1.1**	1.8	1.3
1,378,918	Hansard Global	1,186	0.5			
2,805,401	Just Group	3,563	1.4			
Real Estate Investment & Services		**13,653**	**5.4**	**5.9**	5.1	6.0
1,997,601	Grainger	5,250	2.1			
1,622,656	U and I Group	3,063	1.2			
2,038,100	Urban&Civic	5,340	2.1			
Real Estate Investment Trusts		**7,982**	**3.1**	**5.8**	2.7	5.6
3,659,544	Hansteen Holdings	4,552	1.8			
1,509,515	McKay Securities	3,430	1.3			
Financial Services		**19,778**	**7.8**	**6.0**	9.3	6.7
1,916,525	Brewin Dolphin Holdings	6,556	2.6			
485,651	Charles Stanley Group	1,724	0.7			
593,800	CMC Markets	848	0.3			
1,916,527	International Personal Finance	3,229	1.3			
2,239,200	Non-Standard Finance	1,601	0.6			
1,363,083	Paragon Group	5,820	2.3			

Portfolio Statement

As at 30 June 2017

Holding	Security	30 June 2017 Value £'000	30 June 2017 % of Total Net Assets	30 June 2017 % of the Index[3]	31 December 2016 % of Total Net Assets	31 December 2016 % of the Index
Software & Computer Services		**15,165**	**5.9**	**5.3**	5.3	4.5
517,906	Computacenter	4,187	1.6			
451,052	Microgen	1,421	0.6			
1,304,800	NCC Group	2,133	0.8			
1,815,743	RM	3,105	1.2			
697,677	SDL	4,319	1.7			
Technology Hardware & Equipment		**8,770**	**3.4**	**1.1**	2.0	1.3
2,201,541	Filtronic	275	0.1			
1,072,400	Imagination Technologies Group	1,643	0.6			
1,656,400	Laird	2,286	0.9			
3,911,200	Spirent Communications	4,566	1.8			
Investments as shown in the Balance Sheet		**252,544**	**98.8**	**100.0**	100.0	100.0
Net Current Assets		**3,088**	**1.2**	**–**	–	–
Total Net Assets		**255,632**	**100.0**	**100.0**	100.0	100.0

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

[1] Listing suspended.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2017.

Additional Portfolio Information

For the six months ended	30 June 2017 £'000	30 June 2016 £'000
Total Purchases	**56,685**	50,011
Total Sales	**30,463**	15,061

Statement of Total Return

For the six months ended 30 June 2017 *(unaudited)*

	30 June 2017		30 June 2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains/(losses)		**24,432**		(24,470)
Revenue	**4,353**		3,432	
Expenses	**(939)**		(667)	
Interest payable and similar charges	**–**		(6)	
Net revenue before taxation	**3,414**		2,759	
Taxation	**–**		(5)	
Net revenue after taxation		**3,414**		2,754
Total return before distributions		**27,846**		(21,716)
Distributions		**(3,970)**		(3,137)
Change in net assets attributable to unitholders from investment activities		**23,876**		(24,853)

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2017 *(unaudited)*

	30 June 2017		30 June 2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		**201,817**		168,481
Amounts receivable on issue of units	**44,257**		51,927	
Amounts payable on cancellation of units	**(17,224)**		(16,048)	
		27,033		35,879
Change in net assets attributable to unitholders from investment activities		**23,876**		(24,853)
Retained distribution on accumulation units		**2,906**		2,501
Closing net assets attributable to unitholders		**255,632**		182,008

Balance Sheet

As at 30 June 2017 *(unaudited)*

	30 June 2017 £'000	30 June 2017 £'000	31 December 2016 £'000	31 December 2016 £'000
Assets				
Fixed Assets:				
Investments		**252,544**		201,889
Current Assets:				
Debtors	**4,086**		458	
Cash and bank balances	**482**		438	
Total other assets		**4,568**		896
Total assets		**257,112**		202,785
Liabilities				
Creditors:				
Other creditors	**(352)**		(286)	
Distribution payable on income units	**(1,128)**		(682)	
Total liabilities		**(1,480)**		(968)
Net assets attributable to unitholders		**255,632**		201,817

Cash Flow Statement

For the six months ended 30 June 2017 *(unaudited)*

	30 June 2017 £'000	30 June 2016 £'000
Net cash inflow from operating activities	**2,948**	2,138
Investing activities		
Purchases of investments	**(56,702)**	(49,768)
Sales of investments	**30,297**	14,994
Cash outflow from investing activities	**(26,405)**	(34,774)
Financing activities		
Amounts received from issue of units	**41,534**	53,463
Amounts paid on cancellation of units	**(17,351)**	(16,055)
Distributions paid	**(682)**	(667)
Interest paid	**–**	(6)
Cash inflow from financing activities	**23,501**	36,735
Increase in cash and cash equivalents	**44**	4,099
Cash and cash equivalents at the start of the period	**438**	50
Cash and cash equivalents at the end of the period	**482**	4,149

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 2016 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 2017. 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 2017 £'000	June 2016 £'000
Interim distribution	**4,034**	3,667
Income deducted on cancellation of units	**171**	96
Income received on creation of units	**(235)**	(626)
Distributions	**3,970**	3,137

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

	June 2017 £'000	June 2016 £'000
Net revenue after taxation	**3,414**	2,754
Add: Manager's periodic fee taken to capital	**553**	381
Add: Safe custody fee taken to capital	**3**	2
Distributions	**3,970**	3,137

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*
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– Enquiries: 0131 220 0733
Dealing: ordergroup@capita.co.uk
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Trustee & Depositary

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Trustee & Depositary Services
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Investment Adviser

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14 Melville Street
Edinburgh EH3 7NS

Registrar

Capita Financial Administrators Limited*
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DL1 9UE
Telephone: 0345 608 0940

Custodian

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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@capita.co.uk). In addition, orders can be placed electronically via various transaction networks including EMX and Calastone. Valuation of the Fund normally takes place each business day at 4.30 pm (or such other time as the market closes) 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 £2.4 billion (as at 30 June 2017). The Fund's portfolio is managed on a collegiate basis by six investment managers. Aberforth is wholly owned by seven partners – six investment managers and an Operations Partner.

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