Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2018

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		2 July 2018[1]	2 January 2018[1]
Accumulation Units	Issue Price	£273.12	£268.84
	Cancellation Price	£267.58	£263.41
Income Units	Issue Price	£205.57	£205.47
	Cancellation Price	£201.40	£201.32
	Yield	2.7%	2.6%
	Dealing spread	2.1%	2.0%

Charges	30 June 2018	31 December 2017
Initial charge	Nil	Nil
Ongoing charges	0.80%	0.79%
Exit charge	Nil	Nil

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

Performance Summary

	The Fund[1] (%)	Index[2] (%)
6 months to 30 June 2018	2.3	-1.2

Net Asset Value (Post Distribution)

	30 June 2018	31 December 2017
Total Net Assets	£173m	£249m
Accumulation units in issue	464,507.253	760,295.152
Income units in issue	235,792.687	241,758.267
NAV per unit – accumulation	£269.62	£263.49
NAV per unit – income	£202.93	£201.38

Historic Returns

	Discrete Annual Returns (%)	
Period	The Fund[1]	Index[2]
1 year to 30 June 2018	9.6	7.6
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

	Cumulative Returns (%)	
Periods to 30 June 2018	The Fund[1]	Index[2]
3 years from 30 June 2015	26.0	29.8
5 years from 30 June 2013	86.6	72.3
10 years from 30 June 2008	211.3	228.0
15 years from 30 June 2003	490.3	510.9
Since inception on 20 March 1991	2,742.0	1,457.3

	Annualised Returns (%)	
Periods to 30 June 2018	The Fund[1]	Index[2]
3 years from 30 June 2015	8.0	9.1
5 years from 30 June 2013	13.3	11.5
10 years from 30 June 2008	12.0	12.6
15 years from 30 June 2003	12.6	12.8
Since inception on 20 March 1991	13.1	10.6

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 2018 included some 350 companies, the largest market capitalisation of which was £1.5 billion and the aggregate market capitalisation of which was £169 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 changes to the Prospectus during the period. However during August 2018, the Trustee will change, subject to contract, from National Westminster Bank plc, to NatWest Trustee and Depositary Services Limited. The ultimate parent company of both entities is The Royal Bank of Scotland Group plc.

Changes to the bank account

During the period the bank account settlement details changed. Investors are now asked to settle the purchase of units to the new account, as detailed on contract notes.

Remuneration Policy

Aberforth Unit Trust Managers Limited (the "Manager") has delegated all investment management activities for the Fund to Aberforth Partners LLP. The Manager is not subject to the UCITS remuneration code, however it is subject to regulatory requirements on remuneration under the FCA handbook and the Alternative Investment Fund Managers Directive. Details of its remuneration policy are available on request.

Introduction

After the very good stockmarket returns enjoyed in 2017, this year has begun more modestly. The FTSE All-Share's total return in the six months to 30 June 2018 was +1.7%, while small companies – in the form of the NSCI (XIC) – experienced a total return of -1.2%. For reasons set out in the Investment Performance section of this report, the Fund's performance was more resilient: its total return was +2.3%.

The lacklustre share price performance of UK companies, both large and small, in the opening months of 2018 was influenced by heightened concerns about macro economic and geopolitical risks. In this Donald Trump has played a central role, with his transactional approach to foreign relations in which confusion and unpredictability may indeed be by design. His threatened withdrawal from the Iranian nuclear deal has contributed to a higher oil price, which in itself acts as a drag on economic activity around the globe. Moreover, his trade initiatives threaten to exacerbate the protectionist instincts of politicians in other countries to the detriment of economic activity around the world.

Trump's domestic strategy, based on fiscal stimulus, has succeeded in supporting economic growth but brings further inflationary pressure and concern about the pace at which interest rates need to rise. The ten year US government bond has responded, with the yield rising to 3% for the first time since 2013. This is a significant move for arguably the world's most important financial instrument, which is the basis for the valuation of other assets around the world. Among these are equities and the specific implications for the value investment style are described later in this report.

To the extent that the higher ten year US yield reflects higher nominal economic growth, it is to be welcomed. However, the message is complicated by an accompanying increase in shorter term

Manager's Report

government bond yields with the effect that the yield curve has flattened. Historically, an inverted yield curve – when shorter term yields exceed longer term yields – has been a useful indicator of recession. While inversion has not come to pass, the risk inevitably tempers the enthusiasm that might otherwise accompany a return to 3% yields and a tentative normalisation of monetary conditions.

Meanwhile, in Europe, there are indications that 2017's robust recovery in economic activity has lost momentum, with various indicators suggesting that while activity continues to improve it is doing so at a more modest rate. This comes against the backdrop of renewed concern about the politics of the euro zone. Angela Merkel is confronted by domestic concerns about immigration and by Emmanuel Macron's integrationist agenda, while Italy's general election in March was followed by the eventual assumption of power by populist parties who retain a sceptical stance on the European Union.

Turning to the UK, the paradigm for such sceptics, progress with the divorce negotiations remains frustratingly slow: fundamental details about relations with the EU after March 2019 are yet to be decided. Consequently, the economy remains beset by uncertainty and gloom about UK equities is pervasive, typified by a recent survey by Bank of America Merrill Lynch suggesting that the asset class is the least popular among fund managers around the globe. Within the UK market, the closer one gets to companies exposed to the domestic economy, and thus further away from businesses whose overseas profits have been boosted by sterling weakness, the worse sentiment becomes. To an extent this is understandable: consumer behaviour continues to be hampered by wages that are struggling to grow in real terms. However, such is the negativity that many companies are being written off as "Brexit victims", when deeper scrutiny reveals a more nuanced picture. For those with a contrarian inclination, value among businesses reliant on the domestic economy continues to emerge. The Manager, while cognisant of the risk of a badly handled exit from the EU, has taken advantage of this situation by redirecting capital from overseas facing businesses to domestics as bottom-up opportunities emerge, a process described in the following section.

Investment performance

To recap, the Fund's total return in the six months to 30 June 2018 was 2.3%, which may be compared with the -1.2% return from the NSCI (XIC). The difference between the two numbers is analysed in the following table. The subsequent paragraphs provide additional detail about the influences on performance.

For the six months ended 30 June 2018	Basis points
Stock selection	135
Sector selection	165
Attributable to the portfolio of investments, based on mid prices	**300**
Movement in mid to bid price spread	54
Management fee	(38)
Other expenses	(2)
Cash/other	35
Total attribution based on bid prices	**349**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 2.32%; Benchmark Index = -1.17%; difference is 3.49% being 349 basis points).

Manager's Report

Style

Despite a good year of economic progress in 2017, the performance of the value stocks in the NSCI (XIC) was frustratingly subdued, to the extent that it was the style's ninth worst year since 1955. The first two months of 2018 followed a similar pattern, but, as US government bond yields rose, the value style recovered such that style had no meaningful impact on the Fund's performance over the six months to 30 June 2018. It is tempting to compare this recent episode with the events of 2013, when ten year bond yields in the US last reached 3% and the value stocks performed strongly. Experience would thus appear to back up the theory of a relationship between the cost of money and investment style.

There are two aspects to the theory. First, today's population of value stocks is biased to companies sensitive to the economic cycle: a pick-up in economic activity, signalled by higher bond yields, thus ought to favour the value style. Second, higher bond yields imply the use of higher discount rates in valuing financial assets. Longer duration assets – i.e. those whose cash flows are weighted to more distant periods – are more affected to changes in discount rates. In stockmarket terms, growth stocks may be thought of as long duration equities, while value stocks are relative beneficiaries of a return to a normal cost of money.

Size

The portfolio retains its bias towards the NSCI (XIC)'s "smaller small" constituents: companies with market capitalisations of more than £750m account for 58% of the NSCI (XIC) but for just 27% of the portfolio. This is due to the lower ratings that persist for such companies and the premium that investors at large are still willing to pay for greater size and liquidity: at the end of June 2018, NSCI (XIC) companies with market capitalisations above £750m are on average 47% more expensive, using 2018 EV/EBITA ratios, than those of £100m or less. In the six months to 30 June 2018, the larger stocks within the NSCI (XIC) – specifically, those also in the FTSE 250 – under-performed the smaller stocks, which implies that the size effect had a beneficial effect on portfolio returns.

Sector

At the sector level, the main issue since the EU referendum and the subsequent devaluation of sterling has been the contrast in fortunes between those sectors exposed to the domestic economy and those earning their profits outside the UK. From the end of May 2016 to the end of December 2017, the latter out-performed the former by 20% in total return terms, and the gap widened by a further 16% in the first half of 2018. This suited the positioning of the Fund's portfolio, whose relatively high exposure to overseas companies going into the EU referendum was still in place at the start of the current year.

However, the extreme bearishness about the outlook for the UK economy, which was noted in the opening section of this report, has resulted in more attractively valued opportunities among the domestic sectors. Accordingly, and consistent with the indication given in the annual report, the drift of capital within the portfolio has been from overseas sectors to domestic sectors. The transition has been gradual, driven by individual opportunities, such that the portfolio retained an overseas bias through the first half. This would have helped the Fund's performance relative to the NSCI (XIC). Entering the second half, 41% of the aggregate sales of the portfolio's holdings are generated outside the UK. This is down from 46% six months earlier and in line with the NSCI (XIC)'s overseas exposure.

Results

Of the companies that the Manager follows closely within the NSCI (XIC), many have December year ends and report results in the first calendar quarter. This year, with those involved in the mining and oil industries excluded, there were 124 such businesses. The aggregated sales and profits of the 124 rose by 9% and 2%. It was therefore a year of progress, albeit one with a squeeze on margins, particularly for those companies paying more in sterling terms for goods and services sourced from outside the UK. While domestic facing businesses experienced greater pressure on profits, it is noteworthy that most of the domestics within the analysis were still able to grow their profits. Investment by the 124 companies was encouraging: the ratio of aggregated capital expenditure to depreciation was 1.4x. For several years now, the ratio has been well above 1x, which suggests that small and medium sized companies have been investing for future growth. This bodes well and paints a different picture from that of the overall UK economy, which is inevitably influenced by the actions of large companies. The healthy rate of investment by small companies comes alongside evidence that boards of directors are willing to deploy the balance sheet strength that was built up in the years following the financial crisis. This is consistent with a broader recovery in confidence, which is also manifest in growing dividends and gives reason for optimism about an economy that seldom seems short of bad news.

Corporate activity

The last annual report noted a relatively quiet year for M&A activity in 2017. This was surprising since valuations for small UK quoted companies were low and sterling's decline following the EU referendum rendered UK assets in general more affordable to overseas buyers. That reasoning has seen some vindication so far in 2018, with six deals announced up to the end of June, of which the Fund owned two. The renewed enthusiasm for British businesses on the part of other corporates and private equity contrasts sharply with the Bank of America Merrill Lynch survey noted previously. Additionally, the incidence of shareholder activism within the NSCI (XIC) is notably higher so far in 2018. While the Manager chooses to engage with company boards directly and discreetly, the proclamations of the public activists draw attention to opportunities within the small cap universe.

Income

The table below categorises the portfolio's holdings depending on each company's most recent dividend action. With numerous dividend increases and few cuts, it suggests a continuation of the strong growth trend that has been a feature of the portfolio and indeed the wider small company universe for the last eight years or so. The "Other" category contains companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year.

Down	Nil payers	No change	Increase	Other
4	19	20	39	3

Perhaps the most worrisome aspect about small company dividends at present is that the growth has been so strong for so long. At some point, it is probable that something will happen to bring the rate of progress back closer to the long term average of 2.7% per annum in inflation adjusted terms. However, such a setback would not appear imminent: dividend cover for the portfolio of 2.6x is in line with the average since 1990 and, while trading is difficult for some, a year of profit growth for the majority of companies in the NSCI (XIC) looks likely.

Valuations

The table below shows a small rise in the historical PE of the NSCI (XIC) over the past twelve months, which is consistent with the capital only return from the index and some modest growth in earnings per share. The portfolio remains cheaper than the opportunity base, consistent with the Manager's value investment style. The major development in PE terms within the UK stockmarket has come from large companies, with the FTSE All-Share's historical PE, according to the London Business School, dropping from 21.6x at the end of December to 13.0x at the end of June. A fall was to be expected as large companies reported their 2017 results, which benefited from higher commodity prices and the boost to overseas profits from sterling weakness. However, there was an additional factor at work: through its purchase of Reynolds, British American Tobacco earned a one-off profit that brought its historical PE down to 2x reported earnings. Given the size of the company, this distorts the PE of the FTSE All-Share, which will persist for a year. With British American Tobacco excluded, the large cap PE would be just under 17x, which is a more representative gauge of large company valuation. This would represent a premium of 20% over the small cap PE, higher than the average since 1990 of 10%.

	30 June 2018		30 June 2017	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**85**	**344**	84	339
Weighted average market capitalisation	**£604m**	**£889m**	£663m	£894m
Price earnings (PE) ratio (historic)	**12.2x**	**13.9x**	11.8x	13.8x
Dividend yield (historic)	**3.1%**	**2.9%**	3.0%	2.7%
Dividend cover	**2.6x**	**2.5x**	2.9x	2.7x

The table below focuses on the Manager's favoured valuation metric: the ratio of enterprise value to earnings before interest, tax and amortisation. EV/EBITA is shown for the portfolio, for the Tracked Universe – a set of 280 stocks that are followed closely by the Manager – and for certain subsets of the Tracked Universe. The analysis confirms the valuation advantage enjoyed by the portfolio in relation to the Tracked Universe and to the constituency of growth stocks in particular. The table also compares the valuations of all the Tracked Universe's domestic and overseas companies, an approach that excludes the resources sectors and those businesses with no particular geographical skew. This highlights the valuation gap between domestic and overseas companies, with the latter on a 17% premium to the former for 2018, measured as a multiple of profits that have themselves, in many cases, never been higher. In contrast, the domestics are valued on lower multiples of profits that, in several instances, have already declined meaningfully.

EV/EBITA	**2017**	**2018**	**2019**
The Fund	11.2x	10.6x	9.4x
Tracked universe (280 stocks)	13.9x	13.0x	11.6x
- 43 growth stocks	22.4x	18.7x	16.3x
- 237 other stocks	12.7x	12.2x	11.0x
- 55 overseas stocks	15.4x	14.9x	13.1x
- 141 domestic stocks	13.3x	12.7x	11.5x

Manager's Report

Conclusion & outlook

It is now nine years since the last recession, a period in which total returns from the FTSE All-Share and the NSCI (XIC) have been 166% and 277% respectively. Given that length of time and the strength of those returns, a degree of nervousness about a less rewarding period is understandable. Early in the year, the markets appeared to have found good reason for concern as monetary tightening in the US combined with rising political risk around the world to cloud the outlook. And, of course, the situation in the UK is complicated by the threat of a divorce settlement that proves hostile to business.

In the event, the elevated volatility of the first quarter proved transient and many indices ended the half year at or close to historical highs. However, there is a different story in the bond markets, with the US ten year yield still around 3%. This would imply better prospects for economic activity in nominal terms but it remains to be seen whether the world economy can endure such a repricing of money. The experience of 2013 does not bode well, but today's growth is more balanced among the major economies and inflationary pressures are more difficult to ignore, with employment markets tightening and populism encouraging looser fiscal policies. At the very least, 3% bond yields give financial markets pause for thought. Will the investment strategies and styles that have prospered in a decade of easy money prove so successful as circumstances change?

As these big picture issues play out and have their inevitable influence on the Fund's performance, it is important not to lose sight of the progress being made by the substantial majority of businesses within the portfolio and the NSCI (XIC). Notwithstanding the continuing negotiations with the EU, another year of higher sales and profits looks likely. A healthy level of investment and above average dividend growth suggest confidence on the part of company boards. However, in the context of broader equity markets, valuations of small UK quoted companies remain low, especially among the "smaller small" companies and domestic businesses to which the Manager is attracted through its value investment philosophy. The combination of factors should be supportive of future returns from the Fund's portfolio.

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Aberforth Unit Trust Managers Limited

26 July 2018

Long Term Investment Record

Historic Returns

Periods to 30 June 2018	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2016	21.4	17.9	47.3	39.0
3 years from 30 June 2015	8.0	9.1	26.0	29.8
4 years from 30 June 2014	9.4	9.4	43.0	43.3
5 years from 30 June 2013	13.3	11.5	86.6	72.3
6 years from 30 June 2012	16.4	14.7	148.9	127.1
7 years from 30 June 2011	12.6	11.8	129.6	117.8
8 years from 30 June 2010	15.0	14.4	206.5	192.4
9 years from 30 June 2009	15.4	15.8	261.7	274.3
10 years from 30 June 2008	12.0	12.6	211.3	228.0
15 years from 30 June 2003	12.6	12.8	490.3	510.9
Since inception on 20 March 1991	13.1	10.6	2,742.0	1,457.3

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 2018

Group 1: Units purchased prior to 1 January 2018

Group 2: Units purchased on or after 1 January 2018

Interim Distribution	Net Income June 2018	Equalisation† June 2018	Distribution/ Accumulation June 2018	Distribution/ Accumulation June 2017
Income units (payable 31 August 2018)				
Group 1	318.8306p	–	**318.8306p**	303.3928p
Group 2	122.4338p	196.3968p	**318.8306p**	303.3928p
Accumulation units				
Group 1	417.1557p	–	**417.1557p**	386.4433p
Group 2	160.1915p	256.9642p	**417.1557p**	386.4433p

† When units are bought, 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 2018

Holding	Security	30 June 2018 Value £'000	30 June 2018 % of Total Net Assets	30 June 2018 % of the Index[3]	31 December 2017 % of Total Net Assets	31 December 2017 % of the Index
Oil & Gas Producers		**8,002**	**4.7**	**3.3**	3.9	2.6
9,673,166	EnQuest	3,424	2.0			
1,387,587	Hardy Oil & Gas	153	0.1			
1,429,928	Nostrum Oil & Gas	2,760	1.6			
667,400	Premier Oil	858	0.5			
837,054	SOCO International	807	0.5			
Oil Equipment, Services & Distribution		**1,712**	**1.0**	**1.3**	0.7	1.1
4,124,584	Gulf Marine Services	1,712	1.0			
Alternative Energy		**–**	**–**	**–**	–	–
Chemicals		**703**	**0.4**	**1.9**	0.5	1.7
913,329	Carclo	703	0.4			
Industrial Metals & Mining		**–**	**–**	**–**	–	–
9,832,752	International Ferro Metals[1]	–	–			
Mining		**3,670**	**2.1**	**2.1**	1.7	2.5
1,503,965	Anglo Pacific Group	2,098	1.2			
837,093	Capital Drilling	360	0.2			
1,018,437	Gem Diamonds	1,212	0.7			
2,717	Kenmare Resources Wts 2019[2]	–	–			
Construction & Materials		**10,410**	**6.0**	**5.0**	5.0	4.9
1,122,059	Eurocell	2,940	1.7			
907,083	Forterra	2,780	1.6			
462,513	Keller	4,690	2.7			
Aerospace & Defence		**7,346**	**4.2**	**3.2**	2.3	2.6
1,228,122	Senior	3,721	2.1			
219,827	Ultra Electronics Holdings	3,625	2.1			
General Industrials		**5,213**	**3.0**	**0.9**	6.9	0.9
4,874,859	Coats Group	3,778	2.2			
3,002,445	Low & Bonar	1,435	0.8			
Electronic & Electrical Equipment		**6,638**	**3.8**	**2.1**	3.5	2.1
185,000	Dialight	925	0.5			
820,187	Morgan Advanced Materials	2,676	1.5			
1,252,170	TT Electronics	3,037	1.8			
Industrial Engineering		**5,966**	**3.5**	**1.8**	4.9	2.1
376,326	Castings	1,524	0.9			
339,116	Vitec Group	4,442	2.6			
Industrial Transportation		**3,461**	**2.0**	**2.2**	1.7	2.3
1,357,153	Wincanton	3,461	2.0			

Portfolio Statement

As at 30 June 2018

Holding	Security	Value £'000	30 June 2018 % of Total Net Assets	30 June 2018 % of the Index	31 December 2017 % of Total Net Assets	31 December 2017 % of the Index
Support Services		**23,895**	**13.7**	**11.1**	14.8	11.3
2,306,371	Connect Group	712	0.4			
534,790	De La Rue	2,974	1.7			
641,607	Essentra	3,081	1.8			
8,582,977	Management Consulting Group	216	0.1			
167,600	Menzies (John)	1,051	0.6			
856,926	Northgate	3,486	2.0			
646,198	Robert Walters	4,523	2.6			
1,415,634	RPS Group	3,617	2.1			
1,132,677	SIG	1,581	0.9			
4,238,818	Speedy Hire	2,654	1.5			
Automobiles & Parts		**2,500**	**1.4**	**0.8**	–	0.8
1,024,604	TI Fluid Systems	2,500	1.4			
Beverages		**–**	**–**	**0.7**	–	0.7
Food Producers		**2,318**	**1.4**	**2.8**	1.4	2.8
641,500	Bakkavor Group	1,232	0.7			
44,200	Devro	88	0.1			
302,521	R.E.A. Holdings	998	0.6			
Household Goods & Home Construction		**450**	**0.3**	**2.9**	3.1	3.5
92,298	Headlam Group	450	0.3			
Leisure Goods		**–**	**–**	**0.9**	0.5	0.9
Personal Goods		**–**	**–**	**1.2**	–	1.6
Health Care Equipment & Services		**–**	**–**	**1.8**	–	1.9
Pharmaceuticals & Biotechnology		**1,743**	**1.0**	**2.1**	1.2	2.0
2,233,692	Vectura Group	1,743	1.0			
Food & Drug Retailers		**1,972**	**1.1**	**0.8**	1.4	1.0
961,943	McColl's Retail Group	1,972	1.1			
General Retailers		**10,875**	**6.2**	**5.2**	5.6	6.1
3,325,857	Carpetright	945	0.5			
796,400	DFS Furniture	1,637	0.9			
580,800	Dunelm Group	2,933	1.7			
502,800	Halfords Group	1,745	1.0			
820,929	N Brown Group	1,390	0.8			
4,562,267	Pendragon	1,115	0.7			
1,732,048	Topps Tiles	1,110	0.6			
Media		**11,761**	**6.8**	**5.1**	5.5	4.3
1,829,314	Centaur Media	852	0.5			
672,019	Future	3,521	2.0			
3,554,306	Huntsworth	4,265	2.5			
2,078,097	Reach	1,590	0.9			
636,100	Wilmington Group	1,533	0.9			

Portfolio Statement

As at 30 June 2018

Holding	Security	Value £'000 (30 June 2018)	% of Total Net Assets (30 June 2018)	% of the Index[3] (30 June 2018)	% of Total Net Assets (31 December 2017)	% of the Index (31 December 2017)
Travel & Leisure		**19,889**	**11.6**	**7.8**	9.6	7.8
274,975	Air Partner	302	0.2			
1,516,000	Ei Group	2,213	1.3			
5,067,041	FirstGroup	4,226	2.4			
4,444,079	Flybe Group	1,822	1.1			
163,209	Go-Ahead Group	2,585	1.5			
1,391,092	Mitchells & Butlers	3,608	2.1			
189,700	Rank Group	363	0.2			
1,165,600	Restaurant Group	3,280	1.9			
1,052,150	Stagecoach Group	1,490	0.9			
Fixed Line Telecommunications		**1,078**	**0.6**	**1.6**	0.6	1.8
1,113,734	KCOM Group	1,078	0.6			
Electricity		**–**	**–**	**0.9**	–	0.7
Gas, Water & Multiutilities		**–**	**–**	**–**	–	–
Banks		**–**	**–**	**3.1**	–	3.5
Nonlife Insurance		**2,198**	**1.3**	**1.7**	0.5	1.8
174,100	Lancashire Holdings	987	0.6			
448,670	Sabre Insurance Group	1,211	0.7			
Life Insurance		**4,127**	**2.4**	**0.4**	2.3	0.4
1,396,918	Hansard Global	810	0.5			
2,458,801	Just Group	3,317	1.9			
Real Estate Investment & Services		**12,695**	**7.4**	**5.8**	5.9	5.7
467,799	Countrywide	176	0.1			
1,378,891	Grainger	4,241	2.5			
1,285,121	U and I Group	2,962	1.7			
1,540,900	Urban&Civic	5,316	3.1			
Real Estate Investment Trusts		**5,272**	**3.1**	**5.5**	2.4	5.4
2,649,400	Capital & Regional	1,349	0.8			
1,094,904	Hansteen Holdings	1,141	0.7			
1,061,852	McKay Securities	2,782	1.6			
Financial Services		**13,279**	**7.7**	**8.4**	6.6	8.3
1,270,638	Brewin Dolphin Holdings	4,513	2.6			
625,151	Charles Stanley Group	2,351	1.4			
871,600	CMC Markets	1,738	1.0			
1,431,665	International Personal Finance	2,918	1.7			
2,892,300	Non-Standard Finance	1,759	1.0			

Portfolio Statement

As at 30 June 2018

Holding	Security	30 June 2018 Value £'000	30 June 2018 % of Total Net Assets	30 June 2018 % of the Index[3]	31 December 2017 % of Total Net Assets	31 December 2017 % of the Index
Software & Computer Services		**6,101**	**3.4**	**4.9**	5.3	4.0
321,500	Alfa Financial Software Holdings	563	0.3			
49,652	Microgen	218	0.1			
1,215,813	RM	2,675	1.5			
612,277	SDL	2,645	1.5			
Technology Hardware & Equipment		**3,410**	**2.0**	**0.7**	2.5	0.9
2,944,300	Spirent Communications	3,410	2.0			
Investments as shown in the Balance Sheet		**176,684**	**102.1**	**100.0**	100.3	100.0
Net Current Assets		**3,596**	**2.1**	**–**	(0.3)	–
Total Net Assets		**173,090**	**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 2018.

Additional Portfolio Information

For the six months ended	30 June 2018 £'000	30 June 2017 £'000
Total Purchases	**38,774**	56,685
Total Sales	**115,387**	30,463

Statement of Total Return

For the six months ended 30 June 2018 *(unaudited)*

	30 June 2018		30 June 2017	
	£'000	£'000	£'000	£'000
Income				
Net capital gains		**4,016**		24,432
Revenue	**4,336**		4,353	
Expenses	**(986)**		(939)	
Interest payable and similar charges	**(1)**		–	
Net revenue before taxation	**3,349**		3,414	
Taxation	**–**		–	
Net revenue after taxation		**3,349**		3,414
Total return before distributions		**7,365**		27,846
Distributions		**(3,937)**		(3,970)
Change in net assets attributable to unitholders from investment activities		**3,428**		23,876

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2018 *(unaudited)*

	30 June 2018		30 June 2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		**249,016**		201,817
Amounts receivable on issue of units	**11,473**		44,257	
Amounts payable on cancellation of units	**(92,765)**		(17,224)	
		(81,292)		27,033
Change in net assets attributable to unitholders from investment activities		**3,428**		23,876
Retained distribution on accumulation units		**1,938**		2,906
Closing net assets attributable to unitholders		**173,090**		255,632

Balance Sheet

As at 30 June 2018 *(unaudited)*

	30 June 2018 £'000	31 December 2017 £'000
Assets		
Fixed Assets:		
Investments	**176,684**	249,877
Current Assets:		
Debtors	**987**	660
Cash and bank balances	**–**	–
Total current assets	**987**	660
Total assets	**177,671**	250,537
Liabilities		
Creditors:		
Bank overdraft	**(3,628)**	(770)
Other creditors	**(201)**	(190)
Distribution payable on income units	**(752)**	(561)
Total liabilities	**(4,581)**	(1,521)
Net assets attributable to unitholders	**173,090**	249,016

Cash Flow Statement

For the six months ended 30 June 2018 *(unaudited)*

	30 June 2018 £'000	30 June 2017 £'000
Net cash inflow from operating activities	**3,677**	2,948
Investing activities		
Purchases of investments	**(38,720)**	(56,702)
Sales of investments	**115,312**	30,297
Cash inflow/(outflow) from investing activities	**76,592**	(26,405)
Financing activities		
Amounts received from issue of units	**11,514**	41,534
Amounts paid on cancellation of units	**(94,079)**	(17,351)
Distributions paid	**(561)**	(682)
Interest paid	**(1)**	–
Cash (outflow)/inflow from financing activities	**(83,127)**	23,501
(Decrease)/increase in cash and cash equivalents	**(2,858)**	44
Cash and cash equivalents at the start of the period	**(770)**	438
Cash and cash equivalents at the end of the period	**(3,628)**	482

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 2017 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 2018. 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) 104 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 2018 £'000	June 2017 £'000
Interim distribution	**2,690**	4,034
Income deducted on cancellation of units	**1,327**	171
Income received on creation of units	**(80)**	(235)
Distributions	**3,937**	3,970

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

	June 2018 £'000	June 2017 £'000
Net revenue after taxation	**3,349**	3,414
Add: Manager's periodic fee taken to capital	**585**	553
Add: Safe custody fee taken to capital	**3**	3
Distributions	**3,937**	3,970

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
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– Enquiries: 0131 220 0733
Dealing: ordergroup@linkgroup.co.uk
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

Trustee & Depositary

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Trustee & Depositary Services
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Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Link Fund Administrators Limited*
PO Box 388
Unit 1, Roundhouse Road
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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 Link, the Registrar, using the address above or by email (ordergroup@linkgroup.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 2018). 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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