Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2019

Investment Objective

The investment objective of the Fund is to seek to achieve a total return, calculated on an income reinvested basis, greater than the Numis Smaller Companies Index (excluding Investment Companies) ("NSCI (XIC)") over the long term, or, if that index is not available, another index which the Manager considers is comparable to the Numis Smaller Companies Index (excluding Investment Companies).

Investment Policy

The Fund aims to achieve its objective by investing in small UK quoted companies. These are companies with a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the Numis Smaller Companies Index (excluding Investment Companies). At 1 January 2019 (the date of the last annual index rebalancing), the index included 359 companies, with an aggregate market capitalisation of £140 billion. Its upper market capitalisation limit was £1.3 billion, although this limit changes owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities become candidates for sale.

Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies.

The Fund's policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except either where an investee company moves from the "Main Market" to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the "Main Market" (so as to enable investment before a full listing is obtained). The Fund does not invest in any unquoted companies.

The Manager aims to keep the Fund near fully invested in equities at all times and there is normally no attempt to engage in market timing by holding high levels of liquidity.

The Manager believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term. Any material changes to the Fund's investment objective and policy will be subject to Unitholder approval.

Fund Information

Prices & Yield		1 July 2019[1]	2 January 2019[1]
Accumulation Units	Issue Price	£247.53	£228.37
	Cancellation Price	£243.06	£223.63
Income Units	Issue Price	£180.65	£169.26
	Cancellation Price	£177.39	£165.75
	Yield	3.0%	3.5%
	Dealing spread	1.8%	2.1%

Charges	30 June 2019	31 December 2018
Initial charge	Nil	Nil
Ongoing charges	0.78%	0.81%
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 2019	8.6%	10.5%

Net Asset Value (Post Distribution)

	30 June 2019	31 December 2018
Total Net Assets	£177.2m	£143.4m
Accumulation units in issue	422,162.948	436,989.840
Income units in issue	423,772.579	277,528.376
NAV per unit – accumulation	£242.28	£223.06
NAV per unit – income	£176.82	£165.33

Historic Returns

	Discrete Annual Returns (%)	
Period	The Fund[1]	Index[2]
1 year to 30 June 2019	-10.1	-5.4
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

	Cumulative Returns (%)	
Periods to 30 June 2019	The Fund[1]	Index[2]
3 years from 30 June 2016	32.4	31.5
5 years from 30 June 2014	28.5	35.6
10 years from 30 June 2009	225.0	254.2
15 years from 30 June 2004	294.2	335.8
Since inception on 20 March 1991	2,454.1	1,373.8

	Annualised Returns (%)	
Periods to 30 June 2019	The Fund[1]	Index[2]
3 years from 30 June 2016	9.8	9.6
5 years from 30 June 2014	5.2	6.3
10 years from 30 June 2009	12.5	13.5
15 years from 30 June 2004	9.6	10.3
Since inception on 20 March 1991	12.1	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.

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:-

1. to remove E.R. Macdonald, R.M.J Newbery, C.N. Watt and A.J. Whyte as directors of Aberforth Unit Trust Managers Limited (the “Manager”);
2. to clarify the use of the NSCI (XIC) as the Fund’s Target and Comparator benchmark in line with COLL 4.2.5R (3) (c-b);
3. to clarify the description of the investment objective, policy and strategy.

Remuneration Policy

The Manager has no employees and has delegated all investment management activities for the Fund to Aberforth Partners LLP. Aberforth Partners LLP is not subject to the UCITS remuneration code. However, 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

Equity markets performed well in the first six months of the year. The FTSE All-Share’s total return was 13.0%. Despite a good start to the year, smaller companies lagged as Brexit concerns re-intensified later in the period: the NSCI (XIC) was up by 10.5%. The Fund’s total return was 8.6%.

An important influence on these numbers was, of course, the depressed starting point. In the final months of 2018, financial markets were bedevilled by concerns about slowing global growth, as the trade war between the US and China escalated and as the Federal Reserve, despite pressure from the president, seemed committed to tighter monetary policy. Sentiment turned as planned tariff increases were postponed in December, followed in January by a dovish shift by Jay Powell, chairman of the Federal Reserve, who averred patience and sensitivity to “economic and financial developments”. With the “Powell Put” born, equities and other risk assets around the world commenced their rally.

The mood of optimism persisted until early May, when Donald Trump’s tweets brought trade wars back to the forefront of investors’ minds. Tariff increases were accompanied by a more aggressive line on Huawei and by a mooted extension of sanctions to encompass another $325bn of goods imported from China. With collateral damage to the export-oriented economies of Europe and the emerging markets, these developments reawakened concerns about growth around the world. The period drew to a close with a G20 summit in Japan, in which Trump appeared to moderate his stance with regard to China and thus to raise hopes of a trade deal.

Manager’s Report

While equities gyrated in response to macro-economic developments, government bonds were consistently and unrelentingly strong since the growth concerns of 2018’s fourth quarter. In the UK, the ten year gilt yield slipped back below 1%, while the German equivalent is once again negative. In the US, the ten year treasury yield fell from 3.2% in November to 2.1% at the end of June. This move took the US yield curve – longer term yields less shorter term yields – into negative territory on some definitions. With yield curve inversion a historically useful indicator of recession, such developments would seem to portend a gloomy outlook for the global economy.

The UK meanwhile continues to contend with the additional complexity of Brexit. As deep uncertainty lingers and as both ends of the political spectrum give cause for concern, sterling has weakened again. This has hampered the performance of the domestically oriented NSCI (XIC) in relation to the much more international large company indices. More fundamentally, the saga is also affecting economic activity: recent manufacturing surveys have been weak, which must reflect the unwinding of inventories that were built up in anticipation that the UK would leave the EU as planned on 29 March. Nevertheless, macro economic data, on balance, point to an economy that is making steady if unspectacular progress. This view is backed up by the results reported by small UK quoted companies.

In the first quarter of this year, 115 non resources companies that are tracked closely by the Manager reported their final results to 31 December 2018. Sales and profits of these companies rose by roughly 6%, while the ratio of capital expenditure to depreciation – a measure of how actively businesses are investing – was 1.7x, a level that continues to suggest that companies are investing for future growth. The Manager estimates that sales and profits will grow by 5% in 2019 and that the investment ratio will be a healthy 1.4x, though some of the capital will be deployed in companies’ operations outside the UK. These estimates, which do assume that a “hard Brexit” is avoided, point to an acceptable outlook for a useful cross-section of the universe of small quoted companies and belie the depressed valuation ratios for the portfolio and asset class described later in this report.

Investment performance

Over the six months to 30 June 2019, the Fund’s total return was 8.6%; the NSCI (XIC)’s was 10.5%. The table below analyses the difference between the two numbers. The paragraphs thereafter give additional perspective, explaining the factors that have had meaningful influences on performance.

For the six months ended 30 June 2019	Basis points
Stock selection	(338)
Sector selection	100
Attributable to the portfolio of investments, based on mid prices	**(238)**
Movement in mid to bid price spread	49
Management fee	(36)
Other expenses	(2)
Cash/other	40
Total attribution based on bid prices	**(187)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 8.62%; Benchmark Index = 10.49%; difference is -1.87% being -187 basis points).

Manager's Report

Style

The relapse in government bond yields described in the introduction represented an unfavourable backdrop for the value style: all else being equal, lower risk free rates imply lower discount rates for valuing equities, which favours those stocks whose cash flows are biased to the more distant future.

Such stocks are growth stocks, which have benefited from the extraordinary monetary policies that have persisted since the financial crisis. The first half of 2019 was particularly hostile for value, being the toughest start to a calendar year in the Fund's 28 years and, indeed, in the NSCI (XIC)'s 64 year history. Though not insurmountable, such conditions are a challenge to the relative performance of the portfolio. The Manager believes that it is important to remain true to the value investment philosophy. The number of UK small company open-ended funds and investment trusts following such an approach has dwindled as the growth style has prospered – the resultant skew is intriguing, at least for those with a degree of contrarian spirit. History supports mean reversion and suggests that it is rarely "different this time".

Size

Market capitalisation	< £101m	£101-350m	£351-600m	£601-1000m	> £1000m
The Fund's distribution	5%	25%	32%	21%	17%
Tracked universe distribution	1%	13%	20%	27%	38%
Tracked universe 2019 EV/EBITA	8.0x	8.1x	11.0x	12.1x	13.6x

As the table shows, the portfolio retains its bias to the smaller small companies within the "tracked universe", which represents the 276 small caps that the Manager follows closely and which accounts for 98% by value of the entire NSCI (XIC). Those small companies with market capitalisations of £601m or more (the two columns to the right) represent the overlap with the FTSE 250. The relative performance of the FTSE SmallCap against the FTSE 250 is therefore a useful gauge of whether the Fund's size positioning has been beneficial. In the six months under review, mid caps performed considerably better than the smaller small companies, which, all else being equal, was a drag on portfolio performance. The under-performance of the smaller smalls was particularly severe in June. Beyond the usual ups and downs of individual stocks, it would seem likely that the well-publicised liquidity problems of a high profile fund management house intensified the aversion to less liquid asset classes.

As the final row in the table demonstrates, the positioning is a function of the Manager's value investment style: smaller small companies are much more modestly rated than larger small companies. The size discount has been particularly pronounced since the financial crisis as investors in general run shy of less liquid stocks. Concerns about illiquidity have trumped fundamentals: profits growth over the next couple of years from the smaller small companies (those with market capitalisations below £601m) is estimated to be no lower than that from larger small companies. The Fund would seem well placed to benefit from the narrowing of the size discount.

Sector

The Brexit process has created a sector opportunity within the NSCI (XIC). As sterling weakened in the aftermath of the referendum, overseas facing sectors substantially out-performed those parts of the stockmarket that are more reliant on the domestic economy. The resultant valuation gap prompted a shift in the portfolio from an under-weight position in the domestics at the start of 2018 to an over-weight position by the end of the year. That over-weight remained in place at the end of June 2019: 62% of the underlying revenues of the portfolio's holdings were generated in the domestic economy, compared with 60% for the NSCI (XIC). This shift benefited the portfolio's

Manager's Report

relative performance: the domestics, while still relatively weak since the referendum, have out-performed the overseas companies since August 2018. Resilient results, consistent with the analysis in the Introduction, have helped, though, with Brexit still unresolved, there is inevitably scope for further volatility.

Balance sheets

Based on 2019 estimates	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Loss makers
The Fund	19%	55%	25%	1%
Tracked universe	29%	39%	27%	5%

While balance sheets remain strong across the NSCI (XIC), the past five years or so have seen leverage ratios rise. For example, since 2013 the proportion of the tracked universe with net cash on the balance sheet has fallen from 33% to 29%. These moves can be interpreted in two ways. More positively, they display a confidence on the part of boards to invest for future growth; more negatively, they would leave the companies more vulnerable to the next economic downturn. While circumstances inevitably change, the Manager is comfortable that current funding structures are on the whole appropriate to the underlying businesses. It is noteworthy, however, that lending standards and credit conditions continue to tighten in sectors such as retail, construction and property.

Income

Down	Nil payers	No change	Increase	Other
11	16	18	32	2

The table above splits the Fund's holdings into categories that are determined by each company's most recent dividend announcement, excluding specials. In comparison with the corresponding analysis in the Fund's last annual report and accounts, the notable change is an increase, from seven, in the number of cutters. This development is consistent with the suggestion in the report that 2018 witnessed the start of a deceleration in the rate of dividend growth that the NSCI (XIC) has enjoyed in recent years. While abundant special dividends and near double-digit dividend growth might have passed, the overall picture for the portfolio, and indeed the investment universe, remains encouraging. In comparison with the FTSE 100, income within the NSCI (XIC) remains much less concentrated and dividend cover – at 2.9x for the portfolio, 2.2x for the NSCI (XIC) and 1.6x for the FTSE All-Share – is considerably higher.

Corporate Activity

Despite continuing worries about Brexit, the first six months of 2019 witnessed a pick-up in the number of bids for NSCI (XIC) constituents. Nine were announced, compared with six in the corresponding period last year, though two were at prices lower than the prevailing stockmarket price. Of the nine, the Fund owned one. With vast sums of cash in the hands of private equity, it is likely that Brexit resolution would reduce uncertainty about sterling and bring about an increase in the frequency of M&A. A similar argument might be applied to the IPO market, which remains becalmed: six were completed in the six months, none of which were of interest to the Fund.

Manager's Report

Turnover

Portfolio turnover through the first six months of the year was low, annualising at 17%. The depressed activity is influenced by the style dynamics previously described: with the value style out of favour, few holdings were re-rated close to their price targets and there was consequently little incentive to reduce the positions. The Manager is careful not to mix up cause and effect, but history suggests that better relative performance tends to be associated with higher rates of portfolio turnover.

Active share

Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a higher chance of performing differently from the index, for better or worse. The Manager targets a ratio of at least 70% for the Fund in relation to the NSCI (XIC) and at the end of June the ratio was 77%.

Valuations

	30 June 2019		30 June 2018	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**81**	**349**	85	344
Weighted average market capitalisation	**£598m**	**£883m**	£604m	£889m
Price earnings (PE) ratio (historic)	**9.6x**	**13.8x**	12.2x	13.9x
Dividend yield (historic)	**3.5%**	**3.2%**	3.1%	2.9%
Dividend cover	**2.9x**	**2.2x**	2.6x	2.5x

The table above shows a reduction in valuations as a result of the weakness of equity markets over the past twelve months. Over a slightly longer timeframe, the de-rating has been more severe: at the end of June 2015, the year before the EU referendum, the NSCI (XIC)'s historical PE was 15.7x. Turning to the Fund, the portfolio PE has been on average 11% lower than that of the NSCI (XIC) over its 28 year history; at the end of June, the discount was 30%. This divergence, which has never been more pronounced, is consistent with the recent struggles of the value investment style in comparison with growth and highlights the opportunities within the small cap world for those prepared to embrace smaller small companies and to look beyond Brexit.

The following table focuses on prospective valuations, using the Manager's preferred metric, the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Again, the portfolio's valuation advantage is obvious against the index, here represented by the tracked universe. Also shown are the EV/EBITA ratios for a collection of 47 growth stocks, none of which are currently held in the portfolio but several of which have been holdings in the past. These stocks have performed strongly over the past six months and, on the basis of estimates for 2019, are on a 94% premium to the Fund's portfolio.

Manager's Report

EV/EBITA	2018	2019	2020
The Fund	10.2x	9.4x	8.5x
Tracked universe (276 stocks)	12.2x	11.6x	10.6x
- 47 growth stocks	19.9x	18.3x	16.5x
- 229 other stocks	11.1x	10.5x	9.7x

Outlook & Conclusion

In explaining the Fund's investment returns since the financial crisis, the Manager's reports have made frequent reference to the hostile climate for the value investment style. As explained in the Style section above, the Manager is inclined to view value's struggles as a function of financial conditions, specifically the extraordinary monetary policies deployed by many central banks. By extension, one means by which today's style headwinds might turn to tailwinds would be for an improvement in the outlook for real economic growth, in which context a resolution to the trade wars and Brexit would undoubtedly be helpful. Alternatively, a bit less complacency about inflation could also prove the catalyst. The risk of higher inflation might lurk in the prospect of interest rate cuts for a US economy close to full employment, but the timing of a turn in sentiment is difficult to pinpoint. What is clear is that when the stockmarket's mood changes it does so abruptly: within the NSCI (XIC), value has out-performed growth by 3.6% per annum since 1955; in that 768 month period, the value premium would have been forgone had just the best 39 months for the style been missed.

In the meantime, the Manager continues to focus on bottom-up stock selection in seeking to achieve the investment objective. This is conducted through an investment process that has been consistently applied for almost 30 years and that is based on fundamental analysis, team-based decision making and discreet engagement with investee companies. At the current time, the process is being applied to a universe of small companies in which valuation anomalies abound: opportunities result from concerns about domestic exposure in the wake of the EU referendum and from the deep aversion to smaller small companies since the financial crisis. Another influence on today's stockmarket valuations is the fascination for "disruptive business models". This does not only represent risk to the value investor. The portfolio has benefited from holdings in disruptive companies, albeit ones not valued as such at purchase. Moreover, the narrow focus on disruption, which benefits the valuations of the growth stocks in the table above, entails that resilient "old economy" franchises are overlooked and languish on attractive valuations.

Within the portfolio there are some holdings whose investment cases are off track, but that has been the case whether the value style is in the doldrums or the ascendancy over the past 28 years. However, across the portfolio as a whole, profit growth compares well with that of the NSCI (XIC) on the basis of current estimates. Thus, the stockmarket is presently configured to allow the value investor to benefit from a pronounced valuation advantage without sacrifice in terms of fundamental prospects. While risks clearly remain, not least to economic activity from Brexit, the Fund's "policy on cake is pro having it and pro eating it", as our new prime minister might put it.

K F Muir, *Director*
P R Shaw, *Director*
Aberforth Unit Trust Managers Limited

30 July 2019

Long Term Investment Record

Historical Returns

Periods to 30 June 2019	Annualised Returns (%) The Fund[1]	Index	Cumulative Returns (%) The Fund[1]	Index
2 years from 30 June 2017	-0.8	0.9	-1.5	1.9
3 years from 30 June 2016	9.8	9.6	32.4	31.5
4 years from 30 June 2015	3.2	5.3	13.2	22.9
5 years from 30 June 2014	5.2	6.3	28.5	35.6
6 years from 30 June 2013	9.0	8.5	67.7	63.1
7 years from 30 June 2012	12.2	11.6	123.7	115.0
8 years from 30 June 2011	9.5	9.5	106.3	106.2
9 years from 30 June 2010	11.9	12.0	175.4	176.7
10 years from 30 June 2009	12.5	13.5	225.0	254.2
15 years from 30 June 2004	9.6	10.3	294.2	335.8
Since inception on 20 March 1991	12.1	10.0	2,454.1	1,373.8

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 2019

Group 1: Units purchased prior to 1 January 2019

Group 2: Units purchased on or after 1 January 2019

Interim Distribution	Net Income June 2019	Equalisation† June 2019	Distribution/ Accumulation June 2019	Distribution/ Accumulation June 2018
Income units (payable 31 August 2019)				
Group 1	279.1645p	–	**279.1645p**	318.8306p
Group 2	204.3185p	74.8460p	**279.1645p**	318.8306p
Accumulation units				
Group 1	376.6485p	–	**376.6485p**	417.1557p
Group 2	275.6663p	100.9822p	**376.6485p**	417.1557p

† 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 2019

Holding	Security	30 June 2019 Value £'000	30 June 2019 % of Total Net Assets	30 June 2019 % of the Index[3]	31 December 2018 % of Total Net Assets	31 December 2018 % of the Index
Oil & Gas Producers		**5,047**	**2.9**	**3.2**	4.0	3.2
13,298,765	EnQuest	2,624	1.5			
1,023,887	Hardy Oil & Gas	33	–			
1,673,900	Nostrum Oil & Gas	801	0.5			
921,200	Premier Oil	708	0.4			
1,267,454	Soco International	881	0.5			
Oil Equipment, Services & Distribution		**474**	**0.3**	**1.0**	0.3	1.1
5,093,684	Gulf Marine Services	474	0.3			
Chemicals		**–**	**–**	**2.2**	0.5	2.8
Industrial Metals & Mining		**–**	**–**	**1.1**	–	0.8
9,832,752	International Ferro Metals[1]	–	–			
Mining		**5,239**	**2.9**	**3.3**	2.5	3.5
1,743,465	Anglo Pacific Group	3,574	2.0			
1,176,060	Capital Drilling	576	0.3			
1,413,495	Gem Diamonds	1,089	0.6			
2,717	Kenmare Resources Wts 2019[2]	–	–			
Construction & Materials		**10,175**	**5.8**	**4.6**	5.0	4.5
1,406,585	Eurocell	2,954	1.7			
1,215,369	Forterra	3,579	2.0			
594,161	Keller	3,642	2.1			
Aerospace & Defence		**6,708**	**3.7**	**2.0**	3.3	1.8
942,822	Senior	2,033	1.1			
283,527	Ultra Electronics Holdings	4,675	2.6			
General Industrials		**395**	**0.2**	**0.9**	0.3	0.9
6,584,893	Low & Bonar	395	0.2			
Electronic & Electrical Equipment		**8,716**	**5.0**	**2.0**	3.8	1.8
239,733	Dialight	1,177	0.7			
1,383,149	Morgan Advanced Materials	3,845	2.2			
1,407,667	TT Electronics	3,224	1.8			
573,000	XAAR	470	0.3			
Industrial Engineering		**6,513**	**3.7**	**1.8**	3.7	1.8
471,575	Castings	1,933	1.1			
401,771	Vitec Group	4,580	2.6			
Industrial Transportation		**4,151**	**2.3**	**2.2**	2.2	2.3
1,578,253	Wincanton	4,151	2.3			

Portfolio Statement

As at 30 June 2019

Holding	Security	30 June 2019 Value £'000	30 June 2019 % of Total Net Assets	30 June 2019 % of the Index[3]	31 December 2018 % of Total Net Assets	31 December 2018 % of the Index
Support Services		**22,405**	**12.7**	**7.9**	13.2	7.8
3,083,671	Connect Group	1,153	0.7			
742,407	De La Rue	2,263	1.3			
815,607	Essentra	3,497	2.0			
16,453,958	Management Consulting Group	313	0.2			
51,000	Menzies (John)	232	0.1			
1,004,269	Northgate	3,490	2.0			
665,998	Robert Walters	4,263	2.4			
1,856,648	RPS Group	1,994	1.1			
2,067,964	SIG	2,678	1.5			
4,015,224	Speedy Hire	2,522	1.4			
Automobiles & Parts		**2,644**	**1.5**	**0.7**	1.4	0.6
1,346,473	TI Fluid Systems	2,644	1.5			
Beverages		**–**	**–**	**1.0**	–	1.0
Food Producers		**2,346**	**1.3**	**3.0**	1.2	3.5
1,501,000	Bakkavor Group	1,792	1.0			
35,900	Devro	74	–			
363,377	R.E.A. Holdings	480	0.3			
Household Goods & Home Construction		**2,248**	**1.3**	**3.2**	0.8	3.1
78,700	Bovis Homes Group	811	0.5			
305,738	Headlam Group	1,437	0.8			
Leisure Goods		**–**	**–**	**1.3**	–	0.9
Personal Goods		**–**	**–**	**1.1**	–	1.4
Health Care Equipment & Services		**–**	**–**	**1.3**	–	1.4
Pharmaceuticals & Biotechnology		**2,433**	**1.4**	**1.4**	1.1	1.7
2,825,456	Vectura Group	2,433	1.4			
Food & Drug Retailers		**796**	**0.4**	**1.6**	0.4	1.0
1,185,196	McColl's Retail Group	796	0.4			
General Retailers		**11,298**	**6.4**	**5.8**	6.9	6.0
4,397,729	Carpetright	695	0.4			
1,046,267	DFS Furniture	2,647	1.5			
257,104	Dunelm Group	2,363	1.3			
732,699	Halfords Group	1,641	0.9			
1,894,100	Lookers	957	0.6			
1,271,914	N Brown Group	1,647	0.9			
2,042,895	Topps Tiles	1,348	0.8			
Media		**14,863**	**8.4**	**4.4**	7.9	3.7
1,860,573	Centaur Media	837	0.5			
591,312	Future	5,718	3.2			
4,268,252	Huntsworth	4,157	2.4			
2,511,019	Reach	1,951	1.1			
1,163,997	Wilmington Group	2,200	1.2			

Portfolio Statement

As at 30 June 2019

		30 June 2019			31 December 2018	
Holding	Security	Value £'000	% of Total Net Assets	% of the Index[3]	% of Total Net Assets	% of the Index
Travel & Leisure		**24,259**	**13.8**	**10.1**	13.2	9.9
469,975	Air Partner	356	0.2			
1,783,514	Ei Group	3,506	2.0			
6,111,520	FirstGroup	5,974	3.4			
143,101	Go-Ahead Group	2,819	1.6			
1,656,292	Mitchells & Butlers	4,737	2.7			
1,404,966	Rank Group	2,234	1.3			
2,213,791	Restaurant Group	2,918	1.6			
1,352,750	Stagecoach Group	1,715	1.0			
Fixed Line Telecommunications		**3,077**	**1.7**	**2.0**	0.9	2.1
2,757,034	KCOM Group	3,077	1.7			
Electricity		**–**	**–**	**0.9**	–	0.9
Banks		**–**	**–**	**1.6**	–	1.6
Nonlife Insurance		**–**	**–**	**2.3**	1.1	2.3
Life Insurance		**3,069**	**1.7**	**0.7**	2.2	1.0
1,240,077	Hansard Global	558	0.3			
4,468,457	Just Group	2,511	1.4			
Real Estate Investment & Services		**13,893**	**7.8**	**6.0**	7.9	6.0
4,944,481	Countrywide	209	0.1			
2,005,726	Grainger	4,914	2.8			
1,571,488	U and I Group	2,134	1.2			
2,016,979	Urban&Civic	6,636	3.7			
Real Estate Investment Trusts		**4,141**	**2.3**	**4.7**	3.0	5.0
2,954,941	Capital & Regional	428	0.2			
786,804	Hansteen Holdings	763	0.4			
1,260,478	McKay Securities	2,950	1.7			
Financial Services		**11,480**	**6.4**	**8.8**	8.7	9.2
1,643,068	Brewin Dolphin Holdings	5,015	2.8			
576,451	Charles Stanley Group	1,637	0.9			
1,098,900	CMC Markets	966	0.6			
1,972,322	International Personal Finance	2,367	1.3			
4,188,000	Non-Standard Finance	1,495	0.8			

Portfolio Statement

As at 30 June 2019

Holding	Security	Value £'000	30 June 2019 % of Total Net Assets	30 June 2019 % of the Index[3]	31 December 2018 % of Total Net Assets	31 December 2018 % of the Index
Software & Computer Services		**9,085**	**5.1**	**5.1**	4.5	4.6
1,273,100	Alfa Financial Software Holdings	1,334	0.8			
1,513,713	RM	3,603	2.0			
819,483	SDL	4,148	2.3			
Technology Hardware & Equipment		**2,810**	**1.6**	**0.8**	2.6	0.8
1,841,200	Spirent Communications	2,810	1.6			
Investments as shown in the Balance Sheet		**178,265**	**100.6**	**100.0**	102.6	100.0
Net Current Liabilities		**(1,051)**	**(0.6)**	**–**	(2.6)	–
Total Net Assets		**177,214**	**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 cancelled.

[2] Unquoted security.

[3] This reflects the rebalanced index as at 1 January 2019.

Additional Portfolio Information

For the six months ended	30 June 2019 £'000	30 June 2018 £'000
Total Purchases	**36,719**	38,774
Total Sales	**14,681**	115,387

Statement of Total Return

For the six months ended 30 June 2019 *(unaudited)*

	30 June 2019		30 June 2018	
	£'000	**£'000**	£'000	£'000
Income				
Net capital gains		**9,172**		4,016
Revenue	**3,031**		4,336	
Expenses	**(668)**		(986)	
Interest payable and similar charges	**(5)**		(1)	
Net revenue before taxation	**2,358**		3,349	
Taxation	**–**		–	
Net revenue after taxation		**2,358**		3,349
Total return before distributions		**11,530**		7,365
Distributions		**(2,752)**		(3,937)
Change in net assets attributable to unitholders from investment activities		**8,778**		3,428

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2019 *(unaudited)*

	30 June 2019		30 June 2018	
	£'000	**£'000**	£'000	£'000
Opening net assets attributable to unitholders		**143,358**		249,016
Amounts receivable on issue of units	**35,112**		11,473	
Amounts payable on cancellation of units	**(11,624)**		(92,765)	
		23,488		(81,292)
Change in net assets attributable to unitholders from investment activities		**8,778**		3,428
Retained distribution on accumulation units		**1,590**		1,938
Closing net assets attributable to unitholders		**177,214**		173,090

Balance Sheet

As at 30 June 2019 *(unaudited)*

	30 June 2019 £'000	31 December 2018 £'000
Assets		
Fixed Assets:		
Investments	**178,265**	147,055
Current Assets:		
Debtors	**913**	425
Cash and bank balances	**–**	–
Total current assets	**913**	425
Total assets	**179,178**	147,480
Liabilities		
Creditors:		
Bank overdraft	**(625)**	(3,252)
Other creditors	**(156)**	(141)
Distribution payable on income units	**(1,183)**	(729)
Total liabilities	**(1,964)**	(4,122)
Net assets attributable to unitholders	**177,214**	143,358

Cash Flow Statement

For the six months ended 30 June 2019 *(unaudited)*

	30 June 2019 £'000	30 June 2018 £'000
Net cash inflow from operating activities	**2,117**	3,677
Investing activities		
Purchases of investments	**(36,719)**	(38,720)
Sales of investments	**14,441**	115,312
Cash (outflow)/inflow from investing activities	**(22,278)**	76,592
Financing activities		
Amounts received from issue of units	**35,239**	11,514
Amounts paid on cancellation of units	**(11,717)**	(94,079)
Distributions paid	**(729)**	(561)
Interest paid	**(5)**	(1)
Cash inflow/(outflow) from financing activities	**22,788**	(83,127)
Increase/(decrease) in cash and cash equivalents	**2,627**	(2,858)
Cash and cash equivalents at the start of the period	**(3,252)**	(770)
Cash and cash equivalents at the end of the period	**(625)**	(3,628)

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 2018 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 2019. 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 2014 and amended in 2017.

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 2019 £'000	June 2018 £'000
Interim distribution	**2,773**	2,690
Income deducted on cancellation of units	**105**	1,327
Income received on creation of units	**(126)**	(80)
Distributions	**2,752**	3,937

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

	June 2019 £'000	June 2018 £'000
Net revenue after taxation	**2,358**	3,349
Add: Manager's periodic fee taken to capital	**392**	585
Add: Safe custody fee taken to capital	**2**	3
Distributions	**2,752**	3,937

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

The risk and reward profile of the Fund can be illustrated by reference to a standard Risk/Reward category scale, where 1 is lower potential risk/reward and 7 is higher potential risk/reward. The category is chosen based on the volatility of returns over the past 5 years. The current risk and reward indicator of this Fund is 5 and was unchanged during the period. Further information can be found in the Key Investor Information Document available on the Manager's website.

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, liquidity and credit. 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. The Manager does not seek to hedge this exposure as it does not consider this to be beneficial to the Fund in the long term.

Liquidity Risk

The Fund's assets comprise mainly of securities that 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 certain circumstances and at the discretion of the Manager, redemptions may be settled by an in-specie transfer of assets or deferred redemption in accordance with the Prospectus terms.

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 who 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 the Fund.

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.

Cash balances are placed with a selection of banking institutions. The Manager reviews the banking partners and deposit levels on a periodic basis. The Manager aims to have the Fund fully invested.

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
Dealing: ordergroup@linkgroup.co.uk
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

Trustee & Depositary

NatWest Trustee & Depositary Services Limited*
Drummond House
1 Redheughs Avenue
Edinburgh EH12 9RH

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Link Fund 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

The terms on which units can be bought and sold are set out in the Prospectus, Key Investor Information Document, Supplementary Information Document and Application Pack that are all available on the Manager's website www.aberforth.co.uk. These documents provide up to date terms on which Units are issued and redeemed, how and when money is held in a client money account and the risks relating to that.

Units may be bought and sold 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 £2.1 billion (as at 30 June 2019). The Fund's portfolio is managed on a collegiate basis by six investment managers. Aberforth is wholly owned by six partners – five investment managers and an Operations Partner.

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