Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2020

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 NSCI (XIC).

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 NSCI (XIC). At 1 January 2020 (the date of the last annual index rebalancing), the index included 346 companies, with an aggregate market capitalisation of £153 billion. Its upper market capitalisation limit was £1.6 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.

Investment Strategy

The Manager adheres to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the Fund's holdings are usually on more attractive valuations than the average for the NSCI (XIC). While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Manager selects companies for the portfolio on the basis of fundamental or "bottom-up" analysis. Analysis involves scrutiny of businesses' financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold typically when their valuations reach targets determined by the Managers.

Investment Strategy

The NSCI (XIC) is the Fund's chosen benchmark. It is the reference point for defining the investment objective ("Target benchmark") and evaluating the Fund's performance ("comparator benchmark"). Although the Fund's portfolio is constructed with reference to UK small companies and the NSCI (XIC), it can be differentiated from the index. The use of the NSCI (XIC) as a benchmark reflects the emphasis within the portfolio on small UK quoted companies and the desire to achieve the investment objective by investing in companies whose shares represent relatively attractive value within a given stockmarket environment.

In order to improve the odds of achieving the investment objective, the Manager believes that the portfolio must be adequately differentiated from the benchmark index. Therefore, within the diversification parameters described in Investment Policy, the Manager regularly reviews the level of differentiation, with the aim of maximising the active share of the portfolio.

The Fund's eligible markets, as defined in the Collective Investment Schemes Sourcebook ("COLL"), are the Official List of the London Stock Exchange plc ("LSE") and the Alternative Investment Market ("AIM") of the LSE. The Fund's base currency is Pounds Sterling.

The capital property of the Fund will consist of transferable securities, as defined in COLL. The Fund will not invest in any immovable property or tangible movable property.

Fund Information

Prices & Yield		1 July 2020[1]	2 January 2020[1]
Accumulation Units	Issue Price	£188.25	£290.35
	Cancellation Price	£183.46	£284.54
Income Units	Issue Price	£135.04	£209.17
	Cancellation Price	£131.60	£204.98
	Yield	2.5%	2.7%
	Dealing spread	2.6%	2.0%

Charges	30 June 2020	31 December 2019
Initial charge	Nil	Nil
Ongoing charges[2]	0.84%	0.78%
Exit charge	Nil	Nil

[1] Prices stated are for the first valuation point after the period end, being the distribution ex-dividend date.
[2] This is based on actual expenses for the period. It covers all aspects of operating the Fund during the period including fees paid for investment management, administration, safeguarding the Fund's assets, audit and to the regulator. It does not include payments to your financial advisor or any other firm through which you may invest. You may pay for their services, if any, directly.

Performance Summary

	The Fund[1] (%)	Index[2] (%)
6 months to 30 June 2020	-34.8%	-25.0%

Net Asset Value (Post Distribution)

	30 June 2020	31 December 2019
Total Net Assets	£103.5m	£212.0m
Accumulation units in issue	288,769.838	413,296.792
Income units in issue	378,764.250	465,777.136
NAV per unit – accumulation	184.68	283.14
NAV per unit – income	132.48	203.97

Historic Returns

	Discrete Annual Returns (%)	
Period	The Fund[1]	Index[2]
1 year to 30 June 2020	-23.8	-15.0
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

	Cumulative Returns (%)	
Periods to 30 June 2020	The Fund[1]	Index[2]
3 years from 30 June 2017	-24.9	-13.4
5 years from 30 June 2015	-13.7	4.4
10 years from 30 June 2010	109.9	135.2
15 years from 30 June 2005	140.3	213.3
Since inception on 20 March 1991	1,846.7	1,152.7

	Annualised Returns (%)	
Periods to 30 June 2020	The Fund[1]	Index[2]
3 years from 30 June 2017	-9.1	-4.7
5 years from 30 June 2015	-2.9	0.9
10 years from 30 June 2010	7.7	8.9
15 years from 30 June 2005	6.0	7.9
Since inception on 20 March 1991	10.7	9.0

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 ("COLL") 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 COLL.

Covid-19

The Covid-19 pandemic and the responses to it have profoundly affected macro-economic activity, the operations of companies around the world and their stock market valuations. The universe of UK small quoted companies invested in by the Fund has seen a significant fall in its aggregate valuation due to the uncertainties arising from the spread of this virus. The Manager is closely monitoring market developments as the impact of the pandemic progresses.

The Covid-19 pandemic has resulted in changes in working practices, with staff working remotely, and the Manager has applied these and implemented additional operational governance and oversight to ensure service standards continue to be maintained. The Manager is also continuing to monitor the operational resilience of all service providers to ensure ongoing business service.

Changes to Prospectus

During the period, the Prospectus was updated:-

1. to update historic performance tables and details relating to rebalancing of NSCI (XIC) in line with annual review;
2. to update details of how the Manager's box is operated;
3. to note impact of Covid-19; and
4. to note retirement of W.A. Waite and appointment of S.L. Wallace as director and chairman of Aberforth Unit Trust Managers Limited (the "Manager").

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. Partners and staff at Aberforth Partners LLP working on the Fund are not remunerated by the Manager. The Manager has appointed two independent non executive Directors who are remunerated by way of Directors' fees. Aberforth Partners LLP 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

The first six months of 2020 was a rare period in which the superlatives and dramatic metaphors that characterise much financial market commentary were justified. Covid-19 has taken its toll in terms of human lives, to which this report cannot do justice. It has also unleashed a series of extraordinary developments in societies and economies, as authorities have sought to contain its spread. There are no truly useful precedents – Spanish Flu being too long ago and other viral outbreaks being essentially local events – and so the world was caught unprepared. Financial markets reacted accordingly.

In the UK, fear of the virus combined with the economic impact of lockdown to produce some of the sharpest declines in equity prices in the Fund's 29 year history. March was the weakest month for both the NSCI (XIC) and the FTSE All-Share in that timescale, while the first quarter was the weakest three month period. Towards the end of March, the precipitous declines were followed by a sharp rally, as the risks associated with the virus have become better understood and as remedial actions by governments and central banks took effect. This recovery, though extensive, has been bedevilled by uncertainty about the lasting economic damage and by concerns about subsequent waves of the virus. Share prices therefore remain well below their levels at the start of the year.

Over the six months, the FTSE All-Share declined by 17.5% in total return terms. Small companies were weaker, with the NSCI (XIC) down by 25.0%, while the Fund's total return was -34.8%.

The Fund's disappointing performance came during the sell-off in February and March. Given the nature of the downturn precipitated by Covid-19, this is not wholly surprising. The value cohorts in equity markets around the world are laden with economically sensitive businesses. As described in the annual report, that is also the case in the NSCI (XIC) and, therefore, the value of the Fund's portfolio was always likely to be influenced by the path of the economy, for better or worse. It is frustrating that the year had begun promisingly, with December's decisive election result leading to improving macro economic data through January and even into February. A second frustration is that the stockmarket rebound has so far not been led by the value style, as might be expected from experience of previous downturns. Instead, the winners have tended to be technology companies and other businesses considered to be beneficiaries of the lockdown environment. This leadership, by what are mostly growth stocks, reflects the continuing risk presented by Covid-19 and its effects on economic activity.

The recession now under way is unusual in several ways. It is a consequence of the government's lockdown strategy to control the virus and so may be considered self-inflicted. The intensity of the contraction in activity is remarkable, with numerous macro economic data series showing the sharpest declines in generations. Moreover, the downturn, at least in the initial stages, was a supply-side event as businesses were commanded to close. The effect on demand remains to be seen and will be determined by the length of the lockdown, eventual redundancies and the willingness of consumers to reduce savings ratios from currently elevated levels.

In terms of their size and speed of implementation, the official support measures are as extraordinary as the recession itself. On the monetary side, interest rate cuts and additional quantitative easing programmes have played a part. The range of assets that central banks can buy has been broadened and, in the UK, debt monetisation is a reality, with the Bank of England directly financing government spending. Fiscal measures include tax breaks and the job retention scheme, which has, at least temporarily, prevented too sharp a deterioration in unemployment. Furthermore, through the *Covid Corporate Financing Facility (CCFF) and the Coronavirus Large Business Interruption Loan Scheme* (CLBILS), the Bank of England and the Treasury have sought to alleviate the liquidity squeeze confronting businesses.

Though these official measures have created breathing space, running a business against such a backdrop has been no easy task. The immediate priority for small UK quoted companies has been to tackle the liquidity squeeze that has resulted from the interplay of a sharp drop in sales – to zero for numerous businesses – and working capital cycles. While the official liquidity schemes and an easing of terms from existing lenders have played a part, there has been some reluctance to rely on government and many companies have resorted to the equity market for additional funding. As in 2009, equity investors have stepped up to ensure that fundamentally strong businesses can continue to trade. It is plausible that the returns from the current crop of equity issues over the coming years can match those enjoyed during the financial crisis.

However, in the near term, one clear consequence of the downturn and liquidity squeeze is the most severe fall in UK dividends of the post-war period, which is described in greater detail later in the report. At one level, it is entirely right that dividends should be cut: equity is the riskiest form of corporate funding and is the first to take the strain in extreme conditions such as those experienced so far in 2020. However, the reasons for some of the dividend cuts are dubious. It is perplexing that companies robust enough to continue to pay dividends should feel social or governmental pressure to cut. It is also perplexing that some decisions to pass dividends have been made easier by the actions of others. The frustration expressed here should not be mistaken for irresponsibility – Aberforth never encourages a course of action that is detrimental to the long term value of a company. Rather, the Manager believes that dividends impose capital discipline on businesses and are an important component of long term returns for the ultimate beneficial owners of equities. Reinstatement of dividends at appropriate levels will be a fundamental element of the recovery from Covid-19.

Investment performance

The Fund's total return in the six months to 30 June was -34.8%, which compares with -25.0% from the NSCI (XIC). The table below splits the relative return between the portfolio return and various non investment influences. The subsequent paragraphs provide further detail to help understand the portfolio's performance.

For the six months ended 30 June 2020	Basis points
Attributable to the portfolio of investments, based on mid prices	**(1,079)**
Movement in mid to bid price spread	(13)
Management fee	(40)
Other expenses	(2)
Cash/other	153
Total attribution based on bid prices	**(981)**

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 = -34.78%; Benchmark Index = -24.97%; difference is -9.81% being -981 basis points).

Style

The value style was the most significant influence on the portfolio's under-performance in the first half. The performance of value stocks was well behind that of growth stocks in most stockmarkets around the world. The London Business School, which maintains the NSCI (XIC), also produces style analysis for the index. This showed that the value cohort lagged the growth cohort by 17% in the first six months of the year, which presents the most difficult start to a year for the value style in the 65 year history of the NSCI (XIC). The reason for such under-performance is that, for much of the past decade as companies with secular growth prospects have been re-rated, the value cohort has become increasingly dominated by economically sensitive businesses. Among small UK quoted companies, this was to the advantage of the value style in the second half of last year, when a clearer political situation promised an improved economic outlook. However, the onset of recession has been a significant challenge to value.

Cyclicality does not mean that a company is unviable or is a poor investment. It has not prevented the value cohort of the NSCI (XIC) out-performing the index as a whole by 3% per annum over the long term since 1955. Most small UK quoted companies, while sensitive to the economy's fortunes, are well governed businesses that grow from cycle to cycle. In recent years, they have contended with the financial crisis, the euro crisis and with heightened political uncertainty, but have proved themselves resilient. The peculiarities of the present downturn mean that some companies inevitably require refinancing, but that need not mean that the underlying businesses are unworthy of support. Indeed, as was the case in 2009, equity issues at such points can yield good investment returns. In deciding which companies to support, the Manager is cognisant of the risk of putting good money after bad.

Size

Small companies under-performed large companies over the first half, but size within the NSCI (XIC) was not a significant influence on returns. The index’s mid cap stocks, as defined by the overlap with the FTSE 250 index, fell by 27%, compared with 21% for the smaller small companies. The out-performance by the smaller smalls is somewhat surprising in the historical context of bear markets, but may be explained by the sharpness of the sell-off – the less liquid smaller smalls perhaps did not have time to catch up with their larger peers on the way down. The table below shows the Fund’s continued skew towards the smaller smalls, which implies that size was a benefit to relative performance in the first half. The table also explains the portfolio’s size positioning: notwithstanding the slight out-performance of the smaller smalls, they remain on wide valuation discounts to the larger small companies.

Market capitalisation	< £101m	£101-350m	£351-600m	£601-1000m	> £1000m
The Fund’s distribution	9%	44%	23%	17%	7%
Tracked universe distribution	2%	19%	19%	32%	28%
Tracked universe 2019 EV/EBITA	8.6x	9.1x	11.0x	12.6x	11.0x

Sector

All but six of the NSCI (XIC)’s 36 sectors declined in the first half of the year. The combined weight of those sectors that did rise was just 8%, which reflects that small company universe’s lack of the defensive sector exposures in comparison with the FTSE 100. Since the EU referendum in 2016, the main sector theme has been the performance differential between domestic and overseas sectors. This distinction remained relevant in the first half. Domestically oriented parts of the NSCI (XIC) under-performed the overseas earners by 14% as a result of lockdown. For many domestic businesses, such as retailers and leisure companies, the effect of lockdown was to reduce their revenues to zero for several months. In contrast, overseas facing companies tended to enjoy a degree of protection from a spread of geographical exposures.

The geographical dynamic was unhelpful to the Fund’s performance, since the portfolio’s 63% weighting in domestics at the beginning of the year was higher than the NSCI (XIC)’s 54%. This positioning reflected the under-performance of the domestics since the referendum and their lower valuations, which the Manager’s considered likely to rise as greater political clarity emerged. There were signs of this scenario developing in early 2020 before Covid-19. Clearly, however, the impact of the virus has necessitated a recalibration of prospects, which is undertaken on a company by company basis. In general, the Manager’s medium to long term assessment is that the share prices of domestic companies have over-reacted and that value gaps have expanded. Wherever that is not the case, the position is reduced. At the end of June, the Fund’s domestic weighting was 59% and the NSCI (XIC)’s 49%.

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the tracked universe at the start of the year. The portfolio had less exposure to companies with net cash and to companies with leverage (i.e. net debt over EBITDA) above 2x. Conversely, it was over-weight companies with more modest leverage of below 2x. This analysis shows that the portfolio was not exposed to a series of weakly financed companies. Therefore, all else being equal, the Manager would not have expected balance sheets to influence relative returns in the subsequent period.

Manager's Report

Based on 2020 estimates	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Loss makers
The Fund	20%	55%	24%	1%
Tracked universe	26%	38%	32%	4%

However, all else was not equal – Covid-19 and the recession have changed much. The unique nature of the downturn has exposed balance sheets that the Managers had not considered at risk. Given the economic sensitivity of the portfolio, it is likely that AFund's performance was influenced by the impact of lockdown on leverage. The share price falls of companies confronted by a liquidity squeeze are likely to have been compounded by concerns that additional equity funding would be required. Echoing the experience of the rescue rights issues in 2009, these circumstances can represent profitable opportunities to deploy additional capital in companies that were already on attractive valuations.

Corporate Activity

It has been a busy period for corporate activity, though mostly in the form of equity issues. In the early stages of the Covid-19 outbreak, issuance took the form of non pre-emptive placings, the ceiling for which was raised temporarily to 20% of issued share capital. The nine to ten weeks required to produce a prospectus – no doubt complicated by working-from-home – meant that bigger raises, in the form of rights issues and placings with open offers, began in June. By the end of the first half, 28 constituents of the NSCI (XIC) had each raised at least £5m in response to Covid-19, with a total of £2.7bn additional equity issued. Greater sums have been raised outside the index, with FTSE 100 companies also under pressure. Among the small caps, some of the equity issues have been more opportunistic than others. The Manager has prioritised those companies with good prospects beyond the recession, with attractive valuations and with the greatest need for additional capital. So far, the Fund has supported five equity issues.

Meanwhile, other corporate activity was subdued in the first half. There were four new listings likely to be eligible for the NSCI (XIC), though the Fund did not participate in any. In terms of takeovers, seven deals for NSCI (XIC) constituents were announced in the period. The Fund owned one of these, which was acquired by private equity on attractive terms that were struck before Covid-19. The sharp falls in share prices and valuations might elicit further opportunistic interest from private equity and others. It may prove in the Fund's better long term interests to resist takeover approaches unless they are struck at appropriate valuations. In this regard, one of the equity issues in the period is relevant. It was part funded by private equity taking a 27% stake in the company. This unusual move reflects the particularly attractive valuations on offer among small caps – private equity is keen to take advantage of them, but existing shareholders are unwilling to lose their interest in a business with good prospects but a depressed share price. Similar deals have been undertaken in the US, but it remains to be seen whether there is lasting appeal in the UK beyond the Covid-19 crisis period.

Income

Half way through the year, it is almost certain that 2020 will prove the worst year for UK dividends – both small and large cap – in the post war period. A decline across the entire UK stockmarket of around 40% is likely in 2020, while a drop of around 60% is plausible for the NSCI (XIC). In 2009, previously the worst year for small company distributions, the decline was "just" 22%. The Fund has felt the force of the cuts. The table below analyses the portfolio's anticipated dividend experience in 2020, with companies categorised on the basis of ex dividend dates. It illustrates that only 32 of the 81 holdings are likely to pay a dividend in 2020.

Manager's Report

Cut to zero	Other cuts	Unchanged payer	Higher	Nil payer
37	20	3	9	12

The trajectory of the recovery for small company dividends is crucial. During the financial crisis, dividends fell in 2009 and promptly started their recovery in 2010. It is to be hoped that a similar experience can be forthcoming in the current downturn. Given how far dividends are likely to fall in 2020 and therefore how low the base will be, it is reasonable to expect a quick recovery. However, it is necessary to acknowledge other influences on dividends at the current time, such as access to official liquidity schemes and political or social pressure. The Manager is actively engaged with company boards to understand the influences on future dividend decisions and, where appropriate, to encourage a return to the dividend register.

Turnover

Portfolio turnover in the first half was 35%. An element of this is caused by situations in which the Fund is required to sell, such as when a holding is taken over or is too large to remain in the NSCI (XIC) when it is rebalanced on 1 January each year. The Fund's long run average portfolio turnover is 34%.

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%. At the end of June, the Fund's active share in relation to the NSCI (XIC) was 79%.

Valuations

Even before the impact of Covid-19, portfolio valuations were attractive in a historical context. The sell-off has seen valuations reach extreme levels. At the end of March, the historical price earnings ratio (PE) was 5.9x. The table below shows that it had risen to 6.1x by the end of June, as share prices rebounded and companies started to report earnings affected by recession. The historical PE will rise more meaningfully over coming months as the downturn is fully reflected in earnings, before falling in subsequent periods as companies' cost actions combine with higher demand to drive profits sharply higher. Recoveries from recession are always uneven and difficult to forecast accurately – this time will be no different. However, the portfolio's 6.1x multiple at the end of June suggests that there is significant margin of safety in the valuation to accommodate an uneven recovery. During the Fund's 29 year life, a historical PE this low has only been seen once before, during the financial crisis, while the average multiple over the three decades is almost twice as high at 11.7x.

The Fund's PE was 41% lower than that of the NSCI (XIC) at the end of June. This compares with a discount of 30% twelve months earlier and a 29 year average of 14%. This degree of relative cheapness reflects how out of favour the value investment style is at the current time. The gap between the average valuations of value stocks and growth stocks is particularly stretched in stockmarkets around the world, perhaps most obviously in the US as a small number of technology stocks have led NASDAQ to an all-time high.

The table also sets out average historical dividend yields for the Fund's portfolio and for the NSCI (XIC). These do not yet fully reflect the widespread dividend cuts noted previously in this report. As these feed through over coming months, dividend yields will decline from the levels shown in the table. Regrettably, equities have lost dividend yield as a valuation anchor for the time being – investors in many companies are not being "paid to wait".

Manager's Report

Portfolio characteristics	30 June 2020 The Fund	 NSCI (XIC)	30 June 2019 The Fund	 NSCI (XIC)
Number of companies	**81**	**330**	81	349
Weighted average market capitalisation	**£435m**	**£760m**	£598m	£883m
Price earnings (PE) ratio (historic)	**6.1x**	**10.3x**	9.6x	13.8x
Dividend yield (historic)	**3.8%**	**2.4%**	3.5%	3.2%
Dividend cover	**4.3x**	**4.1x**	2.9x	2.2x

The following table sets out the portfolio's prospective valuation, using the Manager's preferred metric of EV/EBITA (enterprise value divided by earnings before interest, tax and amortisation). The ratios are the accumulation of bottom-up forecasts for each company in the portfolio and tracked universe, but these forecasts are influenced by a broad macro-economic framework. The Manager assumes that lockdown lasts into the third quarter – allowing economic activity to start to pick up – and that any second wave does not lead to the re-imposition of national lockdowns. Into 2021, it is assumed that the recovery continues, helped by the low base effect. However, profits are not expected to return to their pre-Covid-19 state until 2022. Overseas economies are a further complication and it is unlikely that these assumptions will prove fully accurate, but the framework helps the flow of capital from companies offering less value to those offering more.

Overall, the portfolio remains more modestly valued than the tracked universe as a whole and the growth stocks. The discount is narrow in 2020, the year which bears the brunt of the recession, before expanding in the subsequent two years as recovery is anticipated to come through.

EV/EBITA	2020	2021	2022
The Fund	14.1x	9.4x	6.7x
Tracked universe (253 stocks)	14.8x	10.9x	8.6x
- 47 growth stocks	21.8x	16.0x	13.0x
- 206 other stocks	13.1x	9.7x	7.6x

Outlook & Conclusion

Covid-19 has cost thousands of lives and the threat of subsequent waves of the virus remains. It has also challenged societies and economies. Beyond its direct financial impact, lockdown has exacerbated pre-existing issues, such as relations between the US and China, tensions within the US during an election year, existential questions for the Eurozone and populist unrest. Monetary and fiscal support programmes have mitigated the initial economic damage, but the extent of the eventual recovery in demand is uncertain: unemployment is likely to rise as businesses cut costs once furlough schemes end, which may affect the willingness of households to run high savings ratios back down.

Prospects for the UK seem particularly unclear. This is reflected in sterling's leadership in the foreign exchange unpopularity contest, with 7% drops against both the dollar and the euro in the first half. Several of the attributes that have made the UK an attractive economy in which to invest seem under threat. Dividends have been slashed, pre-emption limits have been relaxed, the government has greater influence on the corporate sector and rules are being set informally without clear legislation. As temporary adjustments to cope with the impact of Covid-19, these are understandable, though a greater role for fiscal spending was likely even before the onset of the virus. The concern is that they herald more lasting changes at a time when the UK's future relationship with Europe and the future openness of its economy are moot.

Of course, these are risks – they may not come to pass. Indeed, it is rare that the stockmarket does not have something to worry about. Admittedly, Covid-19 is a different type of risk compared with others experienced in recent years. At least in its early stages, its pathology was unquantifiable, and nothing shortens investment horizons like being forced to contemplate mortality. However, the world's reaction to the disease serves as a good reminder of where people – their efforts structured through societies and companies – excel. The significant advances in the understanding of Covid-19 in just a handful of months, along with economically costly but effective measures to control its spread, demonstrate human adaptability and ingenuity. Notwithstanding current outbreaks in parts of the US, it is not unreasonable to believe that any subsequent waves of the disease can be much less severe than the initial outbreak.

In the meantime, it is clear that the virus has affected companies' prospects, some more than others. However, it is also clear that share prices have swiftly adjusted, some more than others. In the Manager's estimation, many in the NSCI (XIC) and further afield have overreacted. Sentiment towards inherently profitable businesses, confronted by an extraordinary set of circumstances, has been damaged by fears for their very survival. This has taken valuations to extreme levels. In the case of the Fund's portfolio, despite the rebound from the mid March lows, valuations remain towards their most attractive in thirty years, in both absolute terms and relative to the NSCI (XIC). While not belittling what it has taken to get to this point, history suggests that starting valuations such as these tend to be associated with stronger returns over subsequent years. Another lesson of past bear markets is that the recovery is usually led by those that have suffered most on the way down: the Fund's value style and skew towards smaller small companies should thus bode well.

Beyond the medium term recovery period, a familiar controversy looms. The outcome of the financial crisis proved deflationary, as austerity strategies were promptly implemented and as extraordinary monetary policies boosted asset prices but not consumer prices. A dozen years on, quantitative easing and other monetary tools are back in force, but the substantial fiscal stimulus has come against a backdrop of populist pressure. It is not clear that today's governments will prioritise austerity as their predecessors did. With the deflationary impetus from globalisation also in question, there would appear to be heightened prospects of an inflationary outcome. Inflation – or perhaps even merely the fear of it – would fundamentally challenge the investment strategies that have prospered for more than a decade. In turn, those that have struggled – such as the value style within equities – should find renewed interest. Given the valuation relationships described above, investors in general see little to no chance of this outcome. For the value investor, whose discipline is to embrace what others shun, this represents opportunity.

The extreme valuations, together with confidence in the continued relevance and profitability of the portfolio's companies, give the Manager confidence in the Fund's prospects. It has been a difficult period, but the outlook is far from bleak.

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

31 July 2020

Long Term Investment Record

Historical Returns

Periods to 30 June 2020	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2018	-17.2	-10.3	-31.5	-19.6
3 years from 30 June 2017	-9.1	-4.7	-24.9	-13.4
4 years from 30 June 2016	0.2	2.8	0.9	11.8
5 years from 30 June 2015	-2.9	0.9	-13.7	4.4
6 years from 30 June 2014	-0.3	2.4	-2.0	15.3
7 years from 30 June 2013	3.6	4.8	27.8	38.6
8 years from 30 June 2012	6.9	7.8	70.5	82.7
9 years from 30 June 2011	5.2	6.4	57.2	75.2
10 years from 30 June 2010	7.7	8.9	109.9	135.2
15 years from 30 June 2005	6.0	7.9	140.3	213.3
Since inception on 20 March 1991	10.7	9.0	1,846.7	1,152.7

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 2020

Group 1: Units purchased prior to 1 January 2020

Group 2: Units purchased on or after 1 January 2020

Interim Distribution	Net Income June 2020	Equalisation† June 2020	Distribution/ Accumulation June 2020	Distribution/ Accumulation June 2019
Income units (payable 31 August 2020)				
Group 1	58.0017p	–	**58.0017p**	279.1645p
Group 2	12.2611p	45.7406p	**58.0017p**	279.1645p
Accumulation units				
Group 1	80.5134p	–	**80.5134p**	376.6485p
Group 2	17.0199p	63.4935p	**80.5134p**	376.6485p

† 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 2020

Holding	Security	30 June 2020 Value £'000	30 June 2020 % of Total Net Assets	30 June 2020 % of the Index[2]	31 December 2019 % of Total Net Assets	31 December 2019 % of the Index[2]
Oil & Gas Producers		**3,998**	**3.9**	**3.5**	3.4	4.3
13,586,165	EnQuest	1,864	1.8			
1,155,354	Pharos Energy	197	0.2			
3,762,600	Premier Oil	1,937	1.9			
Oil Equipment, Services & Distribution		**548**	**0.5**	**1.3**	0.2	1.7
4,567,484	Gulf Marine Services	548	0.5			
Chemicals		**–**	**–**	**1.9**	–	2.2
Industrial Metals & Mining		**–**	**–**	**1.0**	–	0.6
9,832,752	International Ferro Metals[1]	–	–			
Mining		**3,611**	**3.5**	**4.5**	2.3	2.6
1,393,765	Anglo Pacific Group	1,873	1.8			
950,560	Capital Drilling	570	0.5			
1,393,440	Gem Diamonds	364	0.4			
412,064	Kenmare Resources	804	0.8			
Construction & Materials		**7,805**	**7.5**	**4.3**	6.6	4.4
1,340,455	Eurocell	2,145	2.1			
1,052,767	Forterra	2,116	2.0			
328,832	Keller	2,082	2.0			
4,795,864	SIG	1,462	1.4			
Aerospace & Defence		**1,793**	**1.8**	**3.1**	2.6	2.3
2,036,521	Senior	1,423	1.4			
18,526	Ultra Electronics Holdings	370	0.4			
General Industrials		**–**	**–**	**1.8**	2.1	1.8
Electronic & Electrical Equipment		**6,214**	**5.9**	**2.9**	4.7	2.4
334,591	Dialight	1,037	1.0			
1,170,054	Morgan Advanced Materials	2,820	2.7			
1,109,667	TT Electronics	1,803	1.7			
1,008,100	XAAR	554	0.5			
Industrial Engineering		**6,377**	**6.2**	**2.1**	3.0	1.9
430,375	Castings	1,549	1.5			
23,700	RHI Magnesita	583	0.6			
581,058	Vesuvius	2,252	2.2			
294,853	Vitec Group	1,993	1.9			
Industrial Transportation		**2,202**	**2.1**	**2.0**	2.3	2.3
1,190,341	Wincanton	2,202	2.1			

Portfolio Statement

As at 30 June 2020

Holding	Security	30 June 2020 Value £'000	30 June 2020 % of Total Net Assets	30 June 2020 % of the Index[2]	31 December 2019 % of Total Net Assets	31 December 2019 % of the Index[2]
Support Services		**9,822**	**9.6**	**6.4**	11.6	8.2
3,083,671	Connect Group	529	0.5			
1,053,307	De La Rue	1,350	1.3			
524,937	Essentra	1,528	1.5			
126,900	PageGroup	480	0.5			
1,141,069	Redde Northgate	1,892	1.8			
610,698	Robert Walters	2,443	2.4			
1,898,948	RPS Group	925	0.9			
1,197,424	Speedy Hire	675	0.7			
Automobiles & Parts		**2,267**	**2.2**	**1.1**	2.0	1.6
1,222,973	TI Fluid Systems	2,267	2.2			
Beverages		**–**	**–**	**1.5**	–	1.5
Food Producers		**1,998**	**1.9**	**3.1**	2.5	2.7
2,200,486	Bakkavor Group	1,551	1.5			
157,757	Devro	239	0.2			
377,816	R.E.A. Holdings	208	0.2			
Household Goods & Home Construction		**1,808**	**1.7**	**2.2**	0.9	2.6
334,600	Crest Nicholson	662	0.6			
421,438	Headlam Group	1,146	1.1			
Leisure Goods		**–**	**–**	**0.2**	–	0.2
Personal Goods		**–**	**–**	**1.6**	–	1.6
Health Care Equipment & Services		**2,005**	**1.9**	**1.0**	0.3	1.2
637,000	Medica Group	812	0.8			
1,403,308	Spire Healthcare Group	1,193	1.1			
Pharmaceuticals & Biotechnology		**2,310**	**2.2**	**2.4**	1.4	1.5
2,386,389	Vectura Group	2,310	2.2			
Food & Drug Retailers		**548**	**0.5**	**–**	0.3	–
1,326,896	McColl's Retail Group	548	0.5			
General Retailers		**5,666**	**5.6**	**4.5**	5.6	4.9
1,980,299	Card Factory	990	1.0			
1,187,884	DFS Furniture	1,958	1.9			
635,103	Halfords Group	963	0.9			
2,358,299	Lookers	471	0.5			
1,374,029	N Brown Group	478	0.5			
1,831,995	Topps Tiles	806	0.8			
Media		**8,237**	**7.9**	**6.1**	8.8	6.0
2,013,640	Centaur Media	443	0.4			
277,312	Future	3,527	3.4			
193,050	Hyve Group	191	0.2			
2,873,819	Reach	2,213	2.1			
220,000	STV Group	502	0.5			
1,153,597	Wilmington Group	1,361	1.3			

Portfolio Statement

As at 30 June 2020

Holding	Security	30 June 2020 Value £'000	% of Total Net Assets	% of the Index[2]	31 December 2019 % of Total Net Assets	% of the Index[2]
Travel & Leisure		**8,912**	**8.6**	**8.4**	12.3	10.6
3,937,689	FirstGroup	1,983	1.9			
72,694	Go-Ahead Group	604	0.6			
142,300	Hollywood Bowl	217	0.2			
1,146,498	Hostelworld Group	722	0.7			
704,914	Mitchells & Butlers	1,325	1.3			
1,358,615	Rank Group	1,989	1.9			
2,256,580	Restaurant Group	1,272	1.2			
1,345,026	Stagecoach Group	800	0.8			
Fixed Line Telecommunications		**1,291**	**1.2**	**2.1**	0.3	1.8
1,152,600	Zegona Communications	1,291	1.2			
Mobile Telecomunications		**–**	**–**	**1.3**	–	1.0
Electricity		**–**	**–**	**2.2**	–	1.8
Banks		**–**	**–**	**1.5**	–	1.7
Nonlife Insurance		**400**	**0.4**	**3.3**	–	2.3
207,700	Hastings Group	400	0.4			
Life Insurance		**2,267**	**2.2**	**0.9**	2.0	0.9
1,061,282	Hansard Global	329	0.3			
3,694,044	Just Group	1,938	1.9			
Real Estate Investment & Services		**3,817**	**3.7**	**5.1**	6.8	5.9
1,380,372	U and I Group	1,066	1.0			
1,214,717	Urban&Civic	2,751	2.7			
Real Estate Investment Trusts		**1,975**	**1.9**	**1.4**	2.5	2.5
29,705	Capital & Regional	25	–			
1,089,408	McKay Securities	1,950	1.9			
Financial Services		**13,998**	**13.5**	**10.0**	8.0	8.9
2,940,750	Amigo Holdings	165	0.2			
1,169,930	Brewin Dolphin Holdings	3,048	2.9			
564,404	Charles Stanley Group	1,456	1.4			
1,377,184	CMC Markets	3,650	3.5			
1,953,498	International Personal Finance	1,022	1.0			
5,255,935	Non-Standard Finance	352	0.3			
1,407,170	Provident Financial	2,456	2.4			
130,400	Rathbone Brothers	1,849	1.8			

Portfolio Statement

As at 30 June 2020

Holding	Security	30 June 2020 Value £'000	30 June 2020 % of Total Net Assets	30 June 2020 % of the Index[2]	31 December 2019 % of Total Net Assets	31 December 2019 % of the Index[2]
Software & Computer Services		**5,693**	**5.5**	**3.5**	4.8	3.0
1,311,283	Alfa Financial Software Holding	947	0.9			
771,213	RM	1,797	1.7			
589,883	SDL	2,949	2.9			
Technology Hardware & Equipment		**–**	**–**	**1.8**	–	1.1
Investments as shown in the Balance Sheet		**105,562**	**101.9**	**100.0**	97.3	100.0
Net Current (Liabilities)/Assets		**(2,056)**	**(1.9)**	**–**	2.7	–
Total Net Assets		**103,506**	**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] Reflects the rebalanced index as at 1 January 2020.

Additional Portfolio Information

For the six months ended	30 June 2020 £'000	30 June 2019 £'000
Total Purchases	**25,984**	36,719
Total Sales	**51,063**	14,681

Statement of Total Return

For the six months ended 30 June 2020 *(unaudited)*

	30 June 2020		30 June 2019	
	£'000	**£'000**	£'000	£'000
Income				
Net capital (losses)/gains		**(75,537)**		9,172
Revenue	**849**		3,031	
Expenses	**(648)**		(668)	
Interest payable and similar charges	**(4)**		(5)	
Net revenue before taxation	**197**		2,358	
Taxation	**–**		–	
Net revenue after taxation		**197**		2,358
Total return before distributions		**(75,340)**		11,530
Distributions		**(580)**		(2,752)
Change in net assets attributable to unitholders from investment activities		**(75,920)**		8,778

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2020 *(unaudited)*

	30 June 2020		30 June 2019	
	£'000	**£'000**	£'000	£'000
Opening net assets attributable to unitholders		**212,024**		143,358
Amounts receivable on issue of units	**7,680**		35,112	
Amounts payable on cancellation of units	**(40,510)**		(11,624)	
		(32,830)		23,488
Change in net assets attributable to unitholders from investment activities		**(75,920)**		8,778
Retained distribution on accumulation units		**232**		1,590
Closing net assets attributable to unitholders		**103,506**		177,214

Balance Sheet

As at 30 June 2020 *(unaudited)*

	30 June 2020 £'000	31 December 2019 £'000
Assets		
Fixed Assets:		
Investments	**105,562**	206,178
Current Assets:		
Debtors	**354**	531
Cash and bank balances	**–**	6,730
Total current assets	**354**	7,261
Total assets	**105,916**	213,439
Liabilities		
Creditors:		
Bank overdraft	**(1,472)**	–
Other creditors	**(718)**	(147)
Distribution payable on income units	**(220)**	(1,268)
Total liabilities	**(2,410)**	(1,415)
Net assets attributable to unitholders	**103,506**	212,024

Cash Flow Statement

For the six months ended 30 June 2020 *(unaudited)*

	30 June 2020 £'000	30 June 2019 £'000
Net cash inflow from operating activities	**578**	2,117
Investing activities		
Purchases of investments	**(26,069)**	(36,719)
Sales of investments	**50,791**	14,441
Cash inflow/(outflow) from investing activities	**24,722**	(22,278)
Financing activities		
Amounts received from issue of units	**7,830**	35,239
Amounts paid on cancellation of units	**(40,061)**	(11,717)
Distributions paid	**(1,268)**	(729)
Interest paid	**(3)**	(5)
Cash (outflow)/inflow from financing activities	**(33,502)**	22,788
(Decrease)/increase in cash and cash equivalents	**(8,202)**	2,627
Cash and cash equivalents at the start of the period	**6,730**	(3,252)
Cash and cash equivalents at the end of the period	**(1,472)**	(625)

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 2019 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 2020. 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 2020 £'000	June 2019 £'000
Interim distribution	**452**	2,773
Income deducted on cancellation of units	**145**	105
Income received on creation of units	**(17)**	(126)
Distributions	**580**	2,752

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

	June 2020 £'000	June 2019 £'000
Net revenue after taxation	**197**	2,358
Add: Manager's periodic fee taken to capital	**380**	392
Add: Safe custody fee taken to capital	**3**	2
Distributions	**580**	2,752

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 6, changing from 5 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.

Risk and Reward Profile

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*
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Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Link Fund Administrators Limited*
PO Box 388
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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 £1.4 billion (as at 30 June 2020). The Fund's portfolio is managed on a collegiate basis by seven investment managers. Aberforth is wholly owned by seven partners – six investment managers and an Operations Partner.

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