Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2021

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 2021 (the date of the last annual index rebalancing), the index included 334 companies, with an aggregate market capitalisation of £141 billion. Its upper market capitalisation limit was £1.5 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 2021[1]	4 January 2021[1]
Accumulation Units	Issue Price	£325.02	£242.77
	Cancellation Price	£318.88	£237.56
Income Units	Issue Price	£229.43	£173.04
	Cancellation Price	£225.09	£169.33
	Yield	1.5%	1.0%
	Dealing spread	1.9%	2.2%

Charges	30 June 2021	31 December 2020
Initial charge	Nil	Nil
Ongoing charges[2]	0.75%	0.83%
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 2021	30.9%	17.4%

Net Asset Value (Post Distribution)

	30 June 2021	31 December 2020
Total Net Assets	£239.9m	£122.8m
Accumulation units in issue	493,799.684	267,760.720
Income units in issue	378,126.321	340,855.919
NAV per unit – accumulation	£315.33	£240.49
NAV per unit – income	£222.58	£171.42

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 30 June 2021	70.8	49.8
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

Periods to 30 June 2021	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2018	17.0	20.5
5 years from 30 June 2016	72.3	67.4
10 years from 30 June 2011	168.5	162.5
15 years from 30 June 2006	243.5	272.7
Since inception on 20 March 1991	3,224.5	1,776.3

Periods to 30 June 2021	Annualised Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2018	5.4	6.4
5 years from 30 June 2016	11.5	10.9
10 years from 30 June 2011	10.4	10.1
15 years from 30 June 2006	8.6	9.2
Since inception on 20 March 1991	12.3	10.2

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 saw a significant fall in its aggregate valuation due to the uncertainties arising from the spread of this virus and following the deployment of vaccines has seen a recovery. 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 the index figures following the rebalancing of the NSIC (XIC) Index on 1 January 2021;
2. to update the performance history to include the Fund's 2020 performance; and
3. to note the appointment of S. G. Ford as a director 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 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.

Investment Review

The performance described in this report covering the six months to 30 June 2021 makes rather more pleasant reading than a year ago. The FTSE All-Share's total return was 11.1%. This was bettered by small UK quoted companies, with a 17.4% return generated by the NSCI (XIC). The Fund's total return was 30.9%. These figures help repair much of the damage to the Fund's performance inflicted in the early months of the pandemic. Indeed, the period under review was the Fund's second best calendar six months relative to the benchmark since inception in 1991.

Manager’s Report

The main influence on these strong numbers was the vaccines. Their arrival in November last year precipitated a powerful recovery in asset prices, which has continued into 2021. Financial markets anticipated a normalisation in societal behaviour and a sharp recovery in activity, which is now showing through in macro economic data releases and in trading updates from companies.

The high returns from the portfolio are a reminder of how desperate sentiment had become a year ago. Companies sensitive to the economic cycle, many of which were classified as value stocks, saw their share prices collapse as concerns about these businesses’ viability reached a peak. Clearly, the vaccines eased the threat, but it is necessary to acknowledge the resilience of small UK quoted companies through 2020. Some of that resilience was due to external help, from lenders, governments and central banks. Shareholders also played a part, though the frequency of rights issues and placings amongst constituents of the NSCI (XIC) has been lower than the Manager had expected. Much of the resilience was down to internal measures put in place by boards that have undergone several tests in recent years, from the global financial crisis through the Eurozone crisis to Brexit. The consequence is that the corporate sector has passed the inflection point. Despite lingering lockdown conditions, profits are starting to recover and balance sheets are strengthening as free cash flow is generated. The improved outlook has allowed many boards to reinstate dividends, more quickly than expected even six months ago.

Another factor contributing to the good performance of constituents of the portfolio and of the NSCI (XIC) was – for the first time in several years – their “Britishness”. This is not a jingoistic point but reflects the fact that prospects for UK companies have been under a cloud since the EU referendum. And, just as the political uncertainty of Brexit was lifting, the challenges of the pandemic and lockdown arrived. These events led to deep under-performance from UK equities over the last five years and to very low valuations in the global context. But the successful vaccine roll-out has been a catalyst for a reappraisal: the FTSE All-Share has out-performed global equities since October 2020, with domestically oriented small companies performing particularly strongly. The renewed interest in UK assets also comes through in higher corporate activity in the form of both M&A and IPOs.

The vaccines have been a catalyst for the reappraisal of “Britishness” and economic cyclicality, which has boosted the share prices of value stocks. The value style has also benefited from concerns about inflation. Growth stocks, whose valuations are skewed to cash flows generated in the more distant future, are more sensitive than value stocks to increases in discount rates and bond yields. Therefore, to the extent that higher inflation – whether actual or expected – raises bond yields, value tends to benefit relative to the growth style.

Evidence of inflationary pressure is abundant at present. Consumer prices are rising at 3-5% per annum in major western economies, while various gauges of inflation expectations have also risen to their highest levels for several years. These top-down measures are corroborated by commentary from many companies. Second order effects of the pandemic are raising raw material prices and, with some teething trouble from the Brexit trade deal, are constraining supply chains. These may be considered temporary consequences of the pandemic, but they are happening against the background of a continuation of extraordinary monetary policy, massive growth in money supply and trillion dollar fiscal programmes in the US. In this context, it is somewhat puzzling that government bond yields have not risen further, but the inertia that comes with the conditioning of three decades of disinflation is considerable.

Manager’s Report

Analysis of performance

The Fund’s total return in the six months to 30 June 2021 was 30.9% which compares with 17.4% from the NSCI (XIC). The table below, together with the following paragraphs, describe important influences on the Fund’s absolute and relative performance.

For the six months ended 30 June 2021	Basis points
Attributable to the portfolio of investments, based on mid prices	**1,365**
Movement in mid to bid price spread	26
Cash/other	(2)
Management fee	(35)
Other expenses	(3)
Total attribution based on bid prices	**1,351**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. the Fund = 30.93%; Benchmark Index = 17.42%; difference is 13.51% being 1,351 basis points).

Style

As noted above, the economic and financial market backdrop turned more conducive to the value investment style with the arrival of the vaccines. Using price to book ratios for the purpose of categorisation, the London Business School calculates that the NSCI (XIC)’s value cohort out-performed its growth stocks by 11% in the first half of 2021. While the Manager’s definition of value is broader and their investment cases are based on more than a near term valuation ratio, this degree of difference is indicative of a boost to the Fund’s performance from investment style.

Size

The Fund’s portfolio has had a higher exposure than the NSCI (XIC) to the index’s smaller constituents for several years. This reflects the considerably lower valuations on offer down the scale of market capitalisations, irrespective of companies’ fundamental prospects. This size positioning was beneficial to the Fund’s returns in the six months to 30 June 2021. A useful gauge of this is a comparison of returns from the FTSE SmallCap and the FTSE 250 – the former out-performed the latter by 17%. Despite this, the valuation advantage of smaller small companies remains, so the portfolio ended the first half with 31% invested in the NSCI (XIC)’s mid cap constituents against 65% in these companies for the NSCI (XIC) itself.

Geography

Exposure to the UK’s domestic economy has been an important influence on UK equities since 2016’s EU referendum. As sterling adjusted to the implications of the leave vote, the share prices of companies that do most of their business outside the UK performed more strongly than those reliant on the domestic economy. The political clarity promised by the decisive election result at the end of 2019 was short lived. It was quickly overwhelmed by the pandemic as lockdown measures were more punitive for domestic businesses. However, since the vaccine announcements, the total returns of domestic facing companies out-performed by 8% in anticipation of re-opening and a normalisation of spending. This has benefited the Fund’s performance since the portfolio retains a relatively high exposure to the domestic economy. At 30 June 2021, 57% of the portfolio holdings' underlying sales were generated in the UK, compared with 52% for the NSCI (XIC).

Dividends

Recent dividend experience is encouraging, though some context is important. Last calendar year saw the steepest fall in small company dividends since records began in 1955 – according to the London Business School's calculations, aggregate dividends from the NSCI (XIC) fell by 52%, adjusted for inflation. Given the severity of this decline and the effect of a low base, a further fall was unlikely. However, the recovery has so far proved broader and swifter than expected six months ago. Current estimates are for dividend growth of around 25% from small companies in 2021, though this perhaps feels low given recent announcements. The following table splits the Fund's holdings at 30 June 2021 into categories corresponding to their most recent dividend action.

Nil payer	Cutter	Unchanged payer	Increased payer	Returners	Other*
33	5	7	9	21	2

*An IPO and a company paying dividends for the first time

The "Returners" category points to the resilience of the holdings. It contains companies that stopped dividends in the first part of 2020 as the pandemic took effect but that have returned to paying dividends a year or less later. The Manager expects that current constituents of "Returners" will progress to "Unchanged payer" or "Increased payer" over the next twelve months, while many of today's "Nil payers" will resume dividend payments and temporarily repopulate "Returners". In due course, membership of "Returners" should dwindle, as should the "Nil payers". This latter category currently contains both cyclical nil payers, which are companies that have been affected by the pandemic and that should return to the dividend register, and structural nil payers, which are companies that are prioritising other uses of their free cash flows.

Balance sheets

The resilience of small companies illustrated by the dividend analysis also comes through in terms of balance sheet leverage.

Portfolio weight	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
2020	28%	36%	19%	17%
2021	30%	43%	17%	10%
2022	41%	41%	11%	7%
2023	43%	45%	5%	7%

*Includes loss-makers and lenders

Manager's Report

The Manager forecasts the portfolio's exposure to companies with net cash to rise strongly over the recovery period, while exposure to companies with relatively high leverage ratios of more than two times declines sharply. This strengthening of balance sheets is driven by the generation of free cash flow – no incremental equity issuance is assumed. Companies have needed to issue less equity through the pandemic period than the Manager had expected. This was due to the combination of tight control of cash by the companies themselves, government support and relaxed terms from existing lenders. However, the ending of furlough schemes and the impact of recovering revenues on working capital requirements may see a tail of equity issues through 2021, while other companies are looking to raise equity to support acquisitions or accelerate investment. In the first half, the Fund supported eight equity raises by its holdings, subscribing to a total of just under £3m new equity. The comparable numbers in the whole of 2020 were nine and £3m.

The resilience displayed in the table should allow companies to accelerate investment plans, particularly if they can benefit from the super-deduction scheme announced by Rishi Sunak in the Budget. Alternatively, companies may return cash to shareholders or, if valuations make sense, acquisitions may be considered.

Corporate Activity

The vaccine rally has seen an upsurge in corporate activity around the world. The total value of pending and completed M&A deals announced in the first half of 2021 was an all-time high of $2.8 trillion, according to Refinitiv. The UK has very much been a part of this, with the low valuations of British assets proving particularly attractive to acquirers. On top of the numerous deals outside the NSCI (XIC), there have been nine takeover transactions announced within the index itself. Of these, the Fund held two in its portfolio. The Manager believes that the valuations of both these deals were fair, but the risk remains that typical takeover premiums fail to reflect appropriate value for small UK quoted companies whose valuations have been depressed by Brexit and the pandemic. It is important not to cede control cheaply to opportunistic would-be acquirers.

On top of the rise in M&A, the UK stockmarket has seen its first meaningful bout of IPO activity for several years. Sixteen companies have floated whose current market capitalisations could make them eligible for inclusion in the NSCI (XIC) on its 1 January 2022 rebalancing. Most of these companies have online business models that thrived during lockdown and so, at today's valuations, are of greater appeal to growth investors. The stretch between the valuations of these recent IPOs and comparable businesses held in the portfolio is considerable. The Manager believes that these divergent valuations fail to reflect the fact that many "old economy" businesses have been investing in their online offerings. Well-articulated "omni-channel" strategies, under which established businesses seek to sell both online and through physical stores, are common and are likely to find increased relevance as lockdown measures are eased.

Portfolio turnover

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. Over the twelve months to 30 June 2021, the rate was 35%. There can be a relationship between higher rates of turnover and better relative performance from the Fund's portfolio – if the share price of a holding rises close to the Manager's target, there is the opportunity to realise value and redeploy the proceeds in another company with a higher upside. The Manager terms this the "value roll". Since the financial crisis, annual turnover has ranged from the mid teens in 2019 to 40%, reflecting the very strong relative performance in 2013.

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. The higher a portfolio's active share, the higher its chance of either out or under-performing the index. The Manager targets a ratio of at least 70% in relation to the NSCI (XIC). At 30 June 2021, it was 76%.

Valuations

Portfolio characteristics	**30 June 2021** The Fund	**30 June 2021** NSCI (XIC)	30 June 2020 The Fund	30 June 2020 NSCI (XIC)
Number of companies	**77**	**324**	81	330
Weighted average market capitalisation	**£672m**	**£996m**	£435m	£760m
Price earnings (PE) ratio (historical)	**14.1x**	**17.4x**	6.1x	10.3x
Dividend yield (historical)	**1.6%**	**1.7%**	3.8%	2.4%
Dividend cover	**4.4x**	**3.4x**	4.3x	4.1x

At points during 2020, with the pandemic at its most intense, the portfolio's historical price earnings ratio (PE) reached its lowest level in 30 years, in both absolute terms and relative to the NSCI (XIC). Since the commencement of the vaccine rally, both measures have returned to the middle of their historical ranges. The table above shows the PE of the portfolio at 30 June 2021 was 14.1x and the discount to the index's PE was 19%. There are two factors behind the portfolio's re-rating. First, share prices recovered strongly, with the Fund managing to out-perform the NSCI (XIC)'s return. Second, companies have started reporting results that have been affected by the lockdown conditions of 2020 and so the historical earnings used in the PE calculation have fallen. This latter dynamic has yet to play out in full, which means that the PE should rise further over coming months even if prices stay the same.

Of course, the stockmarket looks ahead and, in taking historical or near term valuation multiples to high levels, is anticipating a recovery of profits over subsequent years. The following table sets out forward valuation multiples, using the Manager's favoured valuation metric of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). The Tracked Universe comprises 246 companies within the NSCI (XIC) that the Manager follows particularly closely.

EV/EBITA	2020	2021	2022	2023
The Fund	13.5x	10.5x	8.7x	7.5x
Tracked Universe (246 stocks)	15.2x	12.9x	10.7x	9.6x
- 43 growth stocks	19.5x	22.2x	19.2x	16.7x
- 203 other stocks	14.5x	11.9x	9.8x	8.8x

The forecasts underling the EV/EBITA multiples are the Manager's and anticipate aggregate small company profits to return to pre-pandemic levels in 2023. The profits of the portfolio's holdings are expected to grow more strongly than those of the Tracked Universe over the forecast period. This reflects the higher economic cyclicality of the Fund's portfolio – profits fell further in 2020 and, all else equal, have greater scope to recover. By 2023, the Fund's EV/EBITA multiples are around 20% lower than those of the Tracked Universe. This was the sort of discount that prevailed before the onset of the pandemic and, indeed, has been typical over recent years. Another useful reference point is the recent upsurge in M&A deals – these have been struck at much higher multiples than those prevailing for similar businesses in which the Fund invests.

To be clear, the investment cases for all portfolio holdings are based on more than a near term valuation ratio. The Manager determines a target price for each holding, which is usually based upon an estimate of normalised profits to which a multiple is applied. The emphasis of the investment process is assessment of the appropriate multiple, taking into account factors such as the company's market position, its record, its management and its longer term prospects. The ranking by upside to price targets allows the Manager to circulate capital from companies whose share prices are near their calculated values to those with a larger gap between the two. The relatively low aggregate valuations for the portfolio, shown in the table, indicate the scope for this circulation of capital. Over time this "value roll" can make a meaningful contribution to investment returns.

Outlook and Conclusion

While the pandemic has almost certainly peaked, it continues to cast a shadow on the outlook. From the epidemiological perspective, new variants would seem inevitable, though the vaccines give cause for optimism that this risk can be controlled if global deployment is swift. Arguably, the greater issue for society, for the economy and for companies is how government chooses to address the risk. So-called "Covid Zero" policies would have profound and lasting implications for how we live our lives and do business.

Another set of risks emerges from the measures by governments and central banks to offset the impact of the virus on the economy. Furlough has succeeded in averting mass unemployment, but it is necessary to get through the Autumn's expiry of the Job Retention Scheme to assess the more lasting consequences and the willingness of consumers to spend the substantial savings accumulated during lockdown. The passage of time will also allow better understanding of the underlying effects of the UK's new relationship with the EU, which have so far been largely obscured by the pandemic.

Eventually, the official support programmes will have to be paid for and it seems inevitable that the Chancellor will describe a path to tighter fiscal policy in due course. For the time being, however, monetary and fiscal stimuluses are in full swing, which, together with price pressures arising from the pandemic, is fomenting concern about inflation. On the other hand, it is noteworthy that the financial markets' enthusiasm for reflation ebbed in June in response to further evidence of slowing Chinese growth and to the Federal Reserve's latest prognostications for the US monetary policy. The debate between inflationists and deflationists is, therefore, finely balanced at present, but a nuanced outlook can itself be helpful to the value style given that markets have been positioned decisively for deflation ever since the financial crisis. A lasting turn to inflation, and higher bond yields, should be relatively good for the value investment style, though its effect on equity valuations would have to be accompanied by careful scrutiny of the pricing power of individual businesses.

These big picture issues will be important to the Fund's future investment returns, but the main influence is the fortunes of the investee companies. Just twelve months ago, the stockmarket's judgement of their prospects was unequivocal: many were valued in a way that suggested their very viability was at risk. Given the unprecedented nature of the pandemic, valuations should have reflected a degree of uncertainty, but that judgement has proved much too harsh. The subsequent rebound in economic activity, in profitability and in share prices owes much to the astonishingly rapid development and roll-out of the vaccines. However, companies and their boards deserve credit too: the resilience demonstrated by the Fund's holdings, and small companies more generally, is testament to the fact that these are well run businesses whose products and services are relevant even in a world living with Covid-19. Once this recovery phase ends, the Manager is confident that these companies will continue to grow their profits in real terms, exceed their cost of capital and generate free cash flow. At some point, the convincing record of these cyclical companies in dealing well with economic shocks should be recognised by the stockmarket with higher valuations.

While the profile of the recovery is assuming the classic "V" shape for the economy and stockmarket, not all of the Fund's holdings have seen their share prices return to their pre-pandemic levels. At 30 June 2021, 53% of the portfolio was invested in companies whose prices were lower than at 31 December 2019, with a weighted average decline of 26%. This is one illustration that normalisation of economic activity, company profits and share prices should have further to run.

Not all companies will emerge from the pandemic as profitable as when they entered it – there will be longer term winners and losers. At points last year, the stockmarket seemed to judge that the Fund owned only the losers, while the share prices of technology companies and other work-from-home beneficiaries rose sharply. However, the portfolio contains companies that have taken advantage of the pandemic's disruption to adapt their business models, to improve their ability to do business online and to restructure their cost bases.

In conclusion, the low stockmarket valuations of the Fund's holdings contrast with the resilience of the underlying businesses, their return to paying dividends, and their good prospects even beyond the current recovery phase. There are catalysts for a broader recognition of these qualities, with global capital re-embracing UK assets, with cyclicality now desired rather than shunned, and with a more nuanced inflationary outlook. While acknowledging the strong gains of the past eight months, the Manager remains optimistic about the Fund's prospective investment returns.

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

30 July 2021

Long Term Investment Record

Historical Returns

Periods to 30 June 2021	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2019	14.1	12.8	30.2	27.3
3 years from 30 June 2018	5.4	6.4	17.0	20.5
4 years from 30 June 2017	6.4	6.7	28.2	29.7
5 years from 30 June 2016	11.5	10.9	72.3	67.4
6 years from 30 June 2015	6.7	7.7	47.4	56.4
7 years from 30 June 2014	7.6	8.1	67.3	72.6
8 years from 30 June 2013	10.3	9.6	118.3	107.6
9 years from 30 June 2012	12.6	11.8	191.1	173.7
10 years from 30 June 2011	10.4	10.1	168.5	162.5
15 years from 30 June 2006	8.6	9.2	243.5	272.7
Since inception on 20 March 1991	12.3	10.2	3,224.5	1,776.3

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

Past performance is not a guide to future performance.

Distribution Table

For the six months to 30 June 2021

Group 1: Units purchased prior to 1 January 2021

Group 2: Units purchased on or after 1 January 2021

Interim Distribution	Net Income June 2021	Equalisation† June 2021	Distribution/ Accumulation June 2021	Distribution/ Accumulation June 2020
Income units (payable 31 August 2021)				
Group 1	220.9820p	–	**220.9820p**	58.0017p
Group 2	111.1397p	109.8423p	**220.9820p**	58.0017p
Accumulation units				
Group 1	310.0265p	–	**310.0265p**	80.5134p
Group 2	155.9233p	154.1032p	**310.0265p**	80.5134p

† 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 2021

Holding	Security	30 June 2021 Value £'000	30 June 2021 % of Total Net Assets	30 June 2021 % of the Index[1]	31 December 2020 % of Total Net Assets	31 December 2020 % of the Index[1]
Software and Computer Services		**4,997**	**2.1**	**4.9**	2.3	4.7
1,292,469	Alfa Financial Software Holdings	1,667	0.7			
609,148	Micro Focus	3,330	1.4			
Technology Hardware and Equipment		**4,108**	**1.7**	**0.9**	1.6	0.8
1,601,667	TT Electronics	4,108	1.7			
Telecommunications Equipment		**–**	**0.0**	**0.3**	–	0.3
Telecommunications Service Providers		**2,184**	**0.9**	**1.8**	0.9	2.8
1,485,600	Zegona Communications	2,184	0.9			
Health Care Providers		**3,948**	**1.6**	**0.8**	3.1	0.6
2,288,523	Medica Group	3,948	1.6			
Medical Equipment and Services		**–**	**–**	**0.3**	–	0.3
Pharmaceuticals and Biotechnology		**–**	**–**	**2.5**	2.3	2.5
Banks		**–**	**–**	**2.6**	–	2.4
Finance and Credit Services		**8,988**	**3.7**	**2.2**	4.7	2.4
3,610,748	International Personal Finance	4,817	2.0			
1,797,874	Provident Financial	4,171	1.7			
Investment Banking and Brokerage Services		**18,724**	**7.8**	**8.1**	7.5	7.9
1,522,530	Brewin Dolphin Holdings	5,291	2.2			
870,090	Charles Stanley Group	2,958	1.2			
371,500	City of London Investment Group	1,991	0.9			
743,292	CMC Markets	3,419	1.4			
279,501	Rathbone Brothers	5,065	2.1			
Life Insurance		**5,470**	**2.3**	**0.9**	2.2	0.9
1,358,327	Hansard Global	747	0.3			
5,070,402	Just Group	4,723	2.0			
Non-life Insurance		**2,039**	**0.9**	**0.9**	1.1	1.1
388,387	Conduit Holdings	2,039	0.9			
Real Estate Investment and Services		**3,580**	**1.5**	**5.0**	1.1	5.1
3,072,680	Foxtons	1,736	0.7			
1,970,387	U and I Group	1,844	0.8			
Real Estate Investment Trusts		**3,343**	**1.4**	**4.0**	1.5	4.0
1,447,350	McKay Securities	3,343	1.4			
Automobiles and Parts		**5,702**	**2.4**	**1.0**	2.4	1.0
1,857,266	TI Fluid Systems	5,702	2.4			

Portfolio Statement

As at 30 June 2021

Holding	Security	30 June 2021 Value £'000	30 June 2021 % of Total Net Assets	30 June 2021 % of the Index[1]	31 December 2020 % of Total Net Assets	31 December 2020 % of the Index[1]
Consumer Services		**2,779**	**1.2**	**0.4**	1.3	0.4
1,240,552	RM	2,779	1.2			
Household Goods and Home Construction		**7,232**	**3.0**	**1.4**	2.7	1.7
1,024,200	Crest Nicholson	4,295	1.8			
673,488	Headlam Group	2,937	1.2			
Leisure Goods		**–**	**0.0**	**0.3**	–	0.1
Personal Goods		**–**	**0.0**	**1.7**	–	1.3
Media		**18,756**	**7.8**	**1.9**	6.7	1.7
2,490,750	Centaur Media	996	0.4			
1,335,750	Hyve Group	1,763	0.7			
3,499,734	Reach	9,624	4.0			
465,177	STV Group	1,554	0.6			
1,640,181	Wilmington Group	3,346	1.5			
6,694,073	National World	1,473	0.6			
Retailers		**10,053**	**4.2**	**3.9**	4.5	3.4
3,427,199	Card Factory	2,149	0.9			
1,306,695	DFS Furniture	3,652	1.5			
3,663,020	Lookers	2,590	1.1			
2,354,426	Topps Tiles	1,662	0.7			
Travel and Leisure		**19,873**	**8.3**	**11.3**	9.7	10.3
6,229,589	FirstGroup	5,102	2.1			
139,794	Go-Ahead Group	1,563	0.7			
678,300	Hollywood Bowl	1,615	0.7			
2,111,848	Hostelworld Group	2,260	0.9			
824,575	Mitchells & Butlers	2,297	1.0			
2,310,915	Rank Group	3,873	1.6			
2,879,508	Stagecoach Group	2,364	1.0			
908,700	Marstons	799	0.3			
Beverages		**3,112**	**1.3**	**1.2**	0.8	1.3
1,280,791	C&C Group	3,112	1.3			
Food Producers		**3,943**	**1.7**	**2.5**	1.6	2.5
3,018,269	Bakkavor Group	3,785	1.6			
322,741	R.E.A. Holdings	158	0.1			
Personal Care, Drug and Grocery Stores		**1,577**	**0.6**	**0.8**	0.2	0.9
1,588,496	McColl's Retail Group	572	0.2			
1,142,500	McBride	1,005	0.4			

Portfolio Statement

As at 30 June 2021

Holding	Security	Value £'000 (30 June 2021)	% of Total Net Assets (30 June 2021)	% of the Index[1] (30 June 2021)	% of Total Net Assets (31 December 2020)	% of the Index[1] (31 December 2020)
Construction and Materials		**5,974**	**2.5**	**4.8**	3.6	4.7
810,067	Forterra	2,187	0.9			
443,310	Keller	3,551	1.5			
167,900	Galliford Try Holdings	236	0.1			
Aerospace and Defence		**5,322**	**2.2**	**3.4**	1.5	3.7
2,863,228	Senior	4,338	1.8			
339,400	Babcock International Group	984	0.4			
Electronic and Electrical Equipment		**7,626**	**3.2**	**2.8**	3.4	2.6
522,869	Dialight	1,668	0.7			
1,687,876	Morgan Advanced Materials	5,958	2.5			
General Industrials		**4,426**	**1.8**	**1.1**	1.8	1.3
1,651,654	Eurocell	4,426	1.8			
Industrial Engineering		**14,354**	**6.0**	**1.5**	7.0	1.5
640,725	Castings	2,525	1.0			
867,175	Vesuvius	4,574	1.9			
422,604	Vitec Group	5,916	2.5			
735,700	XAAR	1,339	0.6			
Industrial Support Services		**23,448**	**9.8**	**8.9**	12.3	9.1
2,218,991	De La Rue	4,110	1.7			
203,700	PageGroup	1,139	0.5			
169,900	Paypoint	962	0.4			
777,698	Robert Walters	5,459	2.3			
3,342,631	RPS Group	3,543	1.5			
10,397,844	SIG	5,480	2.3			
3,812,271	Smiths News	1,693	0.7			
1,475,524	Speedy Hire	1,062	0.4			
Industrial Transportation		**12,349**	**5.1**	**2.8**	4.4	2.4
1,569,519	Redde Northgate	6,255	2.6			
1,307,004	Wincanton	5,738	2.4			
38,900	VP	356	0.1			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**7,288**	**3.0**	**2.8**	2.9	2.8
2,023,923	Anglo Pacific Group	2,813	1.2			
2,714,260	Capital	2,003	0.8			
565,555	Kenmare Resources	2,472	1.0			
Precious Metals and Mining		**4,443**	**1.9**	**2.3**	0.4	3.2
2,121,729	Gem Diamonds	1,519	0.7			
2,889,000	Centamin	2,924	1.2			
Chemicals		**–**	**–**	**1.1**	1.1	0.8

Portfolio Statement

As at 30 June 2021

Holding	Security	Value £'000 (30 June 2021)	% of Total Net Assets (30 June 2021)	% of the Index[1] (30 June 2021)	% of Total Net Assets (31 December 2020)	% of the Index[1] (31 December 2020)
Oil, Gas and Coal		**7,519**	**3.1**	**4.0**	2.5	4.6
17,842,165	EnQuest	3,693	1.5			
718,200	Genel Energy	1,100	0.5			
3,974,854	Pharos Energy	1,016	0.4			
453,410	Harbour Energy	1,710	0.7			
Electricity		**–**	**–**	**1.9**	–	2.1
Waste and Disposal Services		**–**	**–**	**0.9**	–	0.7
Portfolio Total		**223,157**	**93.0**	**100.0**	99.1	100.0
Net Current Assets		**16,716**	**7.0**	**–**	0.9	–
Total Net Assets		**239,873**	**100.0**	**100.0**	100.0	100.0

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

[1] Reflects the rebalanced index as at 1 January 2021.

Additional Portfolio Information

For the six months ended	30 June 2021 £'000	30 June 2020 £'000
Total Purchases	**85,510**	25,984
Total Sales	**23,979**	51,063

Statement of Total Return

For the six months ended 30 June 2021 *(unaudited)*

	30 June 2021		30 June 2020	
	£'000	£'000	£'000	£'000
Income				
Net capital gains/(losses)		**39,937**		(75,537)
Revenue	**2,277**		849	
Expenses	**(665)**		(648)	
Interest payable and similar charges	**(3)**		(4)	
Net revenue before taxation	**1,609**		197	
Taxation	**–**		–	
Net revenue after taxation		**1,609**		197
Total return before distributions		**41,546**		(75,340)
Distributions		**(1,998)**		(580)
Change in net assets attributable to unitholders from investment activities		**39,548**		(75,920)

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2021 *(unaudited)*

	30 June 2021		30 June 2020	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		**122,822**		212,024
Amounts receivable on issue of units	**86,382**		7,680	
Amounts payable on cancellation of units	**(10,410)**		(40,510)	
		75,972		(32,830)
Change in net assets attributable to unitholders from investment activities		**39,548**		(75,920)
Retained distribution on accumulation units		**1,531**		232
Closing net assets attributable to unitholders		**239,873**		103,506

Balance Sheet

As at 30 June 2021 *(unaudited)*

	30 June 2021 £'000	31 December 2020 £'000
Assets		
Fixed Assets:		
Investments	**223,157**	121,690
Current Assets:		
Debtors	**19,273**	146
Cash and bank balances	**–**	1,611
Total current assets	**19,273**	1,757
Total assets	**242,430**	123,447
Liabilities		
Creditors:		
Bank overdraft	**(412)**	–
Other creditors	**(1,309)**	(243)
Distribution payable on income units	**(836)**	(382)
Total liabilities	**(2,557)**	(625)
Net assets attributable to unitholders	**239,873**	122,822

Cash Flow Statement

For the six months ended 30 June 2021 *(unaudited)*

	30 June 2021 £'000	30 June 2020 £'000
Net cash inflow from operating activities	**1,526**	578
Investing activities		
Purchases of investments	**(85,288)**	(26,069)
Sales of investments	**23,980**	50,791
Cash (outflow)/inflow from investing activities	**(61,308)**	24,722
Financing activities		
Amounts received from issue of units	**67,825**	7,830
Amounts paid on cancellation of units	**(9,681)**	(40,061)
Distributions paid	**(382)**	(1,268)
Interest paid	**(3)**	(3)
Cash inflow/(outflow) from financing activities	**57,759**	(33,502)
Decrease in cash and cash equivalents	**(2,023)**	(8,202)
Cash and cash equivalents at the start of the period	**1,611**	6,730
Cash and cash equivalents at the end of the period	**(412)**	(1,472)

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 2020 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 2021. 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 2021 £'000	June 2020 £'000
Interim distribution	**2,367**	452
Income deducted on cancellation of units	**62**	145
Income received on creation of units	**(431)**	(17)
Distributions	**1,998**	580

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

	June 2021 £'000	June 2020 £'000
Net revenue after taxation	**1,609**	197
Add: Manager's periodic fee taken to capital	**384**	380
Add: Safe custody fee taken to capital	**5**	3
Distributions	**1,998**	580

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, 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.

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*
House A, Floor 0
Gogarburn
175 Glasgow Road
Edinburgh EH12 1HQ

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 1HQ

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 £2.4 billion (as at 30 June 2021). 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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