Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2022

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 2022 (the date of the last annual index rebalancing), the index included 337 companies, with an aggregate market capitalisation of £156 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 assist in 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 2022[1]**	**4 January 2022[1]**
Accumulation Units	Issue Price	£266.16	£322.06
	Cancellation Price	£260.40	£315.28
Income Units	Issue Price	£182.29	£224.94
	Cancellation Price	£178.34	£220.21
	Yield	3.3%	2.1%
	Dealing spread	2.2%	2.1%

Charges	**30 June 2022**	**31 December 2021**
Initial charge	Nil	Nil
Ongoing charges[2]	0.83%	0.77%
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 2022	-16.2	-20.2

Net Asset Value (Post Distribution)

	30 June 2022	31 December 2021
Total Net Assets	£131.7m	£216.3m
Accumulation units in issue	330,880.362	465,168.170
Income units in issue	250,857.434	324,781.700
NAV per unit – accumulation	£263.77	£312.54
NAV per unit – income	£180.65	£218.30

Historical Returns

	Discrete Annual Returns (%)	
Period	The Fund[1]	Index[2]
1 year to 30 June 2022	-16.9	-17.2
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

	Cumulative Returns (%)	
Periods to 30 June 2022	The Fund[1]	Index[2]
3 years from 30 June 2019	8.1	5.4
5 years from 30 June 2017	6.5	7.4
10 years from 30 June 2012	141.8	126.6
15 years from 30 June 2007	124.7	146.1
Since inception on 20 March 1991	2,661.7	1,453.9

	Annualised Returns (%)	
Periods to 30 June 2022	The Fund[1]	Index[2]
3 years from 30 June 2019	2.6	1.8
5 years from 30 June 2017	1.3	1.4
10 years from 30 June 2012	9.2	8.5
15 years from 30 June 2007	5.5	6.2
Since inception on 20 March 1991	11.2	9.2

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

Introduction

This report has been prepared in accordance with the requirements of 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.

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 its annual review;
2. to note the retiral of K.F. Muir as a director of Aberforth Unit Trust Managers Limited (the "Manager"); and
3. to update the risk warning wording for Covid-19.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP, the investment adviser. The Manager has two independent non executive directors who are remunerated by way of directors' fees. Partners and staff working on the Fund are remunerated by the investment adviser, not the Manager. As investment adviser, Aberforth Partners LLP is subject to regulatory requirements on remuneration in accordance with FCA Rules. Details of its remuneration policy is available on request and on its website www.aberforth.co.uk.

Investment Review

The good stockmarket returns of 2021 feel like a distant memory as several macro-economic factors combined to depress valuations in the first half of 2022. Larger UK companies did, though, perform relatively well. The FTSE All-Share fell by 4.6% and was helped by its high exposure to commodity producers and its low exposure to technology – characteristics that had previously proved distinctly unhelpful for several years. The Fund's benchmark index – the NSCI (XIC) has different sector exposures and, consequently, its total return of -20.2% was more in keeping with those of other equity markets around the world. The Fund was similarly affected, though, for reasons set out later in this report, fared relatively well. Its total return was -16.2%.

The negative shift within stockmarkets was due to a confluence of macro-economic challenges, several of which were already in evidence last year.

- The new challenge was Russia's invasion of Ukraine. Beyond the suffering of the Ukrainian people, the immediate impact was to raise risk aversion as financial markets contemplated a war in Europe involving a nuclear power. The economic effects stem from Ukraine's industrial and agricultural importance, which intensifies pre-existing supply chain constraints and inflationary pressures. Over the longer term, the war and the unintended consequences of the sanctions deployed against Russia may accentuate pre-existing geopolitical tensions between the world's major economic regions. This threatens to undermine the benefits of globalisation, which has been a disinflationary force over recent decades.

- The oil price has rebounded sharply from its mid pandemic low point. Recovering demand has been mainly responsible, but the supply-side has also been influential as a result of years of under-investment in hydrocarbon exploration. The supply pressures have been exacerbated by the Ukrainian war, as Russian energy sales to Europe are brought into question. The consequent jump in oil and gas prices has severely aggravated the cost-of-living pressures that are being felt in the UK and elsewhere. Ultimately, high energy prices are an effective tax on economic activity and complicate the decision-making of central banks as they raise interest rates to address inflation. A longer term consequence of the war is likely to be a reprioritisation of energy security. Notwithstanding arbitrary windfall taxes on oil companies, this may involve renewed investment in hydrocarbon exploration to ease the transition to alternative energy sources.
- COVID is still with us. While widespread and efficient vaccine campaigns have allowed western economies to live with the virus, that is not the case in China. Important manufacturing centres, such as Shanghai, were subject to strict lockdowns through much of the first half of 2022. This has again worsened the supply chain difficulties and inflationary pressures that have plagued economies since demand started to recover in 2021.
- Inflation has proved considerably more persistent than most had expected. Caught out, central banks are now using their most aggressive rhetoric in decades. Their words, though, have not yet translated into meaningful action: interest rates are now rising in the UK, US and EU, but they remain deeply negative in real inflation-adjusted terms. The same is true for government bond yields, despite them more than doubling in the first half to end the period at 2.2% in the UK and 3.0% in the US. Perhaps bond markets are confident that the presently severe inflationary pressures will abate or that the relatively high levels of debt in western economies will require smaller interest rates rises to affect activity. However, the effect of wage settlements on inflation rates is yet to be determined. Moreover, the historical record for central banks' commitment to dealing with inflation is mixed, especially when they are under political pressure to achieve the so-called "soft landing" for the economy.

The combination of these challenges has been to increase the risk of a recession later this year or in early 2023. Since most companies within the NSCI (XIC) and the portfolio are sensitive to the economic cycle, the impact of a potential recession on corporate profitability explains much of the pronounced weakness in share prices experienced in the first half of 2022.

Stockmarkets have also had to contend with pressure on the valuation ratios ascribed to company profits. The war, tightening monetary policy and rising bond yields have served to shorten investment horizons. In other words, investors are now less comfortable to ascribe high valuation ratios to profits or, in the case of loss-making companies, to their sales. The valuation stretch within equity markets – that is, the gap between the highest and the lowest PE ratios – has contracted markedly. This has particularly penalised the share prices of companies that previously enjoyed higher PE ratios, typically the growth stocks, and other long duration assets with little near term cash flow. Consequently, the value style has enjoyed a period of strong relative performance. This valuation effect has been of benefit to the Fund and, by mitigating the corporate profitability effect previously described, contributed to the Fund's out-performance.

Manager's Report

Analysis of performance

To recap, the Fund's total return in the first six months of 2022 was -16.2%, which compares with -20.2% for the NSCI (XIC). The table below and following paragraphs explain this performance and provide additional detail about the portfolio.

For the six months ended 30 June 2022	Basis points
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 7 basis points)	**361**
Movement in mid to bid price spread	23
Cash/other	63
Management fee	(39)
Other expenses	(2)
Total attribution based on bid prices	**406**

Note: 100 basis points = 1%. Total Attribution is the difference between the total returns of the Fund and the Benchmark Index (i.e. the Fund = -16.18%; Benchmark Index = -20.24%; difference is 4.06% being 406 basis points).

Style

It was a relatively good period for the Manager's value style. Shorter investment horizons, higher bond yields and a narrower range of PE ratios within equity markets worked to the detriment of longer duration growth stocks and to the relative benefit of value stocks. The London Business School produces style data for the NSCI (XIC), using price to book ratios to categorise stocks as growth or value. This analysis is a useful indication of the pervading style climate, though the Manager's investment process takes into account numerous other fundamental factors and utilises a broader range of valuation metrics, including EV/EBITA, free cash flow and dividend yields. For the first six months of 2022, the London Business School calculates that its value cohort out-performed its growth cohort by 7%. This reverses some of the relative gains enjoyed by growth stocks in recent years, particularly in the midst of the pandemic, and suggests that investment style was a boost to the Fund's relative returns in the first half.

Size

The NSCI (XIC) is defined as the bottom 10% by value of the entire UK stockmarket. This means that FTSE 250 stocks represent around 63% of its total value. For the purpose of explaining the effect of size on the Fund's performance relative to the NSCI (XIC), it is useful to compare the fortunes of the FTSE 250, which is indicative of the index's larger constituents, with those of the FTSE SmallCap, which represents its smaller constituents. In the six months to 30 June 2022, the FTSE SmallCap (XIC) out-performed the FTSE 250 (XIC) by 4% to extend what has been a remarkable run of performance for the NSCI (XIC)'s smaller constituents since the vaccine rally started in late 2020. Out-performance by these "smaller small" companies benefits the Fund's returns since the portfolio has a relatively high exposure to them. This positioning reflects the considerably lower stockmarket valuations accorded to these companies over the past several years, despite comparable growth prospects and returns on equity. It is pleasing that some of the valuation disparity has been addressed by recent share price performance.

Manager's Report

Geography

Where companies make their sales and profits has been an important influence on share prices in recent years, owing to the effects of the EU referendum in 2016 and then the pandemic. The weakness of sterling since the referendum reflected a reluctance of international investors to engage with the UK and, through currency translation, benefited the profitability of those companies that generate revenue outside the UK. The share prices of domestic businesses lagged those of their overseas counterparts, which gave the Fund the opportunity to increase its exposure to them. Through 2021 and so far in 2022, the fortunes of the two groups shifted. The overseas facing companies have more quickly felt the supply chain problems that followed the pandemic, though cost-of-living pressures were starting to catch up with domestics towards the end of the period. In the six months to 30 June 2022, the share prices of the NSCI (XIC)'s domestically oriented businesses out-performed overseas facing businesses by 6%. This was advantageous to the Fund, since at the start of the year the portfolio had a weighting of 58% in the domestics, higher than the NSCI (XIC)'s 51%. A note of caution is appropriate. Recent months have seen the debate intensify about Northern Ireland's status within the Brexit agreement. This threatens to complicate again the UK's trading relationship with the EU, which has contributed to renewed pressure on sterling. Geography is therefore likely to remain a noteworthy influence on the Fund's performance in coming months.

Balance sheets

The finances of small UK quoted companies are in remarkably good shape. This primarily reflects the efforts of management teams to conserve cash during the pandemic and, subsequently, the benefits of the recovery in demand. Playing a less significant role were government support schemes amid lockdowns and equity issuance. The upshot is that balance sheets for both the portfolio and for small companies as a whole are as strong as they have been since 2014. The significance of that year is that companies prioritised de-leveraging for several years after the shock of the global financial crisis.

The table below sets out the weight of the portfolio and the tracked universe in four leverage categories, based on the Manager's estimates for the end of 2022. The tracked universe is those companies in the NSCI (XIC) that the Manager follows closely and represents 98% by value of the NSCI (XIC).

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2022	43%	43%	9%	5%
Tracked universe: 2022	37%	32%	25%	6%

*Includes loss-makers and lenders

The table suggests that, by the end of 2022, around 43% of the portfolio will be exposed to companies with net cash on the balance sheet and that 86% will be exposed to companies with leverage ratios (net debt to EBITDA) below 2x. This unusually robust position has been influenced by the Manager's investment process. Through the vaccine recovery period, the stockmarket has been more focused on sales and profit growth and less interested in balance sheets. This has meant that balance sheet strength has been under-valued, which has allowed portfolio capital to rotate into companies that display it. Given the uncertain economic outlook, exposure to strong balance sheets feels appropriate, but in due course companies will have to articulate how they plan to utilise their resources. Organic investment to support the progress of the business should be the priority. Thereafter, acquisitions may make sense, if their risk-adjusted returns compare favourably with lower risk alternatives, such as returning surplus cash through a special dividend accompanied by a pro rata share consolidation. Strong balance sheets can reveal much about boards' ability to allocate capital, but their value is clear amid economic uncertainty such as today's.

Dividends

The present strength of balance sheets is helping the recovery in dividends paid by UK companies. Within the NSCI (XIC), dividends fell by 52% in real terms in 2020 before rebounding by 70% in 2021. The current year will see further progress, with dividends for the index as a whole likely to return close to pre-pandemic levels. The portfolio is benefiting from this favourable background as the table below demonstrates. It categorises the 75 holdings at 30 June 2022 by their most recent dividend action.

Nil payer	Cutter	Unchanged payer	Increased payer	Returner	Other*
21	6	8	29	10	1

* Other denotes companies paying dividends for the first time

As the dividend recovery plays out, the important categories are Nil Payers and Returners. Numerous companies passed dividends amid 2020's lockdowns. However, many of these Nil Payers have restarted dividend payments and are now classified as Returners. It is expected that the number of Nil Payers will decrease further over the next 18 months. In due course, the number of Returners should also subside as companies exit the recovery phase and their distributions to shareholders are determined by normal dividend policies. It is likely that the portfolio will always have some exposure to what might be termed structural Nil Payers. The Manager frequently identifies value opportunities among companies with less mature business models or among turnaround situations where temporarily depressed cash flows prevent the payment of a dividend.

Corporate Activity

Overseas interest in British assets declined in the wake of 2016's EU referendum. Sterling devalued, M&A activity within the NSCI (XIC) collapsed, and UK stockmarket valuations relative to the rest of the world fell to multi-decade lows. The clarity that should have emerged from the UK's exit agreement with the EU was quickly over-whelmed by the pandemic, but signs developed last year of a renewed appetite on the part of overseas companies and investors to take advantage of low UK valuations. M&A activity targeting constituents of the NSCI (XIC) rose sharply, with 19 companies acquired in 2021. Despite a reduction globally in the value of M&A in 2022, the uptrend has continued among small UK quoted companies: 12 members of the 2022 vintage of the NSCI (XIC) received formal bids in the first half, with approaches made for another 6. This would imply a large increase in activity for the full year, though the recent jitteriness among equities is also evident in debt markets and may complicate the funding of deals through the second half. The bidders during the first half were mostly other corporates, rather than private equity, and were predominantly overseas-based. Of the 12 companies receiving formal bids, the portfolio held 4 and so M&A provided a useful fillip to the Fund's performance in both absolute and relative terms.

For a value investor, M&A can often be the catalyst for valuation realisation and the vindication of an investment case. However, discipline is required, particularly in an equity market such as the UK's where valuations have been depressed for some time. The gaps between share prices and the true worth of many small companies are substantial, so the customary 30% or so premium for control offered by an acquirer may simply be inadequate. Conscious of this risk, the Manager encourages the boards of the investee companies to consult early in a potential bid process and are prepared to back boards in rejecting undervalued offers, even though this might mean forgoing a boost to short term performance.

Portfolio turnover

Over the six months to 30 June 2022, annualised portfolio turnover – defined as the lower of purchases and sales divided by average portfolio value – was 9%. This is relatively low in comparison with the Fund's long term average of 34%. There are two explanations. First, two of the holdings subject to

Manager's Report

M&A bids were sold relatively late in the period, which means that redeployment of the proceeds was still under way at the period end. Second, in the weak equity market conditions of the first half, upsides to the Manager's target prices tended to increase and so, all else equal, there was less incentive to reduce positions and circulate capital as part of what the Manager terms the "value roll".

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. At 30 June 2022, the portfolio's active share was 75% relative to the NSCI (XIC), which was well above the Manager's target ratio of at least 70%.

Valuations

Portfolio characteristics	**30 June 2022** The Fund	**30 June 2022** NSCI (XIC)	30 June 2021 The Fund	30 June 2021 NSCI (XIC)
Number of companies	**75**	**323**	77	324
Weighted average market capitalisation	**£518m**	**£795m**	£672m	£996m
Price earnings (PE) ratio (historical)	**7.7x**	**9.8x**	14.1x	17.4x
Dividend yield (historical)	**3.4%**	**3.1%**	1.6%	1.7%
Dividend cover	**3.9x**	**3.3x**	4.4x	3.4x

Over the first half, the historical valuations of small companies fell as share prices declined and as the recovery from the pandemic increased trailing profits. The PE of the NSCI (XIC) dropped from 16.6x at 31 December 2021 to the 9.8x shown in the table above. Meanwhile, the average PE of the Fund's portfolio fell from 13.2x to 7.7x over the same period. At 7.7x, the portfolio is more than one standard deviation below the long term average PE of 11.5x. This has happened on three previous occasions: in the early 1990s, amid the global financial crisis of 2008, and during the pandemic in 2020. Each episode was associated with a UK recession. Clearly, the threat of a demand downturn, spurred by high energy prices and tighter monetary policy, is preoccupying equity investors at present. The table below is intended to give a feel for how much the risk of a potential recession may already be reflected in valuations.

Price earnings ratio	31 year average	At 30 June 2022	At 30 June 2022 with earnings -30%
Portfolio	11.5x	7.7x	11.1x
NSCI (XIC)	13.4x	9.8x	14.0x

The historical PE at 30 June 2022 was 33% below the long term average of 11.5x. Leaving the peculiarities of the pandemic recession aside, other downturns have been associated with a reduction in small company earnings of around 30%. This would imply a forward PE multiple on what might be trough earnings of just over 11x, which would be below the long run average PE. Taking a medium term view, this might suggest that much of the risk is already baked into share prices, especially since during recovery phases the stockmarket is prepared to take share prices to high multiples – as high as 19x in the Fund's case – of trailing trough earnings. In practice, the stockmarket is rarely so poised as to take the medium term view. The reality of a recession, together with the accompanying profit warnings from companies, would likely elicit further near term weakness in share prices. However, it is clear that the stockmarket is doing its job – it is much closer to reflecting the risk of recession than are today's profit estimates for companies and, in a similar vein, it will start to recover well before an upturn in profits.

Manager’s Report

The following table shows forward valuations using EV/EBITA, which is the metric that the Manager uses most often when valuing companies. EV/EBITA is the ratio of enterprise value to earnings before interest, tax and amortisation. Ratios are set out for the portfolio, the tracked universe and certain subdivisions of the tracked universe. The profit estimates underlying the ratios are made by the Manager. An important influence on shaping estimates is engagement with management teams. Recent discussions suggest that many companies retain full order books and are not yet experiencing pressure on demand. These estimates do not therefore fully reflect a recession scenario.

EV/EBITA	2021	2022	2023	2024
The Fund (75 stocks)	7.3x	6.1x	5.7x	4.4x
Tracked Universe (235 stocks)	10.3x	8.8x	7.6x	6.2x
- 44 growth stocks	14.6x	14.1x	12.3x	9.1x
- 191 other stocks	9.6x	8.0x	6.9x	5.7x
- 76 stocks> £600m market cap	11.8x	10.4x	8.4x	6.5x
- 159 stocks< £600m market cap	8.4x	6.8x	6.6x	5.7x

A notable feature of the table is the Fund’s relatively low valuation, compared with those of both the tracked universe of small companies and the growth stocks, despite their greater share price declines in 2022. Furthermore, the smaller small companies, represented by stocks with market capitalisations below £600m, retain a sizeable discount to the larger small caps, despite superior share price performance this year. This valuation disparity explains why the Fund remains over-weight in smaller small companies. Finally, it is worth comparing the 2022 multiples on display in the table with the average EV/EBITA multiple of 15x paid in the 12 M&A transactions announced this year. The gap highlights the deep value that the UK stockmarket continues to offer.

Outlook and conclusion

From the top-down perspective, the challenges to equity valuations are clear. The war in Ukraine rumbles on and helps keep the oil price high. In turn, this adds to the inflationary pressure that emerged from the economic dislocation of the pandemic, and increases the cost of living, which threatens to tip economies into recession. Were that not enough, we must trust the judgement of central banks, which have been slow to respond thus far and now seem to be making up for lost time with their aggressive rhetoric. The gap between near double digit rates of inflation and low single digit government bond yields implies that the central banks are in control, but history would underline the risk of a less benign outcome. The chances of the “soft landing” appear slim.

For most of the first half of 2022, these challenges contrasted with composure on the part of companies. There were some disappointing updates, notably from consumer-oriented businesses towards the end of the period, but in general trading has been better than might be expected, given macro-economic concerns, and a year of profit progress still seems likely. The disparity between the top-down and the bottom-up viewpoints is likely one of timing. In the current “phoney war” phase, profit estimates across the stockmarket have not yet moved in a meaningful way – companies’ order books are generally full, the demand recovery from the pandemic still has momentum, and price pressures are being passed on. From the perspective of company boards, little else matters and there is no incentive to risk letting customers down.

However, the actual fullness of order books is moot. In times of inflation and compromised supply chains, a degree of over-ordering on the part of customers would not be surprising. Moreover, it is plausible that, in the initial stages of an inflationary shock that many still see as transitory, it has been relatively straightforward to pass through price increases. This may prove trickier on subsequent occasions, particularly when demand begins to ebb. Overall, therefore, it would seem prudent to expect that some of the top-down gloom catches up with companies through the second half of the year, perhaps indeed to precipitate a recession in 2023.

Clearly, the stockmarket has already judged that this is the likely outcome. However, the duration and depth of an economic downturn are far from certain. There are mitigating factors at play, including the scope for governments to offset the worst of the pressures on the cost of living. Additionally, private sector balance sheets have emerged from the pandemic in good shape and employment rates are relatively high, which should help the gap between the rates of wage growth and inflation close in 2023. A final consideration is that the current macro-economic challenges might ease. A resolution to the war in Ukraine would bring down energy costs. China's restrictive policies may be relaxed after November's Communist Party congress. Central banks' actions may not prove as hawkish as their words, particularly if these words themselves – so-called jawboning – succeed in cooling activity.

Nevertheless, a recession is what the stockmarket currently expects. It would be bad for the profits earned both by the Fund's portfolio of relatively cyclical value stocks and by companies in general. However, share prices will also be influenced by the valuation that investors ascribe to corporate profits. Valuations in turn will continue to be affected by inflation and monetary policy. Uncertainty about these factors should hinder the ability of growth stocks to return to the very high valuations that they enjoyed as recently as six months ago. Numerous growth stocks are also having to contend with pressure on their own profitability or, for the loss-makers, their forecast path to profitability. Whether provoked by general economic conditions or by company-specific issues, redundancies and cost cutting programmes are not a good look for glamorous growth companies aspiring to high valuation multiples. In the tussle between value and growth styles, this backdrop is suggestive of a better outlook for the value style or, at least, a more level playing field than has been the case in recent years. The Manager's consistent adherence to a value investment philosophy means that this could benefit the relative returns achieved by the Fund against the NSCI (XIC), as was the case in the first half of 2022.

However, over a reasonable time frame, the Fund's investment returns will be determined by underlying progress of its diversified portfolio of 75 investee companies. In this regard, there is reason for optimism. The holdings have proved themselves through a series of challenges including the global financial crisis, Brexit and the pandemic. Their profits are resilient and grow from economic cycle to economic cycle. Their balance sheets are notably strong at present, which affords their boards optionality around the deployment of capital. And, significantly, their share prices already discount at least some of the risk of an economic slowdown. As the previous section on valuations noted, historical PE ratios and forward EBITA ratios are at unusually low levels. Coming at it from a different perspective, companies whose share prices at 30 June 2022 were lower than at 31 December 2019 account for over 63% by weight of the portfolio. This suggests that there is still significant potential for share price recovery as economic activity returns to pre-pandemic levels.

Low valuations, depressed share prices and a diversified portfolio of robust and well managed businesses are solid foundations for good future investment returns. The optimism inherent in that statement clashes with today's macro-economic and geopolitical gloom. It is unlikely that the stockmarket will move on from these concerns until their impact is better known, but the medium and long term outlook for the Fund's portfolio, differentiated by its consistent value philosophy and investment process, remains bright.

S G Ford, *Director*
P R Shaw, *Director*
Aberforth Unit Trust Managers Limited

29 July 2022

Long Term Investment Record

Historical Returns

Periods to 30 June 2022	Annualised Returns (%) The Fund[1]	Annualised Returns (%) Index	Cumulative Returns (%) The Fund[1]	Cumulative Returns (%) Index
2 years from 30 June 2020	19.1	11.4	41.9	24.0
3 years from 30 June 2019	2.6	1.8	8.1	5.4
4 years from 30 June 2018	-0.7	-0.1	-2.8	-0.2
5 years from 30 June 2017	1.3	1.4	6.5	7.4
6 years from 30 June 2016	6.2	5.6	43.1	38.7
7 years from 30 June 2015	2.9	3.8	22.4	29.5
8 years from 30 June 2014	4.2	4.6	39.0	43.0
9 years from 30 June 2013	6.8	6.2	81.4	72.0
10 years from 30 June 2012	9.2	8.5	141.8	126.6
15 years from 30 June 2007	5.5	6.2	124.7	146.1
Since inception on 20 March 1991	11.2	9.2	2,661.7	1,453.9

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 2022

Group 1: Units purchased prior to 1 January 2022

Group 2: Units purchased on or after 1 January 2022

Interim Distribution	Net Income June 2022	Equalisation† June 2022	Distribution/ Accumulation June 2022	Distribution/ Accumulation June 2021
Income units (payable 31 August 2022)				
Group 1	362.3341p	–	**362.3341p**	220.9820p
Group 2	261.3836p	100.9505p	**362.3341p**	220.9820p
Accumulation units				
Group 1	518.7675p	–	**518.7675p**	310.0265p
Group 2	374.2328p	144.5347p	**518.7675p**	310.0265p

† 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 2022

Holding	Security	30 June 2022 Value £'000	30 June 2022 % of Total Net Assets	30 June 2022 % of the Index[1]	31 December 2021 % of Total Net Assets	31 December 2021 % of the Index[1]
Software and Computer Services		**3,235**	**2.5**	**5.2**	2.0	6.4
910,388	Micro Focus	2,546	2.0			
396,100	Moneysupermarket.com	689	0.5			
Technology Hardware and Equipment		**1,767**	**1.3**	**1.6**	1.7	1.8
1,007,177	TT Electronics	1,767	1.3			
Telecommunications Equipment		**–**	**–**	**0.1**	–	0.2
Telecommunications Service Providers		**29**	**–**	**1.3**	–	0.8
34,837	Zegona Communications	29	–			
Health Care Providers		**1,995**	**1.5**	**0.9**	1.7	0.8
1,356,919	Medica Group	1,995	1.5			
Medical Equipment and Services		**–**	**–**	**0.3**	–	0.4
Pharmaceuticals and Biotechnology		**–**	**–**	**0.8**	–	1.4
Banks		**–**	**–**	**1.7**	–	1.6
Finance and Credit Services		**4,126**	**3.1**	**2.1**	4.1	2.2
2,614,851	International Personal Finance	2,000	1.5			
1,065,572	Provident Financial	2,126	1.6			
Investment Banking and Brokerage Services		**9,491**	**7.2**	**12.1**	8.9	11.9
278,557	City of London Investment Group	1,159	0.9			
883,305	CMC Markets	2,420	1.8			
641,700	XPS Pensions Group	831	0.6			
173,423	Rathbones Group	3,364	2.6			
1,159,200	Jupiter Fund Management	1,717	1.3			
Life Insurance		**3,177**	**2.4**	**1.0**	2.2	0.8
1,358,327	Hansard Global	557	0.4			
3,672,415	Just Group	2,620	2.0			
Non-life Insurance		**3,026**	**2.3**	**1.7**	1.7	1.6
467,687	Conduit Holding	1,574	1.2			
706,750	Sabre Insurance Group	1,452	1.1			
Real Estate Investment and Services		**1,550**	**1.2**	**2.8**	0.6	2.5
2,783,986	Foxtons	905	0.7			
172,300	Helical	645	0.5			
Real Estate Investment Trusts		**698**	**0.5**	**4.3**	1.5	4.4
125,589	Workspace Group	698	0.5			
Automobiles and Parts		**2,108**	**1.6**	**1.1**	2.1	1.8
1,399,951	TI Fluid Systems	2,108	1.6			

Portfolio Statement

As at 30 June 2022

Holding	Security	Value £'000	30 June 2022 % of Total Net Assets	30 June 2022 % of the Index[1]	31 December 2021 % of Total Net Assets	31 December 2021 % of the Index[1]
Consumer Services		**1,281**	**1.0**	**0.3**	1.1	0.3
1,164,547	RM	1,281	1.0			
Household Goods and Home Construction		**3,510**	**2.7**	**1.3**	3.2	1.7
838,230	Crest Nicholson	2,040	1.6			
498,247	Headlam Group	1,470	1.1			
Leisure Goods		**–**	**–**	**0.2**	–	0.1
Personal Goods		**–**	**–**	**0.2**	–	0.3
Media		**8,658**	**6.6**	**1.6**	8.1	2.4
1,882,450	Centaur Media	809	0.6			
1,314,301	Hyve Group	961	0.7			
2,407,362	Reach	2,415	1.8			
284,436	STV Group	848	0.7			
1,187,829	Wilmington Group	2,732	2.1			
4,963,529	National World	893	0.7			
Retailers		**5,973**	**4.5**	**3.4**	4.3	4.3
2,512,699	Card Factory	1,160	0.9			
1,212,013	DFS Furniture	1,891	1.4			
2,743,620	Lookers	2,044	1.5			
2,252,426	Topps Tiles	878	0.7			
Travel and Leisure		**17,582**	**13.4**	**8.8**	10.3	8.9
4,535,618	FirstGroup	5,778	4.4			
272,844	Go–Ahead Group	4,305	3.3			
1,732,950	Hostelworld Group	1,612	1.2			
1,153,073	Mitchells & Butlers	2,123	1.6			
2,238,299	Rank Group	1,916	1.5			
3,587,972	Marstons	1,848	1.4			
Beverages		**1,845**	**1.4**	**1.1**	1.4	1.0
1,002,666	C&C Group	1,845	1.4			
Food Producers		**2,502**	**1.9**	**3.1**	2.1	2.7
2,375,969	Bakkavor Group	2,214	1.7			
228,365	R.E.A. Holdings	288	0.2			
Personal Care, Drug and Grocery Stores		**180**	**0.1**	**0.7**	0.6	0.7
1,158,489	McBride	180	0.1			
Construction and Materials		**6,407**	**4.9**	**6.2**	6.7	6.5
1,228,258	Eurocell	2,211	1.7			
194,094	Keller	1,405	1.1			
757,662	Galliford Try Holdings	1,288	1.0			
417,341	Ricardo	1,503	1.1			

Portfolio Statement

As at 30 June 2022

Holding	Security	30 June 2022 Value £'000	30 June 2022 % of Total Net Assets	30 June 2022 % of the Index[1]	31 December 2021 % of Total Net Assets	31 December 2021 % of the Index[1]
Aerospace and Defence		**2,530**	**1.9**	**4.5**	2.0	3.2
2,184,820	Senior	2,530	1.9			
Electronic and Electrical Equipment		**4,758**	**3.6**	**2.5**	3.6	2.9
462,861	Dialight	1,389	1.0			
1,227,397	Morgan Advanced Materials	3,369	2.6			
General Industrials		**–**	**–**	**1.1**	–	1.0
Industrial Engineering		**8,238**	**6.3**	**1.4**	5.9	1.4
476,977	Castings	1,479	1.1			
628,168	Vesuvius	1,910	1.5			
668,800	XAAR	1,217	0.9			
279,391	Videndum	3,632	2.8			
Industrial Support Services		**11,838**	**9.0**	**7.7**	10.2	7.9
1,629,991	De La Rue	1,268	1.0			
129,040	Paypoint	725	0.6			
573,494	Robert Walters	2,695	2.0			
3,206,231	RPS Group	3,302	2.5			
7,561,341	SIG	2,238	1.7			
2,788,971	Smiths News	937	0.7			
1,551,424	Speedy Hire	673	0.5			
Industrial Transportation		**8,292**	**6.3**	**3.2**	5.2	2.7
1,072,119	Redde Northgate	3,608	2.7			
1,004,593	Wincanton	3,451	2.6			
62,700	VP	520	0.4			
245,000	Fisher (James) & Sons	713	0.6			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**5,671**	**4.3**	**1.8**	3.6	1.9
1,505,528	Anglo Pacific Group	2,180	1.6			
422,818	Kenmare Resources	1,818	1.4			
2,006,110	Capital	1,673	1.3			
Precious Metals and Mining		**3,267**	**2.5**	**2.0**	2.3	2.1
1,656,093	Gem Diamonds	679	0.5			
3,296,258	Centamin	2,588	2.0			
Chemicals		**–**	**–**	**1.7**	–	2.0

Portfolio Statement

As at 30 June 2022

Holding	Security	Value £'000	30 June 2022 % of Total Net Assets	30 June 2022 % of the Index[1]	31 December 2021 % of Total Net Assets	31 December 2021 % of the Index[1]
Oil, Gas and Coal		**7,364**	**5.6**	**7.0**	3.1	5.0
14,564,615	EnQuest	3,408	2.6			
538,213	Genel Energy	756	0.6			
3,177,477	Pharos Energy	696	0.5			
331,380	Petrofac	371	0.3			
194,100	Energean	2,133	1.6			
Alternative Energy		**–**	**–**	**0.2**	–	0.3
Electricity		**–**	**–**	**1.5**	–	0.9
Waste and Disposal Services		**–**	**–**	**1.4**	–	1.1
Investments as shown in balance sheet		**131,098**	**99.6**	**100.0**	100.2	100.0
Net Current Assets/(Liabilities)		**588**	**0.4**	**–**	(0.2)	–
Total Net Assets		**131,686**	**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 2022.

Additional Portfolio Information

For the six months ended	30 June 2022 £'000	30 June 2021 £'000
Total Purchases	**7,998**	85,510
Total Sales	**62,560**	23,979

Statement of Total Return

For the six months ended 30 June 2022 *(unaudited)*

	30 June 2022		30 June 2021	
	£'000	**£'000**	£'000	£'000
Income				
Net capital (losses)/gains		**(31,067)**		39,937
Revenue	**3,291**		2,277	
Expenses	**(727)**		(665)	
Interest payable and similar charges	**(13)**		(3)	
Net revenue before taxation	**2,551**		1,609	
Taxation	**–**		–	
Net revenue after taxation		**2,551**		1,609
Total return before distributions		**(28,516)**		41,546
Distributions		**(2,980)**		(1,998)
Change in net assets attributable to unitholders from investment activities		**(31,496)**		39,548

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2022 *(unaudited)*

	30 June 2022		30 June 2021	
	£'000	**£'000**	£'000	£'000
Opening net assets attributable to unitholders		**216,285**		122,822
Amounts receivable on issue of units	**4,505**		86,382	
Amounts payable on cancellation of units	**(59,325)**		(10,410)	
		(54,820)		75,972
Change in net assets attributable to unitholders from investment activities		**(31,496)**		39,548
Retained distribution on accumulation units		**1,717**		1,531
Closing net assets attributable to unitholders		**131,686**		239,873

Balance Sheet

As at 30 June 2022 *(unaudited)*

	30 June 2022 £'000	31 December 2021 £'000
Assets		
Fixed Assets:		
Investments	**131,098**	216,726
Current Assets:		
Debtors	**347**	343
Cash and bank balances	**1,359**	158
Total current assets	**1,706**	501
Total assets	**132,804**	217,227
Liabilities		
Creditors:		
Other creditors	**(209)**	(172)
Distribution payable on income units	**(909)**	(770)
Total liabilities	**(1,118)**	(942)
Net assets attributable to unitholders	**131,686**	216,285

Cash Flow Statement

For the six months ended 30 June 2022 *(unaudited)*

	30 June 2022 £'000	30 June 2021 £'000
Net cash inflow from operating activities	**2,501**	1,526
Investing activities		
Purchases of investments	**(7,940)**	(85,288)
Sales of investments	**62,588**	23,980
Cash inflow/(outflow) from investing activities	**54,648**	(61,308)
Financing activities		
Amounts received from issue of units	**4,495**	67,825
Amounts paid on cancellation of units	**(59,660)**	(9,681)
Distributions paid	**(770)**	(382)
Interest paid	**(13)**	(3)
Cash (outflow)/inflow from financing activities	**(55,948)**	57,759
Increase/(decrease) in cash and cash equivalents	**1,201**	(2,023)
Cash and cash equivalents at the start of the period	**158**	1,611
Cash and cash equivalents at the end of the period	**1,359**	(412)

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 2021 and are described in those financial statements. The investments of the Fund have been valued at their fair value, which is represented by the bid price at the close of business on the balance sheet date. Suspended securities are initially valued at the suspension price but are subject to constant review by the Fair Value Committee.

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 2022 £'000	June 2021 £'000
Interim distribution	**2,625**	2,367
Income deducted on cancellation of units	**364**	62
Income received on creation of units	**(9)**	(431)
Distributions	**2,980**	1,998

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

	June 2022 £'000	June 2021 £'000
Net revenue after taxation	**2,551**	1,609
Add: Manager's periodic fee taken to capital	**425**	384
Add: Safe custody fee taken to capital	**4**	5
Distributions	**2,980**	1,998

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 synthetic risk and reward indicator of the 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.

All assets and liabilities are denominated in sterling. Therefore no direct currency risk arises.

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 (subject to any lender agreement). 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 typically 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

Registrar

Link Fund Administrators Limited*
PO Box 388
Unit 1, Roundhouse Road
Darlington
DL1 9UE
Telephone: 0345 608 0940

Trustee & Depositary

NatWest Trustee & Depositary Services Limited*
House A, Floor 0
Gogarburn
175 Glasgow Road
Edinburgh EH12 1HQ

Custodian

The Northern Trust Company*
50 Bank Street
Canary Wharf
London E14 5NT

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

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 £1.8 billion (as at 30 June 2022). The Fund's portfolio is managed on a collegiate basis by seven investment managers. Aberforth is wholly owned by six partners – five investment managers and an Operations Partner.

J. Thomson Colour Printers 205487