Aberforth UK Small Companies Fund

Half Yearly Report

30 June 2023

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, with the focus on rolling five year periods.

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 2023 (the date of the last annual index rebalancing), the index included 350 companies, with an aggregate market capitalisation of £140 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 around 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 Manager.

The Numis Smaller Companies Index (excluding Investment Companies) 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. If the index is not available, the Manager will use another index which it considers is comparable to the NSCI (XIC).

In order to facilitate the achievement of 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		3 July 2023[1]	3 January 2023[1]
Accumulation Units	Issue Price	£288.99	£288.62
	Cancellation Price	£283.89	£283.55
Income Units	Issue Price	£190.85	£194.28
	Cancellation Price	£187.48	£190.87
	Yield	3.7%	3.6%
	Dealing spread	1.8%	1.8%

Charges	30 June 2023	31 December 2022
Initial charge	Nil	Nil
Ongoing charges[2]	0.81%	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 2023	0.6	1.4

Net Asset Value (Post Distribution)

	30 June 2023	31 December 2022
Total Net Assets	£135.1m	£141.9m
Accumulation units in issue	306,065.981	323,865.267
Income units in issue	259,649.656	268,428.553
NAV per unit – accumulation	£282.98	£281.25
NAV per unit – income	£186.88	£189.32

Historical Returns

	Discrete Annual Returns (%)	
Period	The Fund[1]	Index[2]
1 year to 30 June 2023	8.0	4.4
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

	Cumulative Returns (%)	
Periods to 30 June 2023	The Fund[1]	Index[2]
3 years from 30 June 2020	53.3	29.5
5 years from 30 June 2018	5.0	4.2
10 years from 30 June 2013	95.9	79.6
15 years from 30 June 2008	226.8	241.8
Since inception on 20 March 1991	2,883.3	1,522.8

	Annualised Returns (%)	
Periods to 30 June 2023	The Fund[1]	Index[2]
3 years from 30 June 2020	15.3	9.0
5 years from 30 June 2018	1.0	0.8
10 years from 30 June 2013	7.0	6.0
15 years from 30 June 2008	8.2	8.5
Since inception on 20 March 1991	11.1	9.0

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

2 Represents capital appreciation on the 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

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 include a definition of ‘active share’ in the list of defined terms and remove the definition of ‘long term’ previously included;
2. to amend the wording of the investment objective, adding ‘with the focus on rolling five year periods’;
3. to update wording in the investment policy regarding the number of stocks, replacing usually have holdings in ‘over 80’ with ‘around 80’ small UK quoted companies;
4. to modify wording in the investment strategy to remove ‘in order to improve the odds of achieving…’ and replace with ‘to facilitate the achievement of’ the investment objective; and
5. to move from the investment objective to the investment strategy a description noting an alternative index would be used if NSCI (XIC) was unavailable.
6. to update historical performance tables and details relating to the rebalancing of NSCI (XIC) in line with its annual review.

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 Fund’s total return in the six months to 30 June 2023 was 0.6%. Over the same period, the NSCI (XIC) – the Fund’s benchmark – rose by 1.4%. Meanwhile, the FTSE All-Share, which is representative of larger UK companies, was up by 2.6%.

After the poor returns of 2022, equity markets around the world have begun 2023 more positively. Several factors have contributed to the improved mood. The initial shock of Russia’s war in Ukraine has subsided, while some of the worst fears about energy supplies and prices have so far proved misplaced. The reopening of China’s economy, following strict pandemic lockdowns, should contribute to global economic activity and promises to ease pressure on supply chains. Related to these points, inflationary forces appear to be abating: in most major economies, the rate of change in consumer prices is declining, though it remains elevated in comparison with the period before the pandemic.

The response to inflation has been large and rapid increases in interest rates over the past 18 months. These have complicated economic activity and asset valuations. They have also precipitated financial accidents, such as the UK’s brief LDI pension crisis in the autumn followed by the spring’s regional bank failures in the US. The markets' calculation is that subsiding inflation will soon allow the Federal Reserve to signal that the all-important US Fed Funds rate has peaked. In stockmarket terms, the main beneficiaries so far of this expectation of falling interest rates have been the large technology companies in the US: their valuations thrived in the low inflation and low interest rate environment preceding the pandemic and they are perceived as being best placed to exploit the emerging fascination with artificial intelligence.

The likelihood of the UK's monetary policy following suit seems more distant. Consumer price inflation is proving more persistent, forcing the Bank of England to raise interest rates to 5% and bringing recession closer as higher mortgage rates bite. Reawakened memories of a British problem with inflation have contributed to a pervasive and thorough pessimism about the UK's prospects. Domestic politics of recent years have not helped. A succession of prime ministers has struggled with the additional challenges that the country's departure from the EU has presented to economic activity. Ideology has too often won out over pragmatism, culminating only nine months ago in Liz Truss's extraordinary and short-lived premiership.

These concerns have affected investment in the UK. Open-ended equity funds have experienced persistent outflows for several years and institutional asset allocation decisions appear influenced more by what has been rather than what will be. Valuations attributed to UK assets languish. Against the dollar and euro, sterling remains 15% or so below its levels before the EU referendum. Gilt yields are on a wide premium to government bond yields in the US and Europe. And the UK's stockmarket valuations are towards their lowest in over 30 years when compared with global equity market averages.

Equity valuations are examined in greater detail later in this report, but the important point is that they contrast sharply with the recent performance of the underlying businesses. The majority of small UK quoted companies and of the portfolio's holdings increased profits and dividends in 2022, notwithstanding the slew of macro-economic challenges. Cost inflation was passed on successfully, which confounds a recurring concern that small companies lack pricing power. Balance sheets were strengthened and are as strong as they have been in the Fund's 32 year history. The underlying progress and resilience have persisted through the first part of 2023.

Analysis of performance

The table below sets out the contribution of various factors to the Fund's relative return in the six months to 30 June 2023. The following paragraphs add context and explanation, mainly to the first row in the table, which quantifies the performance of the portfolio and is usually the most meaningful effect on the Fund's overall returns.

For the six months ended 30 June 2023	Basis points
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 3 basis points)	**(140)**
Movement in mid to bid price spread	53
Cash/other	46
Management fee	(37)
Other expenses	(3)
Total attribution based on bid prices	**(81)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the Fund and the Benchmark Index (i.e. Fund = 0.61%; Benchmark Index = 1.42%; difference is -0.81% being -81 basis points).

Manager's Report

Style & size

The Manager's value investment style is often a significant influence on the Fund's returns. Amid the interest rate rises since the pandemic, the style boosted performance in 2021 and 2022. For the six months to 30 June 2023, data from the London Business School (LBS) indicate that there was little to choose between the total returns of the NSCI (XIC)'s value stocks and its growth stocks. This is somewhat at odds with the very strong share prices of the US technology leviathans known for their growth characteristics. It seems likely that LBS's methodology did not capture broader style effects over what is a relatively short period.

Turning to size, the portfolio retains its high exposure to the "smaller small" companies within the NSCI (XIC). This is because the valuations of these "smaller small" companies remain more attractive than those of the index's larger companies, which is set out later in this report. The portfolio's size positioning often affects its investment returns, but, much like the value style, was not an important factor in the six months to 30 June 2023.

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the Tracked Universe at 30 June 2023, which is the subset of the NSCI (XIC) that the Manager follows closely and which represents 98% by value of the total index.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2023	40%	45%	10%	4%
Tracked Universe: 2023	34%	36%	24%	7%

*Includes loss-makers and lenders

The portfolio's balance sheet profile compares well with that of the index, having a relatively high exposure to companies with net cash and a relatively low exposure to those with higher leverage. This profile has emerged from the Manager's bottom-up stock selection – the stockmarket is not giving small companies credit in their valuations for balance sheet strength.

The other important point to make about small companies' balance sheets is that they have not been so strong since around 2014. Companies had entered the 2009 recession with too much leverage and spent the next five years repairing their balance sheets. Today, in contrast, companies would be entering a slowdown or recession with healthy balance sheets. Clearly, there are exceptions, but the broad-based balance sheet resilience is an under-appreciated feature of small companies at present.

Income

The portfolio's income performance has remained good, with dividend declarations by investee companies so far in 2023 predominantly reflecting the growth of profits in 2022. The table below splits the 78 holdings into five categories, which are determined by each company's most recent dividend action.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returner
14	9	11	40	4

Manager's Report

More than half the holdings increased their most recent dividends. A further boost to the income performance comes from the New / Returners category. Its constituents are companies that are paying dividends for the first time or that have resumed payments, having paid nothing through the pandemic. It is anticipated that four of the current Nil Payers will move into the New / Returner category over the next 18 months. The Fund also benefited from four special dividends announced by investee companies in the six month period.

The income credentials of the portfolio at 30 June 2023 compare well with averages over the Fund's 32 years. The historical portfolio yield was 4.2%, which is 29% higher than the average over the Fund's history. Meanwhile, the average dividend cover of the 78 holdings was 3.4x, which is 21% higher than the long term average. The Manager continues to expect income growth from the portfolio in 2023. An economic downturn would threaten the forecasts, but its impact should be mitigated by the portfolio's high dividend cover and strong balance sheets.

Corporate Activity

There was a flurry of M&A activity in the first part of 2022, but this petered out as interest rates and the cost of corporate debt rose through the second half of the year. Entering 2023, the Manager believed that the volatility of debt markets would continue to discourage takeovers. In the event, however, six new bids were announced for constituents of the NSCI (XIC) in the six months to 30 June 2023, with the Fund owning four of them. The average EV/EBITA of the six at their deal prices was 16.2x, while the average premium to the pre-announcement share prices was 67%.

More surprising than the rebound in M&A has been the nature of the bidders: in five of the six deals, the buyers have been private equity firms. The surprise reflects the fact that debt is the lifeblood of private equity and debt markets have not yet settled down amid on-going tightening of monetary policy. However, it would appear that the very low valuations of small UK quoted companies mean that private equity does not need debt at the outset to make their M&A models work. This is a stark illustration of the opportunity currently embedded in the valuations of small UK quoted companies.

The Fund may benefit from further takeover premiums for its holdings as long as stockmarket valuations remain at their present low levels. However, in these circumstances, it remains important to guard against opportunism on the part of the buyers. Large takeover premiums may still not bring valuations to appropriate levels and the Manager is prepared to vote against deals where this is the case. The best M&A experiences are often those in which boards of directors consult shareholders well in advance. Such consultation reduces the risk of embarrassment, should shareholders find proposed terms unacceptable, and can lead to better outcomes, which may be that the company in question retains its independence. The Manager makes it clear to the boards of the investee companies that they should be consulted in such situations and that they are willing to be insiders for extended periods.

Active share

Active share is a measure of how different a portfolio is from an index. The ratio is calculated as half of the sum of the absolute differences between each stock's weighting in the index and its weighting in the portfolio. The higher a portfolio's active share, the higher its chance of performing differently from the index, for better or worse. The Manager targets an active share ratio of at least 70%. At 30 June 2023, it stood at 76%.

Manager's Report

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 2023, turnover was 29%. This is below the average over the Fund's 32 years and reflects the low stockmarket valuations of the portfolio's holdings – discounts to the Manager's target prices have not generally narrowed, so the opportunity for "value roll" within the portfolio has been limited. "Value roll" is the term that the Manager uses to describe the recycling of capital from companies with less upside to target prices into those with greater upside.

Some of the turnover in the period reflected investment in companies that entered the NSCI (XIC) on 1 January 2023. As described in the 2022 Annual Report, this was the largest ever rebalancing of the index. The 29 companies that were injected into the index offered the Manager additional opportunity: the portfolio owned four of these so-called "fallen angels" at 30 June 2023.

Valuations

The table below sets out the forward valuations of the portfolio, the Tracked Universe and certain subdivisions of the Tracked Universe. The metric displayed is enterprise value to earnings before interest, tax and amortisation (EV/EBITA), which the Manager uses most often in valuing companies. The forecasts underlying the ratios are the Manager's. The bullet points following the table summarise its main messages.

EV/EBITA	2022	2023	2024
The Fund	6.3x	7.1x	5.8x
Tracked Universe (234 stocks)	9.4x	9.6x	8.7x
- 40 growth stocks	14.5x	13.6x	13.7x
- 194 other stocks	8.7x	9.0x	7.9x
- 78 stocks> £600m market cap	11.0x	10.8x	10.2x
- 156 stocks< £600m market cap	7.4x	7.9x	6.6x

- The average EV/EBITA multiples of the portfolio are much lower than those of the Tracked Universe. This has been a consistent feature over the Fund's history and is consistent with the Manager's value investment style.

- The portfolio's 7.1x EV/EBITA ratio for 2023 is considerably lower than the average multiple of 16.2x at which this year's M&A deals in the NSCI (XIC) have been struck.

- The profit forecasts underlying the EV/EBITA multiples for 2023 and 2024 are subject to uncertainty about the timing and intensity of an economic downturn. It can be inferred from the progression of the multiple across the three years that the Manager presently expects a slowdown in 2023, followed by a recovery in 2024.

- The growth stocks within the Tracked Universe are on much higher multiples than both the portfolio and the rest of the Tracked Universe.

- The "smaller small" companies within the index – here illustrated by those with market capitalisations less than £600m – are on vast valuation discounts to their larger peers. The Manager identifies no reason for this beyond a general concern about liquidity and so the portfolio has a relatively high exposure to these "smaller small" companies.

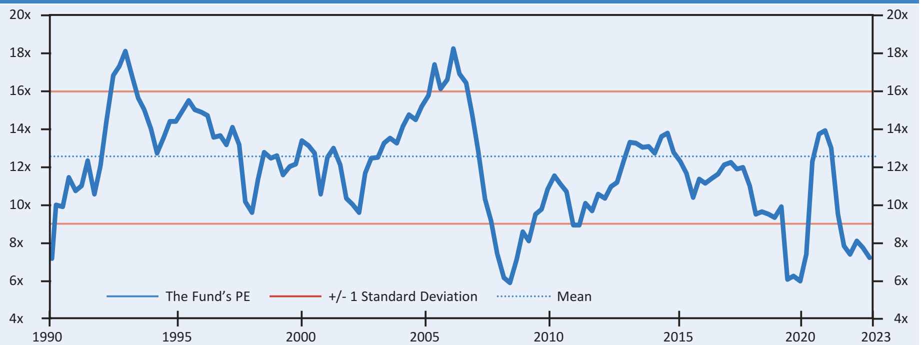
Manager's Report

The table below sets out some of the main characteristics of the Fund's diversified portfolio of smaller companies. The point above about exposure to "smaller small" companies is reinforced in the weighted average market capitalisation row.

Portfolio characteristics	30 June 2023 The Fund	30 June 2023 NSCI (XIC)	30 June 2022 The Fund	30 June 2022 NSCI (XIC)
Number of companies	**78**	**339**	75	323
Weighted average market capitalisation	**£525m**	**£945m**	£518m	£795m
Price earnings (PE) ratio (historical)	**7.1x**	**10.8x**	7.7x	9.8x
Dividend yield (historical)	**4.2%**	**3.5%**	3.4%	3.1%
Dividend cover	**3.4x**	**2.6x**	3.9x	3.3x

Perhaps the most notable feature of the table is average historical price earnings ratio (PE) of the Fund's portfolio. It has fallen from 8.1x to 7.1x over the first six months of 2023 to sit at a 34% discount to the NSCI (XIC)'s 10.8x. Given the Fund's positive total return in this period, it can be inferred that the reduction in the PE was due to growth in earnings per share of the portfolio's holdings. As the following chart makes clear, a multiple of 7.1x is very low in the context of the Fund's history.

The Fund's historical PE ratio



Source: Aberforth Partners

History indicates that the portfolio's historical PE ratio falls this low when recession threatens: the earlier low-points in the chart were the early 1990s recession, the global financial crisis and the pandemic. It is therefore possible that much of the risk of an economic downturn is already embedded within share prices. Taking this argument further, small company profits typically fall by around 30% in a recession. A repeat of this would take the historical PE ratio of 7.1x to a forward ratio of 10.1x. This multiple of what can be thought of as trough profits would still be well below the long term average PE multiple of 12.1x.

Manager's Report

An influence on the portfolio's low valuation at present is its exposure to UK equities. These are out of favour with global investors for reasons previously set out in this report. Data from Panmure Gordon help quantify the scale of this disenchantment. The PE of the UK stockmarket is presently 27% lower than the PE of global equities, which is much more than the average discount of 15% over the Fund's 32 year history. Comparing the Fund's portfolio directly with global equities, the current PE discount is 52%, whereas the long term average has been 24%. The valuation elastic is therefore extremely stretched at present, with the Fund on a triple discount by virtue of its value investment style, its exposure to small companies and its Britishness. This appears incongruous given the resilience of the portfolio's investee companies and the fact 45% of their revenues on average are generated outside the UK. An easing of the tension in valuations, as one or more of these relationships returns towards the normal levels of the past 32 years, should bode well for the Fund's returns.

Outlook and conclusion

The medium and long term outlook for the Fund is bright. History is rather convincing: when valuations have reached today's levels in the past, absolute and relative total returns over the next five years have been strong.

Ironically, the greater uncertainty pertains to the nearer term. Stockmarkets' immediate obsession is US interest rates – each data release is scrutinised exhaustively for a hint of what the Federal Reserve might do next. The positive start to 2023 for equities indicates an expectation that US interest rates are close to their peak. However, there are important caveats. The speed and extent of the interest rate increases threaten further accidents – the financial world has grown used to more than a decade of almost costless money. Moreover, it is not clear that inflation will return conveniently and reliably to its pre-pandemic levels – the rate of increase will subside, but underlying inflationary pressures from labour markets and from forces such as de-globalisation linger.

While equity investors are presently enthused by the outlook for US monetary policy, they remain nervous about prospects for UK politics and economics over the next couple of years. On the political front, there will be a UK General Election within the next eighteen months. This will come at a time when the influence of the more extreme elements of both main political parties appears to be waning. However, a change of government looks likely, which brings incremental risk.

Meanwhile, the UK economy is blighted by more persistent inflation than are its peers. This threatens a more aggressive monetary response by the Bank of England and potentially a more severe downturn in economic activity. Recessions are unpleasant. They increase hardship faced by households and businesses. They reduce incomes and profits. But they are also inevitable and even necessary in order to address the effects of past policy mistakes and of unforeseeable developments such as the pandemic.

The risks are undeniable. But so is the attractiveness of the valuations attributed to the portfolio's holdings by the stockmarket, in all its worrying about the UK and about the liquidity and cyclicality of small companies. Importantly, the stress-testing of today's portfolio valuations described above suggests that much of the risk of a recession may already be embedded in share prices.

While it may take time for equity investors to re-embrace the UK stockmarket and its smaller companies, private equity and overseas companies are showing no such reluctance. The on-going wave of takeover activity is exposing the absurdity of present valuations. The portfolio has benefited from this, but it is often a bittersweet experience – the boost to investment performance from securing a takeover premium must be weighed against the likelihood that a better outcome would have been possible were so many not quick to dismiss the UK.

Manager’s Report

If patience is required to enjoy a pervasive revaluation of UK equities, it is reassuring that the Fund’s investee companies are in good shape. Balance sheets are unusually robust at present, which should ease the pain of an economic downturn by reducing the need for equity issues and by supporting dividends. The resilience of the portfolio’s holdings, which has been amply demonstrated through the various events of recent years, gives confidence in the opportunity presented by today’s extreme valuations.

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

31 July 2023

Long Term Investment Record

Historical Returns

Periods to 30 June 2023	Annualised Returns (%) The Fund[1]	Index	Cumulative Returns (%) The Fund[1]	Index
2 years from 30 June 2021	-5.3	-7.0	-10.3	-13.5
3 years from 30 June 2020	15.3	9.0	53.3	29.5
4 years from 30 June 2019	4.0	2.4	16.8	10.1
5 years from 30 June 2018	1.0	0.8	5.0	4.2
6 years from 30 June 2017	2.4	1.9	15.0	12.2
7 years from 30 June 2016	6.4	5.4	54.6	44.8
8 years from 30 June 2015	3.6	3.9	32.2	35.3
9 years from 30 June 2014	4.6	4.6	50.1	49.3
10 years from 30 June 2013	7.0	6.0	95.9	79.6
15 years from 30 June 2008	8.2	8.5	226.8	241.8
Since inception on 20 March 1991	11.1	9.0	2,883.3	1,522.8

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

Past performance is not a guide to future performance.

Distribution Table

For the six months to 30 June 2023

Group 1: Units purchased prior to 1 January 2023

Group 2: Units purchased on or after 1 January 2023

Interim Distribution	Net Income June 2023	Equalisation† June 2023	Distribution/ Accumulation June 2023	Distribution/ Accumulation June 2022
Income units (payable 31 August 2023)				
Group 1	365.7168p	–	**365.7168p**	362.3341p
Group 2	245.6728p	120.0440p	**365.7168p**	362.3341p
Accumulation units				
Group 1	543.2983p	–	**543.2983p**	518.7675p
Group 2	364.9644p	178.3339p	**543.2983p**	518.7675p

† 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 2023

Holding	Security	30 June 2023 Value £'000	30 June 2023 % of Total Net Assets	30 June 2023 % of the Index[1]	31 December 2022 % of Total Net Assets	31 December 2022 % of the Index
Software and Computer Services		**3,119**	**2.3**	**6.9**	1.0	6.2
512,868	Moneysupermarket.com	1,388	1.0			
1,790,400	NCC Group	1,731	1.3			
Technology Hardware and Equipment		**1,696**	**1.3**	**1.0**	1.2	0.8
1,086,909	TT Electronics	1,696	1.3			
Technology Equipment		**–**	**–**	**0.8**	–	1.2
Telecommunications Service Providers		**16**	**0.0**	**0.7**	0.0	0.8
34,837	Zegona Communications	16	0.0			
Health Care Providers		**–**	**–**	**0.8**	1.5	0.8
Medical Equipment and Services		**–**	**–**	**0.2**	–	0.2
Pharmaceuticals and Biotechnology		**–**	**–**	**0.8**	–	0.9
Banks		**2,148**	**1.6**	**4.2**	–	3.7
243,700	Close Brothers Group	2,148	1.6			
Finance and Credit Services		**2,900**	**2.1**	**2.1**	2.2	2.0
2,577,951	International Personal Finance	2,900	2.1			
Investment Banking and Brokerage Services		**8,177**	**6.1**	**10.7**	7.1	11.3
296,657	City of London Investment Group	1,192	1.0			
1,095,305	CMC Markets	1,685	1.2			
765,800	XPS Pensions Group	1,336	1.0			
131,162	Rathbones Group	2,440	1.8			
1,415,900	Jupiter Fund Management	1,524	1.1			
Life Insurance		**3,327**	**2.5**	**0.9**	2.4	0.9
1,012,917	Hansard Global	446	0.4			
3,703,659	Just Group	2,881	2.1			
Non-life Insurance		**4,274**	**3.2**	**1.8**	2.7	1.8
1,270,350	Sabre Insurance Group	1,720	1.3			
554,087	Conduit Holdings	2,554	1.9			
Real Estate Investment and Services		**1,366**	**1.0**	**2.6**	0.7	2.5
3,617,286	Foxtons	1,366	1.0			
Real Estate Investment Trusts		**3,012**	**2.2**	**6.6**	1.6	7.5
379,300	Helical	984	0.7			
314,927	Workspace Group	1,488	1.1			
641,100	Empiric Student Property	540	0.4			
Automobiles and Parts		**2,781**	**2.1**	**2.5**	1.6	1.3
2,035,796	TI Fluid Systems	2,781	2.1			

Portfolio Statement

As at 30 June 2023

Holding	Security	30 June 2023 Value £'000	30 June 2023 % of Total Net Assets	30 June 2023 % of the Index[1]	31 December 2022 % of Total Net Assets	31 December 2022 % of the Index
Consumer Services		**955**	**0.7**	**0.1**	0.5	0.2
1,164,547	RM	955	0.7			
Household Goods and Home Construction		**5,742**	**4.2**	**1.9**	3.1	2.0
970,448	Crest Nicholson	1,828	1.4			
715,347	Headlam Group	1,781	1.3			
305,550	Redrow	1,347	1.0			
211,700	MJ Gleeson	786	0.5			
Leisure Goods		**–**	**–**	**0.5**	–	0.3
Personal Goods		**–**	**–**	**–**	–	0.1
Media		**7,603**	**5.6**	**2.9**	6.7	3.7
1,834,950	Centaur Media	862	0.7			
2,715,462	Reach	1,808	1.3			
365,936	STV Group	820	0.6			
1,191,529	Wilmington Group	3,265	2.4			
4,985,729	National World	848	0.6			
Retailers		**7,830**	**5.8**	**4.5**	4.9	4.0
2,586,483	Card Factory	2,325	1.7			
1,047,013	DFS Furniture	1,131	0.9			
2,762,508	Lookers	3,293	2.4			
2,252,426	Topps Tiles	1,081	0.8			
Travel and Leisure		**14,008**	**10.4**	**10.3**	8.7	8.4
3,665,215	FirstGroup	5,344	4.0			
1,760,050	Hostelworld Group	2,226	1.6			
1,150,948	Mitchells & Butlers	2,348	1.7			
2,802,599	Rank Group	2,477	1.8			
5,483,332	Marstons	1,613	1.3			
Beverages		**2,081**	**1.5**	**0.8**	1.7	0.9
1,659,257	C&C Group	2,081	1.5			
Food Producers		**2,575**	**1.9**	**2.3**	1.9	2.4
2,549,869	Bakkavor Group	2,422	1.8			
228,365	R.E.A. Holdings	153	0.1			
Personal Care, Drug and Grocery Stores		**301**	**0.2**	**1.4**	0.2	1.2
1,158,489	McBride	301	0.2			
Construction and Materials		**8,368**	**6.2**	**4.9**	5.4	4.6
1,435,458	Eurocell	1,579	1.2			
198,207	Keller	1,387	1.0			
1,017,833	Galliford Try Holdings	1,971	1.5			
457,241	Ricardo	2,615	1.9			
1,200,100	Severfield	816	0.6			

Portfolio Statement

As at 30 June 2023

Holding	Security	Value £'000	30 June 2023 % of Total Net Assets	30 June 2023 % of the Index[1]	31 December 2022 % of Total Net Assets	31 December 2022 % of the Index
Aerospace and Defense		**4,636**	**3.4**	**2.4**	2.0	2.3
1,882,148	Senior	3,298	2.4			
157,100	Avon Protection	1,338	1.0			
Electronic and Electrical Equipment		**4,651**	**3.4**	**3.1**	4.0	2.8
493,861	Dialight	1,057	0.7			
1,311,859	Morgan Advanced Materials	3,594	2.7			
General Industrials		**393**	**0.3**	**1.2**	–	1.1
363,600	Macfarlane Group	393	0.3			
Industrial Engineering		**10,537**	**7.8**	**2.2**	6.4	1.3
478,177	Castings	1,874	1.4			
742,998	Vesuvius	2,960	2.2			
732,000	XAAR	1,245	0.9			
304,373	Videndum	2,106	1.6			
366,900	Bodycote	2,352	1.7			
Industrial Support Services		**10,680**	**7.9**	**5.6**	9.7	6.1
2,000,391	De La Rue	960	0.7			
128,840	Paypoint	622	0.5			
614,421	Robert Walters	2,531	1.9			
7,553,738	SIG	2,614	1.9			
2,818,971	Smiths News	1,319	1.0			
3,016,224	Speedy Hire	1,089	0.8			
384,700	PageGroup	1,545	1.1			
Industrial Transportation		**8,213**	**6.1**	**2.4**	6.8	2.5
956,913	Redde Northgate	3,588	2.7			
1,193,784	Wincanton	3,003	2.2			
66,500	VP	389	0.3			
307,900	Fisher (James) & Sons	1,233	0.9			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**5,344**	**4.0**	**2.2**	6.0	3.1
389,673	Kenmare Resources	1,742	1.3			
1,832,310	Capital	1,722	1.3			
1,640,228	Ecora Resources	1,880	1.4			
Precious Metals and Mining		**2,699**	**2.0**	**2.2**	3.1	2.5
1,620,171	Gem Diamonds	303	0.2			
2,628,228	Centamin	2,396	1.8			
Chemicals		**101**	**0.1**	**2.8**	0.5	3.1
3,800	RHI Magnesita	101	0.1			

Portfolio Statement

As at 30 June 2023

Holding	Security	Value £'000	30 June 2023 % of Total Net Assets	% of the Index[1]	31 December 2022 % of Total Net Assets	% of the Index
Oil, Gas and Coal		**3,560**	**2.6**	**3.2**	5.2	4.1
14,686,352	EnQuest	2,190	1.6			
569,813	Genel Energy	589	0.4			
3,177,477	Pharos Energy	781	0.6			
Alternative Energy		**–**	**–**	**0.1**	–	0.1
Electricity		**–**	**–**	**–**	–	0.1
Waste and Disposal Services		**–**	**–**	**0.3**	–	1.1
Investments as shown in balance sheet		**133,093**	**98.5**	**100.0**	98.8	100.0
Net Current Assets		**2,040**	**1.5**	**–**	1.2	–
Total Net Assets		**135,133**	**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 2023.

Additional Portfolio Information

For the six months ended	30 June 2023 £'000	30 June 2022 £'000
Total Purchases	**19,220**	7,998
Total Sales	**24,588**	62,560

Statement of Total Return

For the six months ended 30 June 2023 *(unaudited)*

	30 June 2023		30 June 2022	
	£'000	**£'000**	£'000	£'000
Income				
Net capital losses		**(1,794)**		(31,067)
Revenue	**3,015**		3,291	
Expenses	**(592)**		(727)	
Interest payable and similar charges	**(5)**		(13)	
Net revenue before taxation	**2,418**		2,551	
Taxation	**(9)**		–	
Net revenue after taxation		**2,409**		2,551
Total return before distributions		**615**		(28,516)
Distributions		**(2,754)**		(2,980)
Change in net assets attributable to unitholders from investment activities		**(2,139)**		(31,496)

Statement of Change in Net Assets attributable to Unitholders

For the six months ended 30 June 2023 *(unaudited)*

	30 June 2023		30 June 2022	
	£'000	**£'000**	£'000	£'000
Opening net assets attributable to unitholders		**141,905**		216,285
Amounts receivable on issue of units	**9,763**		4,505	
Amounts payable on cancellation of units	**(16,059)**		(59,325)	
		(6,296)		(54,820)
Change in net assets attributable to unitholders from investment activities		**(2,139)**		(31,496)
Retained distribution on accumulation units		**1,663**		1,717
Closing net assets attributable to unitholders		**135,133**		131,686

Balance Sheet

As at 30 June 2023 *(unaudited)*

	30 June 2023 £'000	31 December 2022 £'000
Assets		
Fixed Assets:		
Investments	**133,093**	140,259
Current Assets:		
Debtors	**1,345**	259
Cash and bank balances	**2,125**	2,426
Total current assets	**3,470**	2,685
Total assets	**136,563**	142,944
Liabilities		
Creditors:		
Other creditors	**(481)**	(134)
Distribution payable on income units	**(949)**	(905)
Total liabilities	**(1,430)**	(1,039)
Net assets attributable to unitholders	**135,133**	141,905

Cash Flow Statement

For the six months ended 30 June 2023 *(unaudited)*

	30 June 2023 £'000	30 June 2022 £'000
Net cash inflow from operating activities	**2,182**	2,501
Investing activities		
Purchases of investments	**(19,087)**	(7,940)
Sales of investments	**23,694**	62,588
Cash inflow from investing activities	**4,607**	54,648
Financing activities		
Amounts received from issue of units	**9,827**	4,495
Amounts paid on cancellation of units	**(16,008)**	(59,660)
Distributions paid	**(905)**	(770)
Interest paid	**(4)**	(13)
Cash outflow from financing activities	**(7,090)**	(55,948)
(Decrease)/increase in cash and cash equivalents	**(301)**	1,201
Cash and cash equivalents at the start of the period	**2,426**	158
Cash and cash equivalents at the end of the period	**2,125**	1,359

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 2022 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 2023 £’000	June 2022 £’000
Interim distribution	**2,612**	2,625
Income deducted on cancellation of units	**180**	364
Income received on creation of units	**(38)**	(9)
Distributions	**2,754**	2,980

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

	June 2023 £’000	June 2022 £’000
Net revenue after taxation	**2,409**	2,551
Add: Manager’s periodic fee taken to capital	**343**	425
Add: Safe custody fee taken to capital	**2**	4
Distributions	**2,754**	2,980

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 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. The Fund has an overdraft facility in place with the Custodian, Northern Trust, up to £25m. 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 all of which are 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 related risks.

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 (the "Manager"). 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 £1.9 billion (as at 30 June 2023). Aberforth is wholly owned by six partners - five investment Partners and an Operations Partner, who is responsible for the firm's administration. The investment team comprises the five Investment Partners and one investment manager and together they manage the Fund's portfolio on a collegiate basis.

J. Thomson Colour Printers 215970