Aberforth UK Small Companies Fund

Annual Report and Accounts

31 December 2012

Investment Objective & Policy

The objective of Aberforth UK Small Companies Fund (the Fund) is to achieve a total return (with income reinvested) greater than on the Numis Smaller Companies Index (Excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies.

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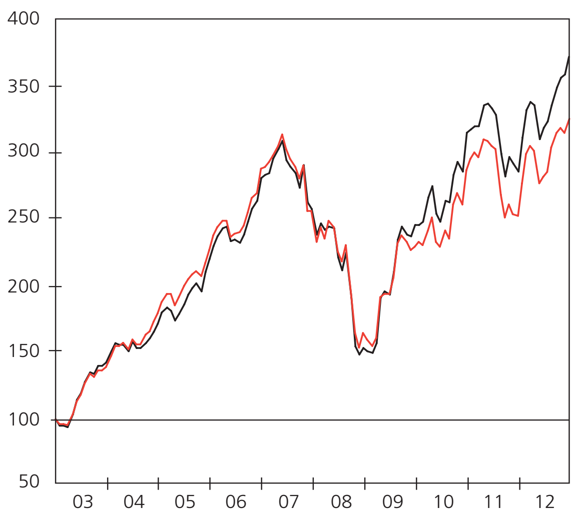
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2002)



Cancellation Price to Cancellation Price — Benchmark

Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2002)

Cancellation Price to Cancellation Price v Benchmark

Investment Record

Performance for the year to 31 December 2012	%
The Fund[1]	**28.7**
Benchmark Index[2]	**29.9**

Prices & Yield		**02.01.13[4]**	03.01.12[4]
Accumulation Units	Issue Price	**£129.44**	£100.65
	Cancellation Price	**£126.70**	£98.17
Income Units (xd)	Issue Price	**£112.64**	£90.46
	Cancellation Price	**£110.25**	£88.23
	Yield[6]	**3.0%**	3.1%
Dealing Spread		**2.1%**	2.5%

Size & Charges	**31.12.12**	31.12.11
Total Net Assets	**£151.3m**	£170.2m
Ongoing Charges[5]	**0.85%**	0.86%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historic Returns	Discrete Annual Returns (%) The Fund[1,3]	Index[2]
1 year to 31 December 2012	28.7	29.9
1 year to 31 December 2011	–11.9	–9.1
1 year to 31 December 2010	25.0	28.5
1 year to 31 December 2009	39.6	60.7
1 year to 31 December 2008	–36.1	–40.8

Historic Returns	Compound Annual Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2012	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2010	6.5	8.7	13.3	18.1
3 years from 31 December 2009	12.3	14.9	41.6	51.7
4 years from 31 December 2008	18.6	25.0	97.8	143.9
5 years from 31 December 2007	4.8	7.6	26.4	44.3
10 years from 31 December 2002	12.5	14.1	224.9	273.5
15 years from 31 December 1997	11.3	9.1	398.6	271.2
21.8 years from inception on 20 March 1991	12.6	10.0	1,215.5	698.5

1 Represents cancellation price to cancellation price.

2 Represents capital appreciation on the Numis Smaller Companies Index (Excluding Investment Companies) with net dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2013 included some 389 companies, the largest market capitalisation of which was £1.428 billion and the aggregate market capitalisation of which was £141 billion.

3 This table is in accordance with the Financial Services Authority's Regulations.

4 Prices stated are for the first valuation point after the period end, being the distribution xd date.

5 This is based on actual expenses for the year ended 31 December 2012. It covers all aspects of operating the Fund during the year 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.

6 The Yield reflects distributions declared over the past twelve months as a percentage of the mid-market unit price as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Past performance is not a guide to future performance. Stockmarket movements may cause the capital value of an investment and the income derived from it to go down as well as up and investors may get back less than they originally invested.

Manager's Report

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority.

Status

Aberforth UK Small Companies Fund (the Fund) was constituted by a Trust Deed dated 17 December 1990 and is an authorised unit trust scheme under the Financial Services & Markets Act 2000 (the Act). The Fund is a UCITS scheme as defined by the Collective Investment Schemes Sourcebook.

Changes to Prospectus

The following changes were made to the Prospectus.

1. On 15 June 2012

   The name of the Index referred to in the Investment Objective and Policy changed from RBS Hoare Govett Smaller Companies Index (Excluding Investment Companies) to Numis Smaller Companies Index (Excluding Investment Companies). The data and series continue to be provided by London Business School and represent an unbroken series since 1955.

2. On 4 December 2012

   The address of the Trustee was changed; the Manager now has the discretion to permit requests for redemptions of units below £1,000; and it has been clarified that the Fund bears the costs of printing and distributing the Annual and Interim Reports.

Introduction

Stockmarkets performed well in 2012. The FTSE All-Share's total return was 12.3%, but this was eclipsed by the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)) return of 29.9%. Small companies therefore regained the ground lost in 2011 and, indeed, proceeded to move above the previous highs established in 2007. Illustrating the importance of income to equity returns, the NSCI (XIC) ended the year 19% above its mid 2007 peak in total return terms but only 1% above that peak in capital only terms. The Fund's total return was 28.7% and is analysed in detail in the Investment Performance section of this report.

These strong returns from equities are apparently at odds with macro economic developments through the year: the US had to deal with the "fiscal cliff", Chinese GDP decelerated from double digit growth rates, the Eurozone crisis rumbled on to drag much of the Continent into recession, and in the UK the austerity strategy combined with weaker overseas demand to provoke a double-dip recession. Offsetting these challenges was an encouraging performance from the US economy, where there are indications, not least from the housing market, that the consumer sector might be able to resume its traditional role of supporting global demand. Moreover, while the Eurozone's problems are still very obvious, markets have been tempted to the view that some of the key elements of a lasting solution may be starting to fall into place and that things may have stopped getting worse.

Pervading these positive and negative influences on real economies are unprecedented monetary conditions. While it is still too early to be definitive about the merits or otherwise of "quantitative easing" in the US and UK or the Eurozone's new "outright monetary transactions", the past year witnessed rising frustration with such unconventional measures. These appear frequently to have missed their intended target, which is presumably investment in the real economy, instead providing a boost to asset prices. Thus, the "risk-on, risk-off" gyrations of the equity markets in recent years can be rationalised as coinciding with the announcement of the latest liquidity boost.

But, the distortions of government action, whether through central banks' quantitative easing or through regulation of the type applied to the valuation of defined pension liabilities, are not confined to volatile assets such as equities. Government bonds, which have not endured the curse of volatility in recent years, are in uncharted territory. Their yields, the cornerstone of financial asset valuation, have been driven down to historically low levels. Within the discount rates used to value apparently riskier assets, the so-called risk free component is close to zero. This leaves the more subjective component, the asset specific risk premium, much more important. In such an environment, the valuations of financial assets can readily become detached from reality. The beneficiaries within equity markets are those businesses that are perceived capable of growing irrespective of economic conditions and of avoiding the disappointment of expectations – that is to say, those businesses that, like bonds themselves, have experienced low volatility in recent years. Within the context of the NSCI (XIC), such companies are relatively few and have enjoyed very strong share price performances over recent years, resulting in stretched valuations relative to the majority.

This "valuation stretch", which is quantified later in this report, perhaps hints at the most convincing reason for the strong performance from small UK quoted companies and, indeed, other equities during 2012: accentuated by the stockmarket declines in 2011, the valuations of the majority of companies were simply much too low. While markets, under the influence of government action, might be slower than usual to exploit valuation anomalies, they do get there in the end.

Investment performance

The Fund's total return in 2012 was 28.7%, which compares with 29.9% from the NSCI (XIC). The table below analyses the relative return.

For the 12 months ended 31 December 2012	Basis points
Stock selection	-468
Sector selection	+470
Attributable to the portfolio of investments, based on mid prices	**+2**
Movement in mid to bid price spread	-31
Cash/overdraft	-11
Management fee	-80
Other expenses	-5
Total attribution based on bid prices	**-125**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the Fund and the Benchmark Index (i.e. the Fund = 28.69%; Benchmark Index = 29.94%; difference is -1.25% being -125 basis points).

The standard methodology to split attribution between Stock and Sector selection can be misleading when analysing the Fund's portfolio performance. The Manager's investment process is focused on decisions about individual companies. Only rarely does a general view on a particular sector play a part in determining the profile of the portfolio. The TMT period, when the Fund had very little representation in "new economy" businesses, was a notable instance of a sector level influence, but even then the key insights were the nonsensical valuations attributed to individual companies within the TMT areas of the market. In 2012, some investment was made in the resources companies, but the portfolio benefited overall from its under-weight position in the resources sectors, which accounted for roughly 60% of the positive sector attribution.

The following paragraphs describe some of the themes inherent in the portfolio and their influences on performance.

Style

The opening section of this report described how the unusual conditions pervading financial markets since the global financial crisis have manifested themselves in the universe of small UK quoted companies. The bear market for value stocks in recent years has been the deepest and most prolonged in the 57 year history of the NSCI (XIC). Given the Manager's consistently applied value investment disciplines, this has represented a significant headwind to the Fund's relative performance. Encouragingly, the past twelve months witnessed a stirring in value. There are several methods to assess the performance of value against growth, all of which have advantage and disadvantages. Data from Style Research (an independent performance analysis firm) shows value stocks out-performing growth in 2012. This suggests that style influences were beneficial to the Fund's returns last year.

Size

The NSCI (XIC) is defined as the bottom 10% by value of the UK stockmarket. This definition drives a market capitalisation ceiling of £1.4bn and so the index includes a large number of mid cap companies. Indeed, the overlap with FTSE 250 accounts for 76% of the value of the NSCI (XIC). The profile of the Fund's portfolio is rather different, with 56% invested in mid caps. This positioning is motivated by the more attractive valuations on offer among the smaller denizens of the NSCI (XIC): the craving for

Manager's Report

certainty that has characterised financial markets in recent years has driven many investors to overlook the less liquid "smaller small" companies. This discount for illiquidity is unusually large at present and does not accurately reflect the business fundamentals of many "smaller small" companies. This has presented the opportunity to the Manager to invest in companies that ought to be attractive from the perspective of both the value and the growth investor.

Turnover

With the market led higher by growth companies over recent years, the majority of businesses have been neglected. Re-ratings among this majority have been infrequent. Thus the opportunities to take money out of investments that have enjoyed a revaluation and to put it back to work in more modestly rated investments have also been infrequent. This is manifest in the Fund's portfolio turnover, which, at 22% in 2012, was lower than the 22 year average of 37%. Since the basic dynamic of recycling capital makes an important contribution to the performance of many value investors, the Manager, though conscious of the frictional dealing costs, would not be uncomfortable were turnover to return to more normal levels in the years ahead.

Strong balance sheets

Balance sheets remain unusually strong across the corporate sectors of major economies. This is also a feature of the NSCI (XIC)'s constituents and of the Fund's investments: companies forecast to have net cash on their balance sheets at the end of 2013 accounted for 36% and 39% by value of the index and the portfolio respectively. The Fund's exposure declined through 2012 as a result of portfolio changes and, encouragingly, of a handful of holdings coming up with a use for the cash. However, hoarding remains the general theme. The Manager acknowledges the still uncertain trading environment but would prefer the Fund's investee companies to utilise their financial strength on organic investment or modestly priced acquisitions. In the absence of these, mounting cash piles are of little help to anyone and represent an opportunity cost to investors.

De-equitisation

Last year was another of net de-equitisation within the small cap universe, with new issuance out-weighed by returns of capital, dividends and acquisitions. The first half of 2012 witnessed an upturn in the level of M&A activity in the small cap world. The most encouraging aspect was the large (50-60%) premiums to market prices that acquirers were able to justify, though it is worth stating that traditional premiums of around 30% would have been unattractive in view of the low valuations accorded to many businesses by the stockmarket. However, after the half year, the level of M&A fell sharply, possibly in response to macro economic uncertainty. Over the year as a whole, 18 constituents of the NSCI (XIC) were acquired. The Fund owned five of these. This represented a lower than average hit-rate, though the portfolio enjoyed an indirect benefit as the large premiums paid in the first half drew wider attention to the valuations on offer. Meanwhile, there was little IPO activity within the investment universe, with only five primary listings. The principal influence here is again the low valuations already on offer in the secondary market. These are often too low to attract private equity houses, which instead trade businesses between each other. But if vendors do not move their valuation expectations the chances of a sustained uptick in IPOs are not high.

Dividends

The worst year for small company dividends since records for the NSCI (XIC) began in 1955 was 2009. Since then, the recovery has been strong. Entering 2012, the third year of recovery, the Manager was cautiously expecting a slowdown in the rate of aggregate dividend growth from the NSCI (XIC)'s constituents. In the event, the dividend experience proved better than expected, helped by the contribution of companies that had passed their dividends in 2009 returning to the dividend register. The Fund's portfolio has shared in this favourable backdrop. The following table classifies the Fund's 90 holdings at 31 December by their most recent dividend action.

Band	Nil	Down	Flat	Up	New
No. of holdings	19	5	16	46	4

Manager's Report

Supported by long term data, which show that dividend yield and dividend growth have accounted for over three quarters of the total real return from small companies, the Manager believes that income will continue to be crucial to future returns from the asset class and, indeed, from equities in general. However, in today's income starved world, it can be frustrating when the search for yield within the UK equity market tends to begin and end with the FTSE 100.

The 2.8% yield of small companies is below the 3.6% of the FTSE All-Share, but this is in part a result of the relatively large proportion of the NSCI (XIC) that still does not pay dividends: the yield of the yielders is 3.4%. The small company universe also comprises many more stocks than the large cap world and income is considerably less concentrated, a point highlighted by BP's problems two years ago. Within the NSCI (XIC) there are numerous businesses on attractive yields that have good dividend records and whose boards appreciate the importance of income to investors. Such businesses are a feature of the Fund's portfolio and help drive a 10% yield premium over the NSCI (XIC). The Fund's portfolio dividend cover of 3.1x is also noteworthy: this is towards its highest ever level and ought to be supportive of dividend growth in future years.

Valuations

Characteristics	31 December 2012 The Fund	NSCI (XIC)	31 December 2011 The Fund	NSCI (XIC)
Number of companies	**90**	**389**	89	422
Weighted average market capitalisation	**£510m**	**£748m**	£391m	£676m
Price earnings ratio (historic)	**10.4x**	**12.8x**	9.0x	10.5x
Dividend yield (historic)	**3.1%**	**2.8%**	3.4%	3.2%
Dividend cover	**3.1x**	**2.8x**	3.3x	3.0x

The table above provides the historic PE ratios and dividend yields of the portfolio and the NSCI (XIC). Both metrics emphasise the portfolio's value characteristics. The table also illustrates the portfolio's size positioning: the Fund's weighted average market capitalisation is much lower than that of the index. This is again a result of the Manager's value investment disciplines: the smaller companies within the NSCI (XIC) are presently valued more cheaply than the larger companies.

When assessing the value of individual businesses, in relation to their own histories, to other companies or to M&A valuations, the Manager tends to focus on the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). This is because the PE ratio of a company is influenced by the liability structure of its balance sheet: other things being equal, a company with a high amount of net debt will have a lower PE ratio than a company with net cash.

2013 EV/EBITA ratio			
36 growth companies	*247 other companies*	*Tracked NSCI (XIC)*	*The Fund's portfolio*
13.5x	8.6x	9.4x	7.4x

The table above sets out the EV/EBITA ratios of the Fund's portfolio, the NSCI (XIC) and two components of the index to which the opening section of this report alluded. The Manager monitors a collection of growth stocks within the NSCI (XIC). These totalled 36 in December, though 31 have been constituents of the NSCI (XIC) over the last three years. At 1 January 2010, the 31 represented just 7% by number of the NSCI (XIC). However, they accounted for 13% of the value of the index and for 28% of its 52% total return over the three years to 31 December 2012. The re-rating over the period took their average EV/EBITA ratio up to 13.5x. Meanwhile, the substantial majority of the NSCI (XIC), which can be considered to comprise value stocks, enjoyed more modest but still strong returns. The average EV/EBITA multiple of these companies ended 2012 at 8.6x, implying a 57% premium for growth and perceived certainty. TMT aside, this is the widest "value stretch" that the Manager has witnessed over the Fund's 22 years. The disparity is stark and gives the Manager confidence that the Fund's portfolio is well positioned to generate good relative returns in the future.

Outlook & conclusion

The trouble with value investors is that they can almost always present a set of numbers that demonstrates how much cheaper their portfolio is than the market. However, with a long term horizon, this is probably enough. Academic studies on both sides of the Atlantic suggest that the value style out-performs over time, through the process of steady compounding in companies that the market chooses not to re-rate and through the disciplined recycling of funds from companies that have been revalued into those on lower valuations.

In last year's report, conscious of shorter time horizons of some investors, the Manager described four potential catalysts for a renaissance of the value style. A year on, it is reasonable to conclude that each of these may have played a part in 2012's stirring in value.

- Dividends have continued to grow and the hunger for yield may slowly be rubbing off on small companies.
- The Manager has continued to conduct discreet corporate engagement in an attempt to close value gaps.
- De-equitisation has continued, with a slightly disappointing number of M&A transactions offset by higher than average premiums.
- An improved macro economy is perhaps most difficult to argue, though, without further unpleasant surprises, equity prices had possibly discounted much of the downside as 2011 drew to a close.

A year on, despite the asset class's intervening 29.9% returns, the Manager remains enthused about the prospects for value investment in the equities of small UK quoted companies. This enthusiasm is motivated by what are still attractive valuations. And these valuations are attractive because, for several years now, the market has run scared of practically everything that the Fund has to offer: the low volatility of bonds has been preferred to equities; the perceived certainty of the growth style has been preferred to value; more liquid "larger small" companies have been preferred to "smaller small" companies; private equity models have been preferred to quoted companies; and exciting emerging markets have been preferred to the UK.

From a contrarian perspective and backed up by historical evidence, the Manager considers the Fund's portfolio of well financed and attractively valued businesses suitably positioned to take advantage of today's unusual structure of relationships within financial markets and to deliver good returns for investors over the medium and long term.

A P Bamford, *Director*
R M J Newbery, *Director*
Aberforth Unit Trust Managers Limited
29 January 2013

Summary of Material Portfolio Changes

For the year ended 31 December 2012

Purchases	Cost £'000
Centamin	2,287
Hilton Food Group	1,632
Playtech	1,607
QinetiQ Group	1,545
Jupiter Fund Management	1,522
F&C Asset Management	1,438
Aquarius Platinum	1,379
Cranswick	1,322
Chemring Group	1,288
WH Smith	1,216
Northgate	1,197
Computacenter	1,164
Speedy Hire	1,061
Assura Group	900
Kofax	880
Mothercare	839
Fiberweb	834
Laird Group	775
Bovis Homes Group	773
National Express Group	639
Other purchases	11,727
Total for the period	36,025

Sales	Proceeds £'000
Anite	4,455
CSR	3,698
RPC Group	3,418
Debenhams	3,378
UMECO	3,228
Galliford Try	3,102
Moneysupermarket.com Group	2,837
GlobeOp Financial	2,814
Micro Focus	2,626
Greggs	2,585
Collins Stewart Hawkpoint	2,571
Low & Bonar	2,450
RPS Group	2,301
Headlam Group	2,255
Bodycote	2,111
Redrow	2,101
e2v technologies	2,006
Investec	1,986
Persimmon	1,652
Regus	1,512
Other sales	39,187
Total for the period	92,273

Distribution Table

For the period 1 July 2011 to 31 December 2012

Group 1: Units purchased prior to 1 July 2012
Group 2: Units purchased on or after 1 July 2012

	Net Income 2012	Equalisation† 2012	Distribution/ Accumulation 2012	Distribution/ Accumulation Dec 2011
Income units				
Group 1	151.4123p	–	151.4123p	131.1667p
Group 2	40.6572p	110.7551p	151.4123p	131.1667p
Accumulation units				
Group 1	171.6600p	–	171.6600p	143.8232p
Group 2	46.0941p	125.5659p	171.6600p	143.8232p

† When buyers purchase units, the purchase price includes the value of securities and revenue up to the date of purchase. All unitholders receive 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. Being capital, it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Portfolio Statement

As at 31 December 2012

Holding	Security	Value £'000	31 December 2012 % of Total Net Assets	31 December 2012 % of Index[1]	31 December 2011 % of Total Net Assets	31 December 2011 % of Index[1]
Oil & Gas Producers		**3,959**	**2.6**	**3.9**	2.5	4.1
1,475,523	EnQuest	1,765	1.2			
1,402,004	JKX Oil & Gas	1,059	0.7			
16,218,118	Petroceltic International	1,135	0.7			
Oil Equipment, Services & Distribution		**–**	**–**	**1.5**	–	2.0
Alternative Energy		**–**	**–**	**0.1**	–	–
Chemicals		**4,710**	**3.1**	**4.0**	3.2	2.5
654,038	AZ Electronic Materials	2,268	1.5			
1,304,274	Synthomer	2,442	1.6			
Industrial Metals & Mining		**595**	**0.4**	**0.2**	0.7	0.5
6,099,184	International Ferro Metals	595	0.4			
Mining		**2,617**	**1.8**	**3.3**	1.0	6.1
493,112	Anglo Pacific Group	1,314	0.9			
700,055	Aquarius Platinum	371	0.3			
2,391,543	Centamin	932	0.6			
Construction & Materials		**5,435**	**3.6**	**1.9**	4.3	1.6
555,522	Galliford Try	4,128	2.7			
2,489,558	Low & Bonar	1,307	0.9			
Aerospace & Defence		**2,624**	**1.7**	**2.7**	1.4	2.7
426,300	Chemring Group	979	0.6			
896,400	QinetiQ Group	1,645	1.1			
General Industrials		**4,535**	**3.0**	**1.2**	4.1	1.2
1,142,217	RPC Group	4,535	3.0			
Electronic & Electrical Equipment		**5,701**	**3.7**	**2.5**	4.3	2.8
3,292,004	e2v technologies	3,983	2.6			
642,447	Morgan Crucible	1,718	1.1			
Industrial Engineering		**7,487**	**4.9**	**2.0**	4.4	1.7
1,000,100	Bodycote	4,511	3.0			
632,647	Castings	1,999	1.3			
245,403	Hill & Smith Holdings	977	0.6			
Industrial Transportation		**916**	**0.7**	**2.0**	0.3	1.9
19,100	Clarkson	227	0.2			
984,700	Wincanton	689	0.5			
Support Services		**22,386**	**14.7**	**15.4**	12.1	13.7
513,768	Acal	976	0.6			
722,400	Capital Drilling	184	0.1			
722,655	CPPGroup	94	0.1			
1,305,020	Fiberweb	894	0.6			
1,761,309	Howden Joinery Group	3,040	2.0			
148,900	Hyder Consulting	596	0.4			
1,844,960	Lavendon Group	2,505	1.7			
1,207,408	Northgate	3,658	2.4			
774,233	office2office	945	0.6			
2,115,003	Regus	2,307	1.5			
549,940	Robert Walters	1,061	0.7			
1,434,646	RPS Group	3,001	2.0			
987,805	Smiths News	1,543	1.0			
4,163,800	Speedy Hire	1,582	1.0			

Portfolio Statement

As at 31 December 2012

Holding	Security	Value £'000	31 December 2012 % of Total Net Assets	31 December 2012 % of Index[1]	31 December 2011 % of Total Net Assets	31 December 2011 % of Index[1]
Automobiles & Parts		–	–	–	–	–
Beverages		–	–	**1.1**	–	0.9
Food Producers		**3,664**	**2.4**	**2.5**	0.6	2.5
241,620	Cranswick	2,039	1.3			
60,200	Dairy Crest Group	231	0.2			
519,850	Hilton Food Group	1,394	0.9			
Household Goods & Home Construction		**3,713**	**2.4**	**2.3**	4.4	3.3
1,397,353	Barratt Developments	2,888	1.9			
144,374	Bovis Homes Group	825	0.5			
Leisure Goods		–	–	**0.3**	–	0.3
Personal Goods		–	–	**0.7**	–	0.3
Health Care Equipment & Services		**1,955**	**1.3**	**1.0**	1.9	0.6
1,151,556	Optos	1,955	1.3			
Pharmaceuticals & Biotechnology		**2,680**	**1.8**	**2.1**	1.4	2.7
4,190,876	Ark Therapeutics Group	130	0.1			
3,053,855	Vectura Group	2,550	1.7			
Food & Drug Retailers		–	–	**1.2**	1.5	1.5
General Retailers		**11,222**	**7.3**	**8.1**	6.2	6.3
2,380,600	Dixons Retail	672	0.4			
648,268	Halfords Group	2,150	1.4			
558,778	JD Sports Fashion	3,828	2.5			
336,700	Mothercare	1,136	0.8			
2,545,836	Topps Tiles	1,273	0.8			
324,600	WH Smith	2,163	1.4			
Media		**9,282**	**6.2**	**3.9**	7.7	3.9
464,502	4imprint Group	1,626	1.1			
1,923,717	Centaur Media	885	0.6			
469,939	Chime Communications	1,066	0.7			
8,504,154	Future	1,488	1.0			
4,934,158	Huntsworth	1,949	1.3			
1,890,422	Mecom Group	1,399	0.9			
941,800	Trinity Mirror	869	0.6			
Travel & Leisure		**10,018**	**6.7**	**10.4**	4.8	7.8
120,800	Air Partner	362	0.2			
1,056,107	National Express Group	2,156	1.4			
377,400	Playtech	1,604	1.1			
6,609,253	Punch Taverns	529	0.4			
5,703,243	Spirit Pub Company	3,636	2.4			
1,495,430	Sportech	1,047	0.7			
1,424,200	Thomas Cook Group	684	0.5			
Fixed Line Telecommunications		**1,511**	**1.0**	**2.0**	1.3	3.2
2,122,594	KCOM Group	1,511	1.0			
Electricity		–	–	**0.5**	–	1.2
Gas, Water & Multiutilities		–	–	–	–	–
Banks		–	–	**0.3**	–	–

Portfolio Statement

As at 31 December 2012

Holding	Security	Value £'000	31 December 2012 % of Total Net Assets	31 December 2012 % of Index[1]	31 December 2011 % of Total Net Assets	31 December 2011 % of Index[1]
Nonlife Insurance		**2,983**	**2.0**	**1.7**	2.1	1.7
1,193,558	Beazley	2,096	1.4			
224,667	Novae Group	887	0.6			
Life Insurance		**1,021**	**0.7**	**0.9**	1.2	1.0
1,063,688	Hansard Global	1,021	0.7			
Real Estate Investment & Services		**8,074**	**5.3**	**4.0**	3.2	3.4
2,758,800	Assura Group	910	0.6			
141,000	Grainger	165	0.1			
1,312,382	Safestore Holdings	1,417	0.9			
1,507,303	St. Modwen Properties	3,408	2.3			
789,928	Unite Group	2,174	1.4			
Real Estate Investment Trusts		**3,398**	**2.2**	**3.0**	1.7	3.5
2,086,597	Hansteen Holdings	1,669	1.1			
572,454	Workspace Group	1,729	1.1			
Financial Services		**9,963**	**6.6**	**7.3**	8.4	7.5
1,472,300	Brewin Dolphin Holdings	3,027	2.0			
316,418	Charles Stanley Group	933	0.6			
1,726,200	F&C Asset Management	1,745	1.2			
615,500	Jupiter Fund Management	1,714	1.1			
1,014,879	Tullett Prebon	2,544	1.7			
Software & Computer Services		**12,900**	**8.5**	**2.9**	9.5	5.9
1,366,564	Anite	1,941	1.3			
338,500	Computacenter	1,382	0.9			
653,580	Kofax	1,889	1.2			
419,683	Micro Focus	2,426	1.6			
1,165,914	Microgen	1,399	0.9			
1,563,690	Phoenix IT Group	2,803	1.9			
1,394,327	RM	1,060	0.7			
Technology Hardware & Equipment		**7,246**	**4.9**	**3.1**	4.9	1.7
1,166,042	CSR	3,892	2.6			
2,536,682	Filtronic	850	0.6			
1,002,010	Laird	2,059	1.4			
2,782,010	Promethean World	445	0.3			
Investments as shown in the Balance Sheet		**150,595**	**99.5**	**100.0**	99.1	100.0
Net Current Assets		**739**	**0.5**	**–**	0.9	–
Total Net Assets		**151,334**	**100.0**	**100.0**	100.0	100.0

All investments are listed on the London Stock Exchange.

[1] This reflects the rebalanced index as at 1 January following each year end.

Fund Information

Net Asset Value

Date	31 December 2012	31 December 2011	31 December 2010
Value of Fund (£'000)	**151,344**	170,175	253,242
Accumulation units in Issue	**1,166,048.466**	1,384,131.836	1,884,971.095
Income units in issue[(i)]	**52,118.400**	410,596.916	445,252.893
NAV per unit – accumulation (£)	**124.92**	97.07	110.99
NAV per unit – income (£)	**108.71**	87.24	102.55

Unit Price Range

	Accumulation Units		Income Units	
Period	Highest Issue £	Lowest Cancellation £	Highest Issue £	Lowest Cancellation £
31 December 2008	101.02	56.91	101.02	56.05
31 December 2009	96.84	56.99	92.25	55.14
31 December 2010	112.73	85.88	104.97	79.97
31 December 2011	123.64	92.48	112.76	84.34
31 December 2012	**127.71**	**96.97**	**112.65**	**87.16**

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
31 December 2008	249.0879	247.3461
31 December 2009	199.5022	191.8155
31 December 2010	210.6289	197.7272
31 December 2011	298.9537	274.5042
31 December 2012	**377.5214**	**336.4382**

Notes

(i) The Fund was launched on 20 March 1991 with an initial issue price of £10.00. Income units have been available from 1 January 2008.

(ii) The annual income accumulation and distribution date is 28 February in each year. The interim income accumulation and distribution date is 31 August relating to the period to 30 June.

Past performance is not a guide to future performance.

Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP (the "firm"). The predecessor business of the firm, Aberforth Partners, 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 £1.7 billion (as at 31 December 2012). The firm is wholly owned by six partners – five investment managers (including three founding partners), and Alan Waite, who is responsible for the firm's administration. Six investment managers work as a team managing the Fund's portfolio on a collegiate basis. The founding partners have been managing the portfolio since the Fund's launch in March 1991. The biographical details of the six investment managers are as follows:

Andrew P Bamford BCom (Hons), CA

Andy joined Aberforth Partners in April 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Industrial Transportation; Technology Hardware & Equipment; Travel & Leisure; and a proportion of Support Services. Previously he was with Edinburgh Fund Managers for 7 years, latterly as Deputy Head of UK Small Companies, with specific responsibility for institutional clients. Prior to joining Edinburgh Fund Managers he was a senior investment analyst with General Accident for 2 years supporting the head of UK Smaller Companies. Before joining General Accident, he was a Chartered Accountant with Price Waterhouse.

Euan R Macdonald BA (Hons)

Euan joined Aberforth Partners in May 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Industrial Engineering; Life Assurance; Nonlife Insurance; Software & Computer Services; and a proportion of Support Services. Previously he was with Baillie Gifford for 10 years where he managed portfolios invested in small companies both in Continental Europe and in the UK.

Keith Muir BEng (Hons), CFA

Keith joined Aberforth Partners in March 2011 and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Chemicals; Construction & Materials; Electricity; Fixed Line Telecommunications; Gas, Water & Multiutilities; Household Goods & Home Construction; Industrial Metals & Mining; Leisure Goods; Mining; and Mobile Telecommunications. Previously Keith was an Investment Director with Standard Life Investments for 13 years and spent the last 9 years as a senior member of the Smaller Companies team with associated portfolio management responsibilities. Prior to that he gained experience with Southpac, Scottish Equitable and Murray Johnstone.

Richard M J Newbery BA (Hons)

Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy; Beverages; Electronic & Electrical Equipment; Food & Drug Retailers; Food Producers; General Industrials; General Retailers; and Personal Goods. Previously he was with Ivory & Sime for 9 years where he managed international portfolios for a range of clients including those with a small company specialisation.

David T M Ross FCCA

David was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Real Estate Investment Trusts; Real Estate Investment & Services; and Financial Services. Previously he was with Ivory & Sime for 22 years, the last two of which were as Managing Director. He was a Director of US Smaller Companies Investment Trust plc and served as a member of the Executive Committee of the Association of Investment Companies.

Alistair J Whyte

Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; Health Care Equipment & Services; Media; Oil & Gas Producers; Oil Equipment, Services & Distribution; and Pharmaceuticals & Biotechnology. Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

Further information on Aberforth Partners LLP and its clients is available on its website – **www.aberforth.co.uk**

Responsibility Statements

STATEMENT OF THE MANAGER'S RESPONSIBILITIES IN RELATION TO THE REPORT AND ACCOUNTS OF THE SCHEME

The Financial Services Authority's Collective Investment Schemes Sourcebook, as amended, (the Regulations) requires the Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the scheme and of its revenue/expenditure for the period. In preparing the accounts the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds;
- follow United Kingdom accounting standards;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements;
- take reasonable steps for the prevention and detection of fraud and non-compliance with laws and regulations; and
- prepare the financial statements on a going concern basis unless it is considered inappropriate.

The Manager is responsible for the management of the scheme in accordance with its trust deed, prospectus and the Regulations.

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority.

A P Bamford, *Director*
R M J Newbery, *Director*
Aberforth Unit Trust Managers Limited

29 January 2013

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES AND REPORT OF THE TRUSTEE TO THE UNITHOLDERS OF ABERFORTH UK SMALL COMPANIES FUND FOR THE YEAR ENDED 31 DECEMBER 2012

The trustee is responsible for the safekeeping of all the property of the scheme (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the trustee to take reasonable care to ensure that the scheme is managed in accordance with the Financial Services Authority's Collective Investment Scheme Sourcebook (COLL), as amended, the scheme's trust deed and prospectus, in relation to the pricing of, and dealings in, units in the scheme; the application of income of the scheme; and the investment and borrowing powers of the scheme.

Having carried out such procedures as we considered necessary to discharge our responsibilities as trustee of the scheme, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the Manager:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with COLL, the trust deed and prospectus, and

(ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

National Westminster Bank plc
Corporate Banking
3 Redheughs Avenue
Edinburgh EH12 9RH

29 January 2013

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF ABERFORTH UK SMALL COMPANIES FUND

We have audited the financial statements of Aberforth UK Small Companies Fund (the "Fund") for the year ended 31 December 2012 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of Authorised Fund Manager ("the Manager") and auditors

As explained more fully in the Statement of the Manager's Responsibilities, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Fund's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Fund at 31 December 2012 and of the net revenue and the net capital gains of the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Fund have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 January 2013

Financial Statements

For the year ended 31 December 2012

Statement of Total Return

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Income:					
Net capital gains/(losses)	5		38,154		(26,312)
Revenue	6	6,215		7,263	
Expenses	7	(1,438)		(1,815)	
Finance costs: interest	9	(4)		(11)	
Net revenue before taxation		4,773		5,437	
Taxation	8	(4)		(3)	
Net revenue after taxation			4,769		5,434
Total return before distributions			42,923		(20,878)
Finance costs: distributions	9		(5,621)		(5,656)
Change in net assets attributable to Unitholders from investment activities			37,302		(26,534)

Statement of Change in Unitholders' Net Assets

	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Opening net assets attributable to unitholders		170,175		253,242
Amounts receivable on creation of units	2,666		3,055	
Amounts payable on cancellation of units	(63,287)		(63,755)	
		(60,621)		(60,700)
Stamp duty reserve tax		(3)		(11)
Change in net assets attributable to unitholders from investment activities		37,302		(26,534)
Retained distribution on accumulation units		4,481		4,178
Closing net assets attributable to unitholders		151,334		170,175

Financial Statements
As at 31 December 2012

Balance Sheet

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
ASSETS					
Investments assets			150,595		168,690
Debtors	10	347		640	
Cash and bank balances		1,153		1,811	
Total other assets			1,500		2,451
Total assets			152,095		171,141
LIABILITIES					
Creditors	11	(682)		(427)	
Distribution payable on income units		(79)		(539)	
Total liabilities			(761)		(966)
Net assets attributable to unitholders			151,334		170,175

Notes to the Financial Statements

1 Accounting Policies

(a) The accounts have been prepared on the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice for Authorised Funds (SORP) issued by the Investment Management Association in October 2010.

(b) In accordance with the SORP the investments of the Fund have been valued at a fair value, which is represented by the bid price as at close of business on 31 December 2012. Suspended securities are initially valued at the suspension price but are subject to constant review.

(c) Dividends on equities are recognised when the security is quoted ex-dividend. UK dividend income is shown net of any related tax credit. Overseas dividends are grossed up at the appropriate rate of withholding tax and the tax consequences are shown within the tax charge. Interest receivable is accounted for on an accruals basis and treated as revenue.

(d) The ordinary element of scrip dividends is treated as revenue and forms part of the distribution. Special dividends or share buy-backs are treated as income or capital depending on the facts of each particular case.

(e) Underwriting commission is treated as revenue and recognised when the issue takes place, except where the Fund is required to take up all or part of the shares underwritten, in which case the commission is offset against the cost of the shares.

(f) The Manager's periodic charge is accounted for on an accruals basis with 5/8 of the Manager's periodic charge allocated to capital and the remaining 3/8 charged to revenue.

(g) The charge for tax is based on the results for the period. In general, the tax accounting treatment follows that of the principal amount. The rate of corporate tax for the Fund is 20%, although certain revenue is exempt from tax. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax. Deferred tax assets are recognised only to the extent that the manager considers that it is more likely than not that there will be taxable profits from which the underlying timing differences can be deducted.

Notes to the Financial Statements

2 Distribution Policies

The policy is to distribute all available revenue, after deduction of those expenses which are chargeable in calculating the distribution. 3/8 of the Manager's periodic charge is deducted from revenue for purposes of calculating the distribution, the balance being borne by capital.

3 Stamp Duty Reserve TAX (SDRT)

The Fund incurred stamp duty reserve tax of 0.5% as a result of investors joining and leaving the Fund. Our policy is to recover the SDRT payable from incoming investors in the form of an additional charge. As a result, the net amount of SDRT paid by the Fund itself was £3,000 (2011: £11,000).

4 Risk Management Policies

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 currency risk arises.

The main risks arising are market price, liquidity and credit risks. The Manager has policies for managing each of these risks. These policies have remained unchanged since the beginning of the year 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 securities that are considered to be readily realisable in accordance with the market practices of the London Stock Exchange. Liquidity may, however, be affected by market events.

The risk of low market liquidity through reduced trading volumes may affect the Fund's ability to trade investments at values previously indicated by brokers.

The main liability of the Fund is the redemption of units that investors wish to sell. In general the cash levels of the Fund are managed to ensure liabilities can be met. Where investments cannot be realised to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement. In addition, in accordance with the Prospectus terms, redemptions may be settled by an in specie transfer of assets.

Credit Risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counter-party 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 Services Authority, who have formally agreed terms of business with the Manager, and who are considered to have execution arrangements that enable the Manager to comply with its obligation to obtain the best possible result for the Fund.

The Manager closely monitors market developments that may impact a broker's creditworthiness, market reputation and expectations of future financial performance. A range of brokers is utilised by the Manager.

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

Interest Rate Risk

The majority of the Fund's financial assets are equity shares, which do not pay interest or have a maturity date. The Fund's exposure to interest rate risk is therefore insignificant.

5 Net Capital Gains/(Losses)

	2012 £'000	2011 £'000
The gains/(losses) on investments during the year comprise:		
Equity investments	**38,154**	(26,312)

Notes to the Financial Statements

6 Revenue

	2012 £'000	2011 £'000
UK dividends	**5,839**	7,196
Scrip dividends	**23**	34
Overseas dividends	**342**	23
Bank interest	**11**	10
Total income	**6,215**	7,263

7 Expenses

	2012 £'000	2011 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,364**	1,738
Payable to the Trustee or associate of the Trustee		
Trustee's fees	**44**	49
Other expenses:		
Audit fee	**11**	9
Safe custody fees	**14**	14
Registration fees	**5**	5
	30	28
Total expenses	**1,438**	1,815

The Manager's periodic fee is 0.8% per annum of the valuation of the Fund's property which accrues and is paid monthly in arrears. Included within this fee is £852,000 borne by the capital of the Fund (2011: £222,000). Further details of the management fees, Trustee's fees and other expenses of the Fund are available in the Fund's Prospectus.

8 Taxation

(a) Analysis of charge in the period:	2012 £'000	2011 £'000
Irrecoverable overseas tax	4	3
Current tax (note 8(b))	–	–
Total tax charge for the year	4	3

(b) Factors affecting current tax charge for the period:

Net revenue before taxation	**4,773**	5,437
Corporation tax at 20%	**955**	1,087
Effects of:		
Non-taxable dividends	**(1,168)**	(1,439)
Tax losses for which no relief has been taken	**213**	352
	(955)	(1,087)
Current tax charge (Note 8(a))	–	–

From 1 July 2009, dividends from companies incorporated overseas are not subject to UK tax.

At the balance sheet date, the Fund had excess management expenses of £37,346,000 (2011: £35,983,000). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore, no deferred tax asset has been recognised. The deferred tax amount, being 20% of the excess management expenses, equates to £7,469,200 (2011: £7,196,600).

Notes to the Financial Statements

9 Finance Costs

Distributions and interest

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

	2012 £'000	2011 £'000
Interim	3,129	2,794
Final	2,081	2,530
	5,210	5,324
Add: Income deducted on cancellation of units	443	349
Less: Income received on creation of units	(32)	(17)
Total distributions	5,621	5,656
Bank overdraft interest	4	11
Total finance costs	5,625	5,667

The difference between the net revenue after taxation and the distributions for the year are as follows:

	2012 £'000	2011 £'000
Net revenue after taxation	4,769	5,434
Add: Manager's periodic fee taken to capital	852	222
Distributions	5,621	5,656

Details of the distribution per unit are shown on page 7.

With effect from 1 October 2011, 5/8ths of Manager's periodic fee has been charged to capital. This has the effect of increasing the distributions for the year by 0.5 percentage points and constraining the Fund's capital performance to an equivalent extent.

10 Debtors

	2012 £'000	2011 £'000
Amounts receivable for creation of units	–	–
Sales awaiting settlement	–	–
Accrued income	345	640
Other debtors	2	–
Total debtors	347	640

11 Creditors

	2012 £'000	2011 £'000
Amounts payable for cancellation of units	487	9
Purchases awaiting settlement	76	285
Accrued management fee	101	118
Other accrued expenses	17	15
Stamp duty reserve tax	1	–
Total creditors	682	427

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2012 £'000	2011 £'000
Analysis of total purchase costs		
Purchases in period before transaction costs	**35,757**	52,607
Commissions	**114**	192
Taxes	**154**	202
Total purchase costs	**268**	394
Total purchase consideration	**36,025**	53,001
Analysis of total sale costs		
Gross sales in year before transaction costs	**92,493**	111,749
Commissions	**(219)**	(324)
Taxes	**(1)**	(1)
Total sale costs	**(220)**	(325)
Total sale proceeds net of transaction costs	**92,273**	111,424

On average, over the last three financial years the Fund incurred broker commissions of 0.29% p.a. and stamp duty of 0.12% p.a. as a necessary part of buying and selling the Fund's underlying investments in order to achieve the investment objective.

Share dealing incurs broker commissions and stamp duty and these are paid by the Fund on each transaction where appropriate. In addition there is a dealing spread between the buying and selling prices of the underlying investments. As at 31 December 2012, the estimated average dealing spread for this Fund is 0.96% of the transaction value .

Comparing portfolio transaction costs for a range of funds may give a false impression of the relative costs of investing in them for the following reasons:

- Transaction costs do not necessarily reduce returns. The net impact of dealing is the combination of the Manager's investment decisions and the associated costs of investment.
- Historic transaction costs are not an effective indicator of the future impact on performance
- Transactions costs for buying and selling investments due to other investors joining or leaving the fund are recovered from those investors.
- Transaction costs vary depending on the types of investment in which a fund invests.

13 Unitholders' Funds

The Fund has income and accumulation units. The annual management charge on each is 0.8% p.a. The net asset value per unit and the number of units in issue are shown in the net asset table on page 11. The accumulation/distribution per unit is detailed in the distribution table opposite. All units, adjusted for the current accumulation factor, have the same rights in winding-up.

14 Related Party Transactions

Management fees paid to Aberforth Unit Trust Managers Limited are shown in note 7 and details of units created and cancelled are shown in the Statement of Change in Unitholders' Net Assets. The balance due to Aberforth Unit Trust Managers Limited at the year end in respect of these transactions was £588,000 (31 December 2011: £127,000). Trustee fees paid are shown in note 7. The balance due to National Westminster Bank plc at the year end in respect of these fees was £3,000 (31 December 2011: £4,000).

Management and Administration

Manager

Aberforth Unit Trust Managers Limited*
14 Melville Street
Edinburgh EH3 7NS
Telephone – Dealing: 0845 608 0940
Enquiries: 0131 220 0733
Email: **enquiries@aberforth.co.uk**
Dealing (email): **ordergroup@capitafinancial.com**
Website: **www.aberforth.co.uk**

Trustee

National Westminster Bank plc*
Corporate Banking
The Younger Building
1st Floor
3 Redheughs Avenue
Edinburgh EH12 9RH

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Capita Financial Administrators Limited*
2 The Boulevard
City West One Office Park
Gelderd Road
Leeds LS12 6NT
Telephone: 0845 608 0940

Custodian

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

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

**Authorised and regulated by the Financial Services Authority*

Buying and Selling

Units may be bought and sold by contacting the Manager by telephone, at the address above or by email (ordergroup@capitafinancial.com). In addition orders can be placed electronically via EMX and Calastone transaction networks. Valuation of the fund takes place each business day at 4.30 pm on a forward pricing basis.

Copies of the Prospectus are available, free of charge, from the Manager or on-line at www.aberforth.co.uk.

Pricing Policy

We operate a dual pricing methodology for this fund whereby net contributions take place at the issue price and net withdrawals take place at the cancellation price. The issue price is currently 2.16% higher than the cancellation price. The issue price is calculated by reference to the offer prices of the underlying investments, plus an allowance for broker commissions and stamp duty. The cancellation price is calculated by reference to the bid prices of the underlying investments, less an allowance for broker commissions. This means that, when investments are bought or sold as a result of other investors joining or leaving the fund, your investment is fully protected from the costs of these transactions.

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