Aberforth UK Small Companies Fund

Annual Report and Accounts

31 December 2013

Investment Objective & Policy

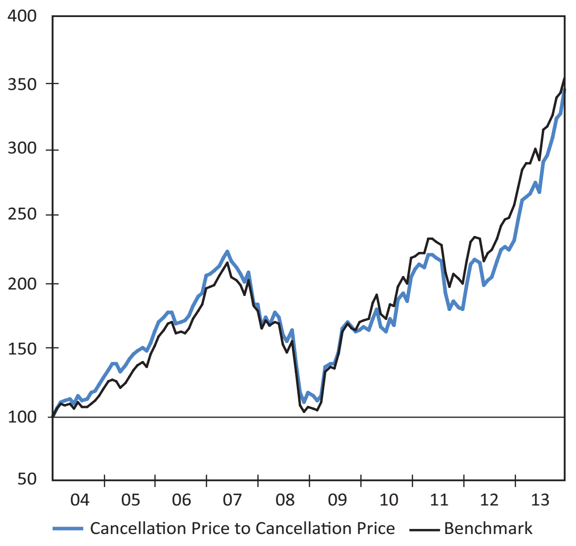
The objective of Aberforth UK Small Companies Fund (the Fund) is to achieve a total return (with income reinvested) greater than on the Numis Smaller Companies Index (Excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies.

Contents

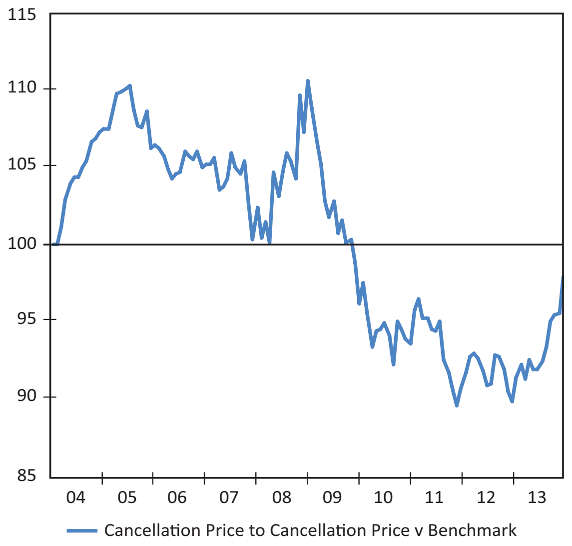
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2003)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2003)



Investment Record

Performance for the year to 31 December 2013	%
The Fund[1]	**49.4**
Benchmark Index[2]	**36.9**

Prices & Yield		02.01.14[4]	02.01.13[4]
Accumulation Units	Issue Price	**£189.92**	£129.44
	Cancellation Price	**£186.57**	£126.70
Income Units (xd)	Issue Price	**£161.24**	£112.64
	Cancellation Price	**£158.40**	£110.25
	Yield[6]	**2.2%**	3.0%

Size & Charges	31.12.13	31.12.12
Total Net Assets	**£168.8m**	£151.3m
Ongoing Charges[5]	**0.84%**	0.85%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil
Dealing Spread	**1.8%**	2.1%

Historic Returns	Discrete Annual Returns (%) The Fund[1,3]	Index[2]
1 year to 31 December 2013	49.4	36.9
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

Historic Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2013	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2011	38.6	33.4	92.2	77.9
3 years from 31 December 2010	19.2	17.4	69.3	61.7
4 years from 31 December 2009	20.6	20.1	111.5	107.8
5 years from 31 December 2008	24.2	27.3	195.4	233.9
10 years from 31 December 2003	13.3	13.6	249.9	257.6
15 years from 31 December 1998	15.0	11.9	717.3	439.2
22.8 years from inception on 20 March 1991	14.0	11.1	1,864.8	993.4

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 2014 included some 363 companies, the largest market capitalisation of which was £1.503 billion and the aggregate market capitalisation of which was £163 billion.

3 This table is in accordance with the Financial Conduct 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 2013. 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 Conduct Authority.

Status

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

Changes to Prospectus

There were no material changes to the Prospectus in the period.

Introduction

With a total return in 2013 of 49.4%, the Fund enjoyed its second best ever year of absolute performance since its launch in 1991. This return is analysed in detail in the Investment Performance section of this report, but the principal influences were the general buoyancy of equity markets, the particular strength of small companies and a re-emergence of the value style. In the UK, the FTSE All-Share recorded a total return of 20.8%. Large companies have now exceeded their previous peak levels, set in 2007, in both capital only and total return terms. Small companies, measured by the NSCI (XIC), entered new territory some time ago and in 2013, with a total return of 36.9%, extended their record of out-performance against large companies since the global financial crisis. Indeed, the period since the crisis has witnessed small companies' best five year performance against large companies in the Fund's history.

The roots of these returns from small companies were in the very low valuations ascribed to riskier assets as they emerged from the recession and global financial crisis. In the immediate aftermath, investors tended to crave certainty and thus eschewed the more illiquid or, what they perceived as, more volatile small companies. The "risk-on, risk-off" phenomenon of recent years acted as a further discouragement. In 2013, impetus was given to the performance of small companies by improving confidence, as evidence mounted that the global macro economy is stabilising, if not improving.

The Eurozone stopped getting worse, though the buoyancy of the core at the expense of the periphery continues and thus probably raises the future threat to the integrity of the currency union. In the US, the recovery proceeds, despite the best efforts of the politicians and uncertainty over the "tapering" of quantitative easing. With the US current account deficit showing less inclination to expand than in previous recoveries, China has experienced pressure on its still high growth rates, though there is some optimism that the new leadership regime is determined to effect a rebalancing of the economy towards domestic demand.

The UK's economy confounded the majority of expectations that prevailed at the start of the year. The recovery became more firmly entrenched as the coalition's growth initiatives, together with less difficult export markets, started to take effect. "Help-to-buy" divides opinion but there is little doubt that it is influential, directly on the housing market and indirectly on areas such as general confidence and tax revenues. The concern is that a recovery based on higher lending is ephemeral, so examination of movements in real incomes will intensify in 2014. While interest rates are likely to remain extremely low until 2015, scrutiny of Mark Carney and his own "tapering" tactics will increase over coming months.

The pick-up in confidence arising from improving economies has, in turn, engendered a willingness among investors to venture into long-neglected parts of the stockmarket, which has been accompanied by a shift in investment style towards the value approach of the Manager. But enthusiasm continues to be tempered by the influence of today's very loose monetary conditions: the extent of the real economy's reliance on quantitative easing and low interest rates is unclear. In an investment world confronted by "tapering", the prevailing mind-set of investors would appear to be that good news, from the perspective of the real economy, is bad news for asset prices. However, with anything approaching a long term investment horizon, should not a normalisation of monetary conditions, associated with an improving economy, be cause for encouragement?

Manager's Report

Investment performance

The Fund's total return in 2013 was 49.4%, which is the second best calendar year result in its history. The table below analyses the relative return.

For the 12 months ended 31 December 2013	Basis points
Stock selection	1,242
Sector selection	(22)
Attributable to the portfolio of investments, based on mid prices	**1,220**
Movement in mid to bid price spread	75
Cash/overdraft	32
Management fee	(78)
Other expenses	(6)
Total attribution based on bid prices	**1,243**

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 = 49.36%; Benchmark Index = 36.93%; difference is 12.43% being 1,243 basis points).

Sectors

The distinction between stock and sector selection shown in the preceding table may give a false impression of the Manager's investment process. The vast majority of companies enter the portfolio through a bottom-up assessment of their individual merits; it is very unusual for top-down considerations to affect the portfolio's profile. However, collections of decisions on individual businesses can result in an exposure of the portfolio to sector themes. At the current time, one such theme would be the portfolio's relatively low weighting in resources. This reflects a concern that the cheap money available to this sector over the past decade and consequent substantial investment has resulted in an imbalance of supply and demand for several commodities. Few company boards within the small company resources arena have as yet woken up to the new environment of greater capital discipline that is exemplified by some of their larger peers. That said, if they do, opportunities may emerge.

With an exposure of 11.3% against 7.8% for the NSCI (XIC), the portfolio's largest over-weight sector position is in Technology. This very much reflects an aggregation of decisions on individual businesses, rather than a particular optimism for spending on technology. In 2013, this positioning was unhelpful to the Fund's relative return as the market was led by sectors more likely to benefit from a domestic cyclical recovery.

Style

The Manager's tendency to revisit the influence of investment style is due to their consistent adherence to their value investment philosophy. The stockmarket is more fickle and oscillates between periods of favouring either the growth or the value style. Between the global financial crisis and the beginning of 2013, the growth style was in the ascendancy, as tough economic conditions and heightened uncertainty favoured companies with secular, albeit often modest, growth characteristics. However, the rising confidence of 2013 encouraged a more general re-acquaintance with the cheaper "smaller small" companies that have inhabited the Fund's portfolio for some time. Aberforth employs two third party style models to gauge style influences on the performance of the NSCI (XIC). These give mixed messages about the precise performance of the value style in 2013. However, the Manager would suggest that the extent of the Fund's out-performance against the NSCI (XIC) would have been difficult to achieve without a following wind from style.

Strong balance sheets

The national accounts show that the UK corporate sector has been a net saver for over a decade. The global financial crisis and recession only added to the reluctance of boards to utilise their cash and so balance sheets have strengthened significantly over the past five years. Small companies have been part of this trend: one third of Aberforth's tracked universe is represented by companies with net cash on their balance sheets. While cash provides strategic flexibility, it drags down returns on equity, particularly in the present low interest rate environment. Companies with net cash on their balance sheets account for 37% of the Fund's portfolio. In many cases, cash levels are more than sufficient even in the eventuality of another recession. The Manager is therefore keen to see more of that financial strength employed. The preference is clearly organic investment. Failing such opportunities, acquisitions might make sense, though only if they compare favourably with the benchmark of low risk returns of cash to shareholders.

Manager's Report

De-equitisation

The good performance of small companies in 2013 came despite a dearth of M&A activity. Only five deals within the NSCI (XIC) were completed; of these, the Fund held one. This was by some distance the quietest year for M&A in the Fund's history. With balance sheets strong across much of the global corporate landscape and with the valuations of the majority of small companies relatively attractive, the explanation for the lack of M&A probably lies in low levels of confidence around board tables in the early part of the year. However, with confidence now picking up, it is likely that the frequency of M&A will increase in 2014, but then again it can hardly decline.

Though they were deprived of M&A fees, it is difficult to feel too sorry for the investment bankers since the IPO market has been resurgent: 15 IPOs eligible for inclusion in the NSCI (XIC) were completed in 2013. Enthusiasm for these deals was boosted by the desire of investors to increase exposure to the often illiquid part of the stockmarket represented by the NSCI (XIC). Moreover, in the early stages of the IPO market at least, valuations were attractive as vendors had to accept lower prices in order to ensure that the listing would take place. The Fund participated in four IPOs through 2013, two of which were still in the portfolio at the year end. Experience suggests that such opportunities will become fewer as the IPO market gains momentum.

Dividends

Small companies have not traditionally been the first port of call for income investors, despite income characteristics substantially accounting for the superior total return over the long term of small companies against large. However, it is plausible that a wider recognition of small companies' income credentials has played a role in the particularly strong recent performance of the asset class. At work have been two dynamics. First, the prevailing low interest rate environment has starved the investment world of yield. With extra impetus from quantitative easing, higher yielding assets have attracted the attention of income investors and have seen their yields drop as a result. This phenomenon, dubbed by some as "yieldfall", has benefited higher yielding denizens of the NSCI (XIC). Encouraging the process has been the second dynamic: dividend growth, which has averaged close to 10% per annum in the years since the global financial crisis. However, it is important to put this rate of dividend growth in perspective: the base year, 2009, was the worst for small company dividends since 1955.

Band	Nil	Down	Flat	Up	New	Other
No. of holdings	20	8	11	47	3	3

The Fund's income account has benefited from this rising tide and from special dividends. The most recent dividend experience is shown in the table above, which categorises the portfolio according to each investee company's most recent dividend action. Encouragingly, around half of the holdings raised their dividends. "New" denotes those companies that started paying dividends for the first time or that, having cut to zero, have resumed payments. The "Other" category contains those companies whose most recent dividends have no relevant comparison, such as the two 2013 IPOs. The "Nil" category contains those companies that do not currently pay dividends; it may act as a reminder that the Fund is not an income fund, though the Manager's value style tends to bring superior income characteristics across the portfolio as a whole. Most of the members of the "Nil" category should be capable of paying dividends over the next few years. As they do, the Fund should enjoy a boost to its income and the portfolio's average dividend cover, which at 3.2x is the highest in the Fund's history, will fall closer to the long term 2.4x average.

Valuations

Characteristics	**31 December 2013** The Fund	**31 December 2013** NSCI (XIC)	31 December 2012 The Fund	31 December 2012 NSCI (XIC)
Number of companies	**92**	**363**	90	389
Weighted average market capitalisation	**£651m**	**£833m**	£510m	£748m
Price earnings ratio (historic)	**13.6x**	**16.8x**	10.4x	12.8x
Dividend yield (historic)	**2.3%**	**2.2%**	3.1%	2.8%
Dividend cover	**3.2x**	**2.7x**	3.1x	2.8x

Manager's Report

Small companies experienced a sharp re-rating in 2013. Share prices climbed, but profits across the asset class fell slightly over the year. This disappointing profit performance reflects sluggish macro economic demand conditions in the earlier part of the year and the particular difficulties faced by many of the resources companies in the benchmark. The historic PE of the NSCI (XIC) moved from 12.8x to 16.8x, crossing the average over the Fund's 22 year history of 13.3x. Therefore, the valuation credentials of small companies, which made them such an attractive asset class in the wake of the global financial crisis, are no longer so compelling. However, there are mitigating factors.

- The stockmarket is forward-looking and, with macro economic demand picking-up and cost bases still lean, the prospects for profit growth in 2014 are good: consensus estimates suggest a 10% increase in profits across the small company universe. Moreover, the weakness of 2013 makes comparisons somewhat easier.
- The Fund is actively managed and is not condemned to track the NSCI (XIC), something that the experience of recent years amply demonstrates, both on the upside and the downside. The Manager strives to keep the portfolio different from the benchmark. A statistical measure of this is Active Money, which has been the focus of much academic research in recent years. Active Money is the sum of the differences between the portfolio weight and the benchmark weight for each stock held in the portfolio. The Manager aims to keep the ratio above 70%. Given this definition of Active Money, it is impossible to reach 100% without holding companies that are not part of the benchmark index. This is a practice that the Fund has not pursued: it invests in companies that are members of the benchmark or are likely to become members on future rebalancing.
- "Value stretch" is an important concept in a value investment philosophy and may be thought of as the degree to which growth companies are more highly rated than value companies. If the value stretch is wide, then value investors should be presented with an abundance of investment opportunities. As the stockmarket valuations of these opportunities move to reflect more fairly the underlying worth of the companies, the value investor should enjoy good relative performance, other things being equal.

  The Manager believes that although the value style was helpful in 2013, the value stretch remains at attractive levels. This may be demonstrated in two ways. First, from a historical perspective, the average portfolio PE of 13.6x sits 19% lower than the NSCI (XIC)'s 16.8x. Over the Fund's history, the average discount has been 10%, which suggests that there remain many attractively valued companies within the investment universe.

2014 EV/EBITA ratio			
34 growth companies	257 other companies	Tracked Universe	The Fund's portfolio
14.8x	10.8x	11.3x	9.5x

  Second, as demonstrated by the preceding table, forward valuations also demonstrate a significant gap between the valuation of the portfolio and that of small companies as a whole. In comparing the valuations of businesses, the Manager favours the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA), since it is unaffected by balance sheet structure and is also the metric commonly used in M&A situations. The table above shows the 2014 EV/EBITA ratio for four categories of company. The Tracked Universe represents 98% of the NSCI (XIC) by value and comprises the 291 companies that are followed closely by the Manager. These are subdivided into 34 "growth companies" and 257 "other companies". The average EV/EBITA of the former group, which tended to perform well in the aftermath of the global financial crisis, is 37% higher than that of the latter group. The premium of the growth stocks to the Fund's portfolio is higher, at 56%.

Outlook & conclusion

The improving performance of economies around the world, not least the UK's, has challenged the orthodoxy that dominated financial markets in the aftermath of the global financial crisis. Thus the focus has started to shift from the relative safety of bonds' returns to their skimpiness, and there are indications, albeit not yet "great", of a rotation from bonds into equities. Within equity markets themselves, investors now seem more prepared to explore areas that were overlooked in the aftermath of the global financial crisis. Within the context of the NSCI (XIC), this means that interest has started to broaden from the exclusive cadre of mid caps whose secular growth characteristics or underlying steadiness of business model appealed in a financial world craving certainty. Companies not displaying such "quality" and whose valuations were consequently penalised are now attracting interest, which is to the benefit of the value investment style and therefore to the Fund.

Manager's Report

Given the strength of returns over 2013, it is natural to question the attractiveness of today's valuations. The Manager takes heart from what seems still to be a wide value stretch. Moreover, there is evidence of broader valuation anomalies still in place within the NSCI (XIC). "Smaller small" companies remain more lowly rated than the mid cap components of the index: the weighted average market capitalisation of the highly rated growth companies described in the Valuations section above is £1.2bn, considerably higher than the portfolio's £0.7bn. There is also evidence that the craving for certainty continues to affect the valuations of companies with more volatile share prices: since the global financial crisis, companies with more volatile share prices are valued at a discount to those with lower volatility; prior to 2009, the reverse was the case. This phenomenon represents an opportunity for those funds that are ready and able to adopt a longer term investment horizon.

For these reasons, the Manager is optimistic that the NSCI (XIC) remains set up in a manner that can benefit the Fund's relative performance. However, as recent years have made all too clear, the absolute returns that the Fund generates in 2014 and beyond will be heavily influenced by global financial and macro economic factors that can seem very distant from the parochiality of small UK quoted companies. With global debt levels still elevated and the precise effects of quantitative easing difficult to assess, a normalisation of the financial world is not without risk, but the Manager struggles to see "tapering" as anything other than good news for equities in general and the value style in particular over the medium to long term.

The events of the global financial crisis and its aftermath have taught many lessons. Among these, from the Fund's perspective, it has been shown again that the long term out-performance of the value investment style can come in violent bursts. Determining when the value stretch reaches its limits is difficult – it was easy to miss the opportunities of 2009 or 2013. The Manager seeks to minimise such risk by adhering at all times to their value investment philosophy. This can result in years of poor performance relative to the benchmark index, notably the TMT period and more recently the aftermath of the global financial crisis. However, history suggests that consistent application of such an investment approach does work over time.

A P Bamford, Director
R M J Newbery, Director
Aberforth Unit Trust Managers Limited
28 January 2014

Summary of Material Portfolio Changes

For the year ended 31 December 2013

Purchases	Cost £'000
Qinetiq Group	4,200
FirstGroup	4,117
Shanks Group	3,799
Vesuvius	3,518
Go-Ahead Group	3,129
F&C Asset Management	3,016
Carillion	2,885
Grainger	2,638
TT electronics	2,482
RPC Group	2,450
Northgate	2,251
Tullett Prebon	2,014
Soco International	1,969
Bovis Homes Group	1,901
Morgan Advanced Materials	1,849
SDL	1,757
Spirit Pub Company	1,627
Vitec Group	1,626
St. Modwen Properties	1,539
Hardy Oil & Gas	1,528
Other purchases	64,361
Total for the period	**114,656**

Sales	Proceeds £'000
Regus	5,025
CSR	4,335
Howden Joinery Group	3,944
Bodycote	3,871
Galliford Try	3,794
Thomas Cook Group	3,387
RPC Group	3,249
Playtech	3,223
Barratt Developments	3,097
Northgate	2,885
JD Sports Fashion	2,857
Beazley	2,691
4imprint Group	2,530
Cranswick	2,510
Lavendon Group	2,432
AZ Electronic Materials	2,407
e2v technologies	2,381
St. Modwen Properties	2,313
Spirit Pub Company	2,267
Workspace Group	2,233
Other sales	85,517
Total for the period	**146,948**

Distribution Table

For the period 1 July to 31 December 2013

Group 1: Units purchased prior to 1 July 2013
Group 2: Units purchased on or after 1 July 2013

	Net Income 2013	**Equalisation† 2013**	**Distribution/ Accumulation 2013**	Distribution/ Accumulation Dec 2012
Income units				
Group 1	**152.3518p**	**–**	**152.3518p**	151.4123p
Group 2	**74.4586p**	**77.8932p**	**152.3518p**	151.4123p
Accumulation units				
Group 1	**177.7626p**	**–**	**177.7626p**	171.6600p
Group 2	**86.8776p**	**90.8850p**	**177.7626p**	171.6600p

† When buyers purchase units, 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. 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 2013

Holding	Security	Value £'000 (31 December 2013)	% of Total Net Assets (31 December 2013)	% of Index[1] (31 December 2013)	% of Total Net Assets (31 December 2012)	% of Index[1] (31 December 2012)
Oil & Gas Producers		**6,420**	**3.7**	**3.4**	2.6	3.9
1,252,451	EnQuest	1,686	1.0			
917,687	Hardy Oil & Gas	688	0.4			
1,234,766	JKX Oil & Gas	883	0.5			
716,257	Petroceltic International	1,239	0.7			
488,300	Soco International	1,924	1.1			
Oil Equipment, Services & Distribution		**–**	**–**	**1.6**	–	1.5
Alternative Energy		**–**	**–**	**0.1**	–	0.1
Chemicals		**1,738**	**1.0**	**3.1**	3.1	4.0
693,318	Synthomer	1,738	1.0			
Industrial Metals & Mining		**550**	**0.3**	**0.8**	0.4	0.2
5,636,752	International Ferro Metals	550	0.3			
Mining		**3,030**	**1.9**	**3.4**	1.8	3.3
438,330	Anglo Pacific Group	808	0.5			
441,855	Aquarius Platinum	175	0.1			
2,085,610	Centamin	929	0.6			
5,310,300	Kenmare Resources	1,099	0.7			
543,440	Kenmare Resources Warrants 2019[2]	19	–			
Construction & Materials		**2,935**	**1.7**	**2.9**	3.6	1.9
148,347	Galliford Try	1,734	1.0			
1,674,545	Low & Bonar	1,201	0.7			
Aerospace & Defence		**5,885**	**3.5**	**2.9**	1.7	2.7
423,164	Chemring Group	948	0.6			
2,275,285	QinetiQ Group	4,937	2.9			
General Industrials		**8,266**	**4.9**	**1.6**	3.0	1.2
880,367	RPC Group	5,194	3.1			
602,972	Vesuvius	3,072	1.8			
Electronic & Electrical Equipment		**8,802**	**5.3**	**4.3**	3.7	2.5
2,358,917	e2v technologies	3,527	2.1			
292,376	HellermannTyton Group	867	0.5			
830,388	Morgan Advanced Materials	2,624	1.6			
905,470	TT electronics	1,784	1.1			
Industrial Engineering		**5,960**	**3.5**	**2.3**	4.9	2.0
321,786	Bodycote	2,153	1.3			
374,390	Castings	1,597	0.9			
167,197	Hill & Smith Holdings	862	0.5			
214,987	Vitec Group	1,348	0.8			
Industrial Transportation		**1,463**	**0.9**	**1.6**	0.7	2.0
1,160,873	Wincanton	1,463	0.9			
Support Services		**24,903**	**14.9**	**12.3**	14.7	15.4
271,317	Acal	891	0.5			
626,185	Capital Drilling	160	0.1			
755,482	Carillion	2,495	1.5			
1,278,400	Hogg Robinson Group	1,007	0.6			
203,361	Hyder Consulting	1,291	0.8			
125,100	Interserve	779	0.4			
495,027	Lavendon Group	854	0.5			
2,456,077	Management Consulting Group	633	0.4			

Portfolio Statement

As at 31 December 2013

Holding	Security	31 December 2013 Value £'000	% of Total Net Assets	% of Index[1]	31 December 2012 % of Total Net Assets	% of Index[1]
Support Services (continued)						
995,221	Northgate	5,021	3.0			
345,512	office2office	104	0.1			
616,427	Robert Walters	1,920	1.1			
993,361	RPS Group	3,335	2.0			
3,095,242	Shanks Group	3,358	2.0			
684,177	Smiths News	1,615	1.0			
2,249,913	Speedy Hire	1,440	0.9			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**615**	**0.3**	**0.8**	–	1.1
220,500	Stock Spirits Group	615	0.3			
Food Producers		**2,086**	**1.2**	**2.8**	2.4	2.5
439,568	Hilton Food Group	1,874	1.1			
48,200	R.E.A. Holdings	212	0.1			
Household Goods & Home Construction		**4,743**	**2.8**	**2.4**	2.4	2.3
306,505	Bovis Homes Group	2,431	1.4			
944,500	McBride	942	0.6			
439,125	Redrow	1,370	0.8			
Leisure Goods		**–**	**–**	**0.5**	–	0.3
Personal Goods		**–**	**–**	**1.3**	–	0.7
Health Care Equipment & Services		**2,066**	**1.2**	**1.9**	1.3	1.0
1,025,455	Optos	2,066	1.2			
Pharmaceuticals & Biotechnology		**3,371**	**2.0**	**1.3**	1.8	2.1
2,408,153	Vectura Group	3,371	2.0			
Food & Drug Retailers		**–**	**–**	**0.8**	–	1.2
General Retailers		**10,355**	**6.1**	**5.7**	7.3	8.1
324,454	Halfords Group	1,447	0.9			
360,322	JD Sports Fashion	5,239	3.1			
408,166	Mothercare	1,592	0.9			
207,711	WH Smith	2,077	1.2			
Media		**11,367**	**6.8**	**3.5**	6.2	3.9
1,780,534	Centaur Media	1,042	0.6			
463,108	Chime Communications	1,561	0.9			
8,604,567	Future	1,613	1.0			
4,101,881	Huntsworth	2,820	1.7			
1,896,842	Mecom Group	1,631	1.0			
1,323,507	Trinity Mirror	2,700	1.6			
Travel & Leisure		**13,976**	**8.4**	**8.2**	6.7	10.4
87,509	Air Partner	486	0.2			
2,025,008	FirstGroup	2,503	1.5			
1,048,900	Flybe Group	1,112	0.7			
149,284	Go-Ahead Group	2,624	1.6			
724,035	National Express Group	1,989	1.2			
5,282,246	Punch Taverns	634	0.4			
4,515,258	Spirit Pub Company	3,465	2.1			
1,426,983	Sportech	1,163	0.7			
Fixed Line Telecommunications		**1,322**	**0.8**	**2.8**	1.0	2.0
1,365,634	KCOM Group	1,322	0.8			

Portfolio Statement

As at 31 December 2013

Holding	Security	31 December 2013 Value £'000	31 December 2013 % of Total Net Assets	31 December 2013 % of Index[1]	31 December 2012 % of Total Net Assets	31 December 2012 % of Index[1]
Electricity		–	–	**0.6**	–	0.5
Gas, Water & Multiutilities		–	–	–	–	–
Banks		–	–	**0.5**	–	0.3
Nonlife Insurance		**1,471**	**0.9**	**2.7**	2.0	1.7
235,336	Novae Group	1,471	0.9			
Life Insurance		**744**	**0.4**	**1.6**	0.7	0.9
774,824	Hansard Global	744	0.4			
Real Estate Investment & Services		**10,358**	**6.2**	**6.2**	5.3	4.0
4,302,317	Assura Group	1,624	1.0			
1,206,878	Grainger	2,456	1.5			
1,121,205	St. Modwen Properties	4,104	2.4			
540,059	Unite Group	2,174	1.3			
Real Estate Investment Trusts		**3,309**	**1.9**	**2.8**	2.2	3.0
1,948,686	Hansteen Holdings	2,105	1.2			
2,049,300	Redefine International	1,204	0.7			
Financial Services		**11,921**	**7.1**	**5.6**	6.6	7.3
998,954	Brewin Dolphin Holdings	3,047	1.8			
216,163	Charles Stanley Group	1,070	0.6			
3,251,281	F&C Asset Management	2,981	1.8			
299,531	Jupiter Fund Management	1,153	0.7			
978,276	Tullett Prebon	3,670	2.2			
Software & Computer Services		**13,151**	**7.6**	**4.9**	8.5	2.9
1,447,202	Anite	1,433	0.8			
225,056	Computacenter	1,418	0.8			
552,676	Kofax	2,254	1.3			
268,656	Micro Focus	2,058	1.2			
956,072	Microgen	1,214	0.7			
1,074,267	Phoenix IT Group	1,431	0.8			
1,401,059	RM	1,611	1.0			
482,552	SDL	1,732	1.0			
Technology Hardware & Equipment		**5,571**	**3.3**	**2.8**	4.9	3.1
610,934	CSR	3,861	2.3			
2,086,446	Filtronic	1,158	0.7			
2,831,490	Promethean World	552	0.3			
Investments as shown in the Balance Sheet		**166,378**	**98.6**	**100.0**	99.5	100.0
Net Current Assets		**2,418**	**1.4**	**–**	0.5	–
Total Net Assets		**168,796**	**100.0**	**100.0**	100.0	100.0

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

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

[2] Unquoted security.

Fund Information

Net Asset Value

Date	**31 December 2013**	31 December 2012	31 December 2011
Value of Fund (£'000)	**168,796**	151,334	170,175
Accumulation units in Issue	**597,739.561**	1,166,048.466	1,384,131.836
Income units in issue[(i)]	**362,124.095**	52,118.400	410,596.916
NAV per unit – accumulation (£)	**186.48**	124.92	97.07
NAV per unit – income (£)	**158.32**	108.71	87.24

Unit Price Range

	Accumulation Units		Income Units	
Period	Highest Issue £	Lowest Cancellation £	Highest Issue £	Lowest Cancellation £
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
31 December 2013	**189.46**	**126.70**	**162.38**	**110.25**

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
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
31 December 2013	**399.7750**	**345.5453**

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.

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 £2.2 billion (as at 31 December 2013). 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 Conduct 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 Conduct Authority.

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

28 January 2014

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 2013

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 Conduct 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

28 January 2014

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 2013 which comprise the Statement of Total Return, the Statement of Change in Unitholders’ Net Assets 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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
28 January 2014

Financial Statements

For the year ended 31 December 2013

Statement of Total Return

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Income:					
Net capital gains	5		**48,075**		38,154
Revenue	6	**4,627**		6,215	
Expenses	7	**(1,266)**		(1,438)	
Finance costs: interest	9	**–**		(4)	
Net revenue before taxation		**3,361**		4,773	
Taxation	8	**–**		(4)	
Net revenue after taxation			**3,361**		4,769
Total return before distributions			**51,436**		42,923
Finance costs: distributions	9		**(4,096)**		(5,621)
Change in net assets attributable to Unitholders from investment activities			**47,340**		37,302

Statement of Change in Unitholders' Net Assets

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Opening net assets attributable to unitholders		**151,334**		170,175
Amounts receivable on creation of units	**71,866**		2,666	
Amounts payable on cancellation of units	**(103,822)**		(63,287)	
		(31,956)		(60,621)
Stamp duty reserve tax		**(10)**		(3)
Change in net assets attributable to unitholders from investment activities		**47,340**		37,302
Retained distribution on accumulation units		**2,088**		4,481
Closing net assets attributable to unitholders		**168,796**		151,334

Financial Statements

As at 31 December 2013

Balance Sheet

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
ASSETS					
Investments assets			**166,378**		150,595
Debtors	10	**1,509**		347	
Cash and bank balances		**2,100**		1,153	
Total other assets			**3,609**		1,500
Total assets			**169,987**		152,095
LIABILITIES					
Creditors	11	**(639)**		(682)	
Distribution payable on income units		**(552)**		(79)	
Total liabilities			**(1,191)**		(761)
Net assets attributable to unitholders			**168,796**		151,334

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 2013. 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. The Fund is not more than 60% invested in qualifying investments (as defined in Section 468L, Income and Corporation Taxes Act 1988).

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. The 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 £10,000 (2012: £3,000).

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. The current synthetic risk and reward indicator is 6 and remains unchanged during the year. Further information can be found in the Key Investor Information Document available on the Manager's website.

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

	2013 £'000	2012 £'000
The gains on investments during the year comprise:		
Equity investments	**48,075**	38,154

Notes to the Financial Statements

6 Income

	2013 £'000	2012 £'000
UK dividends	**4,323**	5,839
Scrip dividends	**41**	23
Overseas dividends	**256**	342
Bank interest	**7**	11
Total income	**4,627**	6,215

7 Expenses

	2013 £'000	2012 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,176**	1,364
Payable to the Trustee or associate of the Trustee		
Trustee's fees	**40**	44
Other expenses:		
Audit fee	**13**	11
Safe custody fees	**16**	14
Registration fees	**4**	5
Printing fees	**17**	–
	50	30
Total expenses	**1,266**	1,438

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 £735,000 borne by the capital of the Fund (2012: £852,000). Further details of the management fees, Trustee's fees and other expenses of the Fund are available in the Fund's Prospectus.

8 Taxation

	2013 £'000	2012 £'000
(a) Analysis of charge in the period:		
Irrecoverable overseas tax	**–**	4
Current tax (note 8(b))	**–**	–
Total tax charge for the year	**–**	4
(b) Factors affecting current tax charge for the period:		
Net revenue before taxation	**3,361**	4,773
Corporation tax at 20%	**672**	955
Effects of:		
Non-taxable dividends	**(861)**	(1,168)
Non-taxable overseas dividends	**(51)**	(68)
Unutilised management expenses	**240**	281
	(672)	(955)
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 £38,548,000 (2012: £37,346,000). 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 £7,709,600 (2012: £7,469,200).

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:

	2013 £'000	2012 £'000
Interim	1,318	3,129
Final	1,614	2,081
	2,932	5,210
Add: Income deducted on cancellation of units	1,584	443
Less: Income received on creation of units	(420)	(32)
Total distributions	4,096	5,621
Bank overdraft interest	–	4
Total finance costs	4,096	5,625

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

	2013 £'000	2012 £'000
Net revenue after taxation	3,361	4,769
Add: Manager's periodic fee taken to capital	735	852
Distributions	4,096	5,621

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

10 Debtors

	2013 £'000	2012 £'000
Amounts receivable for creation of units	1,218	–
Sales awaiting settlement	–	–
Accrued income	281	345
Other debtors	10	2
Total debtors	1,509	347

11 Creditors

	2013 £'000	2012 £'000
Amounts payable for cancellation of units	–	487
Purchases awaiting settlement	502	76
Accrued management fee	105	101
Other accrued expenses	27	17
Stamp duty reserve tax	5	1
Total creditors	639	682

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2013 £'000	2012 £'000
Analysis of total purchase costs		
Purchases in period before transaction costs	**113,888**	35,757
Commissions	**249**	114
Taxes	**519**	154
Total purchase costs	**768**	268
Total purchase consideration	**114,656**	36,025
Analysis of total sale costs		
Gross sales in year before transaction costs	**147,084**	92,493
Commissions	**(136)**	(219)
Taxes	**–**	(1)
Total sale costs	**(136)**	(220)
Total sale proceeds net of transaction costs	**146,948**	92,273

On average, over the last three financial years the Fund incurred broker commissions of 0.23% p.a. (2012: 0.29% p.a.) and stamp duty of 0.16% p.a. (2012: 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 2013, the estimated average dealing spread for this Fund is 0.76% (2012: 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 £1,119,000 (31 December 2012: £588,000). 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 2012: £3,000).

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 Conduct 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 various transaction networks including EMX and Calastone. 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 1.84% 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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