Aberforth UK Small Companies Fund

Annual Report and Accounts

31 December 2014

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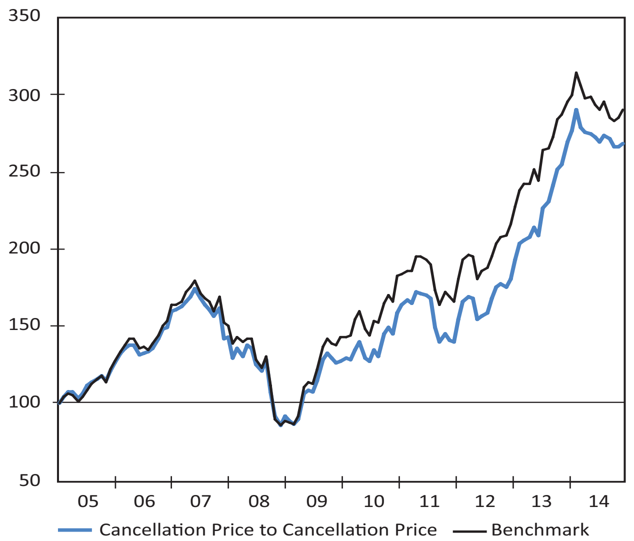
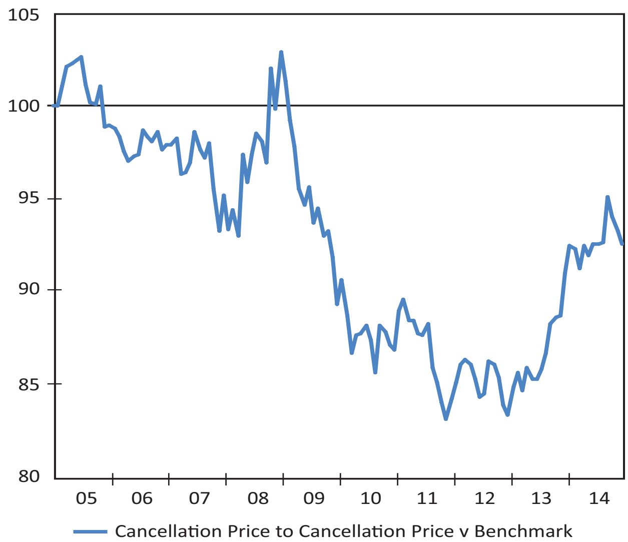
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2004)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2004)



Investment Record

Performance for the year to 31 December 2014	%
The Fund[1]	**-0.2**
Benchmark Index[2]	**-1.9**

Prices & Yield		2 January 2015[4]	2 January 2014[4]
Accumulation Units	Issue Price	**£189.21**	£189.92
	Cancellation Price	**£185.90**	£186.57
Income Units (xd)	Issue Price	**£157.15**	£161.24
	Cancellation Price	**£154.40**	£158.40
	Yield[6]	**2.3%**	2.2%

Size & Charges	31 December 2014	31 December 2013
Total Net Assets	**£195.8m**	£168.8m
Ongoing Charges[5]	**0.85%**	0.84%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil
Dealing Spread	**1.8%**	1.8%

Historic Returns	Discrete Annual Returns (%) The Fund[1,3]	Index[2]
1 year to 31 December 2014	-0.2	-1.9
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

Historic Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2014	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2012	22.1	15.9	49.1	34.4
3 years from 31 December 2011	24.3	20.4	91.9	74.6
4 years from 31 December 2010	14.0	12.2	69.0	58.7
5 years from 31 December 2009	16.1	15.3	111.1	103.9
10 years from 31 December 2004	10.4	11.3	169.1	190.8
15 years from 31 December 1999	12.2	8.5	462.1	238.9
23.8 years from inception on 20 March 1991	13.3	10.5	1,861.2	973.1

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 2015 included some 369 companies, the largest market capitalisation of which was £1.265 billion and the aggregate market capitalisation of which was £157 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 2014. 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 initial 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

The Fund's total return in 2014 was -0.2%. This outcome was influenced by a weak showing from the small company asset class: the NSCI (XIC) generated a total return of -1.9%. The FTSE All-Share, which is representative of larger companies, produced a total return of 1.2%. Thus, last year brought a reversal of the pattern of very strong returns from smaller companies in recent years. Over the five years to 31 December 2014, the total return of small companies has been 104%, against 52% for large.

The modest movements of UK equities in 2014 are in contrast to some remarkable gyrations in the broader financial markets.

- Government bond yields, which rose sharply in 2013, headed downwards again in 2014. In the US, ten year treasury yields were 3.0% at the start of the year, experienced an extraordinary dip to 1.7% in October and stood at 2.2% at the year end. Gilts yields followed a similar path, falling from 3.0% to 1.8%. The decline was influenced by a reassessment of the outlook for economic growth, as Japan and the Eurozone in particular disappointed expectations. Also influential were the anticipation of quantitative easing in the Eurozone and more stimulus in Japan. These offset the "tapering" of the US's own quantitative easing programme.
- Among equity markets, the performance of the US stockmarket, the world's largest, stood out. The S&P 500 rose by 11% and ended the year close to its all time high. Helping this performance was the relative buoyancy of the US economy. Its recovery from the global financial crisis has seen it resume its pre-eminence in the context of the global economy. However, growth in gross domestic product was not the sole determinant of equity performance. The UK market struggled, despite a better than expected outturn for economic growth, which in part reflects its significant exposure to oil companies. In contrast, Germany and Japan, whose economies have disappointed, saw their equity markets achieve positive returns in 2014.
- Currency movements change the picture. The US dollar was particularly strong in 2014, rising by 13% on a trade-weighted basis. Thus, in dollar terms, the positive returns of the German and Japanese markets lapse into negative territory: for example, Germany's Dax was up by 3% in euro terms but down by 10% in dollar terms. Periods of dollar strength are frequently awkward affairs for other parts of the world economy, challenging established financial relationships and hampering global trade.
- The strong dollar exerted pressure on the prices of commodities through 2014. Of these, oil stands out. Its 46% price decline over the year accelerated in the final quarter as the impact of weaker demand, the US shale boom and OPEC's reluctance to cut production were digested. The share prices of oil companies duly suffered, though other stockmarket sectors ought to be beneficiaries of lower oil prices.

The aforementioned price movements are often contradictory and imply large swings in relative valuations between asset classes. Against this background, the tasks of running small UK quoted companies or of making investment decisions about those companies are inevitably complicated. The burden has been eased somewhat by the performance of the UK economy, which accounts for around half of the revenues of the small cap universe. Challenges to the domestic economy remain. Among these are several more years of austerity, wage growth that struggles to exceed the rate of inflation, and a particularly uncertain political environment. However, the recovery continued through 2014 and helped small companies generate earnings growth of around 8%. This was lower than market expectations at the start of the year, as is usually the case. It is, though, an acceptable outcome, especially when backed up by dividend growth of a similar magnitude.

Investment performance

The Fund's total return in 2014 was -0.2%, against the NSCI (XIC)'s total return of -1.9%. That relative performance is analysed in the table below. The following paragraphs describe the principal influences on performance in 2014.

Manager's Report

Performance attribution for the 12 months ended 31 December 2014	Basis points
Stock selection	298
Sector selection	(39)
Attributable to the portfolio of investments, based on mid prices	**259**
Movement in mid to bid price spread	(43)
Cash/overdraft	36
Management fee	(80)
Other expenses	(5)
Total attribution based on bid prices	**167**

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 = -0.18%; Benchmark Index = -1.85%; difference is +1.67% being +167 basis points).

Sectors

The portfolio's sector positions, and thus the contributions from sector selection shown in the preceding table, are usually the outcome of the Manager's bottom-up stock selections. But, in view of the recent weakness of the oil price, a general comment on the Oil & Gas sector is merited. Towards the end of 2013, exposure to the sector was increased in a meaningful way for the first time in around a decade. This was motivated by the low valuations of several small oil companies, whose share prices had fallen sharply over recent years in response to industry-wide cost pressures and deteriorating returns on marginal investment. Such were the declines that a phase of consolidation had started. The message in this consolidation was that it was becoming cheaper to own oil reserves through M&A than to produce them by drilling another hole. Indeed, the portfolio benefited from this consolidation as one of its oil holdings was acquired. However, the takeover of another oil holding towards the end of the year was thwarted by the precipitous drop in the oil price. This has provoked a reassessment of their investment plans by oil companies and has put significant pressure on share prices. The pressure was sufficient to render many mid cap oil companies eligible for inclusion in the NSCI (XIC) on its annual rebalancing. The impact of these means that the NSCI (XIC)'s weighting in Oil & Gas at 1 January 2015 was 5.8%. The Fund's exposure was 3.7%. As they have done in other sectors over the years, the Manager will look to take advantage of an indiscriminate sell-off in share prices that becomes unfairly reflected in the valuations of small oil companies.

Style & size

On its 1 January 2015 rebalancing, the NSCI (XIC)'s largest constituent had a market capitalisation of £1,265m. The index thus encompasses a large portion of mid cap companies. Indeed, the overlap with the FTSE 250 represents 67% by value of the NSCI (XIC). Motivated by relative valuations, the portfolio has a relatively low exposure to this mid cap component. This positioning was unhelpful in 2014, as the returns of the FTSE 250 (+2.8%) and the FTSE SmallCap (-2.7%) suggest.

Meanwhile, the Manager's value investment style, which boosted returns in 2013, played a much less significant role in 2014. Indeed, such was the narrowness of the gap between value and growth that one of the style data providers used by the Manager, London Business School, suggested that value under-performed growth, while the other, Style Research, suggested the reverse. Hindering the value style in 2014 were the relapse in bond yields and flattening of yield curves, which, all else being equal, tend to favour the prospects of growth companies. On the other hand, for a variety of company specific reasons, some growth stocks encountered trading difficulties in 2014. From lofty valuations, these often experienced substantial falls in their share prices. The Fund benefited in a relative performance sense from not owning these companies. In certain cases, the de-rating has been such that they are starting to measure up to the Manager's value investment criteria.

Dividends

The dividend performance of small companies in 2014 was good. Mid to high single digit growth across the small cap universe extended to five years the run of dividend growth above its long term average. Of course, part of the reason for this record is the starting point: many small companies cut their dividends in the recession of 2009. The other important reason for the recent strong growth in dividends also has its roots in the global financial crisis. To generalise, in the years leading up to 2008, companies were able to forget about their shareholders: all the marginal financing they required came from the banks. The crisis changed this: banks came under pressure to deleverage and it was the shareholders that kept many companies solvent in 2009 with rescue rights issues. These events have reinforced the priorities of company boards, one manifestation of which is the growth in dividends.

The Fund has shared in this trend. The table below categorises the portfolio's 88 companies according to their most recent dividend action. It is pleasing to note that the largest category is represented by those that increased their dividends; among these, the median rate of increase was 9%. The 'Other' category includes those companies with no meaningful comparison, i.e. IPOs in 2014 and other companies that have started paying dividends.

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Band	Nil	Down	Flat	Up	Other
No. of holdings	20	7	11	44	6

The other notable category is 'Nil', which comprises those companies that have not paid a dividend over the past 12 months. These 20 companies account for 17% of the portfolio by weight: this is a high level of exposure for the Fund to nil payers. The corollary of this exposure is average dividend cover for the 88 holdings of 3.0x, which is also towards its highest ever level. The Manager has not lost its fondness for dividends. However, in 2014 some of the most attractively valued opportunities happened to be nil yielding. Crucially, the Manager considers that many of the 20 nil yielders will be capable of (re)commencing dividend payments over the next few years. As they do so, income generated by the portfolio will be boosted, all else being equal.

Strong balance sheets

The Manager's reports of recent years have referred to the strong balance sheets that characterise both the portfolio companies and the small company universe. This remains the case. The proportions exposed to companies with net cash on their balance sheet stood at 31% and 26% respectively at the end of the year. These proportions have been moving downwards since 2011. The Manager believes that, in reaction to the global financial crisis, balance sheets had in many cases been taken to levels that were unnecessarily strong. This conservatism was hampering growth prospects. Thus, the lower proportion now holding cash suggests that company boards have had greater confidence to invest or, in the absence of attractive investment opportunities, return cash to shareholders.

Corporate activity

The powerful pick-up in corporate activity through 2014 may be considered another indication of increasing corporate confidence. As described in the interim report, the first half was dominated by IPOs. The pace slackened through the second half as markets grew more nervous and as vendors became too ambitious with regard to valuations. Nevertheless, 27 IPOs eligible for inclusion in the NSCI (XIC) were completed in 2014. These had a cumulative market capitalisation of £13.4bn. Other issuance, in the form of rights issues or placings, totalled a further £4.8bn. This makes 2014 the year of highest equity issuance since 2009 when the financial crisis prompted rescue rights issues. There were four 2014 IPOs in the Fund's portfolio at the year end.

As IPO activity waned in the second half of the year, M&A activity waxed. By 31 December 2014, the takeovers of 12 NSCI (XIC) constituents had been concluded. In addition, there were incomplete bids, approaches or talks in progress for another 10. In 2013, the quietest year for small company M&A since 1955, only 5 deals were completed. The value of 2014's deals totalled £12.9bn, an impressive number, but one that is nevertheless eclipsed by the value of issuance.

The Fund's participation in the M&A upswing was considerable. Of the 22 deals noted above in the NSCI (XIC), the Fund had holdings in 9. The takeover premiums were often large, ranging from 25% to 85%. Over the years, a meaningful boost to returns from M&A has not been unusual. Indeed, the Manager is inclined to view this as a result and validation of their value investment approach.

Active share

Active share[†] is a measure of how different a portfolio is from its benchmark index. Since the publication of a research paper in 2009, it has risen in prominence as a measure of fund managers' conviction in the stocks they choose to own. In simple terms, the higher the ratio, the higher is the probability that the portfolio will perform out of line with the benchmark, for better or worse. The Manager targets an active share ratio of at least 70%, though will tolerate a temporarily depressed number, and consider the impact on the portfolio's active share ratio as part of the investment process. The year end portfolio's active share was 76%. This was affected by holdings in companies that, following the 1 January rebalancing, are no longer part of the NSCI (XIC). As these holdings are sold in an orderly fashion over the coming months, the active share ratio will fall to the extent that the proceeds are reinvested in new holdings that are part of the index.

Turnover

Over the twelve months to 31 December 2014, portfolio turnover was 36%. In two circumstances, the Fund is effectively a forced seller of holdings. First, companies that have grown too large to remain eligible for the NSCI (XIC) are ejected on the 1 January annual rebalancing. Second, in M&A situations, it is clearly not possible to remain a holder of the target company, again necessitating sale. With the pronounced pick-up in M&A through the year, it was the second of these that was particularly influential in keeping turnover above the historic average for a second year. Adjusting for these exceptions, the Fund's portfolio turnover was 25% in 2014, which is in line with the long term underlying average.

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Valuations

The table below shows the historic valuation data for the portfolio and the NSCI (XIC). The 13.2x PE ratio of small companies compares with 13.8x for the FTSE All-Share, which is representative of large companies. This 4% discount is tighter than the long term average of 7%. However, at the end of 2013, small companies were on a 5% premium to large. History suggests that such a state of affairs does not persist for long. This is a reasonable explanation for the under-performance of small companies against large in 2014.

A note of caution is warranted in the quirky UK stockmarket. There are four very large sectors in the FTSE 100 – Banks, Oils, Miners and Pharmaceuticals. The market capitalisation of each of these is larger than that of the entire small cap universe. This means that the merits of these four sectors should be considered before making a decision on size exposure.

	31 December 2014		31 December 2013	
Characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**88**	**369**	92	363
Weighted average market capitalisation	**£614m**	**£754m**	£651m	£833m
Price earnings ratio (historic)	**13.0x**	**13.2x**	13.6x	16.8x
Dividend yield (historic)	**2.5%**	**2.5%**	2.3%	2.2%
Dividend cover	**3.0x**	**3.0x**	3.2x	2.7x

Turning to the portfolio, the average PE of the 88 investee companies was 13.0x, which is 2% lower than that of the NSCI (XIC). On the basis of dividend yields, the portfolio is, unusually, not on a premium to the small cap universe. As described above, this is a function of the presently high exposure of the portfolio to nil yielding companies, which also increases the overall dividend cover.

However, the portfolio is not constructed with reference to historic PE ratios. Rather the Manager's favoured valuation metric is the ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Topically, given the high incidence of M&A within the portfolio in 2014, this valuation approach is aligned with how one company might assess another, since a bidding company can determine the means of funding an acquisition and often how the enlarged entity will be taxed. The table below shows the forward EV/EBITA ratio for the portfolio, the tracked universe and two subdivisions of the tracked universe: 43 growth stocks and 256 other companies.

2015 EV/EBITA ratio			
43 growth companies	256 other companies	Tracked Universe	The Fund's portfolio
15.6x	10.3x	11.0x	9.3x

The portfolio retains a pronounced valuation advantage over the growth companies and the broader small company universe. This is consistent with the Manager's value investment discipline. It is the Manager's contention that this valuation advantage can form the basis of superior returns over the longer term. An additional reference point is the average EV/EBITA multiple of the eight portfolio companies that have received bids during the year, using the takeover price. That average is around 13x, within a range of 7x to 32x. In comparison with the portfolio's 9.3x EV/EBITA ratio, this may be interpreted as another gauge of the good value inherent in the portfolio.

Outlook & conclusion

From a macro economic perspective, the world's rediscovered reliance on the US economy became increasingly obvious in 2014. Japan has had to resort to another round of quantitative easing and the Eurozone continues to flirt with embracing quantitative easing for the first time. However, the US appears to have succeeded, albeit with the odd hiccup, in weaning itself off the need for incremental stimulus. The pre-eminence of the US has been reinforced by the transformation of its reliance on the rest of the world for its energy requirements: self-sufficiency, by virtue of the shale boom, appears within reach. The implications of these developments were reflected by financial markets in 2014: treasury yields, though down over the year, are higher than those of other major bond markets; US equities are at all time high levels; the dollar has strengthened considerably; and the oil price has collapsed.

Understanding the ramifications of such movements is not straightforward, but it is safe to conclude that the US's leadership, while crucial to the overall health of the global economy, will not prove painless for all. Such uncertainty comes on top of sluggish economic growth from Europe and Japan, heightened tensions with Russia, and an intensification of hostilities in the Middle East. So, as usual, there is plenty for the boards of small UK quoted companies to worry about. And uncertainties also loom for the UK. These are less to do with the economy's direction in the immediate future, which, despite some

Manager's Report

disappointment with the budget deficit, still seems more akin to the US's than the Eurozone's. More significant is the perpetuation of a period of political and constitutional uncertainty, which started with 2010's coalition government, continued with the Scottish referendum and could persist until 2017 with an EU referendum. This type of risk is not one with which the boards of small UK quoted companies, or indeed their investors, have had to cope for generations.

In contrast to and in spite of these top down concerns, there are signs of a general cautious optimism among smaller companies. This contention is based on the combination of three factors that have been individually addressed above: the pick-up in M&A, the willingness to utilise more fully strong balance sheets and the continuation of the impressive dividend performance of recent years. While the risk remains that this growing optimism might prove a lagging rather than a leading indicator, it is encouraging that such nascent animal spirits are in evidence.

On reflection, the present situation is not unusual. Macro economic risks of one type or another are ever-present. Generally, however, there is a disparity between top-down pessimism and optimism that individual businesses will adjust and cope. The macro economic challenges of the global financial crisis were particularly severe, but the experience of relatively nimble small companies again gives reason for hope. The Manager takes additional comfort from the attractive valuations presently accorded by the stockmarket to many companies and to the portfolio in particular: these represent a discounted participation in the future wealth creation of which these businesses should be capable. This ought to translate into good returns for the Fund's investors when averaged over several years.

A P Bamford, Director
R M J Newbery, Director
Aberforth Unit Trust Managers Limited
29 January 2015

† Active Share is addressed by Antti Petajisto and Martijn Cremers in a 2009 publication from the Yale School of Management: *How Active Is Your Fund Manager? A New Measure That Predicts Performance*. The active share ratio is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the stocks in that index. The total is then divided by two to give a ratio between 0% and 100%.

Summary of Material Portfolio Changes

For the year ended 31 December 2014

Purchases	Cost £'000
Countrywide	3,553
Vesuvius	3,532
Flybe Group	3,509
International Personal Finance	2,883
FirstGroup	2,667
Premier Farnell	2,432
Heritage Oil	2,383
Urban&Civic	2,365
Hogg Robinson Group	2,187
Mothercare	2,050
Shanks Group	1,941
Bovis Homes Group	1,871
Card Factory	1,868
Premier Foods	1,834
EnQuest	1,599
Morgan Advanced Materials	1,585
Novae Group	1,550
SOCO International	1,466
Connect Group	1,461
Gulf Marine Services	1,459
Other purchases	49,358
Total Cost of Purchases	**93,553**

Sales	Proceeds £'000
CSR	6,227
F&C Asset Management	4,224
Heritage Oil	3,550
Unite Group	3,360
Micro Focus	2,940
Hyder Consulting	2,827
Kofax	2,727
Carillion	2,708
Spirit Pub Company	2,703
WH Smith	2,308
Assura Group	2,250
National Express Group	2,204
Galliford Try	1,790
Interserve	1,688
Northgate	1,686
RPC Group	1,685
Stock Spirits Group	1,676
Halfords Group	1,530
Lavendon Group	1,386
Redefine International	1,194
Other sales	17,213
Total Proceed of Sales	**67,876**

Portfolio Statement

As at 31 December 2014

Holding	Security	31 December 2014 Value £'000	% of Total Net Assets	% of Index[1]	31 December 2013 % of Total Net Assets	% of Index
Oil & Gas Producers		**5,878**	**3.1**	**4.6**	3.7	3.4
2,520,751	EnQuest	895	0.5			
1,200,287	Hardy Oil & Gas	744	0.4			
1,234,766	JKX Oil & Gas	148	0.1			
1,326,296	Petroceltic International	1,704	0.9			
795,640	SOCO International	2,387	1.2			
Oil Equipment, Services & Distribution		**1,081**	**0.6**	**1.2**	–	1.6
1,081,000	Gulf Marine Services	1,081	0.6			
Alternative Energy		**–**	**–**	**0.2**	–	0.1
Chemicals		**2,198**	**1.1**	**2.0**	1.0	3.1
930,818	Synthomer	2,198	1.1			
Industrial Metals & Mining		**374**	**0.1**	**0.2**	0.3	0.8
9,361,552	International Ferro Metals	374	0.1			
Mining		**2,603**	**1.4**	**3.9**	1.9	3.4
791,430	Anglo Pacific Group	791	0.4			
2,895,210	Centamin	1,697	0.9			
3,656,100	Kenmare Resources	115	0.1			
543,440	Kenmare Resources Warrants 2019[2]	–	–			
Construction & Materials		**1,951**	**0.9**	**2.8**	1.7	2.9
165,800	Keller	1,452	0.7			
1,008,845	Low & Bonar	499	0.2			
Aerospace & Defence		**5,874**	**3.0**	**2.8**	3.5	2.9
609,964	Chemring Group	1,438	0.7			
2,360,585	QinetiQ Group	4,436	2.3			
General Industrials		**9,407**	**4.8**	**1.7**	4.9	1.6
666,453	RPC Group	3,312	1.7			
222,151	RPC Group NPRs	389	0.2			
1,282,172	Vesuvius	5,706	2.9			
Electronic & Electrical Equipment		**10,799**	**5.6**	**2.9**	5.3	4.3
2,967,617	e2v technologies	5,015	2.6			
1,289,788	Morgan Advanced Materials	4,069	2.1			
1,702,170	TT Electronics	1,715	0.9			
Industrial Engineering		**6,372**	**3.3**	**2.1**	3.5	2.3
300,086	Bodycote	1,942	1.0			
392,190	Castings	1,550	0.8			
34,497	Hill & Smith Holdings	200	0.1			
455,387	Vitec Group	2,680	1.4			
Industrial Transportation		**2,309**	**1.2**	**1.6**	0.9	1.6
1,454,273	Wincanton	2,309	1.2			
Support Services		**27,040**	**13.8**	**9.9**	14.9	12.3
663,634	Acal	1,560	0.8			
908,885	Capital Drilling	200	0.1			
1,625,241	Connect Group	2,503	1.3			
180,200	De La Rue	934	0.5			
4,885,200	Hogg Robinson Group	2,015	1.0			
3,538,377	Management Consulting Group	557	0.3			
746,921	Northgate	4,526	2.3			
1,351,200	Premier Farnell	2,376	1.2			

Portfolio Statement

As at 31 December 2014

Holding	Security	31 December 2014 Value £'000	% of Total Net Assets	% of Index[1]	31 December 2013 % of Total Net Assets	% of Index
Support Services (continued)						
879,027	Robert Walters	2,692	1.4			
1,299,061	RPS Group	2,716	1.4			
4,437,642	Shanks Group	4,393	2.2			
3,292,013	Speedy Hire	2,568	1.3			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**–**	**–**	**0.7**	0.3	0.8
Food Producers		**4,074**	**2.0**	**3.3**	1.2	2.8
761,068	Hilton Food Group	2,930	1.5			
2,740,800	Premier Foods	870	0.4			
80,500	R.E.A. Holdings	274	0.1			
Household Goods & Home Construction		**4,771**	**2.4**	**3.2**	2.8	2.4
507,705	Bovis Homes Group	4,488	2.3			
367,000	McBride	283	0.1			
Leisure Goods		**1,149**	**0.6**	**0.5**	–	0.5
227,600	Games Workshop Group	1,149	0.6			
Personal Goods		**–**	**–**	**1.5**	–	1.3
Health Care Equipment & Services		**4,923**	**2.5**	**3.3**	1.2	1.9
410,700	Spire Healthcare Group	1,558	0.8			
1,344,627	Optos	3,365	1.7			
Pharmaceuticals & Biotechnology		**2,081**	**1.1**	**2.7**	2.0	1.3
1,635,353	Vectura Group	2,081	1.1			
Food & Drug Retailers		**1,374**	**0.7**	**0.6**	–	0.8
785,000	McColl's Retail Group	1,374	0.7			
General Retailers		**13,142**	**6.7**	**7.7**	6.1	5.7
849,900	Card Factory	2,406	1.2			
1,560,628	JD Sports Fashion	7,803	4.0			
1,685,735	Mothercare	2,933	1.5			
Media		**13,155**	**6.7**	**3.9**	6.8	3.5
2,179,734	Centaur Media	1,384	0.7			
653,408	Chime Communications	1,856	0.9			
10,519,267	Future	1,157	0.6			
5,350,981	Huntsworth	2,609	1.3			
2,296,942	Mecom Group	3,239	1.7			
1,787,707	Trinity Mirror	2,910	1.5			
Travel & Leisure		**17,271**	**8.7**	**7.6**	8.4	8.2
110,509	Air Partner	272	0.1			
3,553,908	FirstGroup	3,792	1.9			
3,972,700	Flybe Group	4,340	2.2			
167,684	Go-Ahead Group	4,123	2.1			
301,595	National Express Group	747	0.4			
230,697	Punch Taverns	272	0.1			
3,606,158	Spirit Pub Company	3,725	1.9			
Fixed Line Telecommunications		**2,319**	**1.2**	**1.7**	0.8	2.8
136,400	Colt Group	178	0.1			
2,412,334	KCOM Group	2,141	1.1			

Portfolio Statement

As at 31 December 2014

Holding	Security	31 December 2014 Value £'000	31 December 2014 % of Total Net Assets	31 December 2014 % of Index[1]	31 December 2013 % of Total Net Assets	31 December 2013 % of Index
Electricity		**–**	**–**	**0.5**	–	0.6
Gas, Water & Multiutilities		**–**	**–**	**–**	–	–
Banks		**–**	**–**	**0.5**	–	0.5
Nonlife Insurance		**2,997**	**1.5**	**2.1**	0.9	2.7
505,336	Novae Group	2,997	1.5			
Life Insurance		**988**	**0.5**	**1.2**	0.4	1.6
1,149,124	Hansard Global	988	0.5			
Real Estate Investment & Services		**12,120**	**6.3**	**6.4**	6.2	6.2
516,300	Countrywide	2,254	1.2			
1,412,878	Grainger	2,656	1.4			
1,227,905	St. Modwen Properties	4,737	2.4			
1,013,700	Urban&Civic	2,473	1.3			
Real Estate Investment Trusts		**4,564**	**2.4**	**4.7**	1.9	2.8
2,838,986	Hansteen Holdings	3,055	1.6			
638,515	McKay Securities	1,509	0.8			
Financial Services		**10,946**	**5.6**	**6.4**	7.1	5.6
1,025,354	Brewin Dolphin Holdings	3,038	1.6			
311,331	Charles Stanley Group	999	0.5			
614,300	International Personal Finance	2,754	1.4			
163,800	Paragon Group	682	0.3			
1,223,376	Tullett Prebon	3,473	1.8			
Software & Computer Services		**12,801**	**6.4**	**3.4**	7.6	4.9
2,937,686	Anite	2,321	1.2			
378,119	Computacenter	2,212	1.1			
132,771	Micro Focus	1,427	0.7			
1,196,872	Microgen	1,400	0.7			
1,555,867	Phoenix IT Group	2,038	1.0			
1,475,126	RM	2,172	1.1			
296,552	SDL	1,231	0.6			
Technology Hardware & Equipment		**1,697**	**0.9**	**2.2**	3.3	2.8
3,187,546	Filtronic	829	0.4			
3,462,090	Promethean World	770	0.4			
129,900	Spirent Communications	98	0.1			
Investments as shown in the Balance Sheet		**186,258**	**95.1**	**100.0**	98.6	100.0
Net Current Assets		**9,553**	**4.9**	**–**	1.4	–
Total Net Assets		**195,811**	**100.0**	**100.0**	100.0	100.0

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

[1] Reflects the rebalanced index as at 1 January 2015

[2] Unquoted security

Fund Information

Net Asset Value

Date	**31 December 2014**	31 December 2013	31 December 2012
Value of Fund (£'000)	**195,811**	168,796	151,334
Accumulation units in Issue	**608,875.844**	597,739.561	1,166,048.466
Income units in issue	**534,302.352**	362,124.095	52,118.400
NAV per unit – accumulation (£)	**186.02**	186.48	124.92
NAV per unit – income (£)	**154.50**	158.32	108.71

Unit Price Range

	Accumulation Units		Income Units	
Period	Highest Issue £	Lowest Cancellation £	Highest Issue £	Lowest Cancellation £
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
31 December 2014	**205.58**	**173.42**	**174.54**	**145.61**

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
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
31 December 2014	**416.0784**	**351.3320**

Notes

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.

Distribution Table

For the period 1 July to 31 December 2014

	Net Income 2014	**Equalisation† 2014**	**Distribution/ Accumulation 2014**	Distribution/ Accumulation Dec 2013
Income units				
Group 1: Units purchased prior to 1 July 2014	**172.5395p**	–	**172.5395p**	152.3518p
Group 2: Units purchased on or after 1 July 2014	**41.3054p**	**131.2341p**	**172.5395p**	152.3518p
Accumulation units				
Group 1: Units purchased prior to 1 July 2014	**205.4882p**	–	**205.4882p**	177.7626p
Group 2: Units purchased on or after 1 July 2014	**49.1932p**	**156.2950p**	**205.4882p**	177.7626p

† 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.

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 £2.1 billion (as at 31 December 2014). The firm is wholly owned by six partners – five investment managers, 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 biographical details of the 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; Automobiles & Parts; Leisure Goods; Fixed Line Telecommunications; Mobile Telecommunications; Electricity, Gas, Water and Multiutilities; 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, became partner in May 2014, and is responsible for investment research and stock selection in the following areas – Chemicals; Construction & Materials; Household Goods & Home Construction; Industrial Metals & Mining; Mining; Real Estate Investment & Services and Real Estate Investment Trusts. 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.

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.

Mark R Williamson

Mark joined Aberforth in October 2014 and is responsible for investment research and stock selection in the following areas – Banks and Financial Services. He joined from Peel Hunt, where he spent five years as an analyst on the Financials sector. Prior to that he gained experience with several broking houses, having commenced his career in 1992 with Albert E Sharp as a buy-side analyst.

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

29 January 2015

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 2014

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

29 January 2015

Independent Auditors' Report to the Unitholders of Aberforth UK Small Companies Fund

Reports on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the financial position of the Fund as at 31 December 2014 and of the net revenue and the net capital losses of the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements of Aberforth UK Small Companies Fund (the "Fund"), which are prepared by Aberforth Unit Trust Managers Limited (the "Authorised Fund Manager"), comprise :

- the balance sheet of the Fund as at 31 December 2014;
- the statement of total return of the Fund for the year then ended;
- the statement of change in unitholders' net assets of the Fund for the year then ended;
- the notes to the Fund's financial statements, which include a summary of significant accounting policies and other explanatory information; 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), the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by The Investment Association (the "Statement of Recommended Practice for Authorised Funds"), the Collective Investment Schemes sourcebook and the Trust Deed.

In applying the financial reporting framework, the Authorised Fund Manager has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Authorised Fund Manager; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (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.

Opinions on 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 Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Unitholders of Aberforth UK Small Companies Fund

Other matters on which we are required to report by exception

Propriety of accounting records and information and explanations received

Under the Collective Investment Schemes sourcebook we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Authorised Fund Manager

As explained more fully in the Authorised Fund Manager's Responsibilities Statement set out on page 12, the Authorised Fund 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 ISAs (UK & 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 January 2015

(a) The maintenance and integrity of the Manager's website is its responsibility; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

For the year ended 31 December 2014

Statement of Total Return

	Notes	**2014** £'000	**2014** £'000	2013 £'000	2013 £'000
Income:					
Net capital (losses)/gains	4		**(5,751)**		48,075
Revenue	5	**4,942**		4,627	
Expenses	6	**(1,638)**		(1,266)	
Finance costs: interest	8	**(2)**		–	
Net revenue before taxation		**3,302**		3,361	
Taxation	7	**–**		–	
Net revenue after taxation			**3,302**		3,361
Total return before distributions			**(2,449)**		51,436
Finance costs: distributions	8		**(4,270)**		(4,096)
Change in net assets attributable to Unitholders from investment activities			**(6,719)**		47,340

Statement of Change in net assets attributable to unitholders

	2014 £'000	**2014** £'000	2013 £'000	2013 £'000
Opening net assets		**168,796**		151,334
Amounts receivable on issue of units	**55,274**		71,866	
Amounts payable on cancellation of units	**(24,173)**		(103,822)	
		31,101		(31,956)
Stamp duty reserve tax		**(5)**		(10)
Change in net assets attributable to unitholders from investment activities		**(6,719)**		47,340
Retained distribution on accumulation units		**2,638**		2,088
Closing net assets		**195,811**		168,796

Financial Statements

As at 31 December 2014

Balance Sheet

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
ASSETS					
Investments assets			**186,258**		166,378
Debtors	9	**10,143**		1,509	
Cash and bank balances		**1,866**		2,100	
Total other assets			**12,009**		3,609
Total assets			**198,267**		169,987
LIABILITIES					
Creditors	10	**(1,534)**		(639)	
Distribution payable on income units		**(922)**		(552)	
Total liabilities			**(2,456)**		(1,191)
Net assets attributable to unitholders			**195,811**		168,796

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 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 2014. 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 are treated as income or capital depending on the facts of each particular case.

(e) All expenses are recognised on an accruals basis and are charged to revenue with the exception of the Manager's periodic charge, of which 5/8 of the Manager's periodic charge allocated to capital and the remaining 3/8 charged to revenue.

(f) 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.

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) and will pay a dividend distribution.

Notes to the Financial Statements

3 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 5 and may change from time to time 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 Conduct Authority, who have formally agreed terms of business with the Manager, and who are considered to have execution arrangements that enable the Manager to comply with its obligation to obtain the best possible result for the Fund. 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.

4 Net Capital (Losses)/Gains

	2014 £'000	2013 £'000
The (losses)/gains on investments during the year comprise:		
Equity investments	**(5,751)**	48,075

5 Revenue

	2014 £'000	2013 £'000
UK dividends	**4,707**	4,266
Property Income Distributions	**55**	57
Scrip dividends	**–**	41
Overseas dividends	**172**	256
Bank interest	**8**	7
Total income	**4,942**	4,627

Notes to the Financial Statements

6 Expenses

	2014 £'000	2013 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,549**	1,176
Payable to the Trustee or associate of the Trustee		
Trustee's fees	**47**	40
Other expenses:		
Audit fee	**8**	13
Safe custody fees	**14**	16
Registration fees	**10**	4
Printing fees	**10**	17
	42	50
Total expenses	**1,638**	1,266

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 £968,000 borne by the capital of the Fund (2013: £735,000). Further details of the management fees, Trustee's fees and other expenses of the Fund are available in the Fund's Prospectus.

7 Taxation

	2014 £'000	2013 £'000
(a) Analysis of charge in the period:		
Irrecoverable overseas tax	**–**	–
Current tax (note 7(b))	**–**	–
Total tax charge for the year	**–**	–
(b) Factors affecting current tax charge for the period:		
Net revenue before taxation	**3,302**	3,361
Corporation tax at 20%	**660**	672
Effects of:		
Non-taxable dividends	**(941)**	(853)
Non-taxable overseas dividends	**(34)**	(51)
Unutilised management expenses	**315**	232
	(660)	(672)
Current tax charge (Note 7(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 £40,125,000 (2013: £38,548,000). 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 £8,025,000 (2013: £7,709,600).

Notes to the Financial Statements

8 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:

	2014 £'000	2013 £'000
Interim	**2,276**	1,318
Final	**2,173**	1,614
	4,449	2,932
Add: Income deducted on cancellation of units	**108**	1,584
Less: Income received on creation of units	**(287)**	(420)
Total distributions	**4,270**	4,096
Bank overdraft interest	**2**	–
Total finance costs	**4,272**	4,096

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

	2014 £'000	2013 £'000
Net revenue after taxation	**3,302**	3,361
Add: Manager's periodic fee taken to capital	**968**	735
Distributions	**4,270**	4,096

Details of the distribution per unit are shown on page 10.

9 Debtors

	2014 £'000	2013 £'000
Amounts receivable for creation of units	**9,716**	1,218
Sales awaiting settlement	**68**	–
Accrued income	**354**	281
Other debtors	**5**	10
Total debtors	**10,143**	1,509

10 Creditors

	2014 £'000	2013 £'000
Amounts payable for cancellation of units	**462**	–
Purchases awaiting settlement	**915**	502
Accrued management fee	**126**	105
Other accrued expenses	**31**	27
Stamp duty reserve tax	**–**	5
Total creditors	**1,534**	639

Notes to the Financial Statements

11 Portfolio Transaction Costs

Analysis of total purchase costs

	2014 £'000	2013 £'000
Purchases in period before transaction costs	**92,978**	113,888
Commissions	**188**	249
Taxes	**387**	519
Total purchase costs	**575**	768
Total purchase consideration	**93,553**	114,656
Analysis of total sale costs		
Gross sales in year before transaction costs	**68,027**	147,084
Commissions	**(151)**	(136)
Taxes	**–**	–
Total sale costs	**(151)**	(136)
Total sale proceeds net of transaction costs	**67,876**	146,948

On average, over the last three financial years the Fund incurred broker commissions of 0.21% p.a. (2013: 0.23% p.a.) and stamp duty of 0.21% p.a. (2013: 0.16% 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 2014, the estimated average dealing spread for this Fund is 1.32% (2013: 0.76%) of the transaction value and the issue price was 2.23% (2013: 1.84%) higher than the cancellation price.

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.

12 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; the number of units and the accumulation/distribution per unit are shown on page 10. All units, adjusted for the current accumulation factor, have the same rights in winding-up.

13 Related Party Transactions

Management fees paid to Aberforth Unit Trust Managers Limited are shown in note 6 and details of units created and cancelled are shown in the Statement of Change in Unitholders' Net Assets. The balance due from Aberforth Unit Trust Managers Limited at the year end in respect of these transactions was £9,128,000 (31 December 2013: £1,119,000). Trustee fees paid are shown in note 6. The balance due to National Westminster Bank plc at the year end in respect of these fees was £4,000 (31 December 2013: £3,000).

14 Contingencies, financial commitments and contingent assets

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2014 (2013: nil).

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
Atria One
144 Morrison Street
Edinburgh EH3 8EX

**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.

Changes to terms on which Units are issued and redeemed

Please look at the Literature Section of our website www.aberforth.co.uk (or telephone us on 0131 220 0733) to obtain the most up to date information on the Fund including the most recent Supplementary Information Document issued in December 2014. This document gives you, inter alia, the most up to date terms on which Units are issued and redeemed, how and when money is held for you in a client money account and the risks relating to that.

Regulatory Developments

Due to anti money laundering regulations and the requirement to identify an investor's tax domicile, additional information is now required when investors open an account and on an ongoing basis.

Further changes are being made by the Financial Conduct Authority with effect from 1 June 2015 in relation to the Rules on how client money and assets are to be handled. A letter will be issued to all investors nearer the time to inform you of the changes being made.

One of the changes proposed is that when Units in the Fund are being sold, the proceeds are to be paid directly to your bank account. This will ensure that you receive redemption money promptly and avoid the delays that occur in sending cheques through the post and in you having to present them to your bank for payment. To ensure that we have the most up to date details for your bank account and to avoid any delay in paying redemption proceeds to you, please contact our Registrar whose details are above.

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