Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2016

Investment Objective & Policy

The objective of Aberforth UK Small Companies Fund (the "Fund") is to achieve a total return (with income reinvested) greater than that of 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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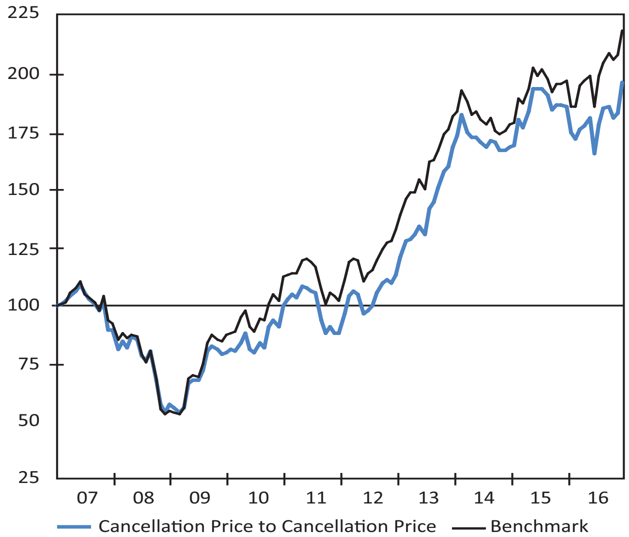
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2006)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2006)

Investment Record

Performance for the year to 31 December 2016	%
The Fund[1]	**5.6**
Benchmark Index[2]	**11.1**

Prices & Yield		3 January 2017[3]	4 January 2016[3]
Accumulation Units	Issue Price	**£221.32**	£208.46
	Cancellation Price	**£217.52**	£204.59
Income Units (xd)	Issue Price	**£173.76**	£168.73
	Cancellation Price	**£170.77**	£165.60
	Yield[4]	**2.8%**	2.7%
Dealing Spread		**1.7%**	1.9%

Size & Charges	31 December 2016	31 December 2015
Total Net Assets	**£201.8m**	£168.5m
Ongoing Charges[5]	**0.80%**	0.83%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historic Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2016	5.6	11.1
1 year to 31 December 2015	10.3	10.6
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

Historic Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2016	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2014	7.9	10.8	16.5	22.9
3 years from 31 December 2013	5.2	6.4	16.3	20.6
4 years from 31 December 2012	14.8	13.4	73.7	65.1
5 years from 31 December 2011	17.4	16.5	123.5	114.6
10 years from 31 December 2006	7.0	8.1	95.8	118.4
15 years from 31 December 2001	11.4	10.9	406.2	373.1
25.8 years from inception on 20 March 1991	12.9	10.5	2,184.5	1,218.5

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

2 Represents capital appreciation on the Numis Smaller Companies Index (Excluding Investment Companies) with net dividends reinvested. This index comprises the bottom 10% of the main UK equity market by market value which at 1 January 2017 included some 349 companies, the largest market capitalisation of which was £1.4 billion and the aggregate market capitalisation of which was £157 billion.

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

4 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.

5 This is based on actual expenses for the year ended 31 December 2016. 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 This table is in accordance with the Financial Conduct Authority's Regulations.

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.

Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP (the “firm”). The business was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.3 billion (as at 31 December 2016). The firm is wholly owned by five partners – four investment managers and Alan Waite, who is responsible for the firm’s administration. Seven investment managers work as a team managing the Fund’s portfolio on a collegiate basis.

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

Changes to Prospectus

During the year, the Prospectus was updated to note:-

1. changes introduced by the UCITS V Directive including the appointment of the Trustee as Depositary and noting the terms of the appointment;
2. the change of address of the Fund Administrator; and
3. the removal of the notional tax credit in respect of dividends.

Further to the changes noted above, the regulatory requirement for a short form report to be published in respect of the Fund was removed effective 22 November 2016 and therefore, there will be no further short form reports prepared in relation to the Fund.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. The Investment Manager is not subject to the UCITS remuneration code. It is subject to regulatory requirements on remuneration that are equally effective under BIPRU and AIFMD. Details of its remuneration policy are available on request.

Introduction

The Fund’s total return in the twelve months to 31 December 2016 was 5.6%. This was below the benchmark’s return, with the NSCI (XIC) up by 11.1%. Both the Fund and small companies in general were some way behind large companies: the FTSE All-Share’s total return was 16.8%.

In the first six months of 2016, the share prices of small UK quoted companies were buffeted by Brexit. Investors were cautious about the prospects for the domestic economy, to which the constituents of the NSCI (XIC) have a significant exposure. As a consequence, the total return of the NSCI (XIC) in the first half was -5.6%. However, not long into the second half of the year, a rebound got underway, as it became clear that the “out” vote did not pose an immediate systemic risk to economic activity or the financial system. Action from the Bank of England and the quicker than expected installation of a new prime minister helped a degree of confidence to return and allowed the NSCI (XIC) to generate a total return of 17.7% over the six months to 31 December 2016.

The recovery was given extra impetus from what might be considered a surprising source: the year’s other great political surprise, Donald Trump’s victory in the US presidential election, proved positive for share prices around the world, including those of small UK quoted companies. The sanguine reaction of stockmarkets to the Trump presidency is at one level surprising: populism does not necessarily sit well with free markets and positive equity performance. However, with scepticism building about the effectiveness of quantitative easing and ultra low interest rates in stimulating growth and addressing deflation, there was room for an alternative strategy. A cocktail of tax cuts, infrastructure spending and protectionism promises much, though it remains to be seen precisely which policies become enacted and how the consequent stimulus plays out in terms of real economic activity and inflation. What is clear is that, in the short passage of time since the election, Trump’s victory has challenged the consensus of the financial markets, namely that deflationary pressures and low growth will persist to the advantage of bonds and bond-like assets.

Though they had already been edging upwards, government bond yields rose sharply in the wake of the American election. In the US, the ten year treasury yield moved from 1.8% the day before the vote to 2.4% at the calendar year end, while yields in Japan and Germany rose back above zero. At the same time, the rally in equity prices was led by those cyclical sectors that had been challenged by the deflationary consensus, while the share prices of defensive companies came under pressure. It is inevitable that at some point the “great rotation” away from bonds takes place. Time will tell whether recent months have marked the starting point. It would be a welcome development but some prudence is merited in a climate where politics – particularly “post truth” politics – are wielding greater influence on financial markets than has been the case for some time.

Manager's Report

Performance review

The Fund's 5.6% total return over 2016 was heavily affected by the big picture issues described above. Other influences arise from the Manager's investment approach and value investment style. Some of these are described in the following paragraphs.

Stocks

Though meaningful, top-down influences on performance can seem rather far removed from the Manager's day-to-day focus on stock selection. This is not to gloss over the impact of weak share performances that resulted from company specific issues: as is the case in any six month period, the portfolio contained several companies that did not perform as expected, both negatively and positively. However, the Manager's preference not to focus on the attribution to the Fund's performance of individual companies reflects an important aspect of its investment approach.

The Manager attempts to divorce the name of a stock, with all its baggage and history, from the valuation accorded to it at any point in time by the stockmarket. The failure of an underlying business to meet expectations is reflected in some measure by its share price almost instantaneously: what the Manager has to do is work out whether the disappointment is indicative of on-going pressures on the business that will result in a permanent loss of value or whether the stockmarket has over-reacted and is thus presenting an incremental investment opportunity. In the Manager's experience the latter is often the case, particularly in the financial conditions of recent years when the "certainty" of returns from those bond-like equities have been so highly prized. Additionally, some of the best contributors to the Fund's performance over its history have been stocks where the Manager's initial purchases proved poor but where the discipline has been exercised to reassess after a disappointment and then judiciously to invest incremental capital often over a period of years.

To generate superior returns, getting more investment decisions right than wrong on average year after year probably does the job. Following the reasoning of the previous paragraph, this aspiration, which may come across as deceptively unambitious, is not about identifying more high quality businesses than low quality businesses and owning them forever – that is an approach followed by the growth investor. Rather, the aspiration is about retesting the value of companies both within and outwith the portfolio in relation to the share prices accorded to them by a volatile stockmarket, and, from this, it is about encouraging the circulation of the Fund's capital over time from those stocks with low upsides to those with high upsides.

Sectors

An important influence on the Fund's relative returns was the bounce in the resources sectors, which started in the middle of February and without which the NSCI (XIC) would have been up by 5% in 2016. This resources rebound played to the relative strengths of the FTSE All-Share against the NSCI (XIC), with large companies possessing a much greater exposure than small to resources companies. Similarly, the Fund's low exposure compared with the NSCI (XIC) hampered returns through 2016. That low exposure came through the miners rather than the oil companies. Indeed, the portfolio's weighting in the latter was higher than that of the index and thus the Fund benefited as the oil price's recovery gathered pace. In total, the miners accounted for 317 of the 547 basis points under-performance in 2016 shown in the following table.

For the 12 months ended 31 December 2016	Basis points
Stock selection	(519)
Sector selection	9
Attributable to the portfolio of investments, based on mid prices	**(510)**
Movement in mid to bid price spread	21
Cash/overdraft	23
Management fee	(75)
Other expenses	(6)
Total attribution based on bid prices	**(547)**

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 = 5.61%; Benchmark Index = 11.08%; difference is -5.47% being -547 basis points).

For the avoidance of doubt, the Manager does not ignore the mining sectors: they are analysed in the same detail and depth as other parts of the stockmarket. However, the subset of miners available within the NSCI (XIC) has certain characteristics that complicate investment from the Manager's perspective. First, the subset is highly indebted: a majority of the mining companies included in the NSCI (XIC) on its 1 January 2016 rebalancing had stretched balance sheets that threatened their survival and certainly prevented dividend payments. A second important factor is that many of the small miners remain controlled by oligarchs or family interests. This introduces an additional level of risk for minority shareholders and makes it difficult for the Manager to engage with the chairman in a useful fashion. In the rare cases where the Manager sees these characteristics discounted by stockmarket valuations, it is willing to invest. Indeed, two of the Fund's biggest winners last year were miners.

Manager's Report

Beyond resources, large companies also benefited relative to small from the effects of June's EU referendum. The "out" vote was seen to be to the disadvantage of businesses addressing the domestic economy. The NSCI (XIC) has a greater exposure to such companies: roughly 59% of the accumulated historical sales of the index's constituents were generated in the UK, which compares with approximately 25% for large companies. The portfolio's exposure is around 53%. From this perspective, the Fund was less affected than the benchmark by Brexit. However, the share prices of many domestic companies – notably retailers, property companies and housebuilders – were down over the year as a whole and therefore the referendum did affect the Fund's absolute returns.

Style

A more significant influence on the Fund's relative performance was the fortunes of the Manager's value investment style. Thanks to the powerful rebound of the resources sectors, the value style, as defined by the London Business School and Style Research, pulled ahead of the growth style in 2016. However, using Style Research's style categorisations at the start of 2016, value excluding the resources companies lagged growth. This underlying style performance was consistent with the downward pressure on bond yields over the twelve months: ten year gilt yields dropped from 2.0% to 1.2% under the influence of the EU referendum and another dose of quantitative easing. Since the financial crisis, the correlation between falling bond yields and weaker returns for the value investor has been high. One of the reasons for this is that lower yields tend to be associated with a poorer outlook for economic growth. This is to the disadvantage of value since in today's market the typical value stock is cyclical, whereas bond-like equities, producing low but steady growth, have been re-rated to very high valuations that are more in keeping with those of traditional growth stocks. This state of affairs is unusual and, as described in the Conclusion of this report, gives the Manager cause for optimism: a move towards the inevitable normalisation of monetary conditions, such as was experienced in 2013 and has been seen since the US elections, would be to the benefit of the value investment style and by extension to the Fund's returns.

Income

In contrast to its lacklustre capital performance, the portfolio generated a good rate of income growth in 2016: 3.6% in headline terms. This number was influenced by the receipt of several special dividends in 2016 and by an even larger contribution from specials in 2015. In underlying terms, with those lumpy special dividends excluded, the rate of increase rises to 11.9%. Adjusted for inflation this is far ahead of the 2.5% long term real dividend growth from small companies. These numbers highlight what was another good year for dividends from small companies in general. Encouraging boards to increase dividends are strong balance sheets: for illustration, companies with net cash on their balance sheets represent 29% of the Fund's portfolio. Another factor is relatively high dividend cover, which for the portfolio is 3x, well above the long term average of 2.6x. Additionally, trading conditions through 2016, while not buoyant, were sufficiently benign to allow small companies to move their profits ahead, notwithstanding the uncertainties engendered by the EU referendum and other big picture issues. Nevertheless, the above average pace of small company dividend growth enjoyed in recent years has to decline close to that long term average. The Valuations section below gives consideration to the risk of a downturn in the domestic economy, brought on by the uncertainties stemming from the EU referendum.

Turnover

Last year witnessed an unusually low level of portfolio turnover. With situations, such as M&A, in which the Fund is effectively a forced seller excluded, the underlying rate of turnover was just 12%, half the long term average. This reflected the mood of the stockmarket: general interest in the sort of stocks owned by the Fund was low, which meant that they were not revalued and that there was little reason to exit existing positions. A similar phenomenon was witnessed in 2012: in the annual report for that year the Manager expressed a desire for "turnover to return to more normal levels". Given the unexpectedly sharp rebound in the following year, a re-run of 2013 would be welcome.

Active share†

The Manager's investment decisions resulted in a portfolio at 31 December 2016 with an active share of 76% assessed against the NSCI (XIC). Active share is a gauge of how different a portfolio is from an index. The higher the ratio, the higher the likelihood that the performance of the portfolio will differ, for better or worse, from that of the index. The Manager targets a ratio of at least 70%, though would tolerate a temporarily depressed number. This target is assessed without the benefit of holdings that are not constituents of the index, since such holdings would flatter the ratio. The Manager believes that, with an active share of 76%, the portfolio is well placed to exploit a turn in the stockmarket back in favour of the value investment style.

Valuations

The years since the financial crisis have seen valuation relationships develop within and between financial markets to levels that are unusual in a long term historical context. Most fundamentally, quantitative easing and zero interest rate policy resulted in the re-establishment of the "yield gap": for the first sustained period of time since the 1950s, equities yield more than government bonds. Lower bond yields have been a handicap to the returns of the value investor, on the whole. The qualification is necessary since it is likely that the Fund has enjoyed some mitigation by virtue of the above average yields of its typical holdings. Those yields became more sought after as bond yields declined and starved the investment world of income. This dynamic aside, the evolution of today's valuation relationships has been a headwind to the Manager's value investment style. More positively, a normalisation of the valuation stretches, which are illustrated below, will be of benefit to the Fund's future returns.

	31 December 2016		31 December 2015	
Characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**87**	**349**	86	349
Weighted average market capitalisation	**£618m**	**£800m**	£564m	£750m
Price earnings ratio or PE (historic)	**11.3x**	**12.5x**	12.5x	14.6x
Dividend yield (historic)	**3.0%**	**2.8%**	3.1%	2.7%
Dividend cover	**3.0x**	**2.9x**	2.6x	2.5x

Small against large

The table shows the historical price earnings ratios of the portfolio and of small companies as a whole; consistent with the Manager's value investment style, the Fund's PE is lower. Over the course of 2016, the PE of small companies has dropped from 14.6x to 12.5x. In contrast, the PE of the FTSE All-Share has risen from 16.6x to 18.6x. This leaves small companies on their largest PE discount to large since 2000. The re-rating of large companies reflects the substantial exposure of the FTSE All-Share to the resources sectors, which rebounded strongly in 2016, and to other international companies, which benefited from sterling weakness following the EU referendum.

"Small small" against "large small"

Market cap. range	Below £100m	£100m - £250m	£250m - £750m	Above £750m
The Fund's exposure	4%	18%	45%	34%
Tracked universe exposure	1%	7%	34%	58%
Tracked universe EV/EBITA	9.4x	9.6x	11.6x	12.2x

The table shows that the UK stockmarket is presently characterised by a continuous size effect: the smaller the company, the lower the valuation within the tracked universe (representing 96% by value of the NSCI (XIC)). This is unusual in a longer term context: smaller companies have traditionally justified a higher valuation owing to their scope for superior, if more volatile, growth. Today's state of affairs would appear to reflect elevated concern about illiquidity, which has been in evidence since the financial crisis. The Fund is well placed to exploit the opportunity to own companies with better growth prospects on lower valuations.

Value against growth

EV/EBITA	Growth	Non-growth	Tracked	The Fund
Number of stocks	40	244	284	87%
2017 on prevailing estimates	16.4x	11.0x	11.7x	10.1x
2017 with a downturn	18.6x	13.0x	13.7x	11.9x

The ratio of enterprise value to earnings before interest, tax and amortisation (EV/EBITA) is the Manager's preferred valuation metric. The table shows the 2017 ratios for the Fund, for the tracked universe and for two subdivisions of the tracked universe, i.e. 40 growth stocks and the 244 other companies. Two scenarios are set out for 2017. The first is based on prevailing estimates and reveals a wide gap between the valuation of the growth stocks and the Fund's portfolio, with the former on a 62% premium to the latter.

The second basis acknowledges the risks of a slowdown in the UK economy, as Brexit takes its toll on spending decisions and weak sterling affects purchasing power. For the sake of simplicity, the downturn is assumed to start on 1 January 2017. A second main assumption is that the downturn reduces the EBITA of companies reliant on the domestic economy by 25%, which is roughly in line with the experience in 2009. Under this scenario, and as should be expected, the profits of the Fund's portfolio companies decline by more than those of the growth stocks, the effect of which is to reduce the premium of the growth stocks over the portfolio to 56%. While a recession in 2017 is by no means certain, the scenario analysis highlights an important facet of the UK stockmarket's valuation at the current time. The out-performance and re-rating of growth stocks since the financial crisis have been justified by concern about the vulnerability of cyclical value stocks to another recession. However, growth stocks emerge from a recession model still on a large valuation premium. For the Manager, this suggests that some of the risk of a downturn may already be captured by today's share prices.

Conclusion

It is disappointing to have to report on a year of poor performance and it is particularly frustrating that this comes against a background in 2016 that is ostensibly more favourable to the value investor. However, value's nascent fightback was concentrated in the highly indebted mining companies, at least in the early stages of the year. Intriguingly, the year ended with a welcome broadening of the stockmarket's appetite for value stocks. The catalyst would appear to have been Donald Trump's victory in the US election. His rhetoric and, presumably, his policies may mark a turn from austerity towards a reflationary strategy. The promise of tax cuts, fiscal stimulus and protectionism have challenged the positioning of financial markets, which reflected an expectation of low rates, deflationary pressure and subdued growth. Government bond yields have responded: ten year yields in the US ended the year at 2.4%, up from a mid year trough of below 1.4%, while ten year gilt yields moved up from 0.5% in August to 1.2% at the year end. As talk builds again of the "great rotation", small value stocks in the UK have been caught up in the repricing of a reflationary outcome and the Fund duly benefited as 2016 drew to a close.

The power of the rotation so far probably says more about how extreme some of the valuation stretches within financial markets had become. For the rotation to continue the new president has to deliver on his promises, while other familiar macro economic issues, not least Brexit, need to be negotiated. However, the valuations of the Fund's holdings already reflect much of the top-down risk and the underlying characteristics of these companies offer encouragement. Though cyclical, they are well managed, robustly funded and resilient enough businesses to have weathered the financial crisis and severe recession eight years ago. Stockmarket investors in general may still be reluctant to embrace these qualities, but it was notable that the year ended with an upsurge in takeover activity: once again bigger companies are exploiting the valuation anomalies on offer among the lower reaches of the UK stockmarket, with overseas predators given additional encouragement by the weakness of sterling.

For the Manager, the weight of history together with the underlying progress of the businesses in the portfolio give confidence that today's valuations are anomalies and that over time these will be addressed to the benefit of the Fund and the value style more generally. Given how powerfully turns in financial markets can play out, the Manager believes that the Fund's contrarian positioning remains as compelling and as relevant as at any point in the trust's twenty five year history.

K F Muir, Director
R M J Newbery, Director
Aberforth Unit Trust Managers Limited
27 January 2017

[†] 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 the portfolio or 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 2016

Purchases	Cost £'000
Restaurant Group	2,894
John Laing Group	2,592
Nostrum Oil & Gas	2,235
JRP Group	2,193
EnQuest	1,991
Senior	1,911
FirstGroup	1,718
U and I Group	1,537
Shanks Group	1,442
Keller	1,419
Halfords Group	1,359
Computacenter	1,288
Essentra	1,286
Vesuvius	1,276
Paragon Group	1,263
Carpetright	1,216
Ladbrokes Coral	1,155
Northgate	1,154
Gem Diamonds	1,147
Vectura Group	1,106
Other purchases	36,690
Total Cost of Purchases	**68,872**

Sales	Proceeds £'000
Premier Farnell	3,425
KCOM Group	2,956
Centamin	2,771
Shanks Group	2,690
Hilton Food Group	2,404
Home Retail Group	2,186
Bovis Homes Group	1,450
Wireless Group	1,372
Morgan Advanced Materials	1,275
De La Rue	1,224
e2v technologies	1,063
Revolution Bars Group	1,048
Chemring Group	929
ITE Group	901
Mothercare	740
Rank Group	629
Grainger	591
Hogg Robinson Group	584
Vesuvius	565
Huntsworth	544
Other sales	11,264
Total Proceeds of Sales	**40,611**

Portfolio Statement

As at 31 December 2016

Holding	Security	31 December 2016 Value £'000	31 December 2016 % of Total Net Assets	31 December 2016 % of Index[3]	31 December 2015 % of Total Net Assets	31 December 2015 % of Index
Oil & Gas Producers		**11,318**	**5.7**	**3.3**	2.7	3.0
12,023,466	EnQuest	4,990	2.5			
1,200,287	Hardy Oil & Gas	216	0.1			
1,137,839	Nostrum Oil & Gas	4,356	2.2			
1,101,040	Soco International	1,756	0.9			
Oil Equipment, Services & Distribution		**1,232**	**0.6**	**1.1**	1.2	1.0
2,513,700	Gulf Marine Services	1,232	0.6			
Alternative Energy		**–**	**–**	**–**	–	0.1
Chemicals		**1,144**	**0.6**	**1.9**	0.6	1.7
844,060	Carclo	1,144	0.6			
Industrial Metals & Mining		**–**	**–**	**0.5**	–	0.8
9,832,752	International Ferro Metals[1]	–	–			
Mining		**5,362**	**2.7**	**2.1**	1.8	2.9
1,888,365	Anglo Pacific Group	2,441	1.2			
1,378,810	Centamin	1,910	0.9			
929,737	Gem Diamonds	1,011	0.6			
2,717	Kenmare Resources Warrants 2019[2]	–	–			
Construction & Materials		**6,843**	**3.4**	**4.3**	2.6	3.6
1,144,476	Eurocell	2,037	1.0			
158,000	Forterra	273	0.1			
435,553	Keller	3,652	1.8			
1,376,645	Low & Bonar	881	0.5			
Aerospace & Defence		**3,163**	**1.6**	**1.9**	1.8	1.1
1,630,590	Senior	3,163	1.6			
General Industrials		**9,376**	**4.6**	**1.2**	3.1	1.0
6,907,954	Coats Group	3,730	1.8			
1,428,191	Vesuvius	5,646	2.8			
Electronic & Electrical Equipment		**12,157**	**6.0**	**2.1**	6.2	1.8
2,157,284	e2v technologies	5,889	2.9			
1,015,887	Morgan Advanced Materials	2,897	1.4			
2,103,670	TT Electronics	3,371	1.7			
Industrial Engineering		**8,704**	**4.3**	**2.5**	4.1	2.1
509,783	Bodycote	3,283	1.6			
436,216	Castings	1,793	0.9			
564,216	Vitec Group	3,628	1.8			
Industrial Transportation		**4,191**	**2.1**	**2.1**	1.7	1.9
1,703,753	Wincanton	4,191	2.1			
Support Services		**30,880**	**15.4**	**11.5**	15.3	12.1
1,066,393	Capital Drilling	597	0.3			
1,924,811	Connect Group	2,931	1.5			
491,740	De La Rue	3,014	1.5			
300,200	Essentra	1,383	0.7			
5,129,328	Hogg Robinson Group	3,488	1.7			
5,556,677	Management Consulting Group	208	0.1			
177,100	Menzies (John)	1,045	0.5			
1,036,301	Northgate	5,109	2.5			
886,667	Robert Walters	2,946	1.5			

Portfolio Statement

As at 31 December 2016

Holding	Security	31 December 2016 Value £'000	31 December 2016 % of Total Net Assets	31 December 2016 % of Index[3]	31 December 2015 % of Total Net Assets	31 December 2015 % of Index
Support Services (continued)						
1,643,363	RPS Group	3,656	1.8			
3,488,111	Shanks Group	3,209	1.6			
301,700	SIG	311	0.2			
5,965,113	Speedy Hire	2,983	1.5			
Automobiles & Parts		**–**	**–**	**–**	–	–
Beverages		**–**	**–**	**0.6**	–	0.6
Food Producers		**3,282**	**1.6**	**2.6**	2.7	2.8
395,012	Hilton Food Group	2,453	1.2			
240,221	R.E.A. Holdings	829	0.4			
Household Goods & Home Construction		**3,247**	**1.6**	**4.5**	2.7	1.8
396,682	Bovis Homes Group	3,247	1.6			
Leisure Goods		**2,607**	**1.3**	**0.6**	0.9	0.5
371,349	Games Workshop Group	2,607	1.3			
Personal Goods		**–**	**–**	**2.0**	–	2.1
Health Care Equipment & Services		**–**	**–**	**1.9**	–	2.8
Pharmaceuticals & Biotechnology		**2,921**	**1.4**	**2.6**	1.6	2.8
2,130,453	Vectura Group	2,921	1.4			
Food & Drug Retailers		**2,150**	**1.1**	**0.8**	0.7	1.0
1,168,270	McColl's Retail Group	2,150	1.1			
General Retailers		**10,399**	**5.1**	**5.5**	7.1	7.7
690,500	Carpetright	1,043	0.5			
500,300	DFS Furniture	1,128	0.6			
699,600	Findel	1,294	0.6			
423,700	Halfords Group	1,545	0.8			
1,677,735	Mothercare	1,896	0.9			
395,400	N Brown Group	878	0.4			
6,975,603	Pendragon	2,162	1.1			
519,300	Topps Tiles	453	0.2			
Media		**7,360**	**3.7**	**3.9**	5.7	3.8
2,300,614	Centaur Media	943	0.5			
9,364,667	Future	1,288	0.6			
6,125,181	Huntsworth	2,266	1.1			
89,477	ITE Group	138	0.1			
2,613,567	Trinity Mirror	2,725	1.4			
Travel & Leisure		**20,135**	**9.9**	**8.8**	10.5	8.1
111,305	Air Partner	551	0.3			
5,521,141	FirstGroup	5,714	2.8			
4,257,179	Flybe Group	1,831	0.9			
157,659	Go-Ahead Group	3,532	1.7			
3,010,712	Ladbrokes Coral	3,489	1.7			
1,177,073	Punch Taverns	2,225	1.1			
861,500	Restaurant Group	2,793	1.4			
Fixed Line Telecommunications		**142**	**0.1**	**1.1**	1.6	1.0
149,507	KCOM Group	142	0.1			

Portfolio Statement

As at 31 December 2016

Holding	Security	Value £'000 (31 December 2016)	% of Total Net Assets (31 December 2016)	% of Index[3] (31 December 2016)	% of Total Net Assets (31 December 2015)	% of Index (31 December 2015)
Electricity		**–**	**–**	**0.1**	–	0.7
Gas, Water & Multiutilities		**–**	**–**	**0.1**	–	–
Banks		**–**	**–**	**3.3**	–	1.6
Nonlife Insurance		**1,993**	**1.0**	**1.7**	1.6	2.7
293,018	Novae Group	1,993	1.0			
Life Insurance		**3,755**	**1.8**	**1.3**	0.8	1.4
1,251,318	Hansard Global	1,276	0.6			
1,659,601	JRP Group	2,479	1.2			
Real Estate Investment & Services		**10,279**	**5.1**	**6.0**	5.5	6.3
566,636	Countrywide	999	0.5			
1,759,801	Grainger	4,185	2.1			
835,011	U and I Group	1,420	0.7			
1,629,600	Urban&Civic	3,675	1.8			
Real Estate Investment Trusts		**5,431**	**2.7**	**5.6**	3.1	4.8
2,934,644	Hansteen Holdings	3,331	1.7			
1,206,715	McKay Securities	2,100	1.0			
Financial Services		**18,775**	**9.3**	**6.7**	7.8	7.9
1,630,147	Brewin Dolphin Holdings	4,957	2.5			
489,439	Charles Stanley Group	1,414	0.7			
523,900	CMC Markets	572	0.3			
1,664,045	International Personal Finance	2,867	1.4			
1,210,900	John Laing Group	3,272	1.6			
1,372,483	Paragon Group	5,693	2.8			
Software & Computer Services		**10,802**	**5.3**	**4.5**	5.3	4.9
462,906	Computacenter	3,689	1.8			
922,352	Microgen	1,697	0.8			
1,571,943	RM	2,122	1.1			
744,077	SDL	3,294	1.6			
Technology Hardware & Equipment		**4,241**	**2.0**	**1.3**	1.0	1.6
3,701,841	Filtronic	435	0.2			
716,200	Laird	1,090	0.5			
2,750,500	Spirent Communications	2,716	1.3			
Investments as shown in the Balance Sheet		**201,889**	**100.0**	**100.0**	99.7	100.0
Net Current Liabilities		**(72)**	**–**	**–**	0.3	–
Total Net Assets		**201,817**	**100.0**	**100.0**	100.0	100.0

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

1 Listing suspended

2 Unquoted security

3 Reflects the rebalanced index as at 1 January 2017

Comparative Tables

Income Unit	2016 £/unit	2015 £/unit	2014 £/unit
Change in net assets per unit			
Opening net asset value per unit	**166.09**	154.50	158.32
Return before operating charges*	**10.14**	17.54	1.05
Operating charges	**(1.28)**	(1.42)	(1.36)
Return after operating charges	**8.86**	16.12	(0.31)
Distributions on income units	**(4.81)**	(4.53)	(3.51)
Closing net asset value per unit	**170.14**	166.09	154.50
*after direct portfolio transaction costs of:	**(0.48)**	(0.55)	(0.60)

Income Unit	2016	2015	2014
Performance			
Total return after charges[1]	**5.3%**	10.4%	(0.2)%
Other information			
Closing net asset value (£'000)	**62,887**	62,511	82,549
Closing number of units	**369,607.953**	376,364.352	534,302.352
Operating charges	**0.80%**	0.83%	0.85%
Direct portfolio transaction costs	**0.30%**	0.32%	0.38%
Prices			
Highest issue price (£)	**175.14**	183.70	174.54
Lowest cancellation price (£)	**140.11**	153.12	145.61

Accumulation Unit	2016 £/unit	2015 £/unit	2014 £/unit
Change in net assets per unit			
Opening net asset value per unit	**205.20**	186.02	186.48
Return before operating charges*	**13.12**	20.90	1.15
Operating charges	**(1.60)**	(1.72)	(1.61)
Return after operating charges	**11.52**	19.18	(0.46)
Distributions	**(5.99)**	(5.49)	(4.16)
Retained distributions on accumulation units	**5.99**	5.49	4.16
Closing net asset value per unit	**216.72**	205.20	186.02
* after direct portfolio transaction costs of:	**(0.60)**	(0.66)	(0.71)

Accumulation Unit	2016	2015	2014
Performance			
Total return after charges	**5.6%**	10.3%	(0.2)%
Other information			
Closing net asset value (£'000)	**138,930**	105,970	113,262
Closing number of units	**641,058.237**	516,414.412	608,875.844
Operating charges	**0.80%**	0.83%	0.85%
Direct portfolio transaction costs	**0.30%**	0.32%	0.38%
Prices			
Highest issue price (£)	**220.73**	221.18	205.58
Lowest cancellation price (£)	**173.37**	184.36	173.42

[1] Does not assume reinvestment of the interim distribution.

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 position of the scheme and of its net revenue and capital gains 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.

K F Muir, *Director*
R M J Newbery, *Director*
Aberforth Unit Trust Managers Limited

27 January 2017

Responsibility Statements

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 2016

The Trustee must ensure that the Scheme is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed and Prospectus (together "the Scheme documents") as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Scheme and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Scheme in accordance with the Regulations.

The Trustee must ensure that:

- The Scheme's cash flows are properly monitored (this requirement on the Depositary applied from 18 March 2016) and that cash of the Scheme is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Scheme are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Scheme's assets is remitted to the Scheme within the usual time limits;
- the Scheme's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM") are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Scheme.

Having carried out such procedures as we consider 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 Scheme, acting through the AFM:

(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 Schemes income in accordance with the Regulations and the Scheme documents, 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

27 January 2017

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 2016 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 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 2016;
- the statement of total return of the Fund for the year then ended;
- the cash flow statement 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 UK Authorised Funds’ issued by The Investment Management Association (the “Statement of Recommended Practice for UK 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
27 January 2017

(a) The maintenance and integrity of the Authorised Fund 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 2016

Statement of Total Return

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Income:					
Net capital gains	4		**6,382**		13,354
Revenue	5	**5,996**		5,466	
Expenses	6	**(1,445)**		(1,513)	
Interest payable and similar charges		**(8)**		(12)	
Net revenue before taxation		**4,543**		3,941	
Taxation	7	**(5)**		–	
Net revenue after taxation			**4,538**		3,941
Total return before distributions			**10,920**		17,295
Distributions	8		**(5,383)**		(4,830)
Change in net assets attributable to Unitholders from investment activities			**5,537**		12,465

Statement of Change in net assets attributable to unitholders

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Opening net assets		**168,481**		195,811
Amounts receivable on issue of units	**56,124**		16,564	
Amounts payable on cancellation of units	**(32,318)**		(59,183)	
		23,806		(42,619)
Change in net assets attributable to unitholders from investment activities		**5,537**		12,465
Retained distribution on accumulation units		**3,993**		2,824
Closing net assets attributable to unitholders		**201,817**		168,481

Financial Statements

As at 31 December 2016

Balance Sheet

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
ASSETS					
Fixed assets:					
Investments assets			**201,889**		168,001
Current assets:					
Debtors	9	**458**		1,292	
Cash and bank balances		**438**		50	
Total other assets			**896**		1,342
Total assets			**202,785**		169,343
LIABILITIES					
Creditors:					
Other creditors	10	**(286)**		(195)	
Distribution payable on income units		**(682)**		(667)	
Total liabilities			**(968)**		(862)
Net assets attributable to unitholders			**201,817**		168,481

Cash Flow Statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Net cash inflow from operating activities	11	**5,237**	4,142
Investing activities			
Purchases of investments		**(68,879)**	(62,813)
Sales of investments		**40,611**	93,387
Cash (outflow)/inflow from investing activities		**(28,268)**	30,574
Financing activities			
Amounts received from issue of units		**57,675**	25,452
Amounts paid on cancellation of units		**(32,414)**	(59,850)
Distributions paid		**(1,834)**	(2,122)
Interest paid		**(8)**	(12)
Cash inflow/(outflow) from financing activities		**23,419**	(36,532)
Increase/(decrease) in cash and cash equivalents		**388**	(1,816)
Cash and cash equivalents at the start of the year		**50**	1,866
Cash and cash equivalents at the end of the year		**438**	50

Notes to the Financial Statements

1 Accounting Policies

(a) The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the Investment Management Association ('IMA') in May 2014 (the SORP), the Financial Reporting Standard 102 (FRS102), the Financial Conduct Authority's Collective Investment Schemes Sourcebook (COLL) and the Trust Deed. The financial statements have been prepared on a going concern basis.

(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 2016. 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. 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 is allocated to capital and the remaining 3/8 charged to revenue, and a proportion of the safe custody fees taken to capital which relate to purchases and sales transactions.

(f) The charge for tax is based on the results for the year. 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.

(g) The quoted investments of the Fund have been valued at bid market value at 12.30pm on the last working day of the accounting period.

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.

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 direct currency risk arises.

The main risks arising are market, 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 remains unchanged during the year. Further information can be found in the Key Investor Information Document available on the Manager's website.

Market Risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager does not seek to hedge this exposure as it does not consider this to be beneficial to the Fund in the long term.

Liquidity Risk

The Fund's assets comprise mainly 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.

Notes to the Financial Statements

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 Gains

	2016 £'000	2015 £'000
The gains on investments during the year comprise:		
Equity investments	**6,382**	13,354

5 Revenue

	2016 £'000	2015 £'000
UK dividends	**5,660**	5,169
Property income distributions	**87**	74
Overseas dividends	**238**	220
Bank Interest	**4**	3
Placing commission	**7**	–
Total income	**5,996**	5,466

6 Expenses

	2016 £'000	2015 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,344**	1,413
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**46**	46
Other expenses:		
Audit fee	**13**	12
Safe custody fees	**15**	16
Registration fees	**4**	14
Legal fees	**14**	–
Printing fees	**7**	9
Taxation services	**2**	3
	55	54
Total expenses	**1,445**	1,513

The Manager's periodic fee is 0.75% per annum of the valuation of the Fund's property which accrues and is paid monthly in arrears (previously 0.80% per annum). Included within this fee is £840,000 borne by the capital of the Fund (2015: £883,000). Further details of the management fees, Trustee's fees and other expenses of the Fund are available in the Fund's Prospectus.

Notes to the Financial Statements

7 Taxation

	2016 £'000	2015 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**5**	–
Total current tax charge for the year (note 7(b))	**5**	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	**4,544**	3,941
Corporation tax at 20%	**909**	788
Effects of:		
Non-taxable dividends	**(1,132)**	(1,034)
Non-taxable overseas dividends	**(48)**	(44)
Unutilised management expenses	**271**	290
Irrecoverable overseas tax	**5**	–
	(904)	(788)
Current tax charge (Note 7(a))	**5**	–

At the balance sheet date, the Fund had excess management expenses of £42,931,000 (2015: £41,572,000). 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 £8,586,000 (2015: £8,315,000).

8 Distributions

	2016 £'000	2015 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	**3,667**	2,904
Final	**2,174**	1,787
	5,841	4,691
Add: Income deducted on cancellation of units	**183**	221
Less: Income received on creation of units	**(641)**	(82)
Total distributions	**5,383**	4,830

	2016 £'000	2015 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	**4,538**	3,941
Add: Manager's periodic fee taken to capital	**841**	883
Add: Safe custody fee taken to capital	**4**	6
Distributions	**5,383**	4,830

Details of the distribution per unit are shown on page 24.

Notes to the Financial Statements

9 Debtors

	2016 £'000	2015 £'000
Amounts receivable for creation of units	–	910
Accrued income	458	374
Other debtors	–	8
Total debtors	458	1,292

10 Other Creditors

	2016 £'000	2015 £'000
Amounts payable for cancellation of units	103	16
Purchases awaiting settlement	37	44
Accrued management fee	121	108
Other accrued expenses	25	27
Total creditors	286	195

11 Reconciliation of net revenue before taxation to net cash flow from operating activities

	2016 £'000	2015 £'000
Net revenue before taxation	4,543	3,941
Adjusted for:		
Interest payable and similar charges	8	12
Debtors:		
(Increase) in accrued income	(84)	(20)
Decrease/(increase) in other debtors	8	(3)
Creditors:		
Increase/(decrease) in accrued management fee	13	(18)
(Decrease) in accrued other expenses	(2)	(4)
Taxation	(5)	–
Special dividends taken to capital	756	234
Net cash flow from operating activities	5,237	4,142

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2016 £'000	2016 % of purchases	% Average Net Asset Value	2015 £'000	2015 % of purchases	% Average Net Asset Value
Equity purchases in period before transaction costs	**66,146**			60,820		
Commissions	**138**	**0.20**	**0.08**	128	0.21	0.07
Taxes	**328**	**0.48**	**0.18**	283	0.46	0.16
Total equity purchases costs	**466**	**0.68**	**0.26**	411	0.67	0.23
Corporate actions during the period	**2,260**			711		
Total purchase consideration after direct transaction costs	**68,872**			61,942		

	2016 £'000	2016 % of sales	% Average Net Asset Value	2015 £'000	2015 % of sales	% Average Net Asset Value
Gross equity sales in period before transaction costs	**39,004**			84,154		
Commissions	**(73)**	**(0.18)**	**(0.04)**	(172)	(0.18)	(0.09)
Total equity sales costs	**(73)**	**(0.18)**	**(0.04)**	(172)	(0.18)	(0.09)
Corporate actions during the period	**1,680**			9,337		
Total sales in the period after transaction costs	**40,611**			93,319		

The Fund incurs commissions and taxes on buying and selling investment securities in pursuance of the investment objective. Over the last three financial years, commissions have averaged 0.15% per annum (2015: 0.19% per annum) of the Fund's average net asset value and taxes have averaged 0.18% per annum (2015: 0.23% per annum) over the same period.

Share dealing generally 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 2016, the average dealing spread for the underlying Fund investments is 1.08% (2015: 1.54%).

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

- 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.

Notes to the Financial Statements

13 Unitholders' Funds

The Fund has income and accumulation units. The net asset value per unit; the number of units and the accumulation/distribution per unit are shown on page 11. All units, adjusted for the current accumulation factor, have the same rights on winding-up.

Number of units	Opening 1 Jan 2016	Issued	Redeemed	Converted	Closing 31 Dec 2016
Accumulation	516,414.412	248,461.740	(123,635.432)	(182.480)	641,058.237
Income	376,364.352	104,412.084	(111,398.465)	229.982	369,607.953

14 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 £224,000 (31 December 2015: £786,000). 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 2015: £4,000).

15 Contingencies, financial commitments and contingent assets

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2016 (2015: nil).

16 Fair value disclosure

Fair value hierarchy is intended to prioritise the inputs used to measure the fair value of assets and liabilities as prescribed by FRS102. The hierarchy is split into the following 3 levels:

Level 1 - Using unadjusted quoted prices for identical instruments in an active market.

Level 2 - Using inputs, other than quoted prices included in level 1 that are directly or indirectly observable based on market data.

Level 3 - Using unobservable inputs due to market data being unavailable.

	2016		2015	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**201,889**	–	168,001	–
Total	**201,889**	–	168,001	–

Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the Manager in pursuance of the investment objective. It is not the Fund's policy to use derivatives or hedging instruments to manage market price risk.

At the year end date, 100% (2015: 99.7%) of the nets assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the investment portfolio valuation fell by 10% at 31 December 2016, the impact on Unitholders' funds would have been negative £20.2m (2015: negative £16.8m). If the investment portfolio valuation rose by 10% at 31 December 2016, the impact on Unitholders' funds would have been positive £20.2m (2015: positive £16.8m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole. All other variables are assumed to remain constant.

As at 31 December 2016, all of the Fund's financial instruments were included in the balance sheet at fair value. The investment portfolio consisted of investments valued at bid prices which represent fair value. The only exceptions to this are Kenmare Resources Warrants and International Ferro Metals which have been fair valued at £nil.

Distributions

Distribution Table

For the six months to 31 December 2016

	Net Income Dec 2016	Equalisation† Dec 2016	Distribution/ Accumulation Dec 2016	Distribution/ Accumulation Dec 2015
Income units (payable 28 February 2017)				
Group 1: Units purchased prior to 1 July 2016	**184.6361p**	–	**184.6361p**	177.3464p
Group 2: Units purchased on or after 1 July 2016	**113.3266p**	**71.3095p**	**184.6361p**	177.3464p
Accumulation units				
Group 1: Units purchased prior to 1 July 2016	**232.6989p**	–	**232.6989p**	216.8436p
Group 2: Units purchased on or after 1 July 2016	**142.8268p**	**89.8721p**	**232.6989p**	216.8436p

For the six months to 30 June 2016

	Net Income Jun 2016	Equalisation† Jun 2016	Distribution/ Accumulation Jun 2016	Distribution/ Accumulation Jun 2015
Income units (payable 31 August 2016)				
Group 1: Units purchased prior to 1 January 2016	**296.6426p**	–	**296.6426p**	275.8100p
Group 2: Units purchased on or after 1 January 2016	**112.4334p**	**184.2092p**	**296.6426p**	275.8100p
Accumulation units				
Group 1: Units purchased prior to 1 January 2016	**366.4933p**	–	**366.4933p**	332.0761p
Group 2: Units purchased on or after 1 January 2016	**138.9082p**	**227.5851p**	**366.4933p**	332.0761p

† 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.

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
31 December 2012	377.5214	336.4382
31 December 2013	399.7750	345.5453
31 December 2014	416.0784	351.3320
31 December 2015	548.9197	453.1564
31 December 2016	**599.1922**	**481.2787**

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.

Management and Administration

Manager

Aberforth Unit Trust Managers Limited*
14 Melville Street
Edinburgh EH3 7NS
Telephone – Dealing: 0345 608 0940
– Enquiries: 0131 220 0733
Dealing: ordergroup@capita.co.uk
Email: enquiries@aberforth.co.uk
Website: www.aberforth.co.uk

Trustee & Depositary

National Westminster Bank plc*
Trustee & Depositary Services
The Younger Building
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3 Redheughs Avenue
Edinburgh EH12 9RH

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Capita Financial Administrators Limited*
PO Box 388
Unit 1, Roundhouse Road,
Darlington
DL1 9UE
Telephone: 0345 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

The terms on which units can be bought and sold are set out in the Prospectus, Key Investor Information Document, Supplementary Information Document and Application Pack that are all available on the Manager's website www.aberforth.co.uk. These documents provide up to date terms on which Units are issued and redeemed, how and when money is held in a client money account and the risks relating to that.

Units may be bought and sold by contacting the Manager by telephone using the dealing number shown above. Alternatively, please contact Capita, the Registrar, using the address above or by email (ordergroup@capita.co.uk). In addition, orders can be placed electronically via various transaction networks including EMX and Calastone. Valuation of the Fund normally takes place each business day at 4.30 pm (or such other time as the market closes) on a forward pricing basis.

Tax Compliance Requirements

Due to regulatory requirements to gather more information about investments being made by overseas investors, the Manager is required to submit a report to HMRC on an annual basis to provide details of all investments held and dividends received by overseas investors. Further information is available on the Manager's website.

Beware of Investor Fraud

Unitholders may receive unsolicited phone calls or correspondence concerning investment matters which imply a connection to the Fund. These are typically from overseas based 'brokers' who target UK investors offering to sell them what often turn out to be worthless or high risk investments. Unitholders may also be advised that there is an imminent offer for the Fund, and the caller may offer to buy units at significantly above the market price if an administration fee is paid. This is known as 'boiler room fraud'. All such calls or correspondence should be ignored.

You can find more information about investment scams at the Financial Conduct Authority (FCA) website www.fca.org.uk/scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

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