Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2019

Investment Objective

The investment objective of the Fund is to seek to achieve a total return, calculated on an income reinvested basis, greater than the Numis Smaller Companies Index (excluding Investment Companies) over the long term, or, if that index is not available, another index which the Manager considers is comparable to the Numis Smaller Companies Index (excluding Investment Companies).

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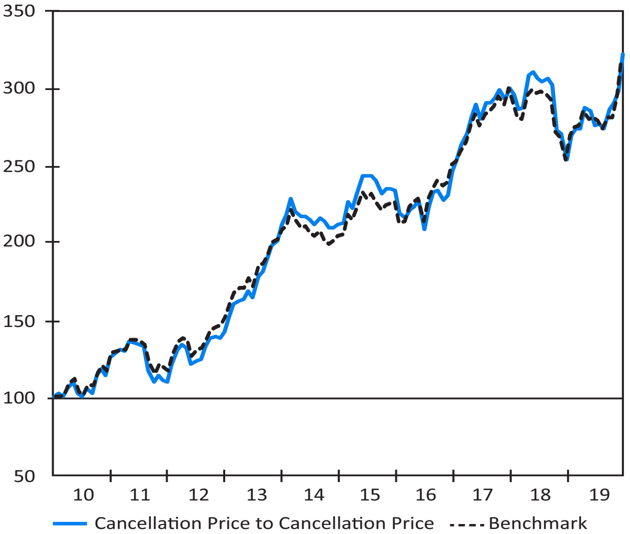
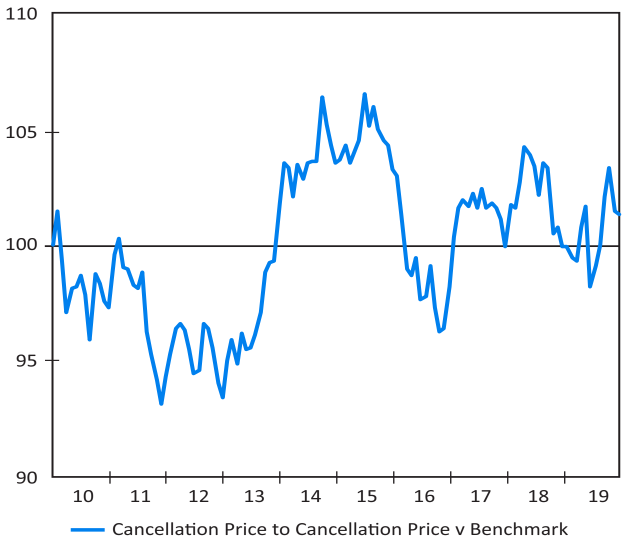
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2009)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2009)



Investment Record

Performance for the year to 31 December 2019	%
The Fund[1]	**27.0**
Benchmark Index[2]	**25.2**

Prices & Yield		2 January 2020[3]	2 January 2019[3]
Accumulation Units	Issue Price	**£290.35**	£228.37
	Cancellation Price	**£284.54**	£223.63
Income Units (xd)	Issue Price	**£209.17**	£169.26
	Cancellation Price	**£204.98**	£165.75
	Yield[4]	**2.7%**	3.5%
Dealing Spread		**2.0%**	2.1%

Size & Charges	31 December 2019	31 December 2018
Total Net Assets	**£212.0m**	£143.4m
Ongoing Charges[5]	**0.78%**	0.81%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historical Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2019	27.0	25.2
1 year to 31 December 2018	-15.3	-15.3
1 year to 31 December 2017	21.6	19.5
1 year to 31 December 2016	5.6	11.1
1 year to 31 December 2015	10.3	10.6

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2019	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2017	3.7	2.9	7.5	6.0
3 years from 31 December 2016	9.3	8.2	30.7	26.6
4 years from 31 December 2015	8.4	8.9	38.0	40.7
5 years from 31 December 2014	8.8	9.2	52.2	55.6
10 years from 31 December 2009	12.4	12.2	221.4	217.2
15 years from 31 December 2004	9.9	10.6	309.6	352.4
28.8 years from inception on 20 March 1991	12.5	10.3	2,885.0	1,569.6

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 2020 included some 346 companies, the largest market capitalisation of which was £1.6 billion and the aggregate market capitalisation of which was £153 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. 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.

Investment Policy and Strategy

Investment Policy

The Fund aims to achieve its objective by investing in small UK quoted companies. These are companies with a market capitalisation, at time of purchase, equal to or lower than the largest company in the bottom 10% of the main UK equity market or companies in the Numis Smaller Companies Index (excluding Investment Companies) (“NSCI (XIC)”). At 1 January 2020 (the date of the last annual index rebalancing), the index included 346 companies, with an aggregate market capitalisation of £153 billion. Its upper market capitalisation limit was £1.6 billion, although this limit changes owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities become candidates for sale. Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies.

The Fund’s policy towards companies quoted on the Alternative Investment Market (AIM) generally precludes investment, except either where an investee company moves from the “Main Market” to AIM (so as to avoid being a forced seller) or where a company quoted on AIM has committed to move from AIM to the “Main Market” (so as to enable investment before a full listing is obtained). The Fund does not invest in any unquoted companies.

The Manager aims to keep the Fund near fully invested in equities at all times and there is normally no attempt to engage in market timing by holding high levels of liquidity.

The Manager believes that small UK quoted companies continue to provide opportunities for positive total returns over the long term. Any material changes to the Fund’s investment objective and policy will be subject to Unitholder approval.

Investment Strategy

The Manager adheres to a value investment philosophy. In practice, this approach utilises several valuation metrics, recognising that flexibility is required when assessing businesses in different industries and that buyers of these businesses may include other corporates as well as stockmarket investors. As a result of this philosophy, the Fund’s holdings are usually on more attractive valuations than the average for the NSCI (XIC). While there is good evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour.

The Manager selects companies for the portfolio on the basis of fundamental or “bottom-up” analysis. Analysis involves scrutiny of businesses’ financial statements and assessment of their market positions. An important part of the process is regular engagement with board members of prospective and existing investments. Holdings are sold typically when their valuations reach targets determined by the Managers.

The NSCI (XIC) is the Fund’s chosen benchmark. It is the reference point for defining the investment objective (“Target benchmark”) and evaluating the Fund’s performance (“comparator benchmark”). Although the Fund’s portfolio is constructed with reference to UK small companies and the NSCI (XIC), it can be differentiated from the index. The use of the NSCI (XIC) as a benchmark reflects the emphasis within the portfolio on small UK quoted companies and the desire to achieve the investment objective by investing in companies whose shares represent relatively attractive value within a given stockmarket environment.

In order to improve the odds of achieving the investment objective, the Manager believes that the portfolio must be adequately differentiated from the benchmark index. Therefore, within the diversification parameters described in Investment Policy, the Manager regularly reviews the level of differentiation, with the aim of maximising the active share of the portfolio.

The Fund's eligible markets, as defined in the Collective Investment Schemes Sourcebook (“COLL”), are the Official List of the London Stock Exchange plc (“LSE”) and the Alternative Investment Market (“AIM”) of the LSE. The Fund’s base currency is Pounds Sterling.

The capital property of the Fund will consist of transferable securities, as defined in COLL. The Fund will not invest in any immovable property or tangible movable property.

Manager's Report

This report has been prepared in accordance with the requirements of COLL 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 COLL.

Information on Aberforth Unit Trust Managers Limited (the "Manager")

The Manager is wholly owned by Aberforth Partners LLP (the "firm" or "Investment Adviser"). 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 £2.4 billion (as at 31 December 2019). The firm is wholly owned by seven partners – six investment managers and an Operations Partner, 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 period, the Prospectus was updated:-

1. to remove E.R. Macdonald, R.M.J Newbery, C.N. Watt and A.J. Whyte as directors of Aberforth Unit Trust Managers Limited (the "Manager");
2. to clarify the use of the NSCI (XIC) as the Fund's Target and Comparator benchmark in line with COLL 4.2.5R (3) (c-b);
3. to clarify the description of the investment objective, policy and strategy.
4. to include details of D.M. Cooper and J.S. Richards, the independent directors appointed to Aberforth Unit Trust Managers Limited (the "Manager").

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. Directors and staff working on the Fund are not remunerated by the Manager. Aberforth Partners LLP 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

This Manager's Report examines performance in both 2019 and over the past three years. The extended analysis usefully captures the unusual circumstances of the period since the EU referendum. It also coincides with the continuation vote period of the Fund's closed-ended sibling, the Aberforth Smaller Companies Trust plc (ASCoT). Though at times in the past the Fund's assets have been greater, ASCoT is presently more than six times as large. The portfolios are, however, in all material respects, identical, which means commentary on one is also relevant to the other. The commonality of portfolio also means that investors can choose how to access the investment service offered by the Manager, with several investors holding both the Fund and ASCoT.

The Fund's total return in 2019 was 27.0%. This was ahead of the NSCI (XIC)'s 25.2% return and the FTSE All-Share's 19.2%. While equities were strong in 2019, the past three years have been volatile for stockmarkets. Overall performance was, however, acceptable, as the table below demonstrates.

Total returns	2017	2018	2019	3 year period
The Fund	+21.6%	-15.3%	+27.0%	+30.7%
NSCI (XIC)	+19.5%	-15.3%	+25.2%	+26.6%
FTSE All-Share	+13.1%	-9.5%	+19.2%	+22.0%
FTSE All-World (US$ terms)	+24.7%	-9.0%	+27.2%	+44.3%

The volatility of share prices over the three years was influenced by global macro economic and political developments. In 2017, markets were enthused by the prospect of "synchronised global recovery", though this optimism proved short-lived, as Donald Trump's trade wars intensified towards the end of 2018. Into 2019, fears of a tariff-induced slowdown were allayed by widespread monetary stimulus, with the Federal Reserve cutting interest rates and further quantitative easing deployed by the European Central Bank. These swings in sentiment were echoed by government bond yields: US ten year yields, which started 2017 at 2.5%, reached almost 3.5% in 2018, before sinking back below 2.0% at the end of 2019.

The UK economy has not been unaffected by these global moves, but their effects have been overshadowed by the all-consuming issue of Brexit. In the face of gnawing uncertainty about the eventual terms of the UK's divorce from the EU, the economy proved more resilient than might have been expected. However, the steady – if unspectacular – progress since the referendum masks an undoubted opportunity cost, some of which is reflected in the under-performance of UK equities against other stockmarkets as illustrated in the table above. As 2019 drew on, it was notable that the incidence of profit warnings from small UK quoted companies rose – it would seem that uncertainty related to Brexit is catching up with businesses reliant on the domestic economy, while the trade wars are taking their toll on companies more reliant on overseas markets. Nevertheless, the year ended in an encouraging fashion, with apparent progress towards a trade deal between China and the US, alongside a decisive general election result in the UK promising to bring clarity at least to the first stage of the Brexit process.

The influence of the value style on performance

Relative total returns	2017	2018	2019	3 year period
Value less growth	-9.6%	-1.4%	-8.1%	-21.5%

Source: London Business School

The Manager is a value investor. This means that the Fund's performance is influenced by the performance of the value style, for better or worse. Data from the London Business School allow analysis of the value factor's performance within the NSCI (XIC). Since the Fund's inception, the index's value stocks have out-performed its growth stocks by 1.5% per annum; that premium rises to 3.2% over the NSCI (XIC)'s full 64 year history. Adherence to the value style has therefore been beneficial to the Fund's returns over its lifetime. However, the growth style has led the way since the financial crisis. As the table above shows, this pre-eminence was evident in 2019 and over the last three years. The Fund's out-performance of the NSCI (XIC) therefore came without help from the style factor – "one against the head" in rugby parlance. There was, though, a noteworthy improvement in value's fortunes in the second half of 2019 after the particularly poor start to the year noted in the interim report.

There is a relationship between style performance and the low bond yields that have characterised the years since the financial crisis. These low yields, all else being equal, drag down the discount rates used to value other assets. This is of greater benefit to the valuations of those assets whose cash flows are weighted further into the future. In the equity world, such assets are growth stocks. This reasoning tallies with observable trends in the real world: investment horizons have lengthened, cash consumptive business models have succeeded in attracting enormous quantities of capital and many equity portfolios are littered with attempts, quoted or unquoted, to find the next Amazon or Apple. Meanwhile, less glamorous businesses, which are usually sensitive to the economic cycle, are overlooked – their proven ability to weather downturns and to benefit from economic progress is presently much less prized than a disruptive business model that promises growing profits some years in the future.

The Manager's dedication to value investing has resulted in two features of the portfolio that have been and will continue to be influential on future returns: a significant exposure to the smaller constituents of the NSCI (XIC) and a bias towards companies reliant on the domestic economy. The table below shows the performance of these size and geographical influences within the NSCI (XIC).

Relative total returns	2017	2018	2019	3 year period
Smaller smalls less larger smalls*	-2.6%	+1.4%	-13.1%	-13.9%
Domestics less overseas	-12.8%	-8.4%	+8.3%	-18.3%

*FTSE SmallCap (XIC) - FTSE 250 (XIC)

- Constituents of the NSCI (XIC) are those stocks within the bottom 10% of the total UK stockmarket by value. This definition means that the market capitalisation of the largest constituent is £1,632m and that the index has a significant overlap with the FTSE 250. Mid caps – or "larger small" companies – represent 61% of the total value of the NSCI (XIC), but just 35% of the Fund's portfolio. The Fund therefore has a relatively high exposure to the NSCI (XIC)'s "smaller small" companies, most of which FTSE includes in its SmallCap and Fledgling indices.

	"Smaller smalls"	"Larger smalls"
The Fund's exposure	65%	35%
NSCI (XIC) exposure	39%	61%
Tracked universe* EV/EBITA** 2019	9.6x	11.3x
Tracked universe* profit growth 2019-2021	12.6%	9.6%

*Tracked universe represents 98% by value of the NSCI (XIC) and is made up of those 267 small caps that the Manager follows most closely.

**EV = Enterprise value; EBITA = earnings before interest, tax and amortisation

The table above demonstrates the reason for the Fund's size positioning: "smaller small" companies are both cheaper than their larger peers and are expected to grow more quickly. This is an unusual state of affairs, the most significant reason for which is a general reluctance to assume liquidity risk. The much lower valuations for "smaller smalls" have been evident since the financial crisis, which heightened concern about illiquidity. That concern was further intensified in 2019 by the unfortunate events in the open-ended world and their knock-on effect on other parts of the investment management industry. These developments meant that the share prices of "smaller small" companies lagged the NSCI (XIC) as a whole in 2019 and over the last three years, which was disadvantageous to the Fund's returns. As a consequence of this under-performance, the size discount widened further in the year and valuations of many "smaller small" companies approached distressed levels. This represents opportunity, though the Manager's enthusiasm may be tempered by the regulatory reaction to recent events.

- The EU referendum created a further dislocation within the valuation framework of small UK quoted companies, which have a much greater exposure than do large companies to the domestic economy. The share prices of overseas-facing companies out-performed as sterling weakened and boosted their profits through translation gains. Meanwhile, many domestic-facing businesses faced narrowing margins as they had to pay higher sterling prices for goods sourced from outside the UK. The Fund's portfolio was well positioned for this divergence, having a relatively high exposure to the overseas component at the time of the referendum. However, the subsequent relative performance of the two components led to more opportunities among the domestics. Portfolio capital therefore flowed from overseas to domestic companies, such that the Fund's exposure to the latter at 31 December was 63%, determined by the underlying revenues of the companies. The NSCI (XIC)'s domestic exposure fell to 54% following the annual rebalancing of the index on 1 January. This reflects the rally in share prices of domestic companies towards the end of the year, following which several became too large for continued membership of the NSCI (XIC).

  The portfolio's shift towards domestics was a function of the Manager's value investment discipline and has been modestly advantageous to returns both in 2019 and the continuation vote period: since the end of the third quarter of 2018, the share prices of domestic companies have performed more strongly than those of their overseas peers. This reflects both the impact of the trade wars on the prospects of the overseas earners and, since the emergence of Boris Johnson's Brexit deal, building optimism – demonstrated by sterling strength – that a disorderly divorce will be avoided. It should be noted, though, that the nature of the UK's future relationship with the EU will take time to define and consequently that Brexit risk has not vanished: the trading conditions of small UK quoted companies, particularly those addressing the domestic economy, remain vulnerable to a badly handled Brexit.

These aspects of portfolio positioning – size and geographical exposure – are consequences of the Manager's adherence to the value investment philosophy. However, unlike that philosophy, they may not be constant features of the Fund's portfolio. Over time, basic economic forces will mean that these specific opportunities are arbitraged away. In the case of the geographical bias, the obvious catalyst for such arbitrage is greater clarity on the Brexit process, in which the recent general election result should be helpful. Resolution of the size opportunity may be more distant: while the market will take care of overhangs in individual stocks, the full reaction to the aforementioned recent events in the open-ended world – not least in terms of regulation – has yet to play out. However, it is worth noting that Brexit clarity may encourage more M&A activity within the smaller companies universe. Indeed, with the Fund receiving bids for five of its holdings in 2019, there was a pick-up in takeovers of NSCI (XIC) constituents in 2019, albeit from a low base: predators were prepared to look through currency risk to the very low underlying valuations. An important caveat is that the standard takeover premium of around 30% may be insufficient for the Manager, given the particularly low valuations of "smaller small" companies.

Manager's Report

The day-job – stock selection and portfolio management

For the 12 months ended 31 December 2019	Basis points
Attributable to the portfolio of investments, based on mid prices	**206**
(after transaction costs of 22 basis points)	
Movement in mid to bid price spread	18
Cash/other	32
Management fee	-74
Other expenses	-4
Total attribution based on bid prices	**178**

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 = 26.95%; Benchmark Index = 25.17%; difference is 1.78% being 178 basis points).

The previous section focused on the effect of the value investment style on the Fund's investment performance in recent years. While the impact of style can be significant – for better over the Fund's history though for worse in recent years – the Manager cannot influence it. Where they do have influence and where their daily efforts are concentrated are stock selection and the moulding of stocks into a portfolio. The process underlying these activities has been consistently applied over the Fund's 29 year history. There are three main aspects to the process.

- Company analysis is facilitated by splitting the small cap universe by sector: each investment manager looks after a handful of sectors and is charged with identifying opportunities within these. With six or seven experienced investment managers in recent years and 346 companies in total to analyse, the level of resource directed at the investment universe is very high. The investment manager seeks to understand how a company makes its money, its barriers to entry, its vulnerabilities, ESG factors material to valuation, the motivation of its executives and the oversight provided by the chair and non executive directors. Scrutiny of historical results and regular contact with management are important features of the analytical effort. Using the output of the analysis, the investment manager determines a valuation for the company in question. A variety of methodologies and metrics – most commonly the ratio of enterprise value to earnings before interest, tax and amortisation – are utilised, all with the aim of calculating a target price for each stock.
- While analysis is conducted by the individual investment managers within their allocated sectors, buy and sell decisions and portfolio management are a collegiate effort. For a value investor, this part of the process is at one level very straightforward: the aim is to move capital from companies whose share prices are close to their targets into those at a wide discount. The Manager refers to this circulation of capital as the "value roll", which can be a powerful contributor to the investment returns generated by a value manager. The key is to ensure that the valuation determined for each company is close to being correct, more often than not. This is the focus of scrutiny and debate when the investment managers gather for investment meetings.
- The third noteworthy aspect of the process is engagement with the chair and other directors of investee companies, through face-to-face meetings and voting in general meetings, something that the Manager has done throughout the Fund's 29 year history. The value of regular engagement becomes especially clear when investment cases go awry. All companies disappoint their investors' expectations at some point. The stockmarket's reaction to such events can be harsh and, in the Manager's experience, is usually over-done in the short term. The Manager is therefore inclined to view a profit warning as an opportunity to own more of a company at a better price. Additional purchases are not, however, undertaken blindly: the Manager engages with directors if poor governance or capital allocation have contributed to the company's misstep. The odds of effecting change are improved if Aberforth's funds collectively own a significant stake – up to 25% in some limited cases – in a company's issued share capital. While the Manager actively seeks to improve investment outcomes through their engagement, this is always done discreetly.

These three features of how the Manager invests have been constantly applied throughout the Fund's history. Underpinning the ability to remain true to a process that has proved itself over 29 years is the ownership structure of Aberforth: the business is entirely owned by partners working at the firm. There are no outside shareholders who might encourage a dilution of the value investment style, through exploration of other equity markets or pursuit of an asset-gathering strategy. This would risk being against the interests of investors in existing funds managed by Aberforth. Indeed, the Manager remains committed to a ceiling on the business's assets under management, specifically 1.5% of the total market capitalisation of the NSCI (XIC) index.

Manager's Report

The Manager's consistent investment process, designed to identify and own under-valued small companies, has been thoroughly tested in recent years by the challenges facing the value investment style. These challenges can be so intense that portfolio returns lag those of the NSCI (XIC). However, the process can sometimes overcome these challenges, as was the case in 2019 and, indeed, over the last three years.

Other portfolio features

The Manager's investment process gives rise to several noteworthy portfolio characteristics. These are often consequences of the value investment style, two of which – the portfolio's present biases to "smaller small" companies and to domestically oriented businesses – have already been described. The following paragraphs describe and explain other relevant characteristics.

Turnover

In 2019, portfolio turnover – defined as the lower of purchases and sales divided by average month end assets – was 26%. This rate of turnover is lower than the Fund's long run average of 34%. A return to higher turnover would probably be good news for the Fund's investors. This counterintuitive assertion has its explanation in the Manager's value investment style. If the stockmarket has little interest in the Fund's holdings, they are unlikely to see their share prices rise towards the Manager's price targets. There is therefore no reason for holdings to be sold. On the other hand, were the stockmarket to be seeking out value stocks – typically those domestically oriented "smaller smalls" – the Manager would be inclined to take profits and reinvest the proceeds into still under-valued businesses. This "value roll" would imply good relative returns for the Fund. The Manager does not, therefore, focus on turnover rates, which are an output of the investment process. Moreover, the average three year holding period implied by a long run turnover rate of 33% masks a more nuanced underlying picture. Of the Fund's ten most successful holdings over the past three years, four were held for fewer than three years, while another three were held for more than twelve years. Thus, the Manager is patient and takes a long term view – it is just that the stockmarket can be shorter term and offer opportunities to recycle capital more quickly.

Attractive income characteristics

Addressing small UK quoted companies from a value investment perspective tends to bring income advantages. First, the NSCI (XIC), whose largest constituent is just over 1% of the index, offers a much more diversified income profile than does the FTSE All-Share, where a handful of high yielding stocks and sectors generate a disproportionate amount of that index's income. Second, dividend cover is considerably higher in the small cap world: the NSCI (XIC)'s cover at 31 December 2019 was 2.1x, which compares with 1.6x for the FTSE All-Share and with 2.9x for the portfolio. Superior dividend cover, all else being equal, should improve the chances of higher dividend growth. Third, historical evidence suggests that small companies' dividend growth is higher: since 1955 the growth rate for constituents of the NSCI has been circa 3% per annum in real terms, against just over 1% for large companies. The fourth advantage is more specific to the Fund: the Manager's value investment style tends to result in a portfolio with a higher yield than that of the NSCI (XIC) as a whole. At 31 December 2019, the Fund's average portfolio yield was 3.4%, compared with the benchmark's 3.2%.

A couple of caveats are necessary. First, real dividend growth from the NSCI (XIC) since 2010 has been over 8% per annum, significantly higher than the 3% long term average and therefore unsustainable. There were signs in 2018 that the underlying rate of progress was moderating and this trend was also evident in 2019. Nevertheless, growth last year was positive and exceeded inflation, despite the economic pressures besetting both domestic and overseas companies. The second caveat relates to the comments made earlier in this report about very low government bond yields and their implications for investor behaviour in other asset classes. Low bond yields have contributed to "income starvation", which has encouraged investors to look to other assets to plug the gap. Corporate bonds and infrastructure have benefited, as too have equities. The search for yield has resulted in a general lowering of yields across stockmarkets and in the valuations of certain companies being determined more by their yields than by other valuation metrics. As a result of this, the Manager has found yield to be a less reliable indicator of value in recent years and there have been points, albeit not presently, at which the Fund's average portfolio yield has been lower than that of the NSCI (XIC).

Low valuations

Other valuation metrics are less ambiguous and the Fund's portfolio enjoys the low valuation ratios that one would expect of a portfolio put together by a value investor. The most extreme metric at present is the historical PE ratio.

Manager’s Report

This for the Fund’s portfolio was 10.0x at 31 December 2019, against 14.9x for the NSCI (XIC). The portfolio’s year end discount of 33% was the widest in the Fund’s history and compares with a 29 year average of 11%. The wide discount is in effect the culmination of the portfolio’s differentiated positioning in terms of size and geographical exposure described previously in this report.

	31 December 2019		31 December 2018	
Characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**80**	**346**	80	359
Weighted average market capitalisation	**£672m**	**£883m**	£523m	£732m
Price earnings (PE) ratio (historic)	**10.0x**	**14.9x**	9.6x	10.9x
Dividend yield (historic)	**3.4%**	**3.2%**	3.7%	3.6%
Dividend cover	**2.9x**	**2.1x**	2.9x	2.6x

Moving from a historical metric to forward valuations on the Manager’s preferred ratio, the table below sets out the EV/EBITA numbers for the Fund and for the “tracked universe”, which is 98% by value of the NSCI (XIC) and is made up of those 267 small caps that the Manager follows most closely. The table also shows data for two subsets of the “tracked universe”, a collection of 47 growth stocks and the other 220 stocks. It is from this latter group that the Fund’s portfolio is usually constructed.

EV/EBITA	**2019**	**2020**	**2021**
The Fund’s portfolio	10.1x	9.5x	8.5x
Tracked universe	11.7x	11.0x	9.7x
- Growth stocks	19.2x	16.3x	13.5x
- The rest	10.6x	10.1x	8.9x

On the basis of data within the 2020 column, the tracked universe is 16% more expensive than the Fund’s portfolio, while the subset of growth stocks is on a 72% EV/EBITA premium to the portfolio. While macro economic pressures meant that 2019 was a year of little profit progression within the NSCI (XIC), the ratios above imply a return to growth in 2020 and 2021. The profit estimates underlying this are the Manager’s own and assume that the further stages of Brexit process are not disorderly and that recession for this, or any other, reason is avoided. The lack of profit growth in 2019 across the small cap universe is consistent with an upsurge in profit warnings since the half year, as the Brexit uncertainty since the referendum eventually took its toll and as the trade wars affected the fortunes of overseas facing businesses. It is notable that, for the first time in perhaps ten years, these profit warnings were often greeted by flat or rising share prices. The stockmarket would thus seem to have anticipated bad news, as imminent clarity on the political outlook acted as the catalyst for a change in sentiment towards these companies.

High active share

While the Fund’s turnover, income profile and portfolio valuation are directly a result of the Manager’s value investment style, active share is distinct. Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock’s weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a better chance of performing differently from the index, for better or worse. The Manager targets a ratio of at least 70% for the Fund in relation to the NSCI (XIC) and at the start of January 2020 the ratio was 78%. Active share can be flattered by holding companies that are not constituents of the comparable index. The Manager believes that it is important for investors to know in what part of the stockmarket the Fund is invested and accordingly there are only limited circumstances, as described in the Investment Policy, in which the portfolio can hold companies that are not in the NSCI (XIC).

Manager's Report

Conclusion & Outlook

Experience should overcome surprise, but what a difference a year can make! As 2018 drew to a close, pessimism reigned as trade wars clouded the global outlook and the Brexit process was mired in uncertainty. Twelve months on, higher equity markets attest to a rediscovered optimism. The received wisdom is now that Donald Trump will act in a rational fashion to conclude a "great" deal with the Chinese as he enters the election year. At home, one of the extreme political outcomes has been avoided and the expectation in the immediate aftermath of the election was that Boris Johnson, now free of the Brexit hardliners, would use his majority to cultivate a softer form of Brexit. However, events quickly highlighted the risk of such assumptions, as the government sought to make it legally impossible to prolong the transition period beyond December 2020. With a hard Brexit still therefore on the table, sterling and UK equities have been given pause for thought.

The point here is less about the further twists and turns of share prices on the road to the UK's eventual relationship with the EU, or indeed to the US's eventual relationship with China – stockmarket gyrations of this sort are inevitable. It is more about the problems of an investment climate in which politics in general and the whims of individual politicians have so great an influence. Faith in the capabilities or good intentions of politicians is no substitute for a system in which the state plays a defined and understood role – whether American or Scandinavian in its reach – and lets other participants in the economy conduct their affairs accordingly. It may be argued that today's situation is effectively normality, with the exception being the "great moderation" of the two decades or so before the financial crisis. Either way, it might not be unreasonable to expect today's political uncertainty to be reflected in greater scepticism about the promises made by governments and in the valuations of assets particularly reliant on these promises. And yet, even as fiscal spending seems set to rise, vast swathes of even long-dated government bonds yield close to zero, which allows investment horizons to be generously extended to support the valuations of speculative growth companies.

The Fund stands in sharp contrast to the boldness implicit in such valuations, with the portfolio's value metrics more attractive than their 29 year historical averages both in absolute terms and relative to the NSCI (XIC). The opportunity has arisen because of the general reluctance since the financial crisis to embrace economic cyclicality and stockmarket illiquidity. However, as the closing months of 2019 showed, sentiment can turn quickly, while the tentative pick-up in M&A points to how some of the valuation anomalies will be rectified. The timing of such events is impossible to call, so in the meantime the Manager continues to follow their investment process designed to identify attractive investment opportunities, funding positions in these with capital from mature holdings and thus moulding a diversified portfolio of attractively valued smaller companies. That process has worked over the Fund's first 29 years and, as the past three years demonstrate, can on occasion overcome extremely hostile conditions for the value investor.

Guided by the Manager's value investment philosophy, the Fund is distinguished from the overwhelming majority of small cap investment trusts and open-ended funds, which are reliant on the continued ascendancy of growth stocks. This differentiation ensures the relevance of the Fund's proposition and underpins the Manager's optimism for investment performance in the years ahead.

K F Muir, Director
P R Shaw, Director
Aberforth Unit Trust Managers Limited
30 January 2020

Assessment of Value delivered to Unitholders of the Fund

In accordance with the requirements of 6.6.20 R of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority, the Board has undertaken an exercise to assess whether the payments out of scheme property set out in the Prospectus are justified in the context of the overall value delivered to Unitholders.

Conclusion

The Board concluded that, in its opinion:

- the Manager is delivering value to Unitholders; and
- charges borne by the Fund are justified in the context of the value delivered to Unitholders.

In reaching this conclusion, the Board took into account information furnished to them throughout the year and otherwise provided to them, as well as information prepared specifically in connection with their formal annual review. They considered the following factors, among others, but did not identify any single issue or particular piece of information that, in isolation, was the conclusive factor, and each Board member did not necessarily attribute the same weight to each factor.

1 Quality of service

Unitholders benefit from a variety of services, which are provided by several suppliers. The Board reviewed the range and quality of these services, conducting its assessment in three parts.

Investment management services

The Manager outsources the provision of investment management services to the Investment Adviser. The Board's review of investment management services included an assessment of the Investment Adviser's financial strength and stability; the depth, quality, and consistency of its investment management process; the experience, capability, and integrity of personnel managing the Fund's assets; and the ongoing evolution of the investment management team designed to maintain and strengthen these qualities. The Board took comfort from the collegiate approach to portfolio management and the strong alignment of interests between investment personnel and Unitholders, strengthened by the fact that the investment personnel involved in managing the Fund's assets are themselves investors in the core strategy underpinning the Fund's investment objective, policy and strategy. The Board also noted the significant resources devoted to servicing existing and prospective Unitholders by means of written communications and face-to-face meetings. The Board was also mindful of the Investment Adviser's business philosophy under which its principals endeavour to profit with their clients rather than from them. The Board acknowledged that several regulatory changes introduced in recent years have been consistent with the Investment Adviser's existing policies. Furthermore, the Board satisfied itself that the Investment Adviser's policies and processes continue to deliver best execution for the Fund and that transaction costs remain appropriate in this context. Finally, the Board took into account the prompt and in-depth reporting provided by the Investment Adviser on matters relating to investment performance and portfolio management.

Administrative services provided by the Manager

Within this category, notable services include daily fund accounting/ valuation and unit pricing, Unitholder reporting, and client money oversight: all of which the Manager outsources to the Investment Adviser. Unit dealing (including anti money laundering checks) and registration is outsourced to the Third Party Administrator and Registrar.

In assessing the quality of these services, the Board considered the design and effectiveness of the Investment Adviser's internal controls and the level of satisfaction of the Fund's Unitholders. The Board's conclusion on this matter also reflected the regular and comprehensive updates and summaries of the compliance monitoring programme run by the Investment Adviser's Risk & Compliance team, as well as reports from the Trustee and the Auditors. This monitoring programme covers the activities undertaken by third party service providers as well as the services provided by the Investment Adviser, and evidenced a well-managed operation delivering good outcomes on behalf of the Fund and its Unitholders.

Administrative services provided by third parties

These comprise services provided by the Trustee & Depositary, the Custodian, the Registrar and the Auditors. Again, the Board's judgement on the quality of these services reflected the regular and comprehensive updates and summaries of the compliance monitoring programme run by the Investment Adviser's Risk & Compliance team. This monitoring programme evidenced that the third parties' operations were well-managed and delivered good outcomes on behalf of the Fund and its Unitholders.

Based on its review, the Board concluded that the quality of service provided to the Fund by the Manager and others is satisfactory.

Assessment of Value delivered to Unitholders of the Fund

2 Performance

The Board reviewed the performance of the Fund, after deducting payments out of the property of the Fund, in relation to the investment objective, policy and strategy.

Consistent with the investment objective and with the recommended holding period, the Fund's performance was compared with that of the NSCI (XIC), the Fund's relevant benchmark index, over periods more than 5 years. An important element of the Board's assessment was the investment strategy: since inception, the Fund's portfolio has been managed in accordance with the Investment Adviser's value investment philosophy. The Board noted that, while there is persuasive evidence that a value approach within small UK quoted companies results in superior returns over the long term, there can be extended periods when the value style is out of favour. In this context and taking into account discussions on performance with the Investment Adviser throughout the year, the Board concluded that the Fund's performance has been satisfactory given the style specific headwinds it has faced.

In reaching that conclusion and as part of its assessment of performance, the Board reviewed evidence to satisfy itself that the Fund's assets continued to be managed in accordance with the value investment style. This element of the assessment acknowledged that Unitholders have a broad range of investment choices available and have chosen to invest (and remain invested) in the Fund, which differentiates itself from most other funds in the small UK quoted companies sector by its adherence to the value investment style. The influence of investment style is regularly highlighted in the Manager's Report to Unitholders. The Board noted that the Unitholder register is dominated by institutional investors and that the Investment Adviser regularly offers face-to-face meetings with a high percentage of these firms. Feedback from these meetings with the professionals responsible for investing their clients' capital in the Fund is shared with the Board and acts as an important barometer of investor sentiment.

Performance data for the Fund are shown on page 2. Whilst acknowledging the challenge to performance that currently accompanies the Fund's investment strategy, the Board is also conscious that some of the most attractive opportunities in equity markets require a contrarian approach synonymous with the value style and so looks to the future with optimism.

3. Authorised Fund Manager costs – general

The Board reviewed the costs of providing the services in relation to the charges incurred by the Fund.

The most material expense borne by the Fund is the Manager's periodic fee, representing 94% of total expenses in the year ended 31 December 2019.

As noted above, the Manager outsources most of its activities to the Investment Adviser and operates on a relatively low margin. The Investment Adviser is an associate of the Manager and is constituted as a limited liability partnership. Each of its full time working partners is remunerated through a share in the business profits, charged as a business expense, such that its profit after partners' remuneration is nil. The level of subjectivity and assumptions required to conduct a cost-based analysis of the Manager's fee arguably generates such a range of possible outcomes as may significantly negate its usefulness in informing a view on value delivered. Nevertheless, the Board is satisfied that, adjusted as appropriate, pro forma profitability at the Investment Adviser is not excessive.

This view takes account of the need to attract and retain high quality personnel as well as the challenges faced by the Investment Adviser in pursuing its chosen business strategy.

The Investment Adviser believes that its clients are best served if it remains a narrowly focused boutique, investing in a single asset class, and wholly devoted to a small number of institutional clients. The chosen asset class – small UK quoted companies – experiences periods in which it is in and out of favour, and the effect of this can be exacerbated by the value investment style described above. In addition, the Investment Adviser has adopted a focused business strategy that it determines to be in the best interests of its clients but that limits the scope for business growth and diversification (this capacity constraint is discussed further below under "Economies of scale"). These factors increase the volatility of, and place limits on, the Investment Adviser's income stream, which is, in all material respects, variable and largely correlated to funds under management. When this is combined with a relatively fixed cost base, business viability is dependent on margins being sufficient "through the cycle".

In this context, the Board is satisfied that the Manager's periodic fee is reasonable.

4. Economies of scale

The Board assessed the extent to which savings and benefits from economies of scale could be achieved, relating to the costs of managing the Fund's property.

The Board noted that the Investment Adviser's business strategy is to focus on a single asset class – small UK quoted companies – that can be characterised by periods of relative illiquidity. The Investment Adviser is not an asset gatherer and seeks to limit its capacity, in terms of funds under management, as it believes this to be in the best interests of its clients. New product development has been driven solely by investment opportunity and demand, subject always to consideration of remaining capacity. Further, the Board noted that the Investment Adviser does not seek to expand its investable universe beyond that described in the Fund's investment policy. Accordingly, the Board acknowledged that there is a limit to the level of cost economies available from such a capacity constrained business beyond those already achieved by it having operated for some time at or close to its self-imposed capacity.

All the Investment Adviser's clients benefit from its current scale but for the reasons noted above there is a limit on the scope to generate further scale efficiencies. The economies of scale shared to date have influenced a decrease over time in the ad valorem rate of management fees incurred by the Fund and by other clients managed by the Investment Adviser. The Board noted that this favourable outcome for the Fund was despite increasing costs being borne by the Investment Adviser.

The Board concluded that the Investment Adviser's disciplined adherence to a ceiling on funds under management, whilst limiting the scope for further cost efficiencies, is in the best interests of Unitholders.

5. Comparable market rates

The Board reviewed market rates for comparable services, in the context of services provided to the Fund.

The Board compared fees incurred for similar services by other small UK quoted companies funds and satisfied itself that the Manager's periodic fee remains fair and reasonable on that basis.

Whilst significantly less material, the Board also considered other expenses incurred by the Fund and concluded that Ongoing Charges incurred by the Fund compare favourably with market rates.

6. Comparable services

The Board also compared the Manager's periodic fee charged to the Fund with the level of fees charged to other clients of the Investment Adviser and satisfied itself that the Manager's periodic fee remains fair and reasonable given the level of service delivered.

7. Classes of units

The Board reviewed the charging structure applied to the Fund's classes of units.

The Board noted that the Fund has income units and accumulation units. An income unit entitles the holder to a cash distribution representing the net income attributable to that unit at each income allocation date. An accumulation unit does not entitle the holder to payment of the net income attributable to that unit, but that income is reinvested within the Fund and reflected in the accumulation unit price. The different classes were created to cater for the income preferences of Unitholders, who are free to move between the classes.

The Board noted that there is no difference in charging structure applied between the two classes of units and accordingly the conclusions reached on value delivered would apply to both classes equally.

K F Muir, Director
P R Shaw, Director
Aberforth Unit Trust Managers Limited
30 January 2020

Summary of Material Portfolio Changes

For the year ended 31 December 2019

Purchases	Cost £'000
Vesuvius	3,212
Bakkavor Group	2,517
Premier Oil	2,014
Bovis Homes Group	1,903
Senior	1,842
Morgan Advanced Materials	1,603
SIG	1,591
Urban&Civic	1,588
Just Group	1,548
Amigo Holdings	1,522
Huntsworth	1,458
Reach	1,432
Rank Group	1,425
Card Factory	1,379
International Personal Finance	1,288
TT Electronics	1,269
Lookers	1,217
Brewin Dolphin Holdings	1,190
Eurocell	1,189
Wilmington Group	1,187
Other purchases	36,287
Total Cost of Purchases	**68,661**

Sales	Proceeds £'000
Dunelm Group	5,441
Spirent Communications	5,181
Ei Group	5,006
Future	4,691
Ultra Electronics Holdings	3,417
KCOM Group	3,251
Grainger	2,509
Bovis Homes Group	2,335
Mitchells & Butlers	2,056
Go-Ahead Group	2,012
Lancashire Holdings	1,667
FirstGroup	1,460
RM	805
Menzies (John)	565
Capital & Regional	382
Speedy Hire	324
Vitec Group	292
Carclo	282
Anglo Pacific Group	281
Charles Stanley Group	267
Other sales	3,605
Total Proceeds of Sales	**45,829**

Portfolio Statement

As at 31 December 2019

Holding	Security	31 December 2019 Value £'000	31 December 2019 % of Total Net Assets	31 December 2019 % of Index[2]	31 December 2018 % of Total Net Assets	31 December 2018 % of Index
Oil & Gas Producers		**7,480**	**3.4**	**4.3**	4.0	3.2
16,076,165	EnQuest	3,462	1.6			
1,673,900	Nostrum Oil & Gas	284	0.1			
1,353,454	Pharos Energy plc	707	0.3			
3,082,800	Premier Oil	3,027	1.4			
Oil Equipment, Services & Distribution		**390**	**0.2**	**1.7**	0.3	1.1
5,412,484	Gulf Marine Services	390	0.2			
Chemicals		**–**	**–**	**2.2**	0.5	2.8
Industrial Metals & Mining		**–**	**–**	**0.6**	–	0.8
9,832,752	International Ferro Metals[1]	–	–			
Mining		**4,734**	**2.3**	**2.6**	2.5	3.5
1,648,565	Anglo Pacific Group	3,164	1.5			
1,176,060	Capital Drilling	753	0.4			
1,626,595	Gem Diamonds	817	0.4			
Construction & Materials		**13,925**	**6.6**	**4.4**	5.0	4.5
1,659,285	Eurocell	3,982	1.9			
1,401,669	Forterra	4,857	2.3			
678,161	Keller	5,086	2.4			
Aerospace & Defence		**5,550**	**2.6**	**2.3**	3.3	1.8
1,677,621	Senior	2,901	1.4			
125,328	Ultra Electronics Holdings	2,649	1.2			
General Industrials		**4,335**	**2.1**	**1.8**	0.3	0.9
6,584,893	Low & Bonar	793	0.4			
708,400	Vesuvius	3,542	1.7			
Electronic & Electrical Equipment		**9,960**	**4.7**	**2.4**	3.8	1.8
357,604	Dialight	833	0.4			
1,568,154	Morgan Advanced Materials	4,971	2.3			
1,505,767	TT Electronics	3,614	1.7			
1,008,100	XAAR	542	0.3			
Industrial Engineering		**6,411**	**3.0**	**1.9**	3.7	1.8
538,675	Castings	2,209	1.0			
392,753	Vitec Group	4,202	2.0			
Industrial Transportation		**4,780**	**2.3**	**2.3**	2.2	2.3
1,593,253	Wincanton	4,780	2.3			
Support Services		**24,458**	**11.6**	**8.2**	13.2	7.8
3,083,671	Connect Group	1,082	0.5			
992,407	De La Rue	1,413	0.7			
851,607	Essentra	3,708	1.7			
21,125,089	Management Consulting Group	330	0.2			
1,128,469	Northgate	3,510	1.7			
732,698	Robert Walters	4,074	1.9			
2,212,548	RPS Group	3,770	1.8			
2,530,564	SIG	3,113	1.5			
4,610,024	Speedy Hire	3,458	1.6			
Automobiles & Parts		**4,297**	**2.0**	**1.6**	1.4	0.6
1,621,573	TI Fluid Systems	4,297	2.0			

Portfolio Statement

As at 31 December 2019

Holding	Security	31 December 2019 Value £'000	% of Total Net Assets	% of Index[2]	31 December 2018 % of Total Net Assets	% of Index
Beverages		**–**	**–**	**1.5**	–	1.0
Food Producers		**5,301**	**2.5**	**2.7**	1.2	3.5
2,651,000	Bakkavor Group	3,701	1.7			
564,300	Devro	999	0.5			
377,816	R.E.A. Holdings	601	0.3			
Household Goods & Home Construction		**1,950**	**0.9**	**2.6**	0.8	3.1
367,838	Headlam Group	1,950	0.9			
Leisure Goods		**–**	**–**	**0.2**	–	0.9
Personal Goods		**–**	**–**	**1.6**	–	1.4
Health Care Equipment & Services		**601**	**0.3**	**1.2**	–	1.4
224,200	Medica Group	356	0.2			
172,400	Spire Healthcare Group	245	0.1			
Pharmaceuticals & Biotechnology		**2,995**	**1.4**	**1.5**	1.1	1.7
3,231,289	Vectura Group	2,995	1.4			
Food & Drug Retailers		**532**	**0.3**	**–**	0.4	1.0
1,403,896	McColl's Retail Group	532	0.3			
General Retailers		**11,852**	**5.6**	**4.9**	6.9	6.0
860,799	Card Factory	1,271	0.6			
4,412,613	Carpetright	211	0.1			
1,187,767	DFS Furniture	3,433	1.6			
967,903	Halfords Group	1,639	0.8			
2,695,199	Lookers	1,482	0.7			
1,462,214	N Brown Group	2,354	1.1			
2,053,795	Topps Tiles	1,462	0.7			
Media		**18,630**	**8.8**	**6.0**	7.9	3.7
2,328,640	Centaur Media	815	0.4			
365,212	Future	5,288	2.5			
4,879,452	Huntsworth	3,972	1.9			
3,679,819	Reach	4,997	2.4			
68,200	STV Group	279	0.1			
1,333,097	Wilmington Group	3,279	1.5			
Travel & Leisure		**26,111**	**12.3**	**10.6**	13.2	9.9
570,475	Air Partner	542	0.3			
5,288,198	FirstGroup	6,610	3.1			
82,101	Go-Ahead Group	1,813	0.9			
661,000	Hostelworld Group	825	0.4			
1,222,192	Mitchells & Butlers	5,585	2.6			
1,766,266	Rank Group	4,884	2.3			
2,132,157	Restaurant Group	3,475	1.6			
1,491,450	Stagecoach Group	2,377	1.1			
Fixed Line Telecommunications		**654**	**0.3**	**1.8**	0.9	2.1
617,300	Zegona Communications	654	0.3			
Mobile Telecommunications		**–**	**–**	**1.0**	–	–
Electricity		**–**	**–**	**1.8**	–	0.9
Banks		**–**	**–**	**1.7**	–	1.6
Nonlife Insurance		**–**	**–**	**2.3**	1.1	2.3

Portfolio Statement

As at 31 December 2019

Holding	Security	31 December 2019 Value £'000	31 December 2019 % of Total Net Assets	31 December 2019 % of Index[2]	31 December 2018 % of Total Net Assets	31 December 2018 % of Index
Life Insurance		**4,362**	**2.0**	**0.9**	2.2	1.0
1,240,077	Hansard Global	496	0.2			
4,894,157	Just Group	3,866	1.8			
Real Estate Investment & Services		**14,389**	**6.8**	**5.9**	7.9	6.0
1,184,126	Grainger	3,702	1.7			
1,763,413	U and I Group	3,118	1.5			
2,193,979	Urban&Civic	7,569	3.6			
Real Estate Investment Trusts		**5,302**	**2.5**	**2.5**	3.0	5.0
1,626,658	Capital & Regional	406	0.2			
955,853	Hansteen Holdings	1,113	0.5			
1,411,578	McKay Securities	3,783	1.8			
Financial Services		**17,115**	**8.0**	**8.9**	8.7	9.2
2,324,350	Amigo Holdings	1,543	0.7			
1,656,230	Brewin Dolphin Holdings	6,145	2.9			
621,129	Charles Stanley Group	1,963	0.9			
1,799,199	CMC Markets	2,638	1.2			
2,268,322	International Personal Finance	3,652	1.7			
5,542,299	Non-Standard Finance	1,174	0.6			
Software & Computer Services		**10,064**	**4.8**	**3.0**	4.5	4.6
1,552,292	Alfa Financial Software Holdings	1,841	0.9			
1,263,913	RM	3,552	1.7			
819,483	SDL	4,671	2.2			
Technology Hardware & Equipment		**–**	**–**	**1.1**	2.6	0.8
Investments as shown in the Balance Sheet		**206,178**	**97.3**	**100.0**	102.6	100.0
Net Current Assets/(Liabilities)		**5,846**	**2.7**	–	(2.6)	–
Total Net Assets		**212,024**	**100.0**	**100.0**	100.0	100.0

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

[1] Listing cancelled

[2] Reflects the rebalanced index as at 1 January 2020

Comparative Tables

Income Unit	31 December 2019 £/unit	31 December 2018 £/unit	31 December 2017 £/unit
Change in net assets per unit			
Opening net asset value per unit	**165.33**	201.38	170.14
Return before operating charges*	**45.59**	(28.64)	38.12
Operating charges	**(1.44)**	(1.60)	(1.52)
Return after operating charges	**44.15**	(30.24)	36.60
Distributions on income units	**(5.51)**	(5.81)	(5.36)
Closing net asset value per unit	**203.97**	165.33	201.38
*after direct portfolio transaction costs of:	**(0.56)**	(0.52)	(0.55)
Income Unit			
Performance			
Total return after charges[1]	**26.7%**	-15.0%	21.5%
Other information			
Closing net asset value (£'000)	**95,005**	45,883	48,686
Closing number of units	**465,777.136**	277,528.376	241,758.267
Operating charges	**0.78%**	0.81%	0.79%
Direct portfolio transaction costs	**0.31%**	0.26%	0.28%
Prices			
Highest issue price (£)	**211.13**	218.32	207.98
Lowest cancellation price (£)	**165.37**	163.56	170.73

Accumulation Unit	31 December 2019 £/unit	31 December 2018 £/unit	31 December 2017 £/unit
Change in net assets per unit			
Opening net asset value per unit	**223.06**	263.49	216.72
Return before operating charges*	**62.03**	(38.31)	48.73
Operating charges	**(1.95)**	(2.12)	(1.96)
Return after operating charges	**60.08**	(40.43)	46.77
Distributions	**(7.50)**	(7.66)	(6.87)
Retained distributions on accumulation units	**7.50**	7.66	6.87
Closing net asset value per unit	**283.14**	223.06	263.49
* after direct portfolio transaction costs of:	**(0.76)**	(0.69)	(0.71)
Accumulation Unit			
Performance			
Total return after charges	**26.9%**	-15.3%	21.6%
Other information			
Closing net asset value (£'000)	**117,019**	97,475	200,330
Closing number of units	**413,296.792**	436,989.840	760,295.152
Operating charges	**0.78%**	0.81%	0.79%
Direct portfolio transaction costs	**0.31%**	0.26%	0.28%
Prices			
Highest issue price (£)	**289.29**	285.65	269.08
Lowest cancellation price (£)	**223.12**	217.30	217.47

[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*
P R Shaw, *Director*
Aberforth Unit Trust Managers Limited

30 January 2020

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 2019

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 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 is 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 Scheme's 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.

NatWest Trustee & Depositary Services Limited
Drummond House
1 Redheughs Avenue
Edinburgh EH12 9RH

30 January 2020

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

Report on the audit of the financial statements

Opinion

In our opinion, Aberforth UK Small Companies Fund financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2019 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law, the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the “Annual Report”), which comprise: the balance sheet as at 31 December 2019; the statement of total return, the statement of change in net assets attributable to unitholders and the cash flow statement for the year then ended; the distribution tables; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Manager’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund’s ability to continue as a going concern. For example, the terms on which the United Kingdom is likely to withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Fund’s activities and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Manager’s Report

In our opinion, the information given in the Manager’s Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Manager for the financial statements

As explained more fully in the Statement of the Manager's Responsibilities in relation to the Report and Accounts of the Scheme set out on page 19, the Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intend to wind up or terminate the Fund, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Opinion on matter required 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.

Collective Investment Schemes sourcebook exception reporting

Under the Collective Investment Schemes sourcebook we are also 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
144 Morrison Street
Edinburgh
EH3 8EB
United Kingdom

30 January 2020

Financial Statements

For the year ended 31 December 2019

Statement of Total Return

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Income:					
Net capital gains/(losses)	4		**36,332**		(29,710)
Revenue	5	**6,012**		6,950	
Expenses	6	**(1,395)**		(1,680)	
Interest payable and similar charges		**(7)**		(5)	
Net revenue before taxation		**4,610**		5,265	
Taxation	7	**–**		–	
Net revenue after taxation			**4,610**		5,265
Total return before distributions			**40,942**		(24,445)
Distributions	8		**(5,435)**		(6,264)
Change in net assets attributable to Unitholders from investment activities			**35,507**		(30,709)

Statement of Change in net assets attributable to unitholders

	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Opening net assets		**143,358**		249,016
Amounts receivable on issue of units	**53,317**		28,400	
Amounts payable on cancellation of units	**(23,290)**		(106,811)	
		30,027		(78,411)
Change in net assets attributable to unitholders from investment activities		**35,507**		(30,709)
Retained distribution on accumulation units		**3,132**		3,462
Closing net assets attributable to unitholders		**212,024**		143,358

Financial Statements

As at 31 December 2019

Balance Sheet

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
ASSETS					
Fixed assets:					
Investments assets	16		**206,178**		147,055
Current assets:					
Debtors	9	**531**		425	
Cash and bank balances		**6,730**		–	
Total other assets			**7,261**		425
Total assets			**213,439**		147,480
LIABILITIES					
Creditors:					
Bank overdraft		**–**		(3,252)	
Other creditors	10	**(147)**		(141)	
Distribution payable on income units		**(1,268)**		(729)	
Total liabilities			**(1,415)**		(4,122)
Net assets attributable to unitholders			**212,024**		143,358

Cash Flow Statement

For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Net cash inflow from operating activities	11	**4,685**	5,973
Investing activities			
Purchases of investments		**(68,661)**	(57,093)
Sales of investments		**45,829**	129,663
Cash (outflow)/inflow from investing activities		**(22,832)**	72,570
Financing activities			
Amounts received from issue of units		**53,514**	28,589
Amounts paid on cancellation of units		**(23,466)**	(108,296)
Distributions paid		**(1,912)**	(1,313)
Interest paid		**(7)**	(5)
Cash inflow/(outflow) from financing activities		**28,129**	(81,025)
Increase/(decrease) in cash and cash equivalents		**9,982**	(2,482)
Cash and cash equivalents at the start of the year		**(3,252)**	(770)
Cash and cash equivalents at the end of the year		**6,730**	(3,252)

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 in 2014 and amended in 2017 (the SORP), the Financial Reporting Standard 102 (FRS102), the Financial Conduct Authority's 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 2019. 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 5/8ths is allocated to capital and the remaining 3/8ths 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. 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 market close 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. 3/8ths of the Manager's periodic charge is deducted from revenue for the purpose 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. 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 risk and reward profile of the Fund can be illustrated by reference to a standard Risk/Reward category scale, where 1 is lower potential risk/reward and 7 is higher potential risk/reward. The category is chosen based on the volatility of returns over the past 5 years. The current synthetic risk and reward indicator is 5 and was 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 certain circumstances and at the discretion of the Manager, redemptions may be settled by an in-specie transfer of assets or deferred redemption in accordance with the Prospectus terms.

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/(Losses)

	2019 £'000	2018 £'000
The net capital gains/(losses) on investments during the year comprise:		
Equity investments	**36,332**	(29,710)

5 Revenue

	2019 £'000	2018 £'000
UK dividends	**5,830**	6,634
Property income distributions	**92**	89
Overseas dividends	**85**	167
Scrip dividends	**–**	55
Bank Interest	**5**	4
Placing commission	**–**	1
Total income	**6,012**	6,950

6 Expenses

	2019 £'000	2018 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,314**	1,591
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**45**	48
Other expenses:		
Audit fee	**13**	13
Safe custody fees	**12**	16
Registration fees	**3**	3
Printing fees	**6**	7
Taxation services	**2**	2
	36	41
Total expenses	**1,395**	1,680

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. Included within this fee is £821,000 borne by the capital of the Fund (2018: £994,000). 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

	2019 £'000	2018 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**–**	–
Total current tax charge for the year (note 7(b))	**–**	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	**4,610**	5,265
Corporation tax at 20%	**922**	1,053
Effects of:		
Non-taxable UK dividends	**(1,166)**	(1,338)
Non-taxable overseas dividends	**(17)**	(33)
Unutilised management expenses	**261**	318
	(922)	(1,053)
Current tax charge (Note 7(a))	**–**	–

At the balance sheet date, the Fund had excess management expenses of £47,632,000 (2018: £46,333,000). 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 £9,527,000 (2018: £9,267,000).

8 Distributions

	2019 £'000	2018 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	**2,773**	2,690
Final	**2,811**	2,253
	5,584	4,943
Add: Income deducted on cancellation of units	**164**	1,491
Less: Income received on creation of units	**(313)**	(170)
Total distributions	**5,435**	6,264

	2019 £'000	2018 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	**4,610**	5,265
Add: Manager's periodic fee taken to capital	**821**	994
Add: Safe custody fee taken to capital	**4**	5
Distributions	**5,435**	6,264

Details of the distribution per unit are shown on page 31.

Notes to the Financial Statements

9 Debtors

	2019 £'000	2018 £'000
Amounts receivable for creation of units	**133**	17
Accrued income	**398**	408
Total debtors	**531**	425

10 Other Creditors

	2019 £'000	2018 £'000
Amounts payable for cancellation of units	**–**	12
Accrued management fee	**124**	104
Other accrued expenses	**23**	25
Total creditors	**147**	141

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

	2019 £'000	2018 £'000
Net revenue before taxation	**4,610**	5,265
Adjusted for:		
Interest payable and similar charges	**7**	5
Scrip dividends received	**–**	(55)
Debtors:		
Decrease in accrued income	**10**	216
Creditors:		
Increase/(decrease) in accrued management fee	**20**	(53)
Decrease in accrued other expenses	**(2)**	(2)
Taxation	**–**	–
Special dividends taken to capital	**40**	597
Net cash flow from operating activities	**4,685**	5,973

Notes to the Financial Statements

12 Portfolio Transaction Costs

	£'000	**2019 % of purchases**	**% Average Net Asset Value**	£'000	2018 % of purchases	% Average Net Asset Value
Equity purchases in period before transaction costs	**67,707**			51,770		
Commissions	**124**	**0.18**	**0.07**	121	0.23	0.06
Taxes	**335**	**0.49**	**0.19**	245	0.47	0.12
Total equity purchases costs	**459**	**0.67**	**0.26**	366	0.70	0.18
Corporate actions during the period	**495**			5,012		
Total purchase consideration after direct transaction costs	**68,661**			57,148		

	£'000	**2019 % of sales**	**% Average Net Asset Value**	£'000	2018 % of sales	% Average Net Asset Value
Gross equity sales in period before transaction costs	**45,616**			128,305		
Commissions	**(86)**	**(0.19)**	**(0.05)**	(182)	(0.14)	(0.09)
Total equity sales costs	**(86)**	**(0.19)**	**(0.05)**	(182)	(0.14)	(0.09)
Corporate actions during the period	**299**			1,540		
Total sales after transaction costs	**45,829**			129,663		

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 0.13% per annum (2018: 0.13% per annum) of the Fund's average net asset value and taxes have averaged 0.16% per annum (2018: 0.16% 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 2019, the average dealing spread for the underlying Fund investments is 1.33% (2018: 1.55%).

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 Units in issue

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 31. All units, adjusted for the current accumulation factor, have the same rights on winding-up.

Number of units	Opening 1 Jan 2019	Issued	Redeemed	Converted	Closing 31 Dec 2019
Accumulation	436,989.840	42,531.869	(64,642.580)	(1,582.337)	413,296.792
Income	277,528.376	253,709.139	(67,629.425)	2,169.046	465,777.136

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 £9,100 (31 December 2018: £99,100). Trustee fees paid are shown in note 6. The balance due to NatWest Trustee & Depositary Services Limited at the year end in respect of these fees was £4,000 (31 December 2018: £3,700 due to National Westminster Bank plc).

15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2019 (2018: 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.

	2019		2018	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**206,178**	**–**	147,055	–
Total	**206,178**	**–**	147,055	–

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% (2018: 100%) of the net 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 2019, the impact on Unitholders' funds would have been negative £20.6m (2018: negative £14.7m). If the investment portfolio valuation rose by 10% at 31 December 2019, the impact on Unitholders' funds would have been positive £20.6m (2018: positive £14.7m). 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 2019, 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 exception to this was International Ferro Metals which has been fair valued at £nil (2018: exceptions were Kenmare Resources Warrants and International Ferro Metals which were fair valued at £nil).

Distributions

Distribution Table

For the six months to 31 December 2019

	Net Income Dec 2019	Equalisation† Dec 2019	Distribution/ Accumulation Dec 2019	Distribution/ Accumulation Dec 2018
Income units (payable 28 February 2020)				
Group 1: Units purchased prior to 1 July 2019	**272.3161p**	–	**272.3161p**	262.5189p
Group 2: Units purchased on or after 1 July 2019	**90.9045p**	**181.4116p**	**272.3161p**	262.5189p
Accumulation units				
Group 1: Units purchased prior to 1 July 2019	**373.1264p**	**–**	**373.1264p**	348.7808p
Group 2: Units purchased on or after 1 July 2019	**124.5570p**	**248.5694p**	**373.1264p**	348.7808p

For the six months to 30 June 2019

	Net Income Jun 2019	Equalisation† Jun 2019	Distribution/ Accumulation Jun 2019	Distribution/ Accumulation Jun 2018
Income units (paid on 31 August 2019)				
Group 1: Units purchased prior to 1 January 2019	**279.1645p**	**–**	**279.1645p**	318.8306p
Group 2: Units purchased on or after 1 January 2019	**204.3185p**	**74.8460p**	**279.1645p**	318.8306p
Accumulation units				
Group 1: Units purchased prior to 1 January 2019	**376.6485p**	**–**	**376.6485p**	417.1557p
Group 2: Units purchased on or after 1 January 2019	**275.6663p**	**100.9822p**	**376.6485p**	417.1557p

† 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.

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
31 December 2015	548.9197	453.1564
31 December 2016	599.1922	481.2787
31 December 2017	686.8050	535.5534
31 December 2018	765.9365	581.3495
31 December 2019	**749.7749**	**551.4806**

Management and Administration

Manager

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

Trustee & Depositary

NatWest Trustee & Depositary Services Limited*
Drummond House
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Edinburgh EH12 9RH

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

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

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 distributions received by overseas investors. Further information is available on the Manager's website.

Beware of Investor Fraud

Investment scams are designed to look like genuine investment opportunities. 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. Unitholders should treat all such approaches with caution.

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

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