Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2020

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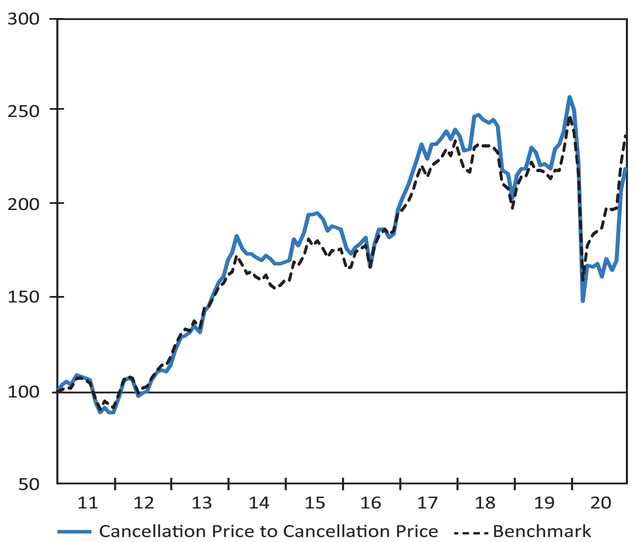
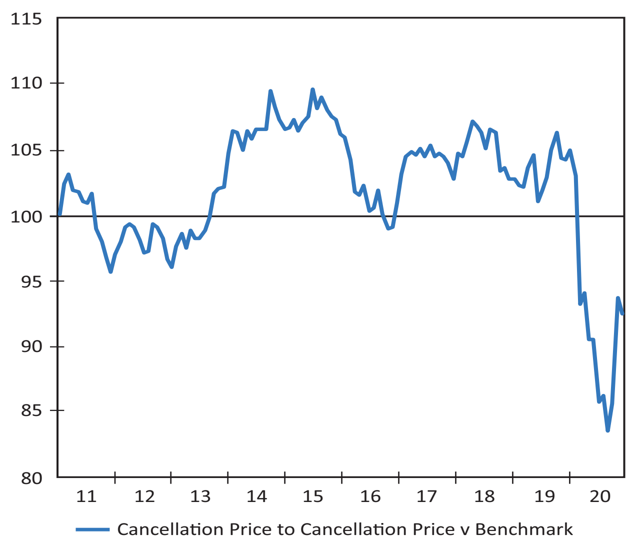
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2010)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2010)



Investment Record

Performance for the year to 31 December 2020	%
The Fund[1]	**-15.1**
Benchmark Index[2]	**-4.3**

Prices & Yield		4 January 2021[3]	2 January 2020[3]
Accumulation Units	Issue Price	**£242.77**	£290.35
	Cancellation Price	**£237.56**	£284.54
Income Units (xd)	Issue Price	**£173.04**	£209.17
	Cancellation Price	**£169.33**	£204.98
	Yield[4]	**1.0%**	2.7%
Dealing Spread		**2.2%**	2.0%

Size & Charges	31 December 2020	31 December 2019
Total Net Assets	**£122.8m**	£212.0m
Ongoing Charges[5]	**0.83%**	0.78%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historical Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2020	-15.1	-4.3
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

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2020	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2018	3.8	9.5	7.8	19.8
3 years from 31 December 2017	-3.0	0.5	-8.7	1.4
4 years from 31 December 2016	2.6	4.9	11.0	21.2
5 years from 31 December 2015	3.2	6.1	17.2	34.6
10 years from 31 December 2010	8.1	9.0	118.4	136.3
15 years from 31 December 2005	7.0	8.5	175.0	238.9
29.8 years from inception on 20 March 1991	11.5	9.7	2,435.3	1,497.9

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 2021 included some 334 companies, the largest market capitalisation of which was £1.5 billion and the aggregate market capitalisation of which was £141 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 2021 (the date of the last annual index rebalancing), the index included 334 companies, with an aggregate market capitalisation of £141 billion. Its upper market capitalisation limit was £1.5 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 £1.8 billion (as at 31 December 2020). 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.

UK Stewardship Code and UN Principles for Responsible Investment

The Manager believes that sound environmental, social and governance (ESG) policies make good business sense and make assessments of these factors in its company valuations and investment decisions. The Manager has adopted the FRC's UK Stewardship Code 2020 early, which sets out the principles of effective stewardship by institutional investors. This includes publishing supporting documents detailing its Investment Philosophy, Engagement and Voting framework, and providing examples of Engagement and Voting. The Manager is a signatory to, and participates in, the annual UNPRI assessment. The Manager's Stewardship Policy and UNPRI report are available within the 'About Aberforth' section of its website, at www.aberforth.co.uk.

Covid-19

The Covid-19 pandemic and the responses to it have profoundly affected macro-economic activity, the operations of companies around the world and their stock market valuations. The universe of UK small quoted companies invested in by the Fund has seen a significant fall in its aggregate valuation due to the uncertainties arising from the spread of the virus. The Manager is closely monitoring market developments as the impact of the pandemic progresses.

The Covid-19 pandemic has resulted in changes in working practices, with staff working remotely, and the Manager has applied these and implemented additional operational governance and oversight to ensure both service and regulatory standards continue to be maintained. The Manager is also continuing to monitor the operational resilience of all service providers to ensure ongoing business service.

Changes to Prospectus

During the period, the Prospectus was updated:-

1. to update historic performance tables and details relating to rebalancing of NSCI (XIC) in line with its annual review;
2. to update details of how the Manager's box is operated;
3. to note impact of Covid-19;
4. to note retirement of W.A. Waite and appointment of S.L. Wallace as director and chairman of Aberforth Unit Trust Managers Limited (the "Manager"); and
5. to capture the name change of the ultimate holding company of the trustee from RBS Group plc to NatWest Group plc.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. Partners and staff working on the Fund are not remunerated by the Manager. The Manager has two independent non executive Directors who are remunerated by way of Directors' fees. 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.

Manager’s Report

Introduction

The experience of 2020 will live long in the memory for the lives lost directly and indirectly to Covid-19. Through the measures taken to control its spread, the virus will also have lasting effects on how we live and on economic activity. A global pandemic was often cited as a plausible “left field” risk to modern globalised societies, but the reaction of financial markets to Covid-19 shows how unprepared the world was.

In 2020, the total return from UK equities was -9.8%, as gauged by the FTSE All-Share, which is dominated by larger companies. The NSCI (XIC), the index of smaller companies that is the Fund’s benchmark, recorded a return of -4.3%. The Fund’s return was -15.1%. This poor year of absolute and relative performance combined aspects of the global financial crisis, as economies lurched into recession, and of the TMT bubble around the Millennium, as many highly rated technology companies benefited from lockdown conditions.

The overall performance numbers belie a year of extraordinary volatility. The damage to the Fund’s performance came in the first quarter of the year as the impact of Covid-19 and lockdown was felt. In this period, the Fund’s total return was -42.4%. This was, by some distance, the worst calendar quarter for the Fund in its near 30 year history. The fortunes of the portfolio’s cyclical companies turned viciously as the optimism around last year’s decisive election result evaporated. Notwithstanding the substantial assistance from government and the Bank of England, lockdown crushed economic activity and squeezed liquidity within the corporate sector – doubt about the viability of many businesses was extreme.

However, even though uncertainty about the virus and the path out of lockdown was still intense, most share prices reached their low points in late March. In the nine months from 31 March to 31 December, the Fund rose by 47.6% in total return terms. With the series of vaccine announcements breathing life into the equity of the portfolio’s holdings, performance improved as the year progressed: November was the Fund’s strongest ever month and the final three months of 2020 were its strongest ever calendar quarter.

2020 – a review of a difficult year

Despite Brexit and a US presidential election, Covid-19 dominated 2020. From the portfolio’s perspective, the virus itself was less significant than the measures taken to tackle it. Lockdown constrained consumer behaviours and precipitated the UK’s sharpest recession in over three hundred years. Many companies, particularly those serving the domestic economy, saw their revenues dwindle to zero in the months after the imposition of the first lockdown and were confronted by the prospect of rapidly diminishing cash resources. This was not a scenario with which anyone, let alone those responsible for companies’ viability statements, had previously had to contend.

This liquidity squeeze precipitated the deepest dividend cuts since records began and would have proved fatal for many businesses – the so-called “Covid victims” – without external assistance. That assistance came in three forms. First, the government and Bank of England deployed huge support programmes in the form of the Coronavirus Job Retention Scheme (furlough), the Covid Corporate Financing Facility (CCFF) and others. Second, lenders to companies relaxed the terms of existing debt facilities. Third, the equity market played its part, with pre-emption rules temporarily eased and large sums raised by several companies through the issue of new shares.

The second quarter was extraordinarily busy in terms of engagement with the boards of investee companies. The companies attempted to gauge the equity markets’ appetite to be part of the solution, while the Manager sought to quantify the extent of the liquidity problem and, with a longer term perspective, to discuss appropriate dividend policies. Additionally, the Manager engaged with the Bank of England both to improve knowledge of their support schemes and to relay relevant information gathered from companies. The swapping of intelligence through this period and the preparedness on occasion to become temporary insiders were crucial, since there was a dearth of information with company guidance generally withdrawn. Through it all, the Manager’s objective was unchanged: to discern where the Fund’s capital could be most profitably deployed and thus to enhance the potential upside from the portfolio. Consistent with this, the Fund did not support every equity issue undertaken by investee companies. Indeed, in certain cases the Manager advised against the issuance of shares while uncertainty was at its greatest and dilution would be more significant.

After the initial period of confusion, reflected in the precipitous drop in share prices, the summer months brought some stability and clarity. While the full economic impact of lockdown – the longer term “scarring” – has been deferred by the official support measures, it became clear that the virus could be controlled. This allowed some tentative recalibration of forecasts both by companies and investors. Meanwhile, the immediate and most pressing corporate liquidity issues were quantified and addressed. At the same time, the easing of lockdown brought a recovery in companies’ revenues and suggested a willingness on the part of consumers to revert, more or less, to previous habits. It was through this middle part of the year that the boards of small companies proved that they could meet the challenges posed by Covid-19 and proved the resilience of their businesses, as they did in the global financial crisis and in the wake of the EU referendum. Trading updates through the Autumn were generally better than expected and several companies were able to resume dividend payments.

Manager's Report

Against this background, which was encouraging despite the advent of the second lockdown, the vaccine announcements arrived in November. These proved the catalyst for a broad reappraisal by the financial markets of the prospects for economic activity and for cyclical companies. Investment horizons elongated as confidence rose that a return to a normal way of life was achievable and that a recovery in profits could commence. The stockmarket re-engaged with businesses that it had previously priced to be without a future of more than a few years. These companies were aggressively re-valued, to the Fund's benefit. This was another damning episode for market efficiency, with the equity market again struggling to calibrate value in a period of stress. Echoing the experience of the Nifty Fifty and the TMT bubble, the market focused narrowly on those businesses immune to or benefiting from the effects of Covid-19. It therefore lost sight of the beneficiaries of the ingenuity that it otherwise prized so highly.

The inspiration from the remarkably rapid vaccine development would have been a good way to have ended a bad year. However, Brexit politics threatened to complicate the immediate outlook for the UK economy. In the event, a trade deal with the EU was secured. The detail of its implementation is not yet fully clear, but the near term prospects for the UK economy are undoubtedly better with an agreement in place. From the perspective of the portfolio, it reduces uncertainty and removes an excuse for overseas investors to ignore UK assets, which have been global pariahs for several years. Nevertheless, beyond Brexit, any upside from the UK's regained sovereignty may be complicated by the political fallout from Covid-19 and questions about the Union itself.

In considering the operating performance of the portfolio's holdings and of small companies more generally in 2020, an important lesson is the resilience of the underlying businesses. Most companies are sensitive to the economic cycle, with their profits waxing and waning in step with broad economic activity. It is certainly the case that, since the global financial crisis, cyclicality around the world has been shunned by most investors – stockmarket valuations of such businesses had fallen to the extent that they have attracted value investors, such as the Manager. With the onset of Covid-19 and lockdown, cyclical companies have suffered disproportionately in terms of profits and share prices. However, cyclicality does not equate to low quality. The businesses within the portfolio, while predominantly cyclical, are resilient. They can cover their cost of capital and can grow from cycle to cycle. They are well managed and balance the interests of their shareholders with responsibilities to other stakeholders. These characteristics are often overlooked, seldom to such a degree as in 2020, but give confidence that future challenges can be met.

Investment performance

To recap, the Fund's total return in 2020 was -15.1%. In comparison, the NSCI (XIC)'s return was -4.3%. The following table and paragraphs describe the main influences on the Fund's absolute and relative performance.

Performance for the 12 months ended 31 December 2020	Basis points
Attributable to the portfolio of investments, based on mid prices	**(1,222)**
(after transaction costs of 31 basis points)	
Movement in mid to bid price spread	–
Cash/other	226
Management fee	(77)
Other expenses	(5)
Total attribution based on bid prices	**(1,078)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. the Fund = -15.07%; Benchmark Index = -4.29%; difference is -10.78% being -1,078 basis points).

Size

For the purposes of this analysis, the size effect concerns the relative performance within the NSCI (XIC) of its "larger small" companies, which are defined as the overlap between the FTSE 250 and the NSCI (XIC), and its "smaller small" companies, which are the index's other constituents. This is relevant because the portfolio has a high exposure to the index's "smaller smalls", a position that reflects the considerably lower valuations for these companies. A useful gauge of the relative performance of the two groups is the performance of the FTSE 250 against that of the FTSE SmallCap. In 2020, the FTSE SmallCap out-performed the FTSE 250 by 10%, thanks principally to a much stronger rebound in November. The strength of the "smaller smalls" means that, all else being equal, size would have benefited the Fund's performance in 2020. However, other factors – notably style as described below – proved more influential.

Style

Notwithstanding a rebound in the fourth quarter inspired by the vaccine news, the value investment style struggled in 2020. The London Business School (LBS) maintains the NSCI (XIC) and conducts style analysis on its constituents. Defining value stocks as those with the lowest price to book ratios, it calculated that value lagged growth by 14% in 2020. Though the Manager determines value in a broader fashion and use a variety of valuation metrics, the LBS analysis is indicative of strong headwinds for value managers. Style was therefore an important contributor to the Fund's under-performance in 2020.

Manager's Report

The past decade has been challenging for value investors, with subdued economic growth, disinflation and ever lower government bond yields. These conditions have favoured the valuations of companies offering secular growth potential and have elongated investment horizons to the benefit of businesses that might not generate meaningful cash flows for some years. The generational issues at work over the past decade remain relevant, but the specific reason for the value style's particular struggles in 2020 was the recession that ensued from lockdown. As explained above, coming into the Covid-19 period, value stocks – both in the UK small cap world and more broadly – were generally sensitive to the economic cycle. Their profits and valuations were therefore vulnerable to lockdown, which was to the detriment of the Fund's performance. A corollary of this is that the portfolio is likely to fare better once confidence in economic recovery builds – this was the case in the final quarter of the year as the vaccine news allowed markets to look beyond the second lockdown.

Profits

The table below shows the Manager's estimates for the aggregate EBITA (earnings before interest, tax and amortisation) of the portfolio and of the tracked universe. The tracked universe is those companies in the NSCI (XIC) that the Manager follows closely and represents 95% by value of the NSCI (XIC). Oil and gas production companies are excluded since their profits are volatile and distort the underlying message of the majority of companies.

Change in aggregate EBITA	2020	2021	2022	2023	4 years
Portfolio ex oil & gas producers	-46%	+53%	+27%	+12%	+17%
Tracked universe ex oil & gas producers	-37%	+41%	+21%	+4%	+11%

The table demonstrates the cyclicality of the portfolio, for worse on the way down in 2020 and for better in the subsequent years. The recovery profile reflects considerations of the second wave of the virus, lockdowns, lasting economic effects, changing societal behaviours and the vaccines. Certain individual forecasts will no doubt prove inaccurate, but the Manager believes the framework to be useful.

The impact on profits shown in the table misses another factor. In the absence of Covid-19 and recession for any other reason, profits would have grown each year. By 2023, profits would have been around 25% higher than they are now expected to be, which is a quantification of the opportunity cost of the pandemic. However, the important point for equity valuations is that the recovery does take place: the resilience and nimbleness of small companies has allowed them to stay in the game to benefit from economic recovery and normalisation. For much of 2020, the stockmarket appeared to doubt the viability of many businesses and was valuing them as if they would not make it through to the recovery.

Sector

Since 2016's EU referendum, sterling has weakened against other currencies, which has fostered the development of a strong sectoral theme within UK equities in general and within the portfolio. The share price performances of overseas facing companies have been much stronger than those of companies oriented towards the domestic economy. Covid-19 accentuated that trend, such that domestics lagged by 10% in 2020 to take their under-performance since the referendum to 27%. As a global pandemic, the coronavirus affected both overseas and domestic businesses, but the former experienced a less harsh downturn as economic activity recovered strongly in China. In contrast, the domestic facing sectors have been characterised as the so-called "Covid victims".

The portfolio's geographical profile at the start of 2020 was inappropriate for what was to come. Of the underlying sales of the holdings at 31 December 2019, 63% were generated in the UK, compared with 54% for the NSCI (XIC). This tilt towards the domestic economy had arisen since the EU referendum as the valuations of the domestic businesses had fallen sharply relative to the overseas earners. The positioning proved helpful in 2019 as political clarity promised an economic benefit, but that proved short-lived. Domestic exposure accounted for a substantial majority of the Fund's under-performance against the NSCI (XIC) in 2020.

The Travel & Leisure sector is a useful illustration. The portfolio's exposure here coming into 2020 was principally through bus and rail companies, a pub group, a restaurant business and a gaming operator. Covid-19 brought three impacts on relative performance.

- First, the recessionary conditions saw the profits of the holdings in the pub, restaurant and casino companies collapse. The specifics of lockdown worsened the experience, but the falls in profits and share prices were broadly what might be expected of cyclical businesses.
- Second, the bus and rail operators also saw their profits vanish. In the context of the analysis of these businesses before the advent of Covid-19, this was more surprising. One of the attractions of bus franchises over the years has been the relative stability of their revenues. However, that stability was overwhelmed by the pandemic and lockdown – the bus operators went from being one of the more resilient components of the portfolio to one of its most vulnerable.

Manager's Report

- Third, the portfolio had no exposure to the highly valued companies operating on-line betting platforms within the Travel & Leisure sector. As capital light "Covid beneficiaries", these performed strongly through 2020 and therefore were a drag on the Fund's relative performance.

The stockmarket's judgement of the prospects for these groups of businesses was swift and severe. What were already wide valuation gaps within the sector expanded, which led to opportunities for further investment. To date, the Manager has seen better value among the holdings in the first group of companies, in some cases taking advantage of equity issues to do so. The outlook is less clear for the bus and rail operators. These have relied heavily on official support and it is unclear how the relationship with government will develop once the pandemic is brought under control.

Balance sheets

The table below sets out the development of the portfolio's exposure to four categories of holding. The categories are determined by the balance sheet position of each company. The estimates underlying the future years are the Manager's.

Portfolio weight	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
2019	24%	49%	22%	4%
2020	20%	34%	31%	15%
2021	28%	40%	28%	4%
2022	32%	45%	22%	1%

*Includes loss-makers, IPOs and lenders

The portfolio came into 2020 with balance sheets in a good position. The decisive general election results at the end of 2019 promised to reduce political uncertainty and to release economic activity. That optimism was overtaken by the onset of Covid-19. Balance sheets that were secure in normal conditions were suddenly challenged in a manner that few had anticipated. That challenge is evident in the much higher proportion of the portfolio exposed to companies with leverage above 2x in 2020 compared with 2019. Existing lenders have eased their terms and government facilities have helped, but the pressure on liquidity and balance sheets has seen numerous equity issues through 2020.

The Fund supported nine equity issues by its investee companies in the year, with an aggregate sum of £3.4m committed. The Manager did not back every issue offered, but sought to prioritise those companies that they calculated needed the funds most and where, therefore, the pricing of the deal offered most upside. Compared with their expectations at the time of the interim report, there were few equity issues in the second half of the year. This in part reflects the efforts undertaken by companies to address liquidity issues in other ways and the fact that the year did not develop in quite so bad a fashion as might have been feared amid the first lockdown. Nevertheless, it is likely that 2021 will see further equity issues as companies seek to rebuild working capital as their revenues start the recovery.

Returning to the table above, it can be seen that the portfolio's exposure to high leverage reduces in 2021 and 2022. This reflects the underlying generation of free cash flow by the investee companies – no further equity issues are assumed. The ability of the portfolio's holdings to pay down debt in this fashion underscores their viability and relevance. While cyclical, these companies are well run and resilient – they are not zombies.

Income

Dividends paid by UK companies – large and small – suffered their worst year in the post war era in 2020: the London Business School calculates that aggregate dividends from NSCI (XIC) constituents fell by 52% in real terms. In 2009, which was previously the worst year, the decline was "just" 22%. The Fund's dividend experience in 2020 was similar to that of the NSCI (XIC). The table below categorises the portfolio's holdings by their most recent dividend action.

Cut to zero	Other cuts	Unchanged payer	Higher	Nil payer
34	20	3	7	15

The lesson of 2009 was that the dividend cuts were quickly forgotten as growth recommenced in 2010. Given how much further dividends fell in 2020, growth in 2021 is likely but the trajectory of the recovery is important. The early signs are positive. The latter part of 2020 saw several companies return to the dividend register after having cut to zero amid the deep uncertainty of March and the second quarter. Within the portfolio, three holdings reinstated dividends in the form of a bonus issue of shares and another six reinstated cash dividends. The bonus issues, while dilutive, maintain discipline and provide a bridge to reinstated cash returns to shareholders. The Manager believes that dividends are a crucial component of equity returns and continue their engagement with the boards of investee companies. However, it is important to emphasise that the Manager would not jeopardise a company's viability or ability to undertake profitable investments for the sake of a dividend – the Fund's portfolio continues to be managed in line with its total return objective.

Corporate activity

It was a tremendously busy year for corporate activity – given the pressure on companies' liquidity it had to be and the portfolio's participation in equity issues has already been quantified above. As the year progressed, M&A picked up strongly. Takeovers of 17 companies within NSCI (XIC) were completed, up from 12 in each of the two previous years. The Fund held seven of the 17. On top of this, bids for another eight companies were outstanding at the year end. The buyers were a mix of domestic and overseas, with both private equity and other corporates featuring. Deal structures also varied: alongside the full takeover, private equity proved willing to take stakes in companies that retained their public market listing. At one level, this upsurge in interest in small UK quoted companies is surprising – stockmarket valuations would seem to indicate that prospects for these businesses are poor. That, though, is the point: other companies and private equity are keen to take advantage of these extremely low valuations. For the Manager, this opportunism is entirely rational. The real issue is that a standard 30% control premium on prevailing share prices does not represent good value for most companies in the portfolio. It may prove necessary to forgo a one day boost to performance and to push back on approaches for investee companies if the valuations are unrealistic.

Turnover

Portfolio turnover – defined as the lower of purchases and sales divided by average month end net assets – was 30% in 2020. This is slightly lower than the 34% long term average, but higher than the 24% and 28% rates in the previous two years. There are several influences on the rise. First, there is a degree of forced turnover as a result of the rebalancing of the NSCI (XIC) and the higher incidence of M&A. Second, Covid-19 and the reaction to it have undoubtedly changed the prospects for some businesses, notwithstanding the overall resilience of the UK's small companies. Where these changes are not fully reflected in share prices, the Manager makes sales and looks to reinvest in companies with strong upsides. Third, the vaccine news saw the stockmarket rediscover its enthusiasm for some of the cyclical businesses. Some were drastically re-rated close to target valuations, encouraging a rotation of capital to companies with greater upside – the "value roll" – and resulting in a pick-up in turnover from low levels of activity in the second quarter.

Active share

At the end of December, the Fund's active share in relation to the NSCI (XIC) was 78%, well above the Manager's target of at least 70%. 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 higher chance of performing differently from the index, for better or worse.

A portfolio analysis

Amid the depths of the year's uncertainty, the Manager categorised the portfolio in order to quantify where the impact on performance had been greatest but, more importantly, to understand where the sources of greatest upside might lie. To be clear, this analysis did not change the underlying investment process. As described in more detail in the 2019 Manager's Report, the process is based on understanding the businesses, determining appropriate target valuations and circulating the portfolio's capital from those companies with low upsides to those with high upsides, the "value" roll. Rather, the analysis focused attention on the most controversial holdings within the portfolio and to challenge the investment cases.

Category	Number	Weight	2020 return	Upside to target	2022 EV/EBITA
Demand beneficiaries	18	26%	+2%	44%	8.3x
Demand cyclicals	25	29%	-15%	47%	7.6x
Supply side beneficiaries	12	13%	-29%	58%	8.0x
Strategic accelerators	10	16%	-0%	84%	7.4x
Structural victims?	13	16%	-39%	75%	8.4x

- *Demand beneficiaries* are companies that either have benefited or are likely to benefit from the pandemic, lockdown conditions and official support measures. These suffered less in share price terms, but this is reflected in higher valuations and lower upsides. Examples include holdings involved in logistics, healthcare businesses, digital platforms and likely beneficiaries of higher infrastructure and housing investment. Given the lower upside, this category is a more likely source of capital.

- *Demand cyclicals* comprises companies whose fortunes are driven by the ebbs and flows of economic activity. This category contains overseas earners, as well as many domestic businesses, such as retailers and leisure companies, whose sales and profits suffered from lockdown conditions. The profitability and share prices of these companies are expected to recover with the economy at large over the next three years.
- *Supply side beneficiaries* are also economically sensitive and have suffered accordingly, but their recovery prospects are likely to be enhanced by an improving competitive position as capital is withdrawn from their industries and as competitors fail. The upside from this category is therefore higher. Within it are some retailers, oil producers and housebuilders.
- *Strategic accelerators* is a somewhat clumsy term for companies that are not letting the crisis go to waste – they are seeking to achieve in one year what might otherwise have taken three. Examples include the accelerated deployment of an online strategy, deep cost restructuring and acquisition integration. In some cases, companies here required additional equity funding, but the upsides from successful execution promise to be substantial. Significant investment has been made in this category through 2020.
- *Structural victims?* is the most controversial category, which includes companies that the stockmarket has determined to be the most fundamentally affected by Covid-19. The category's constituents in aggregate suffered most in 2020 and have received greater scrutiny from the Manager. The business models here have been severely challenged by lockdown, such as the bus companies, doorstep lenders and travel related businesses. Valuations are low and upsides are potentially very attractive, which has led to further investment in the category. However, not all constituents have received incremental capital, since in some cases the future role of government is a significant uncertainty – official support has been important, but the degree of future government involvement and regulation are not yet clear. The question mark in the name of the category acknowledges the controversy but, in view of the valuations, also hints at the potential here should the stockmarket's blunt judgement prove extreme.

Valuations

Consideration of valuations at the present time is complicated by the uncertainty of forecasts as the recession takes its effect on companies' profits. The use of historical profits can adjust for this. At 31 December 2019, the portfolio's historical price earnings ratio (PE) – the current share price divided by historical earnings per share – was 10.0x. This compares with a 30 year average of 11.5x and so, even before the onset of Covid-19, the portfolio offered attractive valuation characteristics in relation to history. During 2020, as pessimism intensified, the PE fell as low as 5.8x, before ending the year at 7.3x as share prices recovered in the fourth quarter. At 5.8x, the PE was in line with its low points over the past 30 years, which coincided with the recessions in the early 1990s and during the financial crisis.

The portfolio's PE of 7.3x at 31 December 2020 was 32% lower than the NSCI (XIC)'s 10.8x. Though the discount has narrowed from over 50% at points through 2020, the year end figure of 32% is much wider than the 30 year average of 13%. The portfolio thus remains much more attractively valued than usual relative to small companies as a whole. The stockmarket would appear to be judging that many businesses simply will not make it to the other side of the recession. This gloomy view is hard to reconcile with the progress made by companies through the year and the measures taken to address liquidity pressures. Indeed, some recognition of this came in November as share prices started to adjust to the vaccine news.

Even without a further rise in share prices, the portfolio's historical PE will rise through 2021 as companies report results in respect of 2020. These results will reflect the impact of lockdown and lower profits. History suggests that share prices can look through the decline in profits to the recovery: the rise in the Fund's historical PE in the early 1990s from 7x to 19x was driven by a combination of lower historical profits and rising share prices as the stockmarket anticipated recovery. Indeed, low historical valuations have been a useful gauge of likely future returns – unsurprisingly, a lower starting PE today increases the chance of a higher return over five years.

The table below brings forecasts into the valuation analysis for the portfolio and for the tracked universe. The ratio used here is EV/EBITA (enterprise value to earnings before interest, tax and amortisation), which is the Manager's preferred valuation metric. Also shown are the ratios for a subset of growth stocks within the NSCI (XIC), along with those of the rest, which highlights the valuation stretch at the present time.

EV/EBITA	2020	2021	2022	2023
The Fund	12.9x	9.5x	7.8x	6.4x
Tracked universe (253 stocks)	15.2x	12.1x	10.0x	8.8x
- 42 growth stocks	22.8x	19.4x	16.9x	14.8x
- 211 other stocks	14.0x	11.1x	9.1x	8.0x

Manager's Report

The profit forecasts underlying the ratios in the outer years are the Manager's and are established from the bottom-up analysis of the portfolio's holdings. The forecasts will evolve and are influenced by the second lockdown, official support measures and the vaccine news. They are also framed in the context of the likely longer term economic impact of Covid-19, as companies cut costs and as consumer behaviour adjusts to higher unemployment. Consistent with the commentary above, the EV/EBITA ratios imply a robust recovery over the next few years, with aggregate EBITA in 2023 estimated to be back to 2019 levels.

The table below provides characteristics of the portfolio, including the historical PE ratios that were addressed above. It also shows historical dividend yield and dividend cover data, which are higher for the portfolio than for the NSCI (XIC). The portfolio's 2.3% yield reflects part of the deep dividend downturn: the full impact will come through as investee companies with December year ends report their full year results in the first quarter of 2021.

	31 December 2020		31 December 2019	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**79**	**334**	80	346
Weighted average market capitalisation	**£581m**	**£866m**	£672m	£883m
Price earnings (PE) ratio (historical)	**7.3x**	**10.8x**	10.0x	14.9x
Dividend yield (historical)	**2.3%**	**1.5%**	3.4%	3.2%
Dividend cover	**6.0x**	**6.2x**	2.9x	2.1x

Conclusion & Outlook

It is difficult to do justice to just how extraordinary 2020 was. A normal year would have been defined by the recently decided presidential election, remarkable for the conduct of the incumbent, or, closer to home, by the on-going wrangling over a trade deal with the EU. Both these issues have, of course, been overwhelmed by Covid-19. The stockmarket's verdict on the impact of the coronavirus was abrupt and decisive: the share prices of the strong but cyclical businesses favoured by the Fund were crushed, while the share prices of the highly valued technology companies benefiting from lockdown conditions rose further. The Fund's performance suffered accordingly.

The Manager does not disagree with the stockmarket's differentiation between those two cohorts of companies in the context of the onset of the coronavirus or with the proposition that the prospects of some businesses have been fundamentally changed by the pandemic. However, the degree of the differentiation was harder to understand, unless numerous inherently profitable businesses were going to fail. As government and shareholders offered their support and as management teams took the necessary actions, it became clear that this would not happen. Additionally, the stockmarket's reasoning only went so far: it was fascinated with the ingenuity underlying the technology businesses that benefited from pandemic conditions, but did not appear to contemplate which companies might benefit from the astonishing human endeavour involved in developing the vaccines. From this it was clear that much of the universe of small UK quoted companies, already more attractively valued than usual at the start of the year, was offering exceptional value.

The vaccine news went on to challenge the stockmarket's prejudices and, alongside the Brexit trade deal, allowed the year to end in a more encouraging fashion. The recovery is, though, in its early days and the portfolio's valuations remain lower than their long term historical average. This in part reflects lingering uncertainty about Covid-19: as the new year begins, the world is grappling with a new more highly transmissible variant of the virus, which is necessitating incremental lockdown measures in the UK and elsewhere. Nevertheless, the vaccines continue to be rolled out and thus allow markets to contemplate prospects beyond the duration of the current lockdown.

Looking, therefore, to the medium term, an important component in the opportunity offered by the Fund today is normalisation – of social behaviours, of economic activity, of profits and of share prices. This is not to assert that there will be a full return to what was normal, since the coronavirus will effect permanent change on societies and economies, not least through the acceleration of pre-existing disruptive trends. However, share prices have already adjusted to this new reality and not all that Covid-19 has wrought will necessarily prove lasting. The markets' on-going efforts to distinguish between the truly long term and ephemeral effects of the virus will provide further investment opportunities.

Further out, the impact of normalisation will inevitably fade, which is likely to bring the broader influences on investment style back to the fore. The disinflationary trend of the past 40 years, accelerated by the extraordinary monetary policies imposed after the global financial crisis, has favoured the growth style. It remains to be seen how the world reacts to the shock of the pandemic. The initial collapse in demand is undoubtedly deflationary, but the supply side has also been affected. On top of this, governments appear to be looking to move on from stimulus policies that have relied heavily on monetary actions. Fiscal spending, sometimes under the banner of "modern monetary theory", is being widely heralded as the solution to the coronavirus deficit, low growth and wealth disparity. Even leaving aside the dubious recent record of politicians, fiscal stimulus and a larger role for government usually lead to inflationary pressure.

Despite the complexity of the generational issues that affect the debate between inflation and deflation, the financial markets harbour little doubt. The consensus view is that yesterday’s winners will be tomorrow’s winners and there is little questioning of taut valuation stretches between and within markets. Government bonds are priced as “return free risks” and most listed companies, in the UK and more broadly, are very lowly valued by the stockmarket.

Accordingly, the upside today from a diversified portfolio of companies selected within a value investment philosophy is much greater than usual. In making this assertion, the Manager is acutely conscious of what the Fund has endured to get to this point – both in the coronavirus afflicted year of 2020 and over longer periods, exposure to the value investment style has incurred an opportunity cost. However, the sanity check comes through considering the qualities of the underlying companies, which are well run, in command of their balance sheets and able to grow profitably from cycle to cycle. These viable businesses benefit from innovation and provide us with essential products and services – they merit higher valuations from the stockmarket. As 2019 and the final quarter of 2020 showed, the scope for strong total returns is considerable.

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

27 January 2021

Assessment of Value delivered to Unitholders of the Fund

In accordance with the requirements of COLL 6.6.20 R of the Collective Investment Schemes Sourcebook as issued by the Financial Conduct Authority, we, the Board of Aberforth Unit Trust Managers Limited have 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, we considered the Fund's investment objective, policy and strategy, an assessment of each of the factors below and the unprecedented circumstances arising from the Covid-19 pandemic.

We have considered information furnished to us throughout the year and otherwise provided to us, as well as information prepared specifically in connection with our formal annual review. We considered the following factors individually, but not in isolation, recognising that these are connected.

1. Quality of service

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

Investment management services

The Manager outsources the provision of investment management services to the Investment Adviser, Aberforth Partners LLP. Our 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. We took comfort from the collegiate approach to portfolio management and the strong alignment of interests between investment personnel and Unitholders, evidenced 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. We also noted the significant resources devoted to servicing existing and prospective Unitholders by means of written communications and face-to-face meetings. We were mindful of the Investment Adviser's business philosophy under which its principals endeavour to profit with their clients rather than from them. We satisfied ourselves 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. We acknowledged that regulatory changes have been implemented effectively when required. Finally, we considered 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, we considered the design and effectiveness of the Investment Adviser's internal controls and the level of satisfaction of the Fund's Unitholders. Our 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 Investment Adviser's 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 Fund's Auditors. Again, our 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, in relation to the investment objective, policy and strategy. Performance is assessed formally on a quarterly basis through reports submitted by the Investment Adviser. These detailed reports address the various factors pertinent to performance, including top-down influences and the impact of individual holdings.

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 2020, the value investment style encountered unprecedented pressure with the onset of the Covid-19 pandemic and the implementation of lockdown measures to control the virus. The Investment Adviser's analysis of the Fund's performance shows that these factors were particularly influential on the portfolio of attractively valued but economically sensitive businesses. The Fund's absolute and relative performances were consequently weak for the year to 31 December 2020.

Given the extraordinary circumstances of 2020, the Board considered it particularly important to assess the Fund's performance over longer periods and in more normal conditions, more aligned to investors recommended longer term holding period. In the year to 31 December 2019, the Fund performed in line with the NSCI (XIC). Over ten years and since launch to 31 December 2019, it out-performed. Over five years it under-performed. All these periods, save for since launch, coincided with headwinds for the value investment style. In November, with the announcement of a Covid-19 vaccine, the value style demonstrated such signs of out-performance. The Board is reassured given this context in which to assess 2020's performance.

In assessing investment performance and the influences on it, the Board recognised 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 style. The factors affecting performance, including investment style, are 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 continues to look to the future with considerable optimism. We are reassured longer term performance offers reasonable value over the recommended holding period.

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 93% of total expenses in the year ended 31 December 2020.

As noted above, the Manager outsources most of its activities to the Investment Adviser and operates on a relatively low margin. The management fee incorporates other services supporting investment management, including administration, compliance, risk, etc. 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. 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 would significantly negate its usefulness in informing a view on value delivered. Nevertheless, we are satisfied that, adjusted as appropriate, pro forma profitability at the Investment Adviser is not excessive. The Manager reports a fee peer comparison on a quarterly basis to monitor the levels of management fee and ongoing charge.

The Investment Adviser believes that its clients are best served if it remains a focused boutique, investing in a single asset class, wholly devoted to a small number of institutional clients and delivering value to a wide range of underlying investors. 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 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 wholly 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.

In this context, we are 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.

We 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 lower liquidity. 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. We noted that this favourable outcome for the Fund was despite increasing costs being borne by the Investment Adviser.

We 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.

We compared fees incurred for similar services by other small UK quoted companies funds and satisfied ourselves that the Manager's periodic fee remains in the lower quartile, thus fair and reasonable on that basis.

Whilst significantly less material, we 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 with comparable services and strategies; and satisfied itself that the Manager's periodic fee remains fair and reasonable.

7. Classes of units

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

We noted that the Fund has only income units and accumulation units. There is no institutional share class differential. 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. This difference was created to cater for the income preferences of Unitholders, who are free to move between the classes.

We 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.

D M Cooper, *Director*
K F Muir, *Director*
J S Richards, *Director*
P R Shaw, *Director*
S L Wallace, *Director*
Aberforth Unit Trust Managers Limited
27 January 2021

Summary of Material Portfolio Changes

For the year ended 31 December 2020

Purchases	Cost £'000
Provident Financial	4,721
SIG	2,209
Spire Healthcare Group	2,103
Premier Oil	1,902
Rathbone Brothers	1,900
Medica Group	1,475
Crest Nicholson	1,307
Conduit Holding	1,300
Kenmare Resources	1,170
De La Rue	1,072
Micro Focus	1,027
C&C Group	927
Zegona Communications	920
RHI Magnesita	885
Card Factory	874
Hostelworld Group	821
STV Group	810
Paypoint	672
Mitchells & Butlers	666
Hyve Group	629
Other purchases	11,655
Total Cost of Purchases	**39,045**

Sales	Proceeds £'000
Urban&Civic	6,305
Future	5,582
Huntsworth	5,332
CMC Markets	4,482
Grainger	3,565
Speedy Hire	2,766
Ultra Electronics Holdings	2,751
Keller	2,524
Mitchells & Butlers	2,152
Brewin Dolphin Holdings	1,788
SDL	1,744
Essentra	1,718
Rank Group	1,434
RM	1,344
Wincanton	1,254
Halfords Group	1,153
Hansteen Holdings	1,112
Morgan Advanced Materials	1,105
Vectura Group	1,046
Forterra	1,024
Other sales	25,487
Total Proceeds of Sales	**75,668**

Portfolio Statement

As at 31 December 2020

Holding	Security	31 December 2020 Value £'000	31 December 2020 % of Total Net Assets	31 December 2020 % of Index[3]	31 December 2019 % of Total Net Assets	31 December 2019 % of Index
Oil & Gas Producers		**2,840**	**2.3**	**3.7**	3.4	4.3
12,386,165	EnQuest	1,400	1.1			
1,155,354	Pharos Energy plc	210	0.2			
6,262,200	Premier Oil	1,230	1.0			
Oil Equipment, Services & Distribution		**237**	**0.2**	**1.0**	0.2	1.7
4,072,384	Gulf Marine Services	237	0.2			
Chemicals		**1,336**	**1.1**	**1.1**	–	2.2
38,100	RHI Magnesita	1,336	1.1			
Industrial Metals & Mining		**–**	**–**	**1.2**	–	0.6
9,832,752	International Ferro Metals[1]	–	–			
Mining		**4,075**	**3.3**	**3.8**	2.3	2.6
1,252,843	Anglo Pacific Group	1,591	1.3			
1,261,560	Capital	833	0.7			
1,192,340	Gem Diamonds	489	0.4			
374,964	Kenmare Resources	1,162	0.9			
Construction & Materials		**9,604**	**7.9**	**4.8**	6.6	4.4
298,491	Dialight	752	0.7			
1,114,434	Eurocell	2,229	1.8			
965,767	Forterra	2,352	1.9			
295,732	Keller	2,064	1.7			
7,037,473	SIG	2,207	1.8			
Aerospace & Defence		**1,856**	**1.5**	**3.6**	2.6	2.3
2,090,108	Senior	1,856	1.5			
General Industrials		**–**	**–**	**1.0**	2.1	1.8
Electronic & Electrical Equipment		**5,464**	**4.4**	**2.6**	4.7	2.4
1,117,654	Morgan Advanced Materials	3,476	2.8			
969,567	TT Electronics	1,988	1.6			
Industrial Engineering		**8,535**	**7.0**	**2.6**	3.0	1.9
425,175	Castings	1,539	1.3			
576,758	Vesuvius	3,094	2.5			
285,653	Vitec Group	2,611	2.1			
735,700	XAAR	1,291	1.1			
Industrial Transportation		**2,749**	**2.2**	**1.8**	2.3	2.3
1,073,641	Wincanton	2,749	2.2			
Support Services		**15,563**	**12.8**	**10.7**	11.6	8.2
1,476,249	De La Rue	2,480	2.0			
265,437	Essentra	814	0.7			
126,900	PageGroup	567	0.5			
114,300	Paypoint	745	0.6			
1,017,669	Redde Northgate	2,707	2.2			
511,798	Robert Walters	2,390	1.9			
2,202,348	RPS Group	1,542	1.3			
542,184	RWS Holdings	2,895	2.4			
2,606,471	Smiths News	730	0.6			
981,924	Speedy Hire	693	0.6			
Automobiles & Parts		**2,973**	**2.4**	**0.9**	2.0	1.6
1,222,973	TI Fluid Systems	2,973	2.4			

Portfolio Statement

As at 31 December 2020

Holding	Security	31 December 2020 Value £'000	31 December 2020 % of Total Net Assets	31 December 2020 % of Index[3]	31 December 2019 % of Total Net Assets	31 December 2019 % of Index
Beverages		**936**	**0.8**	**1.3**	–	1.5
412,500	C&C Group	936	0.8			
Food Producers		**1,900**	**1.5**	**2.5**	2.5	2.7
2,193,396	Bakkavor Group	1,777	1.4			
221,089	R.E.A. Holdings	123	0.1			
Household Goods & Home Construction		**3,330**	**2.7**	**1.8**	0.9	2.6
604,200	Crest Nicholson	1,964	1.6			
379,438	Headlam Group	1,366	1.1			
Leisure Goods		**–**	**–**	**0.1**	–	0.2
Personal Goods		**–**	**–**	**2.0**	–	1.6
Health Care Equipment & Services		**3,745**	**3.0**	**0.9**	0.3	1.2
1,381,923	Medica Group	1,645	1.3			
1,351,545	Spire Healthcare Group	2,100	1.7			
Pharmaceuticals & Biotechnology		**2,760**	**2.2**	**2.5**	1.4	1.5
2,215,289	Vectura Group	2,760	2.2			
Food & Drug Retailers		**268**	**0.2**	**–**	0.3	–
1,073,096	McColl's Retail Group	268	0.2			
General Retailers		**7,201**	**5.9**	**3.9**	5.6	4.9
1,980,299	Card Factory	840	0.7			
1,073,484	DFS Furniture	2,362	1.9			
372,703	Halfords Group	995	0.8			
2,358,299	Lookers[2]	471	0.4			
769,213	RM	1,646	1.3			
1,578,495	Topps Tiles	887	0.8			
Media		**8,199**	**6.7**	**1.7**	8.8	6.0
1,748,340	Centaur Media	490	0.4			
876,150	Hyve Group	991	0.8			
2,838,224	Reach	4,053	3.3			
309,477	STV Group	925	0.8			
1,115,697	Wilmington Group	1,740	1.4			
Travel & Leisure		**11,940**	**9.7**	**10.3**	12.3	10.6
3,869,389	FirstGroup	2,863	2.3			
65,694	Go-Ahead Group	646	0.6			
359,600	Hollywood Bowl	718	0.6			
1,381,145	Hostelworld Group	1,077	0.9			
974,614	Mitchells & Butlers	2,344	1.9			
1,521,115	Rank Group	2,117	1.7			
1,971,480	Restaurant Group	1,266	1.0			
1,226,926	Stagecoach Group	909	0.7			
Fixed Line Telecommunications		**1,044**	**0.8**	**1.8**	0.3	1.8
994,100	Zegona Communications	1,044	0.8			
Mobile Telecommunications		**–**	**–**	**1.1**	–	1.0
Electricity		**–**	**–**	**2.1**	–	1.8
Banks		**–**	**–**	**2.4**	–	1.7
Nonlife Insurance		**1,298**	**1.1**	**1.1**	–	2.3
994,100	Zegona Communications	1,298	1.1			

Portfolio Statement

As at 31 December 2020

Holding	Security	31 December 2020 Value £'000	31 December 2020 % of Total Net Assets	31 December 2020 % of Index[3]	31 December 2019 % of Total Net Assets	31 December 2019 % of Index
Life Insurance		**2,723**	**2.2**	**0.9**	2.0	0.9
946,682	Hansard Global	409	0.3			
3,318,070	Just Group	2,314	1.9			
Real Estate Investment & Services		**1,405**	**1.2**	**5.1**	6.8	5.9
1,143,400	Foxtons	593	0.5			
1,331,872	U and I Group	812	0.7			
Real Estate Investment Trusts		**1,888**	**1.5**	**3.9**	2.5	2.5
955,716	McKay Securities	1,888	1.5			
Financial Services		**14,943**	**12.2**	**10.3**	8.0	8.9
2,138,357	Amigo Holdings	179	0.1			
999,630	Brewin Dolphin Holdings	3,049	2.5			
584,404	Charles Stanley Group	1,566	1.3			
143,500	City of London Investment Group	618	0.6			
489,104	CMC Markets	1,910	1.6			
2,434,098	International Personal Finance	1,984	1.6			
1,180,070	Provident Financial	3,623	2.9			
130,800	Rathbone Brothers	2,014	1.6			
Software & Computer Services		**2,878**	**2.3**	**4.7**	4.8	3.0
1,071,683	Alfa Financial Software Holdings	1,372	1.1			
355,100	Micro Focus	1,506	1.2			
Technology Hardware & Equipment		**–**	**–**	**0.8**	–	1.1
Investments as shown in the Balance Sheet		**121,690**	**99.1**	**100.0**	97.3	100.0
Net Current Assets		**1,132**	**0.9**	–	2.7	–
Total Net Assets		**122,822**	**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] Listing suspended

[3] Reflects the rebalanced index as at 1 January 2021

Comparative Tables

Income Unit	31 December 2020 £/unit	31 December 2019 £/unit	31 December 2018 £/unit
Change in net assets per unit			
Opening net asset value per unit	**203.97**	165.33	201.38
Return before operating charges*	**(29.37)**	45.59	(28.64)
Operating charges	**(1.48)**	(1.44)	(1.60)
Return after operating charges	**(30.85)**	44.15	(30.24)
Distributions on income units	**(1.70)**	(5.51)	(5.81)
Closing net asset value per unit	**171.42**	203.97	165.33
*after direct portfolio transaction costs of:	**(0.54)**	(0.56)	(0.52)

Income Unit			
Performance			
Total return after charges[1]	**-15.1%**	26.7%	-15.0%
Other information			
Closing net asset value (£'000)	**58,429**	95,005	45,883
Closing number of units	**340,855.919**	465,777.136	277,528.376
Operating charges	**0.83%**	0.78%	0.81%
Direct portfolio transaction costs	**0.30%**	0.31%	0.26%
Prices			
Highest issue price (£)	**209.17**	211.13	218.32
Lowest cancellation price (£)	**101.60**	165.37	163.56

Accumulation Unit	31 December 2020 £/unit	31 December 2019 £/unit	31 December 2018 £/unit
Change in net assets per unit			
Opening net asset value per unit	**283.14**	223.06	263.49
Return before operating charges*	**(40.54)**	62.03	(38.31)
Operating charges	**(2.11)**	(1.95)	(2.12)
Return after operating charges	**(42.65)**	60.08	(40.43)
Distributions	**(2.37)**	(7.50)	(7.66)
Retained distributions on accumulation units	**2.37**	7.50	7.66
Closing net asset value per unit	**240.49**	283.14	223.06
* after direct portfolio transaction costs of:	**(0.76)**	(0.76)	(0.69)

Accumulation Unit			
Performance			
Total return after charges	**-15.1%**	26.9%	-15.3%
Other information			
Closing net asset value (£'000)	**64,393**	117,019	97,475
Closing number of units	**267,760.720**	413,296.792	436,989.840
Operating charges	**0.83%**	0.78%	0.81%
Direct portfolio transaction costs	**0.30%**	0.31%	0.26%
Prices			
Highest issue price (£)	**290.35**	289.29	285.65
Lowest cancellation price (£)	**141.03**	223.12	217.30

[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 issued by the Investment Management Association ("IMA");
- follow United Kingdom accounting standards;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent;
- 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

27 January 2021

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 2020

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
House A, Floor 0
Gogarburn
175 Glasgow Road
Edinburgh EH12 1HQ

27 January 2021

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

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Aberforth UK Small Companies Fund (the "Fund"):

- give a true and fair view of the financial position of the Fund as at 31 December 2020 and of the net revenue and the net capital losses 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 & Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Fund's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Manager with respect to going concern are described in the relevant sections of this report.

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.

Responsibilities for the financial statements and the audit

Responsibilities of the Manager for the financial statements

As explained more fully in the Statement of Manager's Responsibilities, 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 intends to wind up or terminate the Fund, or has no realistic alternative but to do so.

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

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Fund industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Collective Investment Schemes sourcebook, and we considered the extent to which non-compliance might have a material effect on the financial statements, in particular those parts of the sourcebook which may directly impact on the determination of amounts and disclosures in the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the Fund. Audit procedures performed included:

- Discussions with the Manager, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes, including those of the Manager's board of directors;
- Identifying and testing journal entries, specifically any journals posted as part of the financial year end close process; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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
Edinburgh
27 January 2021

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

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

Financial Statements

For the year ended 31 December 2020

Statement of Total Return

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Income:					
Net capital (losses)/gains	4		**(47,865)**		36,332
Revenue	5	**1,844**		6,012	
Expenses	6	**(1,064)**		(1,395)	
Interest payable and similar charges		**(6)**		(7)	
Net revenue before taxation		**774**		4,610	
Taxation	7	**(5)**		–	
Net revenue after taxation			**769**		4,610
Total return before distributions			**(47,096)**		40,942
Distributions	8		**(1,393)**		(5,435)
Change in net assets attributable to Unitholders from investment activities			**(48,489)**		35,507

Statement of Change in Net Assets Attributable to Unitholders

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Opening net assets		**212,024**		143,358
Amounts receivable on issue of units	**9,914**		53,317	
Amounts payable on cancellation of units	**(51,278)**		(23,290)	
		(41,364)		30,027
Change in net assets attributable to unitholders from investment activities		**(48,489)**		35,507
Retained distribution on accumulation units		**651**		3,132
Closing net assets attributable to unitholders		**122,822**		212,024

Financial Statements

As at 31 December 2020

Balance Sheet

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
ASSETS					
Fixed assets:					
Investments assets	16		**121,690**		206,178
Current assets:					
Debtors	9	**146**		531	
Cash and bank balances		**1,611**		6,730	
Total other assets			**1,757**		7,261
Total assets			**123,447**		213,439
LIABILITIES					
Creditors:					
Other creditors	10	**(243)**		(147)	
Distribution payable on income units		**(382)**		(1,268)	
Total liabilities			**(625)**		(1,415)
Net assets attributable to unitholders			**122,822**		212,024

Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Net cash inflow from operating activities	11	**938**	4,685
Investing activities			
Purchases of investments		**(38,848)**	(68,661)
Sales of investments		**75,668**	45,829
Cash inflow/(outflow) from investing activities		**36,820**	(22,832)
Financing activities			
Amounts received from issue of units		**10,024**	53,514
Amounts paid on cancellation of units		**(51,407)**	(23,466)
Distributions paid		**(1,488)**	(1,912)
Interest paid		**(6)**	(7)
Cash (outflow)/inflow from financing activities		**(42,877)**	28,129
(Decrease)/increase in cash and cash equivalents		**(5,119)**	9,982
Cash and cash equivalents at the start of the year		**6,730**	(3,252)
Cash and cash equivalents at the end of the year		**1,611**	6,730

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 2020. Suspended securities are initially valued at the suspension price but are subject to constant review by the Fair Value Pricing Committee.

(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 6, changing from 5 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)

	2020 **£'000**	2019 £'000
The net capital (losses)/gains on investments during the year comprise:		
Equity investments	**(47,865)**	36,332

5 Revenue

	2020 **£'000**	2019 £'000
UK dividends	**1,637**	5,830
Property income distributions	**10**	92
Overseas dividends	**101**	85
Scrip dividends	**92**	–
Bank Interest	**4**	5
Total income	**1,844**	6,012

6 Expenses

	2020 **£'000**	2019 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**989**	1,314
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**31**	45
Other expenses:		
Audit fee	**19**	13
Safe custody fees	**11**	12
Printing fees	**8**	6
Registration fees	**3**	3
Taxation services	**3**	2
	44	36
Total expenses	**1,064**	1,395

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 £618,000 borne by the capital of the Fund (2019: £821,000). 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

	2020 £'000	2019 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**5**	–
Total current tax charge for the year (note 7(b))	**5**	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	**774**	4,610
Corporation tax at 20% (2019: 20%)	**155**	922
Effects of:		
Non-taxable UK dividends	**(327)**	(1,166)
Non-taxable overseas dividends	**(20)**	(17)
Unutilised management expenses	**192**	261
Irrecoverable overseas tax	**5**	–
	(150)	(922)
Current tax charge (Note 7(a))	**5**	–

At the balance sheet date, the Fund had excess management expenses of £48,588,000 (2019: £47,632,000). 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 £9,718,000 (2019: £9,527,000).

8 Distributions

	2020 £'000	2019 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	**452**	2,773
Final	**800**	2,811
	1,252	5,584
Add: Income deducted on cancellation of units	**170**	164
Less: Income received on creation of units	**(29)**	(313)
Total distributions	**1,393**	5,435

	2020 £'000	2019 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	**769**	4,610
Add: Manager's periodic fee taken to capital	**618**	821
Add: Safe custody fee taken to capital	**6**	4
Distributions	**1,393**	5,435

Details of the distribution per unit are shown on page 33.

Notes to the Financial Statements

9 Debtors

	2020 £'000	2019 £'000
Amounts receivable for creation of units	**52**	133
Accrued income	**94**	398
Total debtors	**146**	531

10 Other Creditors

	2020 £'000	2019 £'000
Amounts payable for cancellation of units	**40**	–
Purchases awaiting settlement	**105**	–
Accrued management fee	**75**	124
Other accrued expenses	**23**	23
Total creditors	**243**	147

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

	2020 £'000	2019 £'000
Net revenue before taxation	**774**	4,610
Adjusted for:		
Interest payable and similar charges	**6**	7
Scrip dividends received	**(92)**	–
Debtors:		
Decrease in accrued income	**304**	10
Creditors:		
(Decrease)/increase in accrued management fee	**(49)**	20
Decrease in accrued other expenses	**–**	(2)
Taxation	**(5)**	–
Special dividends taken to capital	**–**	40
Net cash flow from operating activities	**938**	4,685

Notes to the Financial Statements

12 Portfolio Transaction Costs

	£'000	2020 % of purchases	% Average Net Asset Value	£'000	2019 % of purchases	% Average Net Asset Value
Equity purchases in period before transaction costs	**34,052**			67,707		
Commissions	**79**	**0.20**	**0.06**	124	0.18	0.07
Taxes	**176**	**0.45**	**0.14**	335	0.49	0.19
Total equity purchases costs	**255**	**0.65**	**0.20**	459	0.67	0.26
Corporate actions during the period	**4,738**			495		
Total purchase consideration after direct transaction costs	**39,045**			68,661		

	£'000	2020 % of sales	% Average Net Asset Value	£'000	2019 % of sales	% Average Net Asset Value
Gross equity sales in period before transaction costs	**75,797**			45,616		
Commissions	**(128)**	**(0.17)**	**(0.10)**	(86)	(0.19)	(0.05)
Taxes	**(1)**	**–**	**–**	–	–	–
Total equity sales costs	**(129)**	**(0.17)**	**(0.10)**	(86)	(0.19)	(0.05)
Corporate actions during the period	**–**			299		
Total sales after transaction costs	**75,668**			45,829		

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 0.14% per annum (2019: 0.13% per annum) of the Fund's average net asset value and taxes have averaged 0.15% per annum (2019: 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 2020, the average dealing spread for the underlying Fund investments is 1.58% (2019: 1.33%).

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 pages 20 and 33. All units, adjusted for the current accumulation factor, have the same rights on winding-up.

Number of units	Opening 1 Jan 2020	Issued	Redeemed	Converted	Closing 31 Dec 2020
Accumulation	413,296.792	26,262.390	(171,798.462)	–	267,760.720
Income	465,777.136	44,424.727	(169,345.944)	–	340,855.919

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 Net Assets Attributable to Unitholders. The balance due to Aberforth Unit Trust Managers Limited at the year end in respect of these transactions was £23,200 (31 December 2019: £9,100 due from Aberforth Unit Trust Managers Limited). 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 £2,900 (31 December 2019: £4,000).

15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2020 (2019: 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.

	2020		2019	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**121,219**	**–**	206,178	–
Level 2	**–**	**–**	–	–
Level 3	**471**	**–**	–	–
Total	**121,690**	**–**	206,178	–

During the year, an investment with a bookcost of £2,047,000 was transferred from Level 1 to Level 3 as its listing in the market was suspended. This investment, Lookers, has been valued at its suspension price.

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% (2019: 100%) of the portfolio was invested in ordinary shares or stock units admitted to an official stock exchange. If the investment portfolio valuation fell by 10% at 31 December 2020, the impact on Unitholders' funds would have been negative £12.2m (2019: negative £20.6m). If the investment portfolio valuation rose by 10% at 31 December 2020, the impact on Unitholders' funds would have been positive £12.2m (2019: positive £20.6m). 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 2020, all of the Fund's financial instruments were included in the balance sheet at fair value. The investment portfolio consisted of investments valued at bid prices which represent fair value. The only exceptions to this were International Ferro Metals which has been fair valued at £nil and Lookers which as at 31 December 2020 is suspended and has been valued at its suspension price of £0.20 (2019: exception was International Ferro Metals which was valued at £nil).

Distributions

Distribution Table

For the six months to 31 December 2020

	Net Income Dec 2020	Equalisation† Dec 2020	Distribution/ Accumulation Dec 2020	Distribution/ Accumulation Dec 2019
Income units (payable 26 February 2021)				
Group 1: Units purchased prior to 1 July 2020	**111.9923p**	–	**111.9923p**	272.3161p
Group 2: Units purchased on or after 1 July 2020	**39.7255p**	**72.2668p**	**111.9923p**	272.3161p
Accumulation units				
Group 1: Units purchased prior to 1 July 2020	**156.1229p**	**–**	**156.1229p**	373.1264p
Group 2: Units purchased on or after 1 July 2020	**55.3794p**	**100.7435p**	**156.1229p**	373.1264p

For the six months to 30 June 2020

	Net Income Jun 2020	Equalisation† Jun 2020	Distribution/ Accumulation Jun 2020	Distribution/ Accumulation Jun 2019
Income units (paid on 28 August 2020)				
Group 1: Units purchased prior to 1 January 2020	**58.0017p**	–	**58.0017p**	279.1645p
Group 2: Units purchased on or after 1 January 2020	**12.2611p**	**45.7406p**	**58.0017p**	279.1645p
Accumulation units				
Group 1: Units purchased prior to 1 January 2020	**80.5134p**	**–**	**80.5134p**	376.6485p
Group 2: Units purchased on or after 1 January 2020	**17.0199p**	**63.4935p**	**80.5134p**	376.6485p

† 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 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
31 December 2020	**236.6363**	**169.9940**

Management and Administration

Manager
Aberforth Unit Trust Managers Limited*
14 Melville Street
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– 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*
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175 Glasgow Road
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Investment Adviser
Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar
Link Fund Administrators Limited*
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Telephone: 0345 608 0940

Custodian
The Northern Trust Company*
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Canary Wharf
London E14 5NT

Independent 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.