Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2021

Investment Objective

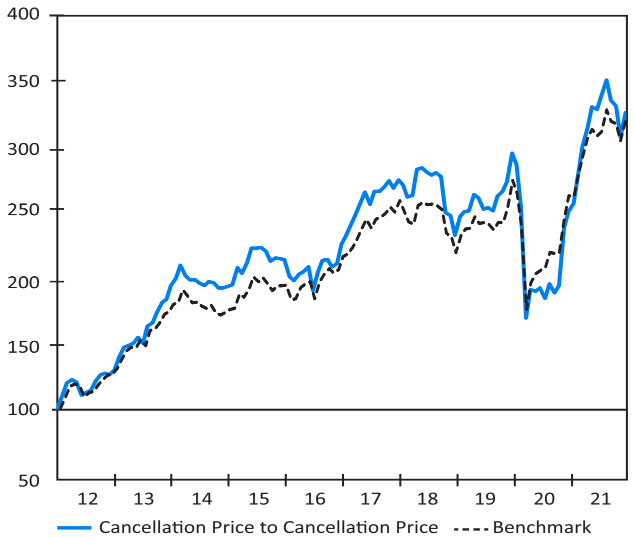
The investment objective of the Fund is to seek to achieve a total return, calculated on an income reinvested basis, greater than the Numis Smaller Companies Index (excluding Investment Companies) over the long term, or, if that index is not available, another index which the Manager considers is comparable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

Contents

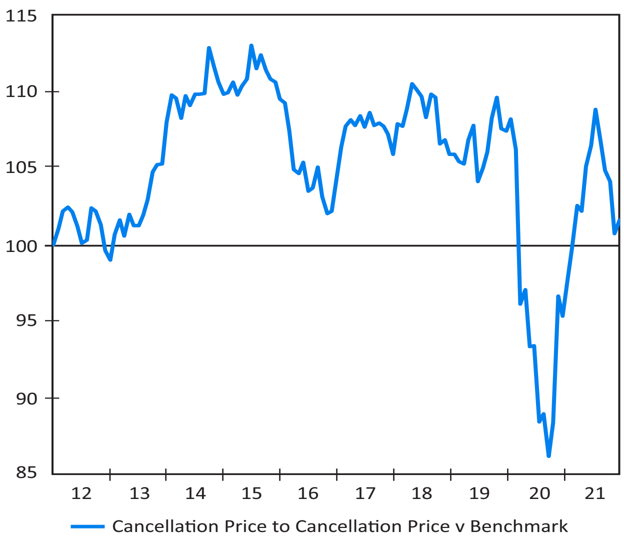
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2011)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2011)



Investment Record

Performance for the year to 31 December 2021	%
The Fund[1]	**30.0**
Benchmark Index[2]	**21.9**

Prices & Yield		4 January 2022[3]	4 January 2021[3]
Accumulation Units	Issue Price	**£322.06**	£242.77
	Cancellation Price	**£315.28**	£237.56
Income Units (xd)	Issue Price	**£224.94**	£173.04
	Cancellation Price	**£220.21**	£169.33
	Yield[4]	**2.1%**	1.0%
Dealing Spread		**2.1%**	2.2%

Size & Charges	31 December 2021	31 December 2020
Total Net Assets	**£216.3m**	£122.8m
Ongoing Charges[5]	**0.77%**	0.83%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historical Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2021	30.0	21.9
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 2021	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2019	5.1	8.0	10.4	16.7
3 years from 31 December 2018	11.9	13.5	40.1	46.1
4 years from 31 December 2017	4.4	5.4	18.6	23.6
5 years from 31 December 2016	7.6	8.1	44.2	47.8
10 years from 31 December 2011	12.4	12.2	222.3	217.0
15 years from 31 December 2006	7.2	8.1	182.4	222.7
30.8 years from inception on 20 March 1991	12.0	10.1	3,194.7	1,848.2

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 2022 included some 337 companies, the largest market capitalisation of which was £1.6 billion and the aggregate market capitalisation of which was £156 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 2022 (the date of the last annual index rebalancing), the index included 337 companies, with an aggregate market capitalisation of £156 billion. Its upper market capitalisation limit was £1.6 billion, although this limit changes owing to movements in the stockmarket. If any holding no longer falls within this definition of a small company, its securities become candidates for sale. Portfolio risk is spread by diversification of holdings in individual companies: the portfolio will usually have holdings in over 80 small UK quoted companies.

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

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

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

Investment Strategy

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

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

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

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

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

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

Manager's Report

This report has been prepared in accordance with the requirements of COLL as issued and amended by the Financial Conduct Authority.

Status

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

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

The Manager is wholly owned by Aberforth Partners LLP (the "firm" or "Investment Adviser"). The business was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.3 billion (as at 31 December 2021). The firm is now wholly owned by six partners – five investment Partners and an Operations Partner, who is responsible for the firm's administration. The investment team comprises the five Investment Partners and one investment manager who is not currently a partner and together they manage 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.

Environmental, Social and Governance, 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 makes assessments of these factors in its company valuations and investment decisions. Many investment cases are influenced by such ESG matters, particularly as the increased profile of such issues affects stockmarket valuations. Whilst the Manager does not exclude investments from the portfolio based on ESG matters alone, and a broad range of factors is used for evaluation, these considerations are an important component of the investment case assessment. Where ESG matters impinge upon the investment case, the Manager engages with investee companies to encourage the issues to be addressed and improved. The Manager is well placed to undertake this activity, since engagement has always been a fully integrated element of its investment process.

In 2021 the Manager conducted a survey of investee companies to assess their approach to certain environmental and social issues. The results of the survey help with the assessment of ESG influences on company valuations and to prioritise engagement. In an increasingly congested regulatory environment for ESG rules, guidance and recommendations, the Manager has also developed a proprietary methodology for the analysis of ESG factors relevant for each investment. This directs engagement activity and the tracking of underlying investee company progress.

The UK Stewardship Code, issued by the FRC, sets out the principles of effective stewardship by institutional investors. As early adopters of the UK Stewardship Code 2020, the Manager has embraced the principles and was recognised as an approved signatory of the code in September 2021. This includes publishing supporting documents detailing its Stewardship Policy, 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. Aberforth Partners LLP also published its own Governance and Corporate Responsibility statement in 2021, which provides information about the firm's own approach to ESG matters.

Further detail on the Manager's Stewardship and ESG policies and practices, including engagement examples and voting disclosures, is available within the 'About Aberforth' section of the Manager's 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 Manager continues to closely monitor market developments as the impact of the pandemic and vaccine roll-out 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.

Manager's Report

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 note the appointment of S. G. Ford as a director of Aberforth Unit Trust Managers Limited (the "Manager"); and
3. to update the impact of Covid-19.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to AP LLP, the investment adviser. The Manager has two independent non executive directors who are remunerated by way of directors' fees. Partners and staff working on the fund are remunerated by the investment adviser, not the Manager. As investment adviser, Aberforth Partners LLP is subject to regulatory requirements on remuneration in accordance with FCA Rules. Details of its remuneration policy is available on request and on its website "http://www.aberforth.co.uk"

Introduction

Equity markets performed well in 2021. In the UK, the total return of large companies, represented by the FTSE All-Share, was 18.3%. This was surpassed by the 21.9% return of the NSCI (XIC), which defines the Fund's investment universe of small UK quoted companies. The net asset value total return of the Fund itself was 30.0%.

Following the negative returns of 2020, these numbers depict a welcome reversal of fortunes for UK equity markets. However, it would be remiss to pass over the contrast between this improvement and the development of the pandemic – the world is likely to have seen more deaths associated with the coronavirus in 2021 than in 2020. The disparity between investment returns is explained by the remarkably rapid development of the vaccines, which were announced towards the end of 2020. These spurred a powerful rally in share prices and allowed equity markets to fulfil their function by discounting a future in which the pandemic can be controlled and economic activity can normalise. In due course, the rollout of the vaccines allowed demand to begin its recovery, boosted by high household savings, loose monetary policy and fiscal support. Corporate profits followed, thus starting to justify the rebound in share prices.

The economic recovery progressed more or less as hoped through 2021. Support measures, such as the UK's Job Retention Scheme, have been gradually phased out without, as yet, a significant impact on activity. However, it is notable that share prices struggled through the second half of the year. This reflects uncertainties that stem both from the continuing effects of the coronavirus itself and from the unintended consequences of the stimulus measures deployed in 2020 to mitigate the economic damage of the pandemic. Three particular issues stand out for their effects on equity valuations: variants of the virus, supply chain constraints and inflation.

- Despite the success of the vaccines, the prospect of further lockdowns has lingered owing to the emergence of new variants that might prove more infectious, virulent or resistant to the vaccines. Through 2021 the Delta and Omicron variants highlighted this risk and buffeted sentiment to companies that were benefiting from the return to normal economic activity. This is a factor that is likely to remain relevant until levels of immunity around the world are high enough to compromise the virus's ability to evolve.
- Supply chains have been put under severe stress as demand has surged and as the impact of lockdowns on industrial production and investment plays out. Employment has also been a challenge: with indications that elements of the labour force have been slow to re-engage after the lockdowns, wage growth is accelerating. In the UK, Brexit is an additional complication, though it is difficult to disentangle from the effects of the pandemic. These issues have combined with rising energy prices to exert pressure on households and on corporate profitability, which is being reflected in the trading updates of companies around the world, including several of the portfolio's holdings. In 2021, this factor has tended merely to take the gloss off results that have been boosted by the demand recovery. However, the effect on profits in 2022 is likely to be greater.
- Supply chain constraints, rising wages and energy prices have combined to produce some of the highest rates of inflation in decades. In the UK, the CPI rose by 5.1% year-on-year in December 2021, while the rate in the US was 7.0%. As the effects of lockdown in 2020 washed through the data, it became clear that this rise in inflation is not as transitory as was widely expected at the start of the year. This is relevant to the performance of the portfolio since there is evidence that the value investment style, as followed by the Manager, fares relatively well when government bond yields rise, which they often do in response to higher inflation. However, in the latter part of 2021, there was little evidence of that relationship. It would seem that equity markets were focused on the possible responses from central banks, fearing that tighter monetary conditions might lower both inflation and real economic growth.

Manager’s Report

While the effect of these issues on the Fund’s portfolio will become clearer through 2022, reassurance can be taken from the experience of the past two years. The sensitivity of the portfolio companies to economic conditions was clearly displayed both on the way down in 2020 and in the recovery phase in 2021. The resilience of the Fund’s holdings comes with attractive valuations, despite the strong returns achieved in 2021.

Analysis of performance

To recap, Fund’s total return in 2021 was 30.0%, which exceeded the NSCI (XIC)’s return of 21.9%. The table below and following paragraphs explain this performance and provide additional detail about the portfolio.

Performance for the 12 months ended 31 December 2021	Basis points
Attributable to the portfolio of investments, based on mid prices (after transaction costs of 51 basis points)	**850**
Movement in mid to bid price spread	10
Cash/other	20
Management fee	(72)
Other expenses	(4)
Total attribution based on bid prices	**804**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = 29.96%; Benchmark Index = 21.92%; difference is 8.04% being 804 basis points).

Style

After the adverse experience of 2020, the value investment style in equity markets around the world benefited from the vaccine rally. This boosted the Fund’s performance over 2021 as a whole, though its influence waned in the second half in response to the three challenges to equity valuations described above. According to the London Business School, which analyses style effects within the NSCI (XIC) using price to book ratios, value stocks out-performed growth stocks by just under 10% in 2021. This quantification of the style factor is a useful but imprecise gauge of the Manager’s approach to value investment. The Manager has always used a broader range of valuation metrics – notably EV/EBITA, the price earnings ratio, free cash flow yield and dividend yield – to determine the price targets for the Fund’s holdings. Moreover, their investment cases are based on more than a statistically low valuation, additionally taking into account factors such as the development of profits, market position, pricing power and track record. Consideration is also given to risks and opportunities emerging from environmental, social and governance (ESG) issues.

Size

The following comments focus on the size effect within the NSCI (XIC), rather than on comparing the performances of large companies and small companies. The NSCI (XIC) is defined as the bottom ten percent by value of the total UK stockmarket. This means that the largest constituent’s market capitalisation is around £1.6bn and that roughly two thirds of the NSCI (XIC)’s value is represented by companies that are also members of the FTSE 250. For several years, the Manager has chosen to invest the portfolio in the index’s “smaller small” constituents, which can be thought of as non-FTSE 250 companies. The motivation for this was that the “smaller smalls” enjoyed much more attractive valuations, without having to compromise in terms of profit growth, returns on equity or leverage. For most of the period since the global financial crisis, this positioning was unhelpful to the Fund’s returns as general concerns about liquidity overshadowed the opportunity. However, the advent of the vaccines appears to have been a catalyst for a re-evaluation of the “smaller smalls”. A gauge of this is the relative performance of the FTSE SmallCap, representative of “smaller smalls”, against the FTSE 250. After a strong end to 2020, the former went on to out-perform the latter by 13% in 2021, which is the best calendar year relative performance since 1999. Size was therefore beneficial to the Fund’s performance in 2021.

Geography

The EU referendum in 2016 and the subsequent weakness in sterling led to a phase of share price under-performance by companies with greater exposure to the UK’s domestic economy. Just as greater political clarity seemed forthcoming at the end of 2019, domestically oriented businesses were put under renewed pressure by 2020’s lockdown, which was particularly troublesome for businesses in the retail, travel and leisure sectors. Moving into 2021, geographical exposure remained relevant, with the share prices of domestically oriented businesses rebounding more powerfully amid the vaccine rally, before giving up some of that out-performance through the middle of the year. Notably, the fourth quarter witnessed under-performance by the overseas oriented companies, which reflects their greater exposure, at least in the near term, to the supply chain issues described in the opening paragraphs. Over 2021 as a whole, the share prices of domestic businesses out-performed those of overseas businesses by 8%. This was helpful to the Fund's performance, since the portfolio has a weighting of 58% in the domestics, higher than the NSCI (XIC)'s 51%.

Dividends

The swings in the income experience of the portfolio and of small UK quoted companies in general have reflected their capital performance over the past two years. The London Business School calculated that NSCI (XIC) dividends fell by 52% in 2020, the worst outcome in the post war era. In 2021, dividends rebounded by 70%. The Fund has benefited from this recovery and its dividend receipts in 2021 were higher than expected at time of the half year report.

Behind this improvement was a better than expected underlying dividend experience, supplemented by two special dividends paid by investee companies to the Fund. The dividend experience is portrayed in the following table, which categorises the portfolio's 77 holdings at 31 December 2021 by their most recent dividend action.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	Returner	Other*
24	5	5	16	25	2

* Other denotes companies paying dividends for the first time

The important categories are Returners and Nil Payers. The former captures those holdings that did not pay a dividend in 2020 but that have resumed distributions in 2021. There are more of these than the Manager had expected at the start of 2021, which is testament to the resilience and good stewardship of the investee companies in extremely challenging circumstances. These have provided a significant boost to the Fund's income experience. The Nil Payers category hints at the scope for further impetus. The Manager estimates that 14 of the Nil Payers will make dividend payments in the next two years. The other Nil Payers, which may be thought of as structural Nil Payers, are likely to take longer as their cash flows are prioritised for investment or debt repayment.

Balance sheets

The strong dividend performance described above is influenced by the resilience of balance sheets both within the portfolio and among small companies in general. The table below sets out the weight of the portfolio and the tracked universe in four leverage categories. Using the Manager's estimates, it also shows those weights both at the end of 2021 and at the end of 2023. The tracked universe is those companies in the NSCI (XIC) that the Manager follows closely and represents 97% by value of the NSCI (XIC).

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2021	32%	47%	12%	9%
Portfolio: 2023	43%	43%	7%	7%
Tracked universe: 2021	29%	34%	24%	13%
Tracked universe: 2023	41%	32%	20%	7%

*Includes loss-makers and lenders.

The resilience of small companies is evident from the table. Both the portfolio and the tracked universe are emerging from the pandemic with a skew to companies boasting strong balance sheets. Some of that resilience is due to equity issues in 2020, though these were fewer than the Manager had expected. The more important influences were the control of costs, recovering demand and a focus on free cash generation. It is also notable that, if anything, the portfolio's companies look more conservatively financed than does the tracked universe. The latter has a higher exposure to more highly leveraged companies with net debt / EBITDA ratios above 2x.

The likely strengthening of balance sheets in the wake of the pandemic is consistent with the experience of the global financial crisis. Company boards are naturally slower to utilise their balance sheet strength in the aftermath of such events. Such caution is understandable, but it can be taken too far. A lack of investment is detrimental to the longer term prospects of individual companies and, by extension, to the economy as a whole. Furthermore, in the absence of attractive investment opportunities, excess cash can be returned to shareholders, as long as it does not jeopardise the underlying business's viability.

Manager's Report

Return on equity

There is a widespread view that companies in the value cohort of an index should generate much lower returns on equity (RoE) than do the growth cohort. This makes sense since, if the stockmarket is pricing efficiently, companies with high returns on equity should be on higher valuations, all else being equal. In turn, value investors would tend to find more opportunities among companies whose returns on equity and valuations are depressed by some issue but can revert to more normal levels once the issue is addressed.

Weight in companies with:	"Loss makers" RoE < 0% 2019	2020	"Laggards" RoE 0-10% 2019	2020	"Value creators" RoE 10-20% 2019	2020	"Stars" RoE > 20% 2019	2020
Portfolio	6%	24%	24%	38%	40%	19%	30%	19%
Tracked universe	11%	21%	22%	30%	36%	22%	31%	26%

The table shows the exposure of the portfolio and of the tracked universe to companies categorised by their RoE. The impact of 2020's lockdown-induced recession is clear, with weightings in "loss makers" and "laggards" rising as profits declined. A more useful picture is painted by the data for relatively normal conditions of 2019. In that year, the portfolio's exposures to the four categories compare well with those of the tracked universe. This contradicts the widespread view that value investors are condemned to owning less profitable companies. The explanation for this counterintuitive but encouraging finding lies in the portfolio's relatively high exposure to the more attractively valued smaller small companies, which is addressed in more detail in the commentary on valuations below.

Corporate activity

The international appeal of UK assets diminished with 2016's EU referendum. This was reflected in sterling weakness, in a widening of the valuation discount between UK and global equities and in a decline in takeover activity within the NSCI (XIC). However, the past year has seen some appetite return. UK equities have continued to under-perform their global peers, but sterling is above pre pandemic levels and ten percent above the nadir in the wake of the referendum. Of more direct relevance to the portfolio, the incidence of M&A within the NSCI (XIC) was at its highest level in 2021 since 2015. Private equity and other companies, both domestically based and overseas, have been keen to take advantage of the considerable value available within the UK equity market.

Nineteen constituents of the NSCI (XIC) were acquired last year, with offers for another six still outstanding at 31 December 2021. Of these 25 companies, the portfolio had holdings in six. In addition, there were public approaches for two holdings that were rejected by shareholders and other approaches that the Manager helped rebuff before disclosure was required. It remains the case that the stockmarket valuations for many investee companies are so low that the typical 20-30% premium for control does not get close enough to the Manager's target prices.

The Fund's half year report described an upsurge in IPO activity in the first half of 2021, with most of the companies brought to the market on high valuations and with more appeal to the growth investor. There were few IPOs in the second half, but the year as a whole saw 23 companies float with current market capitalisations that brought them into the NSCI (XIC) on its 2022 rebalancing. The net effect of this rebalancing increased the number of constituents in the NSCI (XIC) from 334 at 1 January 2021 to 337 at 1 January 2022. The largest constituent in the 2022 vintage at 1 January 2022 had a market capitalisation of £1,645m.

Portfolio turnover

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. Over the twelve months to 31 December 2021, the rate was 43%. There is often a relationship between the Fund's turnover and the relative performance of the portfolio. If the share prices of holdings rise close to the Manager's targets, there is the opportunity to realise value and redeploy the proceeds in other companies with higher upsides. The Manager terms this the "value roll". On the other hand, weaker performance implies that the gaps between share prices and the Manager's targets prices are widening and so, all else being equal, there is less incentive to change the portfolio.

Active share

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. The higher a portfolio's active share, the higher its chance of either out or under-performing the index. At 31 December 2021, the portfolio's active share was 76% relative to the NSCI (XIC), which was well above the Manager's target ratio of at least 70%.

Manager's Report

Valuations

Before examining the valuations of the portfolio, it is worth noting that UK equities remain lowly valued in the global context. Research by JP Morgan shows that UK equities have under-performed their US peers by 50% and their European peers by 25% since the EU referendum in 2016. This has left UK valuations relative to global equities over two standard deviations below their long term averages. A significant valuation discount persists even when valuations are adjusted for the UK stockmarket's heavy exposure to the financials and commodities sectors. Though less exposed to these sectors, the Fund's investment universe and portfolio would appear to bear a UK discount.

	31 December 2021		31 December 2020	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**77**	**337**	79	334
Weighted average market capitalisation	**£619m**	**£934m**	£581m	£866m
Price earnings (PE) ratio (historical)	**13.3x**	**16.6x**	7.3x	10.8x
Dividend yield (historical)	**1.9%**	**2.1%**	2.3%	1.5%
Dividend cover	**4.0x**	**2.9x**	6.0x	6.2x

The historical PE ratios of the portfolio and of the NSCI (XIC) rose through 2021. This was driven both by the recovery in share prices through the year and by companies reporting lower earnings in respect of the recession year of 2020. The long term average PE for the portfolio is 11.6x, while that of the NSCI (XIC) is 13.4x. At 31 December 2021, therefore, both the portfolio and index are more highly rated than usual. This reflects the fact that recovery in earnings has further to go – the Manager anticipates that pre-pandemic levels of profitability will be reached again in 2023. In relative terms, the portfolio PE is 20% lower than that of the NSCI (XIC) at 31 December 2021. This compares with an average discount over the long term of 13%.

Turning to dividend yields, the portfolio's 1.9% is lower than the 3.2% long term average. While dividends recovered more quickly than expected through 2021, they remain below their pre-pandemic levels. Again, those levels are likely to be seen again in 2023. Consistent with this, the Manager's estimates suggest a portfolio yield two years out of 3.1%. As dividends grow again, the presently high dividend cover of 4.0x should reduce closer to the long term average of 2.7x.

The table below sets out the forward valuations of the portfolio, the tracked universe and certain subdivisions of the tracked universe. The metric displayed is enterprise value to earnings before interest, tax and amortisation (EV/EBITA), which the Manager uses most often in valuing companies. The estimates underlying the ratios are the Manager's. There follows a series of observations about the table.

EV/EBITA	**2020**	**2021**	**2022**	**2023**
The Fund	12.3x	9.3x	8.0x	7.1x
Tracked universe (245 stocks)	15.0x	12.9x	10.9x	9.2x
- 46 growth stocks	21.9x	21.2x	20.2x	18.2x
- 199 other stocks	13.5x	11.6x	9.7x	8.0x
- 105 stocks > £600m market cap	14.6x	13.4x	11.5x	9.6x
- 140 stocks < £600m market cap	16.1x	11.5x	9.5x	8.3x

- The decline in the portfolio's EV/EBITA from 2020 to 2023 is driven by recovering profits and by a reduction in EV as free cash flow is generated to reduce debt. The 7.1x multiple in 2023 is based on profits that are expected to be back roughly to 2019 levels.
- Consistent with the Manager's value investment philosophy, the portfolio is more attractively rated than the tracked universe, with a discount of 18% in 2020 expanding to 23% in 2023.
- The valuation stretch among small companies is shown in the EV/EBITA difference between the growth stocks and the rest of the tracked universe. It is in this latter cohort that the Manager focuses its attention, though growth stocks do encounter trading issues and can offer opportunities as well.

- The bottom two rows demonstrate the present importance of size. Stocks with market capitalisations above £600m are an approximate match for those NSCI (XIC) constituents that are also members of the FTSE 250. Those with market capitalisations below £600m are the "smaller smalls". Despite their better share price performance in 2021, these remain more attractively valued than their mid cap peers, but they are not inferior in terms of their growth potential, balance sheets and returns on equity. Since the global financial crisis, the stockmarket has penalised these companies for their small size and relative illiquidity. Through its diversified portfolio the Fund has taken advantage of this and has a meaningfully higher exposure than does the index to the "smaller smalls".
- Turning back to M&A within the NSCI (XIC), the average 2021 EV/EBITA multiple of the takeover targets (excluding property companies) was 17x. This is markedly higher than the 2021 valuation multiples of both the tracked universe and the portfolio, which illustrates the value available among small companies.

The EV/EBITA multiples usefully demonstrate the attractive valuations within the portfolio, but they are not the only element of the Manager's investment cases. Each holding is ascribed a target price, which is usually based upon an estimate of normalised profits to which a multiple is applied. The emphasis of the investment process is assessment of the appropriate multiple, taking into account factors such as the company's market position, its record, ESG risks and opportunities, management and longer term prospects. The ranking by upside to price targets allows the Manager to circulate capital from companies whose share prices are near their calculated values to those with a larger gap between the two. Over time this "value roll" can make a meaningful contribution to investment returns.

Outlook and conclusion

Equity returns are determined by the progress of corporate profits and the rating ascribed to those profits by investors. Inflation and monetary policy are important influences on the latter since they affect the discount rates used to value financial assets. One of the curiosities of 2021 is that the highest rates of inflation for decades have not had a greater impact on the pricing of financial assets. Government bond yields in both the UK and US are still below their pre-pandemic levels, while growth stocks returned to the fore after weaker relative performance amidst the vaccine rally. So far, therefore, the markets appear to be anticipating economic and financial conditions little changed from those that have pervaded since the global financial crisis: low real economic growth, low inflation, low interest rates and low bond yields.

It is not clear that today's inflationary pressures will be short-lived and easily controlled. The supply chain problems will be sorted in time, but there may be more intractable influences. Under-investment in oil and gas development projects in recent years could keep energy prices high. Meanwhile, there is concern that the supply of labour has been affected by issues stemming from the pandemic and, in the UK at least, by Brexit. Macro-economic data and anecdotes from companies indicate that wages are accelerating.

Inflation raises the stakes. While its recent resurgence clearly does not prevent a return to the disinflationary conditions of the past dozen years, it is perplexing that the financial markets do not yet harbour more doubt. The chance that bond yields prove too low and that growth stocks are too highly valued is higher today than before the pandemic, but that is not reflected in current valuations. Were more doubt to creep into valuations, the Fund's value investment style should benefit in terms of relative performance. However, we should be careful what we wish for – equities struggle when monetary policy belatedly plays catch-up and relative gains might be achieved against the backdrop of lower share prices.

Turning back to corporate profits, the outlook is encouraging as economic activity normalises and demand continues its rebound from the 2020 recession. Such recovery remains a common theme from the Manager's recent engagement with the Fund's investee companies. There are, though, risks. First, the pandemic is still with us and may elicit further measures by governments. However, the efficacy of the vaccines means that such measures should affect the pace of recovery rather than threaten the recovery itself. Second, there are the supply chain problems, which are another recurring feature of company trading updates and will take time to resolve. Indeed, energy and labour costs may put sustained pressure on corporate margins, with demand also threatened by the impact of energy costs on consumer spending. Third, there is the chance that central bankers tighten monetary policy to control inflation and thus bring about economic slowdown. At this stage, this risk is more speculative since monetary tightening, such as the Bank of England's 0.15% increase in interest rates in December, has so far been modest – in most western economies interest rates remain deeply negative in real terms.

Manager's Report

So, from the strategic perspective, 2022 feels like a pivotal year as the inflation debate comes to a head. Equity valuations will be affected, including those of small UK quoted companies. In such uncertain circumstances, the records of these companies offer reassurance. They have coped with the global financial crisis, the Eurozone crisis, Brexit and the pandemic. Despite their cyclicality they have displayed great resilience through each episode. The Fund itself benefits from a diversified portfolio of companies, with wide ranging activities and geographical exposures. These companies boast strong balance sheets and generate returns on equity that point to profitable and growing underlying businesses. Remarkably, these characteristics are available to the Manager without having to compromise on the value investment philosophy.

Why should that be? Many aspects of the Fund's investment policy and strategy – investment in small UK quoted companies with a value philosophy – have been out of favour for several years.

- Since the financial crisis, smallness has come with concerns about low liquidity. These have trumped the longer term associations of smaller size with faster growth and higher total returns.
- Since the EU referendum, UK assets have been out of favour and remain lowly valued in the global context. This is despite the recent upsurge in M&A, which recognises the deep valuation discounts.
- Quoted companies are increasingly being seen as outmoded, with private equity meanwhile lauded for long termism and its ability to use more leverage. However, as mainstream funds increasingly look to take stakes in private businesses, it is notable that the private equity firms themselves are seeking stock exchange listings. Moreover, it is notable that illiquidity is not a concern when it comes to private equity.
- Finally, value investment has been challenged by the environment of low inflation and low interest rates since the global financial crisis. But a continuation of these conditions is not a given, especially in view of current inflationary pressures.

A reversal of one or more of these headwinds could supplement the progress of the underlying businesses in which the portfolio invests to boost returns for the Fund's investors. This optionality, in combination with the resilience of the investee companies, underlines the relevance of the Fund's investment proposition. These attributes give the Manager confidence in the outlook for the Fund in 2022 and beyond.

S G Ford, Director
P R Shaw, Director
Aberforth Unit Trust Managers Limited

26 January 2022

Assessment of Value delivered to Unitholders of the Fund

We, the Board of Aberforth Unit Trust Managers, remain committed to serving the interests of our investors. We continue to monitor the extent to which Aberforth Unit Trust Managers delivers value to Unitholders of the Fund. The Board comprises suitably qualified members of senior management, as well as independent non-executive directors who provide effective challenge and oversight of the affairs of Aberforth Unit Trust Managers and the Fund, including the value assessment process.

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 have undertaken an exercise to assess whether the payments out of scheme property as set out in the Fund's Prospectus are justified in the context of the overall value delivered to Unitholders.

Conclusion

We concluded that, in our 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, our assessment of each of the factors below and the continuing 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 ("AP LLP"). AP LLP is an active investment management business, managing the Fund's investment portfolio through application of the value investment philosophy investing in small UK quoted companies.

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 a 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.

Assessment of Value delivered to Unitholders of the Fund

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

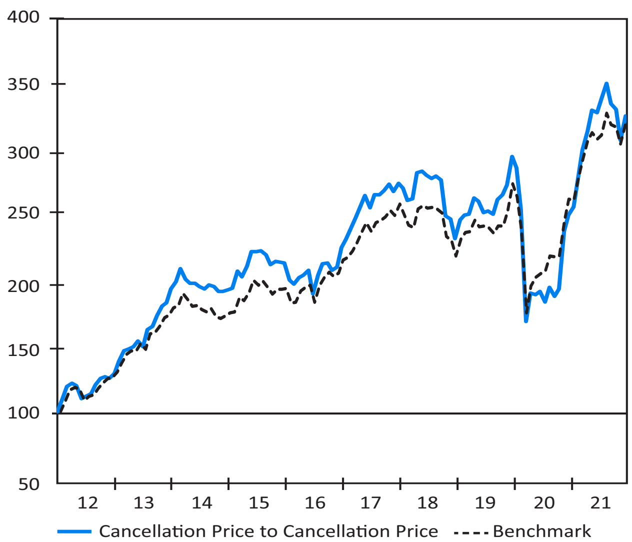
2. Performance

We reviewed the long term 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.

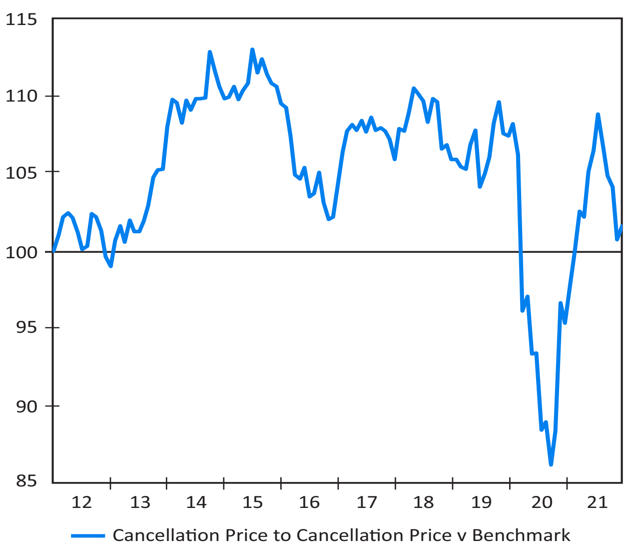
Consistent with the investment objective and with the recommended holding period, the Fund's performance was compared with that of the NSCI (XIC), the Fund's relevant benchmark index, over the long term, typically over periods more than 5 years. An important element of the Board's assessment was the investment strategy, as described in the Fund's Prospectus: since inception, the Fund's portfolio has been managed in accordance with the Investment Adviser's value investment philosophy. The Board reviewed evidence to satisfy itself that the Fund's assets continued to be managed in accordance with the value investment style. The Board noted that, while there is persuasive evidence that a value approach within small UK quoted companies may result in superior returns over the long term, there can be extended periods when the value style is out of favour and could result in periods of under-performance against the benchmark.

The Fund's ten year investment record to 31 December 2021 is shown in the charts below:

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2011)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 Dec 2011)



The Fund's historical returns and those of the benchmark index to 31 December 2021 are provided in the table below:

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2021	**The Fund**	**Index**	**The Fund**	**Index**
12 months to 31 December 2021	30.0	21.9	30.0	21.9
5 years to 31 December 2021	7.6	8.1	44.2	47.8
10 years to 31 December 2021*	12.4	12.2	222.3	217.0
From inception on 20 March 1991	12.0	10.1	3,194.7	1,848.2

* Also shown in the charts above.

It is pleasing to report on a good year for performance in 2021, one that contrasts sharply with the difficulties of 2020. It is encouraging that the resilience shown by the Fund's investee companies in 2020 allowed them to benefit from the first stages of economic recovery in 2021. In turn, profits and dividends are rebounding well. The improvement in trading conditions is convincing, though it is necessary to recognise the challenges from inflation and supply chain problems that became increasingly evident through the latter part of the year. Nevertheless, the Fund benefits from a diversified portfolio of companies, with wide ranging activities and geographical exposures. These companies boast strong balance sheets and generate returns on equity that point to profitable and growing underlying businesses. These characteristics are currently available to the Managers without having to compromise on the value investment philosophy.

Assessment of Value delivered to Unitholders of the Fund

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.

The Board is 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 that longer term performance offers reasonable value over the recommended holding period.

In this context and taking into account discussions on performance with the Investment Adviser throughout the year, the Board concluded that the Fund's long-term performance has been satisfactory.

3. Authorised Fund Manager costs - general

The Board reviewed the costs of providing the services in relation to the charges incurred by the Fund. Every component of the ongoing charges figure was reviewed.

The most material expense borne by the Fund is the Manager's periodic fee, representing 94% of total expenses in the year ended 31 December 2021. The Manager's periodic fee and Ongoing Charges Figure for the year ended 31 December 2021 were 0.75% and 0.77% respectively.

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, and risk. 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. We reviewed the Investment Adviser's profitability and are satisfied that, adjusted as appropriate, pro forma profitability 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.

Component costs of the ongoing charges figure were also considered against external benchmarks and peers. These costs, such as custody, registration and unit dealing offered reasonable value. External audit fees for the Fund were scrutinised against lower costs of peers. The Board discussed the market comparison with the Fund's auditors and agreed no increase in annual audit fee for the year ending 31 December 2021.

In this context, we are satisfied that the Manager's periodic fee and the costs within the Ongoing Charges Figure are reasonable in the context of the services provided and the costs incurred.

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 existing clients.

We noted that the Investment Adviser is a sizeable investor in its investment universe and all its current clients benefit from this scale. We acknowledge that there is a limit to the level of cost economies available from such a differentiated capacity constrained business beyond those already achieved by it having operated for some time at or close to its self-imposed capacity with scale in the investment universe. 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.

Assessment of Value delivered to Unitholders of the Fund

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 current 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 reviewed 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 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*
S G Ford, *Director*
J S Richards, *Director*
P R Shaw, *Director*
S L Wallace, *Director*
Aberforth Unit Trust Managers Limited
26 January 2022

Summary of Material Portfolio Changes

For the year ended 31 December 2021

Purchases	Cost £'000
Centamin	5,614
Marstons	4,389
Reach	4,054
Rathbones Group	3,699
FirstGroup	3,113
Crest Nicholson	3,113
Redde Northgate	3,105
Morgan Advanced Materials	3,105
C&C Group	3,027
TI Fluid Systems	3,015
Vitec Group	2,962
Jupiter Fund Management	2,786
Brewin Dolphin Holdings	2,771
Robert Walters	2,762
SIG	2,719
Just Group	2,705
Ricardo	2,597
Vesuvius	2,514
Wincanton	2,424
Micro Focus	2,420
Other Purchases	86,492
Total Cost of Purchases	**149,386**

Sales	Proceeds £'000
Reach	5,950
Charles Stanley Group	4,849
Spire Healthcare Group	4,849
Vectura Group	4,148
U and I Group	3,472
Provident Financial	3,427
RWS Holdings	3,126
Zegona Communications	2,585
Babcock International Group	2,434
PageGroup	2,418
Alfa Financial Software Holdings	2,208
Restaurant Group	2,196
Mitchells & Butlers	2,094
Redde Northgate	2,067
Vitec Group	2,000
Harbour Energy	1,976
Forterra	1,831
RHI Magnesita	1,714
Morgan Advanced Materials	1,339
FirstGroup	1,333
Other Sales	33,334
Total Proceeds of Sales	**89,350**

Portfolio Statement

As at 31 December 2021

Holding	Security	31 December 2021 Value £'000	31 December 2021 % of Total Net Assets	31 December 2021 % of Index[1]	31 December 2020 % of Total Net Assets	31 December 2020 % of Index[2]
Software and Computer Services		**4,357**	**2.0**	**6.4**	2.3	5.3
365,162	Alfa Financial Software Holdings	687	0.3			
878,448	Micro Focus	3,670	1.7			
Technology Hardware and Equipment		**3,781**	**1.7**	**1.8**	1.6	0.8
1,482,577	TT Electronics	3,781	1.7			
Telecommunications Equipment		**–**	**–**	**0.2**	–	0.3
Telecommunications Service Providers		**31**	**0.0**	**0.8**	0.9	1.9
34,837	Zegona Communications	31	0.0			
Health Care Providers		**3,676**	**1.7**	**0.8**	3.1	0.6
2,275,965	Medica Group	3,676	1.7		–	
Medical Equipment and Services		**–**	**–**	**0.4**	–	0.3
Pharmaceuticals and Biotechnology		**–**	**–**	**1.4**	2.3	2.4
Banks		**–**	**–**	**1.6**	–	2.3
Finance and Credit Services		**8,814**	**4.1**	**2.2**	4.7	2.1
3,524,748	International Personal Finance	4,547	2.1			
1,188,672	Provident Financial	4,267	2.0			
Investment Banking and Brokerage Services		**19,180**	**8.9**	**11.9**	7.5	8.2
1,486,168	Brewin Dolphin Holdings	5,469	2.5			
372,700	City of London Investment Group	1,856	0.9			
922,192	CMC Markets	2,430	1.1			
849,500	XPS Pensions Group	1,189	0.6			
275,992	Rathbones Group	5,476	2.5			
1,076,500	Jupiter Fund Management	2,760	1.3			
Life Insurance		**4,734**	**2.2**	**0.8**	2.2	1.0
1,358,327	Hansard Global	619	0.3			
4,945,648	Just Group	4,115	1.9			
Non-life Insurance		**3,682**	**1.7**	**1.6**	1.1	1.0
467,687	Conduit Holding	2,023	0.9			
916,700	Sabre Insurance Group	1,659	0.8			
Real Estate Investment and Services		**1,235**	**0.6**	**2.5**	1.1	4.6
3,125,886	Foxtons	1,235	0.6			
Real Estate Investment Trusts		**3,221**	**1.5**	**4.4**	1.5	4.3
1,444,286	McKay Securities	3,221	1.5			
Automobiles and Parts		**4,649**	**2.1**	**1.8**	2.4	0.9
1,823,306	TI Fluid Systems	4,649	2.1			
Consumer Services		**2,344**	**1.1**	**0.3**	1.3	0.3
1,230,247	RM	2,344	1.1			
Household Goods and Home Construction		**7,055**	**3.2**	**1.7**	2.7	1.4
1,129,623	Crest Nicholson	4,202	1.9			
671,344	Headlam Group	2,853	1.3			
Leisure Goods		**–**	**–**	**0.1**	–	0.1
Personal Goods		**–**	**–**	**0.3**	–	1.3

Portfolio Statement

As at 31 December 2021

Holding	Security	31 December 2021 Value £'000	31 December 2021 % of Total Net Assets	31 December 2021 % of Index[1]	31 December 2020 % of Total Net Assets	31 December 2020 % of Index[2]
Media		**17,459**	**8.1**	**2.4**	6.7	1.7
2,490,750	Centaur Media	1,345	0.6			
1,852,050	Hyve Group	1,708	0.8			
2,674,462	Reach	7,542	3.5			
464,342	STV Group	1,556	0.7			
1,600,609	Wilmington Group	3,393	1.6			
6,604,529	National World	1,915	0.9			
Retailers		**9,346**	**4.3**	**4.3**	4.5	3.9
3,452,699	Card Factory	2,037	1.0			
1,306,695	DFS Furniture	3,333	1.5			
3,655,520	Lookers	2,409	1.1			
2,426,426	Topps Tiles	1,567	0.7			
Travel and Leisure		**22,281**	**10.3**	**8.9**	9.7	12.8
6,086,989	FirstGroup	6,197	2.8			
159,344	Go-Ahead Group	1,060	0.5			
649,118	Hollywood Bowl	1,532	0.7			
2,128,154	Hostelworld Group	1,458	0.7			
851,273	Mitchells & Butlers	2,179	1.0			
2,336,183	Rank Group	3,644	1.7			
2,954,308	Stagecoach Group	2,615	1.2			
4,677,800	Marstons	3,596	1.7			
Beverages		**3,135**	**1.4**	**1.0**	0.8	1.3
1,351,466	C&C Group	3,135	1.4			
Food Producers		**4,446**	**2.1**	**2.7**	1.6	2.6
3,202,669	Bakkavor Group	4,042	1.9			
315,741	R.E.A. Holdings	404	0.2			
Personal Care, Drug and Grocery Stores		**1,391**	**0.6**	**0.7**	0.2	0.9
4,573,647	McColl's Retail Group	522	0.2			
1,519,808	McBride	869	0.4			
Construction and Materials		**14,391**	**6.7**	**6.5**	5.4	5.0
1,641,991	Eurocell	3,875	1.8			
536,571	Forterra	1,481	0.7			
440,968	Keller	4,343	2.0			
1,220,703	Galliford Try Holdings	2,195	1.0			
556,141	Ricardo	2,497	1.2			
Aerospace and Defense		**4,328**	**2.0**	**3.2**	1.5	3.2
2,944,120	Senior	4,328	2.0			
Electronic and Electrical Equipment		**7,821**	**3.6**	**2.9**	3.4	2.4
620,661	Dialight	1,924	0.9			
1,647,176	Morgan Advanced Materials	5,897	2.7			
General Industries		**–**	**–**	**1.0**	–	1.0
Industrial Engineering		**12,691**	**5.9**	**1.4**	6.9	1.5
640,149	Castings	2,241	1.0			
845,875	Vesuvius	3,807	1.8			
374,601	Vitec Group	5,319	2.5			
735,700	XAAR	1,324	0.6			

Portfolio Statement

As at 31 December 2021

Holding	Security	31 December 2021 Value £'000	% of Total Net Assets	% of Index[1]	31 December 2020 % of Total Net Assets	% of Index[2]
Industrial Support Services		**22,097**	**10.2**	**7.9**	12.3	8.1
2,212,891	De La Rue	3,434	1.6			
171,700	Paypoint	1,142	0.5			
758,948	Robert Walters	5,844	2.7			
3,783,731	RPS Group	4,593	2.1			
10,153,842	SIG	4,762	2.2			
3,716,971	Smiths News	1,398	0.7			
1,480,524	Speedy Hire	924	0.4			
Industrial Transportation		**11,322**	**5.2**	**2.7**	4.4	2.6
1,371,219	Redde Northgate	5,979	2.7			
1,348,092	Wincanton	4,947	2.3			
43,900	VP	396	0.2			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**7,597**	**3.6**	**1.9**	2.9	2.9
2,028,373	Anglo Pacific Group	2,734	1.3			
565,255	Kenmare Resources	2,583	1.2			
2,714,060	Capital	2,280	1.1			
Precious Metals and Mining		**5,009**	**2.3**	**2.1**	0.4	2.4
2,279,129	Gem Diamonds	1,080	0.5			
4,423,500	Centamin	3,929	1.8			
Chemicals		**–**	**–**	**2.0**	1.1	1.0
Oil, Gas and Coal		**6,653**	**3.1**	**5.0**	2.6	4.7
19,625,815	EnQuest	3,670	1.7			
726,619	Genel Energy	944	0.4			
3,974,854	Pharos Energy	1,033	0.5			
873,628	Petrofac	1,006	0.5			
Alternative Energy		**–**	**–**	**0.3**	–	–
Electricity		**–**	**–**	**0.9**	–	2.0
Waste and Disposal Services		**–**	**–**	**1.1**	–	0.8
Investments as shown in the Balance Sheet		**216,726**	**100.2**	**100.0**	99.1	100.0
Net Current Liabilities		**(441)**	**(0.2)**	**–**	0.9	–
Total Net Assets		**216,285**	**100.0**	**100.0**	100.0	100.0

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

[1] Reflects the rebalanced index as at 1 January 2022.

[2] Reflects the NSCI(XIC) index as at 31 March 2021 rather than 31 December 2020, as the FTSE sectors were amended on 19 March 2021.

Comparative Tables

Income Unit	31 December 2021 £/unit	31 December 2020 £/unit	31 December 2019 £/unit
Change in net assets per unit			
Opening net asset value per unit	**171.42**	203.97	165.33
Return before operating charges*	**53.13**	(29.37)	45.59
Operating charges	**(1.67)**	(1.48)	(1.44)
Return after operating charges	**51.46**	(30.85)	44.15
Distributions on income units	**(4.58)**	(1.70)	(5.51)
Closing net asset value per unit	**218.30**	171.42	203.97
*after direct portfolio transaction costs of:	**(1.11)**	(0.54)	(0.56)

Income Unit			
Performance			
Total return after charges[1]	**30.0%**	-15.1%	26.7%
Other information			
Closing net asset value (£'000)	**70,899**	58,429	95,005
Closing number of units	**324,781.700**	340,855.919	465,777.136
Operating charges	**0.77%**	0.83%	0.78%
Direct portfolio transaction costs	**0.51%**	0.30%	0.31%
Prices			
Highest issue price (£)	**241.29**	209.17	211.13
Lowest cancellation price (£)	**169.33**	101.60	165.37

Accumulation Unit	31 December 2021 £/unit	31 December 2020 £/unit	31 December 2019 £/unit
Change in net assets per unit			
Opening net asset value per unit	**240.49**	283.14	223.06
Return before operating charges*	**74.44**	(40.54)	62.03
Operating charges	**(2.39)**	(2.11)	(1.95)
Return after operating charges	**72.05**	(42.65)	60.08
Distributions	**(6.46)**	(2.37)	(7.50)
Retained distributions on accumulation units	**6.46**	2.37	7.50
Closing net asset value per unit	**312.54**	240.49	283.14
* after direct portfolio transaction costs of:	**(1.59)**	(0.76)	(0.76)

Accumulation Unit			
Performance			
Total return after charges	**30.0%**	-15.1%	26.9%
Other information			
Closing net asset value (£'000)	**145,386**	64,393	117,019
Closing number of units	**465,168.170**	267,760.720	413,296.792
Operating charges	**0.77%**	0.83%	0.78%
Direct portfolio transaction costs	**0.51%**	0.30%	0.31%
Prices			
Highest issue price (£)	**341.83**	290.35	289.29
Lowest cancellation price (£)	**237.56**	141.03	223.12

[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.

S G Ford, *Director*
P R Shaw, *Director*
Aberforth Unit Trust Managers Limited

26 January 2022

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 2021

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

26 January 2022

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 2021 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report & Financial Statements (the “Annual Report”), which comprise: the balance sheet as at 31 December 2021; the statement of total return, the statement of change in net assets attributable to unitholders and the statement of cash flows 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
26 January 2022

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 2021

Statement of Total Return

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Income:					
Net capital gains/(losses)	4		**35,000**		(47,865)
Revenue	5	**5,437**		1,844	
Expenses	6	**(1,683)**		(1,064)	
Interest payable and similar charges		**(8)**		(6)	
Net revenue before taxation		**3,746**		774	
Taxation	7	**–**		(5)	
Net revenue after taxation			**3,746**		769
Total return before distributions			**38,746**		(47,096)
Distributions	8		**(4,742)**		(1,393)
Change in net assets attributable to Unitholders from investment activities			**34,004**		(48,489)

Statement of Change in Net Assets Attributable to Unitholders

	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Opening net assets		**122,822**		212,024
Amounts receivable on issue of units	**121,236**		9,914	
Amounts payable on cancellation of units	**(64,871)**		(51,278)	
		56,365		(41,364)
Change in net assets attributable to unitholders from investment activities		**34,004**		(48,489)
Retained distribution on accumulation units		**3,094**		651
Closing net assets attributable to unitholders		**216,285**		122,822

Financial Statements

As at 31 December 2021

Balance Sheet

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
ASSETS					
Fixed assets:					
Investments assets	16		**216,726**		121,690
Current assets:					
Debtors	9	**343**		146	
Cash and bank balances		**158**		1,611	
Total other assets			**501**		1,757
Total assets			**217,227**		123,447
LIABILITIES					
Creditors:					
Other creditors	10	**(172)**		(243)	
Distribution payable on income units		**(770)**		(382)	
Total liabilities			**(942)**		(625)
Net assets attributable to unitholders			**216,285**		122,822

Cash Flow Statement

For the year ended 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Net cash inflow from operating activities			**3,663**		939
Investing activities					
Purchases of investments		**(149,491)**		(38,848)	
Sales of investments		**89,321**		75,668	
Cash (outflow)/inflow from investing activities			**(60,170)**		36,820
Financing activities					
Amounts received from issue of units		**121,679**		10,024	
Amounts paid on cancellation of units		**(65,401)**		(51,407)	
Distributions paid		**(1,217)**		(1,488)	
Interest paid		**(7)**		(6)	
Cash inflow/(outflow) from financing activities			**55,054**		(42,877)
Decrease in cash and cash equivalents			**(1,453)**		(5,119)
Cash and cash equivalents at the start of the year			**1,611**		6,730
Cash and cash equivalents at the end of the year			**158**		1,611

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 the balance sheet date. 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.

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 and was unchanged during the year. Further information can be found in the Key Investor Information Document available on the Manager's website.

Market Risk

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

Liquidity Risk

The Fund's assets comprise mainly securities that are considered to be readily realisable in accordance with the market practices of the London Stock Exchange. Liquidity may, however, be affected by market events.

The risk of low market liquidity through reduced trading volumes may affect the Fund's ability to trade investments at values previously indicated by brokers.

The main liability of the Fund is the redemption of units that investors wish to sell. In general the cash levels of the Fund are managed to ensure liabilities can be met. Where investments cannot be realised to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement. In addition, in certain circumstances and at the discretion of the Manager, redemptions may be settled by an in-specie transfer of assets or deferred redemption in accordance with the Prospectus terms.

Notes to the Financial Statements

Credit Risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its responsibilities.

The investment transactions of the Fund are generally undertaken on a delivery versus payment basis. In addition, the Manager only buys and sells investments through brokers who are authorised and regulated by the Financial Conduct Authority, who have formally agreed terms of business with the Manager, and who are considered to have execution arrangements that enable the Manager to comply with its obligation to obtain the best possible result for the Fund. The Manager closely monitors market developments that may impact a broker's creditworthiness, market reputation and expectations of future financial performance. A range of brokers is utilised by the Manager.

Cash balances are placed with a selection of banking institutions. The Manager reviews the banking partners and the deposit levels on a periodic basis. The Manager aims to have the Fund fully invested.

Interest Rate Risk

The majority of the Fund's financial assets are equity shares, which typically 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)

	2021 £'000	2020 £'000
The net capital gains/(losses) on investments during the year comprise:		
Equity investments	**35,000**	(47,865)

5 Revenue

	2021 £'000	2020 £'000
UK dividends	**4,956**	1,637
Overseas dividends	**466**	101
Interest income	**11**	–
Underwriting commission	**3**	–
Bank interest	**1**	4
Property income distributions	**–**	10
Scrip dividends	**–**	92
Total income	**5,437**	1,844

6 Expenses

	2021 £'000	2020 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,580**	989
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**52**	31
Other expenses:		
Audit fee	**19**	19
Safe custody fees	**18**	11
Printing fees	**8**	8
Registration fees	**3**	3
Taxation services	**3**	3
	51	44
Total expenses	**1,683**	1,064

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 £987,000 borne by the capital of the Fund (2020: £618,000). 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

	2021 £'000	2020 £'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	**3,746**	774
Corporation tax at 20% (2020: 20%)	**749**	155
Effects of:		
Non-taxable UK dividends	**(991)**	(327)
Non-taxable overseas dividends	**(93)**	(20)
Unutilised management expenses	**335**	192
Irrecoverable overseas tax	–	5
	(749)	(150)
Current tax charge (Note 7(a))	–	5

At the balance sheet date, the Fund had excess management expenses of £50,256,000 (2020: £48,588,000). 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 £10,052,000 (2020: £9,718,000).

8 Distributions

	2021 £'000	2020 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	**2,367**	452
Final	**2,333**	800
	4,700	1,252
Add: Income deducted on cancellation of units	**498**	170
Less: Income received on creation of units	**(456)**	(29)
Total distributions	**4,742**	1,393

	2021 £'000	2020 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	**3,746**	769
Add: Manager's periodic fee taken to capital	**987**	618
Add: Safe custody fee taken to capital	**9**	6
Distributions	**4,742**	1,393

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

Notes to the Financial Statements

9 Debtors

	2021 £'000	2020 £'000
Accrued income	**250**	94
Amounts receivable for creation of units	**65**	52
Sales awaiting settlement	**28**	–
Total debtors	**343**	146

10 Other Creditors

	2021 £'000	2020 £'000
Accrued management fee	**133**	75
Other accrued expenses	**31**	23
Amounts payable for cancellation of units	**8**	40
Purchases awaiting settlement	**–**	105
Total creditors	**172**	243

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

	2021 £'000	2020 £'000
Net revenue before taxation	**3,746**	774
Adjusted for:		
Interest payable and similar charges	**7**	6
Scrip dividends received	**–**	(92)
Debtors:		
(Increase)/decrease in accrued income	**(156)**	304
Creditors:		
Increase/(decrease) in accrued management fee	**58**	(49)
Increase in accrued other expenses	**8**	–
Taxation	**–**	(5)
Net cash flow from operating activities	**3,663**	938

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2021 £'000	2021 % of purchases	2021 % Average Net Asset Value	2020 £'000	2020 % of purchases	2020 % Average Net Asset Value
Equity purchases in period before transaction costs	**140,903**			34,052		
Commissions	**299**	**0.20**	**0.14**	79	0.20	0.06
Taxes	**685**	**0.46**	**0.31**	176	0.45	0.14
Total equity purchases costs	**984**	**0.66**	**0.45**	255	0.65	0.20
Corporate actions during the period	**7,499**			4,738		
Total purchase consideration after direct transaction costs	**149,386**			39,045		

	2021 £'000	2021 % of sales	2021 % Average Net Asset Value	2020 £'000	2020 % of sales	2020 % Average Net Asset Value
Gross equity sales in period before transaction costs	**89,483**			75,797		
Commissions	**(133)**	**(0.15)**	**(0.06)**	(128)	(0.17)	(0.10)
Taxes	**–**	**–**	**–**	(1)	–	–
Total equity sales costs	**(133)**	**(0.15)**	**(0.06)**	(129)	(0.17)	(0.10)
Corporate actions during the period	**–**			–		
Total sales after transaction costs	**89,350**			75,668		

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 0.16% per annum (2020: 0.14% per annum) of the Fund's average net asset value and taxes have averaged 0.23% per annum (2020: 0.15% 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 2021, the average dealing spread for the underlying Fund investments is 1.30% (2020: 1.58%).

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 2021	Issued	Redeemed	Converted	Closing 31 Dec 2021
Accumulation	267,760.720	344,544.895	(146,763.445)	(374.000)	465,168.170
Income	340,855.919	101,211.681	(117,812.166)	526.266	324,781.700

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 £76,000 (31 December 2020: £23,200 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 £4,100 (31 December 2020: £2,900).

15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2021 (2020: 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.

	2021		2020	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**216,726**	**–**	121,219	–
Level 2	**–**	**–**	–	–
Level 3	**–**	**–**	471	–
Total	**216,726**	**–**	121,690	–

During 2020, an investment was transferred from Level 1 to Level 3 as its listing in the market was suspended and it was valued at its suspension price. It was relisted in January 2021 and transferred back to Level 1.

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% (2020: 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 2021, the impact on Unitholders' funds would have been negative £21.7m (2020: negative £12.2m). If the investment portfolio valuation rose by 10% at 31 December 2021, the impact on Unitholders' funds would have been positive £21.7m (2020: positive £12.2m). 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 2021, 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. At 31 December 2020, the only exceptions to this were International Ferro Metals which was fair valued at £nil and Lookers which was suspended and fair valued at its suspension price of £0.20.

Distributions

Distribution Table

For the six months to 31 December 2021

	Net Income Dec 2021	Equalisation† Dec 2021	Distribution/ Accumulation Dec 2021	Distribution/ Accumulation Dec 2020
Income units (payable 28 February 2022)				
Group 1: Units purchased prior to 1 July 2021	**237.1483p**	–	**237.1483p**	111.9923p
Group 2: Units purchased on or after 1 July 2021	**168.1965p**	**68.9518p**	**237.1483p**	111.9923p
Accumulation units				
Group 1: Units purchased prior to 1 July 2021	**335.9590p**	**–**	**335.9590p**	156.1229p
Group 2: Units purchased on or after 1 July 2021	**238.2776p**	**97.6814p**	**335.9590p**	156.1229p

For the six months to 30 June 2021

	Net Income Jun 2021	Equalisation† Jun 2021	Distribution/ Accumulation Jun 2021	Distribution/ Accumulation Jun 2020
Income units (paid on 31 August 2021)				
Group 1: Units purchased prior to 1 January 2021	**220.9820p**	–	**220.9820p**	58.0017p
Group 2: Units purchased on or after 1 January 2021	**111.1397p**	**109.8423p**	**220.9820p**	58.0017p
Accumulation units				
Group 1: Units purchased prior to 1 January 2021	**310.0265p**	**–**	**310.0265p**	80.5134p
Group 2: Units purchased on or after 1 January 2021	**155.9233p**	**154.1032p**	**310.0265p**	80.5134p

† 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 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
31 December 2021	**645.9855**	**458.1303**

Management and Administration

Manager

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

Trustee & Depositary

NatWest Trustee & Depositary Services Limited*
House A, Floor 0
Gogarburn
175 Glasgow Road
Edinburgh EH12 1HQ

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar

Link Fund Administrators Limited*
PO Box 388
Unit 1, Roundhouse Road,
Darlington
DL1 9UE
Telephone: 0345 608 0940

Custodian

The Northern Trust Company*
50 Bank Street
Canary Wharf
London E14 5NT

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.