Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2022

Investment Objective

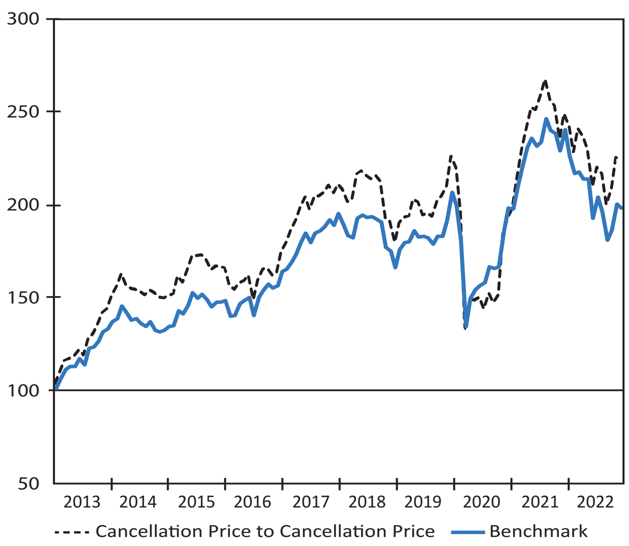
The investment objective of the Fund is to seek to achieve a total return, calculated on an income reinvested basis, greater than the Numis Smaller Companies Index (excluding Investment Companies) over the long term, or, if that index is not available, another index which the Manager considers is comparable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

Contents

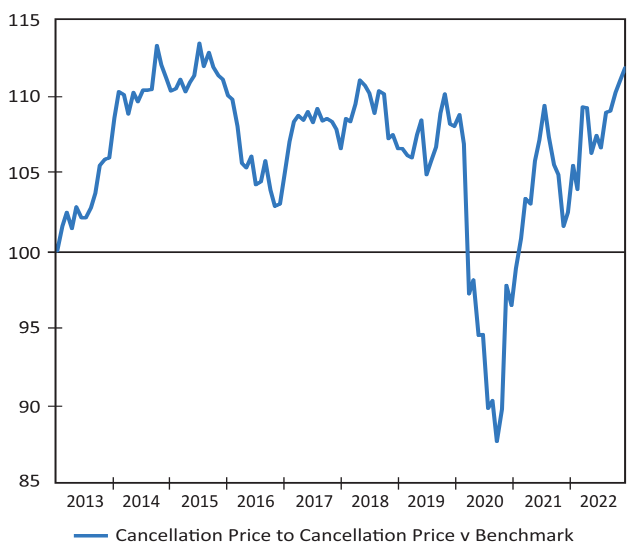
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2012)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 December 2012)



Investment Record

Performance for the year to 31 December 2022	%
The Fund[1]	**-10.0**
Benchmark Index[2]	**-17.9**

Prices & Yield		3 January 2023[3]	4 January 2022[3]
Accumulation Units	Issue Price	**£288.62**	£322.06
	Cancellation Price	**£283.55**	£315.28
Income Units (xd)	Issue Price	**£194.28**	£224.94
	Cancellation Price	**£190.87**	£220.21
	Yield[4]	**3.6%**	2.1%
Dealing Spread		**1.8%**	2.1%

Size & Charges	31 December 2022	31 December 2021
Total Net Assets	**£141.9m**	£216.3m
Ongoing Charges[5]	**0.83%**	0.77%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historical Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2022	-10.0	-17.9
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

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2022	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2020	8.1	0.1	17.0	0.1
3 years from 31 December 2019	-0.2	-1.4	-0.7	-4.2
4 years from 31 December 2018	6.0	4.7	26.1	20.0
5 years from 31 December 2017	1.3	0.3	6.8	1.5
10 years from 31 December 2012	8.5	7.2	125.4	100.4
15 years from 31 December 2007	7.2	7.3	184.9	189.1
From inception on 20 March 1991	11.2	9.1	2,865.1	1,500.0

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 2023 included some 350 companies, the largest market capitalisation of which was £1.6 billion and the aggregate market capitalisation of which was £140 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 2023 (the date of the last annual index rebalancing), the index included 350 companies, with an aggregate market capitalisation of £140 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 Manager.

The Numis Smaller Companies Index (excluding Investment Companies) 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

Introduction

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

Status

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

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

The Manager is wholly owned by Aberforth Partners LLP (the "firm" or "Investment Adviser"). The business was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £1.9 billion (as at 31 December 2022). The firm is 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 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.

Changes to Prospectus

During the year, 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 retiral of K.F. Muir as a director of Aberforth Unit Trust Managers Limited (the "Manager"); and
3. to update the risk warning wording for Covid-19.

Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners 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 www.aberforth.co.uk.

Investment Review

Since inception in 1991, the Fund's purpose has been to achieve a net asset value total return greater than that of the NSCI (XIC) over the long term. To achieve this objective, the Manager has applied a consistent and differentiated investment strategy, which has three notable aspects.

- The investment process is focused on understanding companies within the NSCI (XIC). The Manager considers factors such as financial performance, competitive dynamics and capital allocation priorities, as well as relevant environmental and social matters. A crucial focus is governance, which involves regular meetings with company directors. The outcome of the process is the selection of stocks to own in the portfolio.
- Stock selection is guided by a value investment philosophy. The reason for this is that there is strong historical evidence that over time a value premium can be harvested within equity markets. In practice, the Manager seeks companies whose share prices are trading at wide discounts to their true values. As the gap between the two narrows, positions are reduced, with the proceeds recycled into other companies with greater upside, a process that the Manager terms the "value roll".
- The team managing the portfolio is experienced and well-resourced. It is often the case that the team members have known the investee companies for longer than the directors running them. The Manager has always engaged actively but discreetly with boards, both as part of its research and to seek to effect change if necessary. Its ability to engage is improved by its willingness to take significant stakes in investee companies.

The consistent application of these features does not guarantee strong returns in each year. However, it does ensure that the Fund benefits from a differentiated and relevant investment strategy and has contributed to results that have met the investment objective over the Fund's history.

Performance

The Fund's total return was -10.0% in 2022. This was well ahead of the benchmark, with the NSCI (XIC)'s total return being -17.9%. In what was a year of poor equity returns around the world, larger UK companies distinguished themselves with a modestly positive return, as the FTSE All-Share benefited from its high exposure to energy companies.

The backdrop to these results is the pandemic. It remains a threat to public health in parts of the world, most notably China, but it is the virus's indirect effects, principally through the measures taken to control its spread, that are now having the more meaningful impact. Huge fiscal and monetary stimulus, together with stresses in globalised supply chains, sowed the seeds of the first meaningful inflationary episode for decades. Pressure has been intensified by the war in Ukraine, which has raised energy prices and further complicated supply chains. Central banks have responded by raising interest rates to take monetary conditions decisively away from the zero interest rate policies that have held sway since the global financial crisis. However, higher interest rates have further increased the cost of living to threaten a slowdown in economic growth. This looming recession has contributed to the weakness in share prices around the world in 2022.

On top of these global issues, investors in UK assets have had to contend with a fraught domestic political situation. The scarcely believable events of the third quarter of 2022 contrast with the widespread optimism in the wake of the decisive general election result at the end of 2019. The divisiveness of Brexit and an increasingly factionalised Conservative party contributed to Liz Truss's elevation to Prime Minister and to a mini budget that saw global financial markets lose confidence in the UK. Sterling took the strain, which is an advantage of a freely floating currency, but the more meaningful pain was experienced in sharply higher borrowing costs for the government and the private sector. Among equities, the aversion to all things British saw outflows from open-ended funds and institutional allocations to UK equities approach twenty year lows. The swift change of Prime Minister has restored confidence, bringing a rally in sterling and gilts, but UK equity valuations continue to trade at wide discounts to their global peers.

The main influences on performance in 2022

The table below sets out the contribution of various factors to the Fund's relative return in 2022. The following paragraphs add context and explanation, mainly to the first row in the table, which quantifies the portfolio performance and is usually the most meaningful effect on the Fund's overall returns.

Performance for the 12 months ended 31 December 2022	Basis points
Attributable to the portfolio of investments, based on mid prices	**845**
(after transaction costs of 20 basis points)	
Movement in mid to bid price spread	(7)
Cash/other	32
Management fee	(77)
Other expenses	(6)
Total attribution based on bid prices	**787**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. NAV = -10.00%; Benchmark Index = -17.87%; difference is 7.87% being 787 basis points).

Value style

The value investment style helped performance in 2022. It has, however, been out of favour for most of the period since the global financial crisis 14 years ago. An important influence on this has been the monetary conditions that were a response to the credit crunch. Low to zero interest rates and quantitative easing contributed to lengthened investment horizons and unusually low discount rates used to value assets. The beneficiaries in the equity world were companies whose cash flows were more weighted to future years, many of which are currently loss-making. These long duration equities are growth stocks, which enjoyed substantial revaluations over the past decade or so and a period of particularly sharp out-performance amid the pandemic.

The Manager has regularly hypothesised that an increase in bond yields and, by extension, in discount rates would expose these high valuations and would lead to a period of better relative performance from value stocks. This has come to pass, as inflationary pressures have returned, as interest rates have been increased in response and as bond yields have risen. The value style has therefore performed relatively well since the vaccine rally towards the end of 2020. This out-performance has been helped by disappointing results from many growth stocks – even some of the US technology giants have responded with cost cutting and redundancies.

Within the NSCI (XIC), investment style effects can be tracked through data from London Business School, which defines value stocks as those with low price-to-book ratios and growth stocks as those with high ratios. In 2022, the index's value component out-performed the index as a whole by 9%. The Manager's investment process takes into account a broader range of valuation metrics and qualitative considerations, but it is clear that the investment style environment was helpful to the Fund's relative returns.

Economic cyclicality

Concern about recession was an important reason for the negative return from the portfolio and, indeed, from the NSCI (XIC) in 2022. In contrast to weak share prices, the profit performance of the Fund's holdings in 2022 was generally good. In large part, this was due to the momentum with which they entered the year as the recovery from the pandemic continued to play out.

However, as the year wore on, several companies that are more exposed to the domestic economy started to report weaker trading, as the familiar cost of living issues started to affect sales and costs. Meanwhile, those businesses with a greater reliance on overseas markets proved more resilient. Their profits have been helped by the translation benefit of sterling’s decline and by a build-up of inventories to meet customer demand amid the supply-chain problems. Despite these diverging experiences at the underlying business level, there was little to choose between the share price performances of the domestics group and the overseas group in 2022. Entering 2023, 54% of the revenues of the portfolio holdings were generated in the UK economy, against 49% for the NSCI (XIC).

Since the global financial crisis, sensitivity to the economic cycle has been a trait generally shunned by stockmarkets. Consequently, the value cohort of the NSCI (XIC) has become increasingly populated by economically sensitive companies such as retailers, leisure businesses and engineers. It is therefore likely that concerns about imminent recession would disproportionately affect a portfolio, such as the Fund’s, selected under a value investment philosophy. This would have hampered the Fund’s performance relative to the NSCI (XIC) in 2022, but there are mitigating factors. As noted above, growth stocks themselves are facing cyclical headwinds, while the balance sheets of the Fund’s holdings are unusually robust at present, which is explored in more detail below.

Income

Although the portfolio declined in capital terms in 2022, its income experience was very strong and supported the Fund’s total return in the year. The table below splits the portfolio’s holdings into five categories, which are determined by each company’s most recent dividend action.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returner
18	6	11	38	6

Starting with the Cutters, the reasons for the cuts over the past year were idiosyncratic rather than related to the more uncertain economic environment. Their impact was eclipsed by the Increased Payers and the New / Returners. The latter category comprises companies that are paying dividends for the first time or that have now resumed payments, having passed their dividends during the pandemic. This provided a large contribution to the income growth enjoyed by the Fund in 2022. Another boost came from the receipt of six special dividends paid by investee companies in the year.

It is important not to extrapolate the rate of income growth in 2022 – after all nil payers can only resume dividend payments once and special dividends are by their nature unpredictable. Another consideration is that the Manager may identify more attractive investment opportunities among nil yielding companies. A higher exposure to these would, all else being equal, reduce the Fund’s income. However, that is not the case today and the Manager presently anticipates a year of progress in 2023 in underlying terms (i.e. excluding special dividends).

The outcome for 2023 will inevitably be influenced by the course of the economy, though the portfolio’s strong balance sheets are helpful. Moreover, the average historical dividend cover of the portfolio at 31 December 2022 was 3.4x, which compares favourably with the long term average of 2.7x. Finally, the Manager expects that several more of the current Nil Payers will be able to resume dividend payments over the next year or so.

Stock selection – boosted by M&A

Stock selection helped the Fund’s performance in 2022 and within this M&A was the clearest theme. Six of the portfolio’s holdings received takeover bids during the year, with an average premium to the pre-announcement share price of almost 60%. The fillip to performance of a takeover in a year of generally weak share prices is meaningful, but it remains important to guard against opportunism on the part of the buyers when valuations of small UK quoted companies are so low. Notwithstanding the sizeable takeover premiums, the Manager was disappointed with the terms of two of the deals, which it believed undervalued the companies concerned. It is often the case that the best M&A experiences are those in which boards of directors offer to consult shareholders well in advance. Such consultation reduces the risk of embarrassment, should shareholders find proposed terms unacceptable, and can lead to better outcomes, which may be that the company in question retains its independence. The Manager makes it clear to the boards of the investee companies that it wants to be consulted in such situations and that it is willing to be an insider for extended periods.

It was also a busy year for M&A within the NSCI (XIC). Takeover bids for 19 of its constituents were announced, some of which will not complete until 2023. The acquirers in 16 of these cases were overseas buyers, attracted no doubt by low stockmarket valuations and by sterling weakness. Towards the end of the year, the pace of deals eased. The UK’s political spasm in September may have been influential, but the more important reason was volatility within debt markets, which complicated the funding of deals. In this regard, it was notable that the acquirers in 14 of the NSCI (XIC)’s 19 deals in 2022 were other corporates rather than private equity.

Size

The portfolio retains its high exposure to the "smaller small" companies within the NSCI (XIC). The reason is rooted in relative valuations and is explained later in this report. Size positioning has often had a significant effect on performance. For most of the period since the global financial crisis, investors have favoured the greater liquidity of the "larger small" companies, which hindered the portfolio's relative returns. However, the portfolio benefited from a resurgence of the "smaller smalls" in 2020 and 2021. In 2022, there was little to choose between the price performances of the two cohorts and so size positioning had a negligible effect on the Fund's performance.

Portfolio features

Active share

Active share is a measure of how different a portfolio is from an index. The ratio is calculated as half of the sum of the absolute differences between each stock's weighting in the index and its weighting in the portfolio. The higher a portfolio's active share, the higher its chance of performing differently from the index, for better or worse. The Manager targets an active share ratio of at least 70%. At 31 December 2022, it stood at 77%, which is up slightly from 76% at the end of 2021.

An influence on the rise of the active share was the annual rebalancing of the NSCI (XIC) on 1 January 2023. This is usually a low-key affair, in which companies too big for the index are ejected and those now small enough are included. Occasionally during periods of stockmarket stress, it is a bigger event, notably in 2009 amid the global financial crisis and now in 2023. This year's rebalancing saw 29 companies, whose share prices had performed particularly poorly in 2022, brought into the index. These "fallen angels" accounted for 26% by value of the NSCI (XIC) on 1 January 2023. They bring additional opportunity and, indeed, the Manager has so far added two of the new entrants to the portfolio. These two companies are former holdings, which the Manager knows well but which had grown too large for the NSCI (XIC) in previous years. It remains to be seen whether this significant refreshing of the index represents a turn in the long term trend of decline in the number of NSCI (XIC) constituents.

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 2022, turnover was 19%, which is just over half the average in the Fund's year history. The relatively low rate of turnover in 2022 reflected the weakness of the stockmarket. Lower share prices imply higher upside to the Manager's price targets, which, all else being equal, discourages changes to the portfolio. By extension, with rising share prices there should be more opportunity to realise value and redeploy the proceeds in other companies with higher upsides. The Manager terms this the "value roll". It can make an important contribution to the Fund's performance over time.

Environmental, social and governance (ESG)

The Manager integrates matters related to ESG into its investment process, in which relevant issues are considered alongside any other that affects a company's profits and valuation. With its emphasis on bottom-up analysis and engagement, the process is well suited to this approach. In 2022, the Manager enhanced its tracking and assessment of ESG matters through the development of an additional module within its investment database. Over time, it is hoped that this will yield useful data, whose presentation will help shareholders understand the portfolio's ESG profile and, more ambitiously, any relationship between ESG issues and valuations. In the meantime, the work done to populate the new module has made it clear that small UK quoted companies are making significant progress in their ESG disclosures and, more importantly, are very much focused on the impact of issues such as climate change on their future profits and valuations. It is clear to the Manager that the perception of small companies as ESG victims is misplaced. This creates investment opportunity as companies' continuing progress is rewarded with higher valuations over time. Further details of the Manager's approach to ESG are set out on page 11.

Resilience

In 2022, the stockmarket has been concerned about the impact of recession on companies' profits and balance sheets. The typical decline in the profits of small companies in a recession is around one third. Previous downturns have been of varying lengths and depths, but have been followed by periods of recovering profits and share prices. One upside of the various crises to have peppered the past dozen or so years is that the management teams running small UK quoted companies are experienced in damage limitation – as one chief executive put it in a recent update, "we are battle-hardened". This gives hope that the pressure of lower demand can be mitigated through cost control, even though the current inflationary forces complicate the task.

The more profound risk during a recession is that a company's balance sheet proves vulnerable, preventing it from enjoying the subsequent rebound in trading conditions. In this regard, it is reassuring that the balance sheet profiles of both the portfolio and of small companies as a whole are robust. This is displayed in the following table, in which Tracked Universe refers to the 98% by value of the NSCI (XIC) that the Manager follows closely.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2022	41%	40%	14%	5%
Tracked universe: 2022	34%	34%	22%	10%

*Includes loss-makers and lenders.

The table shows that 41% of the portfolio is invested in companies with net cash on their balance sheets at the end of 2022. Another 40% is invested in companies with relatively low financial leverage (i.e. net debt to EBITDA ratios below two times). The portfolio's profile compares well with that of the Tracked Universe. However, the index's profile is also unusually robust. Balance sheets within the NSCI (XIC) last reached today's degree of resilience in around 2014. That was five years after a recession, a period in which the boards of companies were so scarred by the experience of the credit crunch that they were reluctant to invest.

Back to today, companies are entering recession with strong balance sheets. In this, the recency of the pandemic is influential: there has been little time to invest, while some companies benefited from government support and from equity issuance. Whatever the reason, today's situation is unusual since recessions are often preceded by a period of corporate excess in the form of debt funded over-investment. There are caveats – notably the elevated inventories that some have taken on amid the supply chain problems and the relevance for the first time in years of interest cover covenants – but the balance sheet profile of both the portfolio and the index appears encouragingly resilient.

Valuations

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 historical and forecast data underlying all the ratios are the Manager's.

EV/EBITA	2021	2022	2023	2024
The Fund	7.4x	6.7x	6.2x	5.6x
Tracked universe (245 stocks)	9.1x	8.9x	8.6x	7.8x
- 41 growth stocks	14.1x	12.8x	10.7x	9.0x
- 204 other stocks	8.4x	8.3x	8.2x	7.5x
- 91 stocks > £600m market cap	10.6x	10.0x	10.1x	8.9x
- 154 stocks < £600m market cap	6.9x	7.1x	6.4x	6.0x

The table demonstrates some familiar features. The ratios for the portfolio are meaningfully lower than those for the Tracked Universe, which is consistent with the Manager's value investment philosophy. The growth stocks within the Tracked Universe remain particularly highly rated. This is despite their under-performance in 2022 and may suggest incremental vulnerability. Another relevant gauge of the portfolio's value is to compare its 2022 EV/EBITA ratio with the 14x multiple at which the 19 takeover deals within the NSCI (XIC) in 2022 were agreed. The final two rows illustrate the stockmarket's continuing reluctance to embrace "smaller small" companies: those with market capitalisations below £600m are considerably more attractively than are their larger peers. This explains why the portfolio's weighting of 62% in the "smaller smalls" is higher than the NSCI (XIC)'s 33%.

In attempting to understand the portfolio's present value opportunity, the downside of the table above is that the Manager's estimates underlying the 2023 and 2024 EV/EBITA ratios are uncertain. The principal influence on the estimates is engagement with the management teams running the companies. While they are well aware of the top down threats, many had not yet felt the full force of a downturn on their businesses by the end of 2022. In all likelihood, the first half of 2023 will see trading updates weakening and a reduction to profit estimates. Until the downgrade cycle has played out, valuation ratios based on forecast profits are of less use. However, to cut through this and contextualise the attractiveness of today's valuations, there is a useful tool in the form of historical valuation ratios.

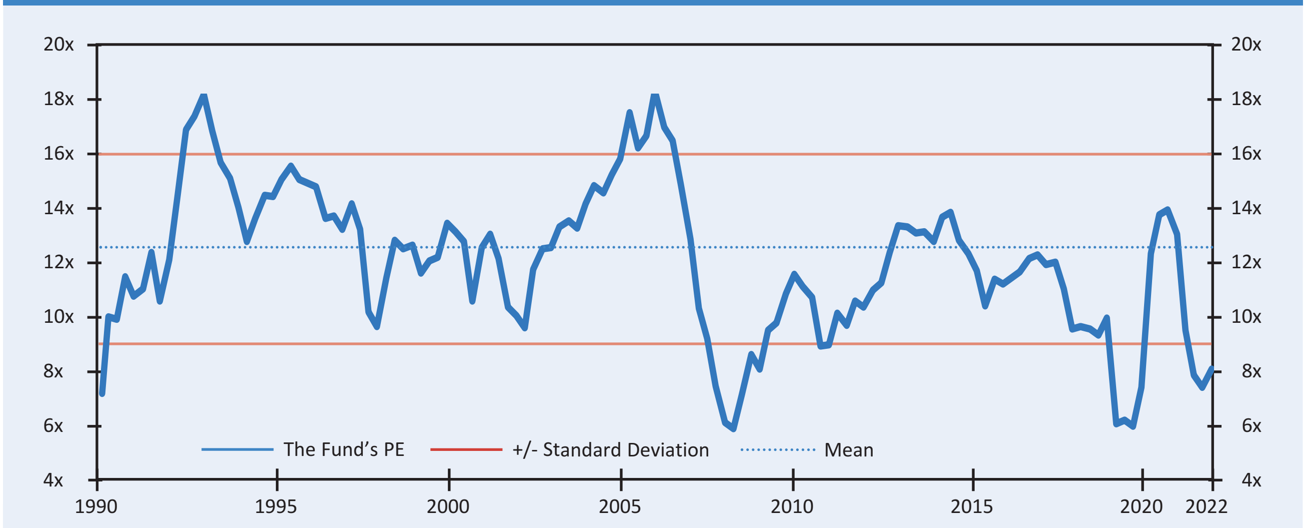
Manager's Report

The table below of portfolio characteristics includes the historical PEs for the portfolio and the NSCI (XIC). Both were unusually low at 8.1x at 31 December 2022, with the index's ratio refreshed by the significant rebalancing described previously. The two PEs are also calculated differently. The Manager removes one-off profits and losses from the portfolio's earnings per share, but London Business School does not do so for the NSCI (XIC). At 31 December 2022, this flattered the index's historical PE relative to the portfolio's.

	31 December 2022		31 December 2021	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**79**	**350**	77	337
Weighted average market capitalisation	**£548m**	**£866m**	£619m	£934m
Price earnings (PE) ratio (historical)	**8.1x**	**8.1x**	13.3x	16.6x
Dividend yield (historical)	**3.5%**	**3.4%**	1.9%	2.1%
Dividend cover	**3.4x**	**3.7x**	4.0x	2.9x

The chart below puts the portfolio's PE in the context of the Fund's history since inception. The chart also depicts the mean PE over the period of 12.2x and the plus one to minus one standard deviation range. The Fund's historical PE has dipped below the minus one standard deviation line on three previous occasions, all of which were coincident with recession: most recently the pandemic, in the middle the global financial crisis and to the far left of the chart the early 1990s recession. Breaching the minus one standard deviation line has been a useful indicator of subsequent good returns – it has historically indicated that much of the risk has been priced in, allowing the stockmarket to re-rate shares in advance of the recovery in profits.

The Fund's historical PE ratio



To take the argument to the next stage, it was noted above that small cap profits typically fall by one third in a recession, though over varying time periods. A repeat of that experience would take today's historical PE of 8.1x to 12.1x. Despite being a multiple of what could be considered trough profits, this would be slightly below the portfolio's long term average PE. Again, it may be inferred from this that much of impact of a downturn on corporate profitability has been reflected in share prices. This does not mean that share prices will not fall from here since volatility is inevitable as companies report results affected by recession. However, the chart shows that the historical PE can rise substantially from present levels, as reported profits fall and as share prices start to anticipate recovery. The Manager is therefore confident in good returns from the Fund's portfolio over the medium and long term.

Manager's Report

Outlook and conclusion

One of the second order effects of the pandemic has been to accelerate and accentuate several underlying challenges to the economic and financial conditions that have held sway since the global financial crisis. The conditions have been ones of modest economic growth, low interest rates and low inflation, while the underlying challenges have been broadly inflationary. These have included heightened geopolitical tension, deglobalisation, re-shoring, an upsurge in industrial action, and demographic trends that reduce the working age population. The war in Ukraine has given extra impetus to the first bout of meaningful inflation for decades. The chief executive of one of the Fund's investee companies has observed that what keeps him awake at night is not the price of electricity in 2023, but where his customers will be doing their business in five or ten years' time as the tectonic plates of economics and geopolitics shift.

Year-on-year changes in the consumer prices index in the UK and further afield will likely moderate as effects of high energy prices annualise, but the structural issues listed above mean that the rate of inflation may not return reliably to the very low levels to which the world had become accustomed. It would therefore be unlikely that interest rates and bond yields can fall back to the very low levels that allowed investment with almost limitless time horizons. A reversion to financial conditions more akin to those that prevailed before the global financial crisis is not without risk. Governments and investors have adopted borrowing habits that may be exposed by the reimposition of a real cost of capital. Accidents are possible, with signs of stress already in the UK's liability driven investment industry, in cryptocurrency failures and in the higher cost of borrowing for private equity firms.

However, there is scope for optimism and opportunity too. A meaningful cost of capital, rather than one artificially suppressed by central banks, imposes discipline on investment decisions. This improves the chance of sustainably high returns on investment, which in turn might address the disappointingly low productivity performance of the UK and other economies in recent years. In parallel, trends such as deglobalisation and the re-shoring of production imply a period of higher capital expenditure, which would provide opportunities for business, including small UK quoted companies. A final consideration concerns the value investment style, which felt the headwinds of the low interest rate environment since the global financial crisis. A reversal would imply a better outlook for value or at least a more neutral style backdrop, which would be to the Fund's benefit.

Turning back to the portfolio, its valuations are unusually attractive at present. Of course, PE ratios do not fall so low unless the stockmarket is worried about something. In the case of the Fund's holdings, the wide-held concerns are their perceived vulnerability to recession and their "Britishness", an attribute that has been shunned amid the political upheaval of recent years. On top of these factors is the evolution of a regulatory focus on risk and liquidity. This has discouraged institutional investment in smaller companies in a self-reinforcing vicious circle and accounts for the particularly low valuations of the "smaller small" companies from which the Fund benefits.

If these are the reasons for the low valuations, why are they too low? At the broad level, it is the nature of equity markets to over-shoot. Indications that this might be the case are the PE ratio chart shown above and significant outflows from UK funds, which have contributed to low institutional allocations to UK equities. More specifically, the records of the Fund's holdings through the trials and tribulations of recent years have been good – these are resilient businesses with strong balance sheets and experienced management. Corroboration for this contention comes from 2022's M&A activity: overseas businesses clearly disagree with the equity market and are willing to pay substantial valuation premiums for control.

Therefore, while trading conditions in 2023 are likely to be challenging, a good deal of the risk is likely already to be in the price. Refreshed by the NSCI (XIC)'s significant 2023 rebalancing, the Fund's investment universe harbours numerous opportunities for a value investor focused on understanding and engaging with the companies. Accordingly, the Manager looks to future years with confidence that the Fund can out-perform against the backdrop of what current valuations suggest should be a rising stockmarket.

S G Ford, Director
P R Shaw, Director
Aberforth Unit Trust Managers Limited
31 January 2023

Stewardship and Environmental, Social and Governance (ESG)

Philosophy, policies and practices

Aberforth's approach to Stewardship and ESG is available at www.aberforth.co.uk in the "About Aberforth" section. The ESG policy framework is set out in the following documents.

- About Aberforth: the background and founding principles of the firm, its core strategic philosophy and nature of the business.
- Investment Philosophy: Aberforth's approach to investing as adopted for the Fund, relevant extracts of which are included in the narrative that follows.
- Stewardship Policy: the approach to stewardship of clients' capital, set out the format of the Financial Reporting Council's (FRC) UK Stewardship Code.
- Engagement and Voting Framework: how Aberforth engages and votes, along with what is expected from investee companies.
- Examples of Engagement and Voting: examples of how the Engagement and Voting framework is put into action.
- Governance and Corporate Responsibility: Aberforth Partners LLP's approach to Stewardship, which is reported annually.

The Manager's approach to stewardship and ESG is overseen by a Stewardship Committee, which is a sub-committee of the Aberforth Partners LLP partnership committee, Aberforth's ultimate governance body.

The investment cases for many of the Fund's holdings are influenced by environmental, social and governance matters, particularly as the increased profile of such issues affects the stockmarket's valuations of companies. Investments are not excluded from the portfolio based on ESG considerations alone. Rather, analysis of ESG matters is integrated into the investment process and is considered alongside other factors in forming an investment case.

Where ESG or other matters impinge upon the investment case, the Manager engages with the investee company's board, which is responsible for the design and implementation of the company's environmental, social and governance policies. The Manager's are well placed to undertake this activity, since engagement has always been a fully integrated element of their investment process and feeds through to the target valuations for companies. The Manager believes that their willingness to engage constructively with the boards of investee companies has benefited investment performance over time and is therefore important to the long term success of the Fund.

To support the investment process, Aberforth has enhanced its proprietary investment database with a module to improve the analysis and tracking of important ESG issues. The module captures relevant metrics, such as greenhouse gas emissions, Task Force for Climate-related Financial Disclosures (TCFD) and the setting of net zero and science based targets. It also evaluates investee companies on the basis of several ESG subfactors.

Voting Policy and Activity

Aberforth exercise voting rights on behalf of the Fund. The Manager considers and votes on every resolution that is put to shareholders of the companies in which the Fund is invested. In 2022 this included voting in 89 Shareholder meetings on 1,316 resolutions. The Manager votes against resolutions that it believes may damage shareholders' rights or economic interests, which specifically includes consideration of environmental and social matters.

Voting is often the conclusion of engagement, which is undertaken directly and over time with the boards of investee company. Under normal circumstances, concerns would have been raised and discussed with an investee company's directors before the vote. Such engagement improves understanding of issues underlying controversial resolutions and can result in change that allows the Manager to vote in favour of the relevant resolutions. Among small UK quoted companies, there are still few general meeting resolutions directly relevant to environmental and social issues, so much of the voting is focused on governance.

UK Stewardship Code

The UK Stewardship Code, issued by the FRC, sets out the principles of effective stewardship by institutional investors. Aberforth are committed to effective stewardship and were early adopters of the UK Stewardship Code. They were again recognised as an approved signatory of the code in September 2022. The submission is published on their website, along with supporting documentation.

UN Principles For Responsible Investment ('UNPRI')

Aberforth are a signatory to, and participate in, the annual UNPRI assessment. The results are available within the "About Aberforth" section of the website.

Aberforth Partners LLP's governance and corporate responsibility

The Adviser's approach for their business to stewardship and ESG matters is set out in their Governance & Corporate Responsibility statement. This includes policies and practices covering their approach to governance, risk and control, company culture, human resources and environmental matters. The document also sets out Aberforth's approach to emissions disclosures. It reported on scope 1 and 2 emission disclosures in 2021 and is enhanced for the inclusion of Scope 3 emissions in 2022. These voluntary disclosures are reported under the Streamlined Energy & Carbon Reporting Statement ('SECR').

Assessment of Value delivered to Unitholders of the Fund

The Aberforth Unit Trust Manager's Assessment of Value is an annual process which is aligned with the Aberforth UK Small Companies Fund's 31 December period end. The publication date of this disclosure document is aligned with the Fund's annual report and accounts.

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 ("the Manager") and the Fund, including the value assessment process.

The Manager outsources the provision of investment management services to the Investment Adviser, Aberforth Partners LLP ("Aberforth"). Aberforth is an investment management firm that provides investors with a high level of resource focused exclusively on small UK quoted companies. The investment management business conducted by Aberforth was established in 1990 and remains wholly owned by full time working partners. The firm's objective is to deliver superior long term investment returns for its clients and, by extension, for the ultimate beneficiaries of its clients' portfolios. Three central aspects of the firm – partnership, a focus on small UK quoted companies and a value investment philosophy – support the pursuit of this purpose. Encouraged by historical evidence, the firm believes that this philosophy plays a central role in the achievement of superior long-term returns. The management of a client portfolio is not assigned to one individual but is undertaken by the team, whose efforts are concentrated on stock selection and the moulding of stocks into a portfolio. The process underlying these activities has been consistently applied over the life of the firm.

Over the past year, there were no significant changes in the investment management services or administration services provided by the Manager and its third party service providers.

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 and our assessment of each of the factors below.

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

Our review of investment management services, consistent with last year, 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 noted the significant resources which continued to be devoted to servicing existing and prospective Unitholders this year 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 noted the Investment Adviser's approach to environmental, social and governance (ESG) matters as detailed in the Manager's Report to Unitholders. 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.

Assessment of Value delivered to Unitholders of the Fund

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 Transfer Agent, 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 satisfactory outcomes on behalf of the Fund and its unitholders.

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

2. Performance

We reviewed the long-term performance of the Fund, in the context of its 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 2022 is shown in the charts on page 1.

The Fund's historical returns and those of the benchmark index to 31 December 2022 are provided in the table below:

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2022	**The Fund**	**Index**	**The Fund**	**Index**
12 months to 31 December 2022	-10.0	-17.9	-10.0	-17.9
5 years to 31 December 2022	1.3	0.3	6.8	1.5
10 years to 31 December 2022*	8.5	7.2	125.4	100.4
From inception on 20 March 1991	11.2	9.1	2,865.1	1,500.0

* Also shown in the charts above.

During 2022, equities struggled amid the first meaningful inflation in decades, as the world economy contorted to cope with the aftermath of the pandemic. Central banks responded belatedly with substantial increases in interest rates. Their task was complicated in the UK's case by domestic political ructions and more generally by Russia's invasion of Ukraine in February. Amid these issues, it is easy to understand the weakness of small companies' share prices in 2022, but it is pleasing that the Fund did succeed in mitigating the more significant weakness of small UK quoted companies in general. Looking beyond the near term, the Manager is optimistic about the Fund's prospects. Events of the past few years have demonstrated the relevance of the Fund's differentiated investment strategy. Recent M&A activity underlines the attractions of the sorts of companies selected by the Manager's. The strong balance sheets that characterise the portfolio do not ensure a painless experience over the coming year but they certainly do suggest that the Fund's holdings will be well placed to navigate the twists and turns of the path ahead.

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 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 93% of total expenses in the year ended 31 December 2022. The Manager's periodic fee and Ongoing Charges Figure for the year ended 31 December 2022 were 0.75% and 0.83% respectively.

As noted earlier, 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 indicative market costs. The Board discussed the comparison with the Fund's auditors and agreed an increase in the annual audit fee for the year ending 31 December 2022.

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 and investors.

We noted that the Investment Adviser is a sizeable investor in its investment universe and all its clients and investors 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.

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 the Fund's Unitholders.

Assessment of Value delivered to Unitholders of the Fund

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
31 January 2023

Summary of Material Portfolio Changes

For the year ended 31 December 2022

Purchases	Cost £'000
Bodycote	2,224
Energean	2,023
Moneysupermarket.com	1,338
Fisher (James) & Sons	1,013
Rank Group	915
Helical	884
Mitchells & Butlers	837
PageGroup	798
C&C Group	748
Go-Ahead Group	742
Headlam Group	722
Petrofac	677
Sabre Insurance Group	647
CMC Markets	613
RHI Magnesita	592
Morgan Advanced Materials	582
XPS Pensions Group	565
Micro Focus	561
Speedy Hire	559
Empiric Student Property	543
Other Purchases	10,953
Total Cost of Purchases	**28,536**

Sales	Proceeds £'000
Brewin Dolphin Holdings	7,251
Micro Focus	5,130
RPS Group	4,713
Go-Ahead Group	3,999
McKay Securities	3,048
Stagecoach Group	2,977
Rathbones Group	2,247
FirstGroup	2,104
Keller	2,102
Hollywood Bowl	1,777
Medica Group	1,591
Morgan Advanced Materials	1,516
EnQuest	1,516
Videndum	1,463
Forterra	1,426
Redde Northgate	1,383
Wincanton	1,376
Provident Financial	1,233
Just Group	1,223
SIG	1,201
Other Sales	31,684
Total Proceeds of Sales	**80,960**

Portfolio Statement

As at 31 December 2022

Holding	Security	31 December 2022 Value £'000	% of Total Net Assets	% of Index[1]	31 December 2021 % of Total Net Assets	% of Index
Software and Computer Services		**1,419**	**1.0**	**6.2**	2.0	6.4
739,800	Moneysupermarket.com	1,419	1.0			
Technology Hardware and Equipment		**1,735**	**1.2**	**0.8**	1.7	1.8
998,067	TT Electronics	1,735	1.2			
Telecommunications Equipment		**–**	**–**	**1.2**	–	0.2
Telecommunications Service Providers		**28**	**0.0**	**0.8**	0.0	0.8
34,837	Zegona Communications	28	0.0			
Health Care Providers		**2,067**	**1.5**	**0.8**	1.7	0.8
1,497,819	Medica Group	2,067	1.5	–		
Medical Equipment and Services		**–**	**–**	**0.2**	–	0.4
Pharmaceuticals and Biotechnology		**–**	**–**	**0.9**	–	1.4
Banks		**–**	**–**	**3.7**	–	1.6
Finance and Credit Services		**3,184**	**2.2**	**2.0**	4.1	2.2
2,577,951	International Personal Finance	1,884	1.3			
679,672	Provident Financial	1,300	0.9			
Investment Banking and Brokerage Services		**10,236**	**7.1**	**11.3**	8.9	11.9
282,357	City of London Investment Group	1,186	0.8			
1,025,105	CMC Markets	2,296	1.6			
1,268,200	Jupiter Fund Management	1,684	1.2			
176,323	Rathbones Group	3,588	2.5			
1,066,200	XPS Pensions Group	1,482	1.0			
Life Insurance		**3,432**	**2.4**	**0.9**	2.2	0.8
1,358,327	Hansard Global	389	0.3			
3,733,459	Just Group	3,043	2.1			
Non-life Insurance		**3,737**	**2.7**	**1.8**	1.7	1.6
556,687	Conduit Holdings	2,366	1.7			
1,289,050	Sabre Insurance Group	1,371	1.0			
Real Estate Investment and Services		**985**	**0.7**	**2.5**	0.6	2.5
3,397,286	Foxtons	985	0.7			
Real Estate Investment Trusts		**2,204**	**1.6**	**7.5**	1.5	4.4
641,100	Empiric Student Property	540	0.4			
225,000	Helical	750	0.5			
295,900	Industrials REIT	373	0.3			
121,619	Workspace Group	541	0.4			
Automobiles and Parts		**2,260**	**1.6**	**1.3**	2.1	1.8
1,691,251	TI Fluid Systems	2,260	1.6			
Consumer Services		**652**	**0.5**	**0.2**	1.1	0.3
1,164,547	RM	652	0.5			
Household Goods and Home Construction		**4,421**	**3.1**	**2.0**	3.2	1.7
965,530	Crest Nicholson	2,283	1.6			
727,347	Headlam Group	2,138	1.5			
Leisure Goods		**–**	**–**	**0.3**	–	0.1
Personal Goods		**–**	**–**	**0.1**	–	0.3

Portfolio Statement

As at 31 December 2022

Holding	Security	31 December 2022 Value £'000	31 December 2022 % of Total Net Assets	31 December 2022 % of Index[1]	31 December 2021 % of Total Net Assets	31 December 2021 % of Index
Media		**9,559**	**6.7**	**3.7**	8.1	2.4
1,834,950	Centaur Media	679	0.5			
1,277,228	Hyve Group	920	0.6			
4,985,729	National World	921	0.6			
2,567,362	Reach	2,442	1.7			
350,936	STV Group	948	0.7			
1,208,329	Wilmington Group	3,649	2.6			
Retailers		**7,024**	**4.9**	**4.0**	4.3	4.3
2,637,699	Card Factory	2,031	1.4			
1,212,013	DFS Furniture	1,869	1.3			
2,802,320	Lookers	2,110	1.5			
2,252,426	Topps Tiles	1,014	0.7			
Travel and Leisure		**12,351**	**8.7**	**8.4**	10.3	8.9
4,630,390	FirstGroup	4,667	3.3			
1,813,850	Hostelworld Group	2,075	1.5			
4,266,532	Marstons	1,687	1.2			
1,171,573	Mitchells & Butlers	1,617	1.1			
2,814,099	Rank Group	2,305	1.6			
Beverages		**2,468**	**1.7**	**0.9**	1.4	1.0
1,408,157	C&C Group	2,468	1.7			
Food Producers		**2,678**	**1.9**	**2.4**	2.1	2.7
2,549,369	Bakkavor Group	2,450	1.7			
228,365	R.E.A. Holdings	228	0.2			
Personal Care, Drug and Grocery Stores		**232**	**0.2**	**1.2**	0.6	0.7
1,158,489	McBride	232	0.2			
Construction and Materials		**7,607**	**5.4**	**4.6**	6.7	6.5
1,248,058	Eurocell	1,810	1.3			
996,575	Galliford Try Holdings	1,585	1.1			
195,457	Keller	1,564	1.1			
447,941	Ricardo	2,143	1.5			
843,400	Severfield	505	0.4			
Aerospace and Defense		**2,791**	**2.0**	**2.3**	2.0	3.2
2,229,248	Senior	2,791	2.0			
Electronic and Electrical Equipment		**5,564**	**4.0**	**2.8**	3.6	2.9
455,861	Dialight	1,367	1.0			
1,334,347	Morgan Advanced Materials	4,197	3.0			
General Industries		**–**	**–**	**1.1**	–	1.0
Industrial Engineering		**9,099**	**6.4**	**1.3**	5.9	1.4
484,377	Castings	1,676	1.2			
753,098	Vesuvius	3,041	2.1			
280,647	Videndum	3,014	2.1			
714,500	XAAR	1,368	1.0			
Industrial Support Services		**13,785**	**9.7**	**6.1**	10.2	7.9
1,867,091	De La Rue	1,462	1.0			
194,900	PageGroup	898	0.6			
128,840	Paypoint	656	0.5			
621,294	Robert Walters	3,169	2.2			
1,361,531	RPS Group	2,995	2.1			
7,688,738	SIG	2,276	1.6			
2,788,971	Smiths News	1,289	0.9			
2,627,024	Speedy Hire	1,040	0.8			

Portfolio Statement

As at 31 December 2022

		31 December 2022			31 December 2021	
Holding	Security	Value £'000	% of Total Net Assets	% of Index[1]	% of Total Net Assets	% of Index
Industrial Transportation		**9,743**	**6.8**	**2.5**	5.2	2.7
307,900	Fisher (James) & Sons	1,196	0.8			
1,098,819	Redde Northgate	4,522	3.2			
62,700	VP	414	0.3			
1,082,784	Wincanton	3,611	2.5			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**8,566**	**6.0**	**3.1**	3.6	1.9
409,300	Bodycote	2,325	1.6			
2,055,610	Capital	1,982	1.4			
1,643,728	Ecora Resources	2,383	1.7			
428,248	Kenmare Resources	1,876	1.3			
Precious Metals and Mining		**4,308**	**3.1**	**2.5**	2.3	2.1
3,356,787	Centamin	3,788	2.7			
1,620,171	Gem Diamonds	520	0.4			
Chemicals		**686**	**0.5**	**3.1**	–	2.0
31,100	RHI Magnesita	686	0.5			
Oil, Gas and Coal		**7,438**	**5.2**	**4.1**	3.1	5.0
178,800	Energean	2,324	1.6			
14,905,952	EnQuest	3,190	2.2			
541,013	Genel Energy	674	0.5			
777,780	Petrofac	546	0.4			
3,114,200	Pharos Energy	704	0.5			
Alternative Energy		**–**	**–**	**0.1**	–	0.3
Electricity		**–**	**–**	**0.1**	–	0.9
Waste and Disposal Services		**–**	**–**	**1.1**	–	1.1
Investments as shown in the Balance Sheet		**140,259**	**98.8**	**100.0**	100.2	100.0
Net Current Assets/(Liabilities)		**1,646**	**1.2**	**–**	(0.2)	–
Total Net Assets		**141,905**	**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 2023.

Comparative Tables

Income Unit	31 December 2022 £/unit	31 December 2021 £/unit	31 December 2020 £/unit
Change in net assets per unit			
Opening net asset value per unit	**218.30**	171.42	203.97
Return before operating charges*	**(20.35)**	53.13	(29.37)
Operating charges	**(1.64)**	(1.67)	(1.48)
Return after operating charges	**(21.99)**	51.46	(30.85)
Distributions on income units	**(6.99)**	(4.58)	(1.70)
Closing net asset value per unit	**189.32**	218.30	171.42
*after direct portfolio transaction costs of:	**(0.45)**	(1.11)	(0.54)
Income Unit			
Performance			
Total return after charges[1]	**-10.1%**	30.0%	-15.1%
Other information			
Closing net asset value (£'000)	**50,819**	70,899	58,429
Closing number of units	**268,428.553**	324,781.700	340,855.919
Operating charges	**0.83%**	0.77%	0.83%
Direct portfolio transaction costs	**0.23%**	0.51%	0.30%
Prices			
Highest issue price (£)	**226.39**	241.29	209.17
Lowest cancellation price (£)	**168.21**	169.33	101.60

Accumulation Unit	31 December 2022 £/unit	31 December 2021 £/unit	31 December 2020 £/unit
Change in net assets per unit			
Opening net asset value per unit	**312.54**	240.49	283.14
Return before operating charges*	**(28.92)**	74.44	(40.54)
Operating charges	**(2.37)**	(2.39)	(2.11)
Return after operating charges	**(31.29)**	72.05	(42.65)
Distributions	**(10.11)**	(6.46)	(2.37)
Retained distributions on accumulation units	**10.11**	6.46	2.37
Closing net asset value per unit	**281.25**	312.54	240.49
* after direct portfolio transaction costs of:	**(0.65)**	(1.59)	(0.76)
Accumulation Unit			
Performance			
Total return after charges	**-10.0%**	30.0%	-15.1%
Other information			
Closing net asset value (£'000)	**91,086**	145,386	64,393
Closing number of units	**323,865.267**	465,168.170	267,760.720
Operating charges	**0.83%**	0.77%	0.83%
Direct portfolio transaction costs	**0.23%**	0.51%	0.30%
Prices			
Highest issue price (£)	**324.13**	341.83	290.35
Lowest cancellation price (£)	**245.61**	237.56	141.03

[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 Association ("IA");
- 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

31 January 2023

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 2022

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

31 January 2023

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 2022 and of the net revenue and the net capital losses on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the “Annual Report”), which comprise: the Balance Sheet as at 31 December 2022; the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders and the Cash Flow Statement for the year then ended; the Distribution tables; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

Based on our work undertaken in the course of the audit, the Collective Investment Schemes sourcebook requires us also to report certain opinions as described below.

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.

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

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.

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
31 January 2023

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 2022

Statement of Total Return

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Income:					
Net capital (losses)/gains	4		**(24,043)**		35,000
Revenue	5	**5,947**		5,437	
Expenses	6	**(1,275)**		(1,683)	
Interest payable and similar charges		**(17)**		(8)	
Net revenue before taxation		**4,655**		3,746	
Taxation	7	**–**		–	
Net revenue after taxation			**4,655**		3,746
Total return before distributions			**(19,388)**		38,746
Distributions	8		**(5,401)**		(4,742)
Change in net assets attributable to Unitholders from investment activities			**(24,789)**		34,004

Statement of Change in Net Assets Attributable to Unitholders

	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Opening net assets		**216,285**		122,822
Amounts receivable on issue of units	**16,768**		121,236	
Amounts payable on cancellation of units	**(69,670)**		(64,871)	
		(52,902)		56,365
Change in net assets attributable to unitholders from investment activities		**(24,789)**		34,004
Retained distribution on accumulation units		**3,311**		3,094
Closing net assets attributable to unitholders		**141,905**		216,285

Financial Statements

As at 31 December 2022

Balance Sheet

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
ASSETS					
Fixed assets:					
Investments assets	16		**140,259**		216,726
Current assets:					
Debtors	9	**259**		343	
Cash and bank balances		**2,426**		158	
Total other assets			**2,685**		501
Total assets			**142,944**		217,227
LIABILITIES					
Creditors:					
Other creditors	10	**(134)**		(172)	
Distribution payable on income units		**(905)**		(770)	
Total liabilities			**(1,039)**		(942)
Net assets attributable to unitholders			**141,905**		216,285

Cash Flow Statement

For the year ended 31 December 2022

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Net cash inflow from operating activities	11		**4,658**		3,663
Investing activities					
Purchases of investments		**(28,536)**		(149,491)	
Sales of investments		**80,988**		89,321	
Cash inflow/(outflow) from investing activities			**52,452**		(60,170)
Financing activities					
Amounts received from issue of units		**16,983**		121,679	
Amounts paid on cancellation of units		**(70,130)**		(65,401)	
Distributions paid		**(1,679)**		(1,217)	
Interest paid		**(16)**		(7)	
Cash (outflow)/inflow from financing activities			**(54,842)**		55,054
Increase/(Decrease) in cash and cash equivalents			**2,268**		(1,453)
Cash and cash equivalents at the start of the year			**158**		1,611
Cash and cash equivalents at the end of the year			**2,426**		158

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. The Fund has an overdraft facility in place with the Custodian, Northern Trust, up to £25m. 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 (Losses)/Gains

	2022 £'000	2021 £'000
The net capital (losses)/gains on investments during the year comprise:		
Equity investments	**(24,043)**	35,000

5 Revenue

	2022 £'000	2021 £'000
UK dividends	**5,200**	4,956
Overseas dividends	**716**	466
Property income distributions	**22**	–
Bank interest	**9**	1
Interest income	**–**	11
Underwriting commission	**–**	3
Total income	**5,947**	5,437

6 Expenses

	2022 £'000	2021 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,183**	1,580
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**42**	52
Other expenses:		
Audit fee	**23**	19
Safe custody fees	**12**	18
Printing fees	**9**	8
Registration fees	**3**	3
Taxation services	**3**	3
	50	51
Total expenses	**1,275**	1,683

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 £740,000 borne by the capital of the Fund (2021: £987,000). 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

	2022 £'000	2021 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	–	–
Total current tax charge for the year (note 7(b))	–	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	**4,655**	3,746
Corporation tax at 20% (2021: 20%)	**931**	749
Effects of:		
Non-taxable UK dividends	**(1,040)**	(991)
Non-taxable overseas dividends	**(143)**	(93)
Unutilised management expenses	**252**	335
Irrecoverable overseas tax	–	–
	(931)	(749)
Current tax charge (Note 7(a))	–	–

At the balance sheet date, the Fund had excess management expenses of £51,510,000 (2021: £50,256,000). 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 £10,302,000 (2021: £10,052,000).

8 Distributions

	2022 £'000	2021 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	**2,625**	2,367
Final	**2,499**	2,333
	5,124	4,700
Add: Income deducted on cancellation of units	**461**	498
Less: Income received on creation of units	**(184)**	(456)
Total distributions	**5,401**	4,742

	2022 £'000	2021 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	**4,655**	3,746
Add: Manager's periodic fee taken to capital	**740**	987
Add: Safe custody fee taken to capital	**6**	9
Distributions	**5,401**	4,742

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

Notes to the Financial Statements

9 Debtors

	2022 £'000	2021 £'000
Accrued income	**225**	250
Amounts receivable for creation of units	**34**	65
Sales awaiting settlement	**–**	28
Total debtors	**259**	343

10 Other Creditors

	2022 £'000	2021 £'000
Accrued management fee	**92**	133
Other accrued expenses	**33**	31
Amounts payable for cancellation of units	**9**	8
Total creditors	**134**	172

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

	2022 £'000	2021 £'000
Net revenue before taxation	**4,655**	3,746
Adjusted for:		
Interest payable and similar charges	**17**	7
Debtors:		
Decrease/(Increase) in accrued income	**24**	(156)
Creditors:		
(Decrease)/Increase in accrued management fee	**(41)**	58
Increase in accrued other expenses	**3**	8
Taxation	**–**	–
Net cash flow from operating activities	**4,658**	3,663

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2022 £'000	2022 % of purchases	2022 % Average Net Asset Value	2021 £'000	2021 % of purchases	2021 % Average Net Asset Value
Equity purchases in period before transaction costs	**28,336**			140,903		
Commissions	**66**	**0.23**	**0.04**	299	0.20	0.14
Taxes	**134**	**0.47**	**0.09**	685	0.46	0.31
Total equity purchases costs	**200**	**0.70**	**0.13**	984	0.66	0.45
Corporate actions during the period	**–**			7,499		
Total purchase consideration after direct transaction costs	**28,536**			149,386		

	2022 £'000	2022 % of purchases	2022 % Average Net Asset Value	2021 £'000	2021 % of purchases	2021 % Average Net Asset Value
Equity sales in period before transaction costs	**75,184**			89,483		
Commissions	**(151)**	**(0.19)**	**(0.10)**	(133)	(0.15)	(0.06)
Taxes	**(1)**	**–**	**–**	–	–	–
Total equity sales costs	**(152)**	**(0.19)**	**(0.10)**	(133)	(0.15)	(0.06)
Corporate actions during the period	**5,928**			–		
Total sales after transaction costs	**80,960**			89,350		

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 0.17% per annum (2021: 0.16% per annum) of the Fund's average net asset value and taxes have averaged 0.20% per annum (2021: 0.23% per annum) over the same period.

Share dealing generally incurs broker commissions and stamp duty and these are paid by the Fund on each transaction where appropriate. In addition there is a dealing spread between the buying and selling prices of the underlying investments. As at 31 December 2022, the average dealing spread for the underlying Fund investments is 1.39% (2021: 1.30%).

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 2022	Issued	Redeemed	Converted	Closing 31 Dec 2022
Accumulation	465,168.170	18,477.444	(157,827.136)	(1,953.211)	323,865.267
Income	324,781.700	77,270.073	(136,475.133)	2,851.913	268,428.553

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 £67,000 (31 December 2021: £76,000 due to 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 £3,500 (31 December 2021: £4,100).

15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2022 (2021: 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.

	2022		2021	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**140,259**	**–**	216,726	–
Level 2	**–**	**–**	–	–
Level 3	**–**	**–**	–	–
Total	**140,259**	**–**	216,726	–

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% (2021: 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 2022, the impact on Unitholders' funds would have been negative £14.0m (2021: negative £21.7m). If the investment portfolio valuation rose by 10% at 31 December 2022, the impact on Unitholders' funds would have been positive £14.0m (2021: positive £21.7m). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole. All other variables are assumed to remain constant.

As at 31 December 2022, 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.

Distributions

Distribution Table

For the six months to 31 December 2022

	Net Income Dec 2022	Equalisation† Dec 2022	Distribution/ Accumulation Dec 2022	Distribution/ Accumulation Dec 2021
Income units (payable 28 February 2023)				
Group 1: Units purchased prior to 1 July 2022	**337.1592p**	–	**337.1592p**	237.1483p
Group 2: Units purchased on or after 1 July 2022	**90.0213p**	**247.1379p**	**337.1592p**	237.1483p
Accumulation units				
Group 1: Units purchased prior to 1 July 2022	**492.2909p**	–	**492.2909p**	335.9590p
Group 2: Units purchased on or after 1 July 2022	**131.4414p**	**360.8495p**	**492.2909p**	335.9590p

For the six months to 30 June 2022

	Net Income Jun 2022	Equalisation† Jun 2022	Distribution/ Accumulation Jun 2022	Distribution/ Accumulation Jun 2021
Income units (paid on 31 August 2022)				
Group 1: Units purchased prior to 1 January 2022	**362.3341p**	–	**362.3341p**	220.9820p
Group 2: Units purchased on or after 1 January 2022	**261.3836p**	**100.9505p**	**362.3341p**	220.9820p
Accumulation units				
Group 1: Units purchased prior to 1 January 2022	**518.7675p**	–	**518.7675p**	310.0265p
Group 2: Units purchased on or after 1 January 2022	**374.2328p**	**144.5347p**	**518.7675p**	310.0265p

† 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 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
31 December 2022	**1,011.0584**	**699.4933**

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

Registrar

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

Trustee & Depositary

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

Custodian

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

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

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, all of which are 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 related risks.

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.

Notes

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