Aberforth UK Small Companies Fund

Short Report 31 December 2013

This document is a short report of Aberforth UK Small Companies Fund (the Fund) for the twelve months to 31 December 2013. The information in this report is designed to enable unitholders to make an informed judgement on the activities of the fund during the period. For more information on the activities and performance of the Fund during this and previous periods, please contact Aberforth Unit Trust Managers Limited (the Manager) or visit the website www.aberforth.co.uk.

Investment Objective & Policy

The objective of the Fund is to achieve a total return (with income reinvested) greater than on the Numis Smaller Companies Index (excluding Investment Companies) over the long term by investing in a diversified portfolio of small UK quoted companies.

Performance Summary

Total Return	12 months to 31 December 2013
The Fund	**49.4%**
NSCI (XIC) Index	**36.9%**

Past performance is not a guide to future performance

Fund Information

Prices and Yield	02.01.14	02.01.13
Accumulation Units		
Issue Price	**£189.92**	£129.44
Cancellation Price	**£186.57**	£126.70
Income Units		
Issue Price	**£161.24**	£112.64
Cancellation Price	**£158.40**	£110.25
Yield	**2.2%**	3.0%

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

Charges	02.01.14	02.01.13
Initial Charge	**Nil**	Nil
Dealing Spread	**1.8%**	2.1%
Ongoing charges	**0.84%**	0.85%
Exit charge	**Nil**	Nil

Manager's Report

With a 49.4% total return in 2013, the Fund recorded the second best annual performance in its 22 year history. The principal influences on this very positive result were the strength of equities in general, with a 20.8% total return from the FTSE All-Share, and of small companies in particular, with a 36.9% total return from the Numis Smaller Companies Index (excluding Investment Companies) (NSCI (XIC)).

The Manager's value investment style was also beneficial. In the aftermath of the global financial crisis, the growth style was in the ascendancy, as tough economic conditions and heightened uncertainty favoured companies with secular, albeit often modest, growth characteristics. However, the past twelve months have seen a general re-acquaintance with the cheaper "smaller small" companies in which the Fund's portfolio has been over-weight for some time.

Investors' willingness to venture into long-neglected parts of the stockmarket reflects a pick-up in confidence, which itself seems a result of an improvement in the outlook for the global economy. The US recovery has continued, notwithstanding the onset of tapering and another bout of political wrangling. The Eurozone also appears to have stabilised, with modest growth now in evidence in several of the peripheral economies. However, the UK's performance in 2013 stands out. GDP forecasts are now being upgraded and the fiscal position is also showing improvement. Sceptics can, with some justification, point to a familiar reliance on the housing market, but the impact on the share prices of domestically oriented small companies is undeniable.

The irony of the strong performance from the NSCI (XIC) in 2013 is that it came against the background of a small decline in the profits of small companies, reflecting the sluggishness of economies at the start of the year and the particular challenges confronting resources companies. The outlook for profits in 2014 is brighter, but the returns of 2013 have taken the historical PE multiple of the NSCI (XIC) from 12.8x to 16.8x.

The valuation of the Fund's portfolio has also experienced a re-rating. However, on a PE of 13.6x, it remains at a significant discount to the valuation of the NSCI (XIC). That discount of 19% is considerably higher than the average of 10% over the Fund's history, which suggests that the Manager is not struggling to find attractively valued companies with which to populate the portfolio. The Manager also takes comfort from

Manager's Report (continued)

the latent potential in the strong balance sheets that characterise much of the portfolio and from the still healthy dividend performance of the asset class. Following the remarkable gains of 2013 and with the Fund's future absolute returns likely to be heavily influenced by the fate of equities in general, a degree of caution is merited. However, the Manager remains convinced that the consistent application of the value investment style, though it will not always be as favourable as in 2013, will continue to be of benefit to the Fund over the long term.

CHANGES TO PROSPECTUS

There were no material changes to the Prospectus in the period.

DETAILS OF INVESTMENTS

Top 10 Holdings

	31 December 2013		31 December 2012	
	Company	**% Total**	Company	% Total
1	**JD Sports Fashion**	**3.1**	RPC Group	3.0
2	**RPC Group**	**3.0**	Bodycote	3.0
3	**Northgate**	**3.0**	Galliford Try	2.7
4	**QinetiQ Group**	**2.8**	e2v technologies	2.6
5	**St. Modwen Properties**	**2.4**	CSR	2.6
6	**CSR**	**2.3**	JD Sports Fashion	2.5
7	**Tullett Prebon**	**2.2**	Northgate	2.4
8	**e2v technologies**	**2.1**	Spirit Pub Company	2.4
9	**Spirit Pub Company**	**2.1**	St. Modwen Properties	2.3
10	**Vectura Group**	**2.0**	Howden Joinery Group	2.0
	Other Investments	**73.6**	Other investments	74.0
	Total investments	**98.6**	Total investments	99.5
	Other net assets	**1.4**	Other net assets	0.5
	Total assets	**100.0**	Total assets	100.0

Sector Analysis (% Weightings)

	31 December 2013		31 December 2012	
	% Total of Fund	**% of the Index**	% Total of Fund	% of the Index
Oil & Gas	**3.7**	**5.1**	2.6	5.5
Basic Materials	**3.2**	**7.3**	5.3	7.5
Industrials	**34.7**	**27.9**	32.3	27.7
Consumer Goods	**4.3**	**7.8**	4.8	6.9
Health Care	**3.2**	**3.2**	3.1	3.1
Consumer Services	**21.3**	**18.2**	20.2	23.6
Telecommunications	**0.8**	**2.8**	1.0	2.0
Utilities	**–**	**0.6**	–	0.5
Financials	**10.9**	**19.4**	16.8	17.2
Technology	**16.5**	**7.7**	13.4	6.0
Liquidity	**1.4**	**–**	0.5	–

Performance Summary

Historic Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 31 December 2013	49.4	36.9
1 year to 31 December 2012	28.7	29.9
1 year to 31 December 2011	–11.9	–9.1
1 year to 31 December 2010	25.0	28.5
1 year to 31 December 2009	39.6	60.7

Periods to 31 December 2013	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 31 December 2010	69.3	61.7
5 years from 31 December 2008	195.4	233.9
10 years from 31 December 2003	249.9	257.6
15 years from 31 December 1998	717.3	439.2
Since inception on 20 March 1991	1,864.8	993.4

Periods to 31 December 2013	Annualised Returns (%) The Fund[1]	Index[2]
3 years from 31 December 2010	19.2	17.4
5 years from 31 December 2008	24.2	27.3
10 years from 31 December 2003	13.3	13.6
15 years from 31 December 1998	15.0	11.9
Since inception on 20 March 1991	14.0	11.1

1 Represents cancellation price to cancellation price.

2 Represents capital appreciation on the Numis Smaller Companies Index (Excluding Investment Companies) (NSCI (XIC)) with dividends reinvested (prior to 1 January 1997 in its "Extended" version). This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2014 consisted of 363 companies, the largest market capitalisation of which was £1.503 billion and the aggregate market capitalisation of which was £163 billion.

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.

Fund Information

Net Asset Value

Date	**31 December 2013**	31 December 2012	31 December 2011
Total Net Assets	**£168.8m**	£151.3m	£170.2m
Accumulation units in Issue	**597,739.561**	1,166,048.466	1,384,131.836
Income units in issue [i]	**362,124.095**	52,118.400	410,596.916
NAV per unit – accumulation	**£186.48**	£124.92	£97.07
NAV per unit – income	**£158.32**	£108.71	£87.24

Unit Price Range

	Accumulation Units		**Income Units [i]**	
Period	**Highest Issue £**	**Lowest Cancellation £**	**Highest Issue £**	**Lowest Cancellation £**
Year to 31 December 2009	96.84	56.99	92.25	55.14
Year to 31 December 2010	112.73	85.88	104.97	79.97
Year to 31 December 2011	123.64	92.48	112.76	84.34
Year to 31 December 2012	127.71	96.97	112.65	87.16
Year to 31 December 2013	189.46	126.70	162.38	110.25

Distribution Record

Period	**Accumulation Units Net income per Unit (p)**	**Income Units [i] Net income per Unit (p)**
Year to 31 December 2009	199.5022	191.8155
Year to 31 December 2010	210.6289	197.7272
Year to 31 December 2011	298.9537	274.5042
Year to 31 December 2012	377.5214	336.4382
Year to 31 December 2013	399.7750	345.5453

Notes

(i) The Fund was launched on 20 March 1991 with an initial issue price of £10.00. Income units have been available from 1 January 2008.

(ii) The annual income accumulation and distribution date is 28 February in each year. The interim income accumulation and distribution date is 31 August relating to the period to 30 June.

Distribution Table

For the six months to 31 December 2013

Group 1: Units purchased prior to 1 July 2013

Group 2: Units purchased on or after 1 July 2013

Interim Distribution	Net Income December 2013	Equalisation† December 2013	Distribution/ Accumulation December 2013	Distribution/ Accumulation December 2012
Income units				
Group 1	152.3518p	–	152.3518p	151.4123p
Group 2	74.4586p	77.8932p	152.3518p	151.4123p
Accumulation units				
Group 1	177.7626p	–	177.7626p	171.6600p
Group 2	86.8776p	90.8850p	177.7626p	171.6600p

† When buyers purchase units, the purchase price includes the value of securities and revenue up to the date of purchase. All unitholders receive the same distribution, in pence per unit, however, equalisation applies only to units purchased during the distribution period (Group 2 Units). Equalisation is the average amount of income included in the purchase of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP (the "firm"). The predecessor business of the firm, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.2 billion (as at 31 December 2013). The firm is wholly owned by six partners – five investment managers (including three founding partners), and a Head of Operations, who is responsible for the firm's administration. Six investment managers work as a team managing the Fund's portfolio on a collegiate basis. The founding partners have been managing the portfolio since the Fund's launch in March 1991.

Risk and Reward Profile

1	2	3	4	5	6	7

Lower potential risk/reward higher potential risk/rewards

The indicator above illustrates the position of this fund on a standard risk/reward category scale. The category reflects the volatility of returns over the past 5 years.

Please note that past performance is not a guide to future performance. The risk category is not guaranteed and may shift over time. The lowest category does not mean 'risk free'.

The performance of shares in smaller companies may be more volatile than shares in larger companies over short time periods and therefore the realisable value of the units may be more volatile.

In pursuing its investment objective certain risks arise for the Fund in relation to the investment portfolio and cash balances held.

The main risks arising are from market price, liquidity, credit and interest rate risks. The Manager has policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the period to which these financial statements relate.

Market Price 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.

Liquidity Risk

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

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

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

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 which 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 its clients.

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.

Interest Rate Risk

The majority of the Fund's financial assets are equity shares, which do not pay interest or have a maturity date. The Fund's exposure to interest rate risk is therefore insignificant.

Management and Administration

Manager

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Registrar

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Custodian

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Auditors

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**Authorised and regulated by the Financial Conduct Authority*

Report and Accounts

This document is a short report of Aberforth UK Small Companies Fund for the 12 months to 31 December 2013. The annual report is distributed to all investors on the Fund's register. Further copies are available, free of charge, on request from the Manager, or via the website www.aberforth.co.uk.