Aberforth UK Small Companies Fund

Short Report **30 June 2013**

This document is a short report of Aberforth UK Small Companies Fund (the Fund) for the six months to 30 June 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	6 months to 30 June 2013
The Fund	**15.8%**
The Benchmark Index	**13.2%**

Past performance is not a guide to future performance

Fund Information

Prices and Yield	01.07.13	02.01.13
Accumulation Units		
Issue Price	**£148.14**	£129.44
Cancellation Price	**£145.22**	£126.70
Income Units		
Issue Price	**£126.96**	£112.64
Cancellation Price	**£124.46**	£110.25
Yield	**2.7%**	3.0%

Prices stated are for the first valuation point being the distribution xd date

Charges	01.07.13	02.01.13
Initial charge	**Nil**	Nil
Dealing spread	**2.0%**	2.1%
Ongoing charges	**0.85%**	0.85%
Exit charge	**Nil**	Nil

Investment Manager's Report

With a total return from the NSCI (XIC) of 13.2% in the first half of 2013, small companies sustained the momentum of the second half of 2012. The total return of the FTSE All-Share, representative of larger companies, was 8.5%. The Fund performed relatively well with a total return of 15.8%.

These strong returns were secured despite a sharp rise in global bond yields in June. This was prompted by indications from the Federal Reserve of the possibility of an earlier than expected reduction in quantitative easing. The transition to less accommodative monetary policy is never painless for equities. However, were this to happen in response to better economic activity, the outcome should not be unpleasant for equity investors. In this regard, recent data in both the US and UK give cause for encouragement. If an improvement in the economic outlook is not forthcoming, it is unlikely that QE will be scaled back.

Company managers have responded to weak domestic demand in recent years by reducing costs and capacity, a process assisted by business failures. Supply side discipline has allowed the survivors to grow stronger, which is reflected in a 75% aggregate gain from the domestically oriented Consumer Goods and Consumer Services sectors since 31 December 2011. The Fund has benefited from this, particularly with its housebuilding and retail holdings. In contrast, the Fund has little exposure to the resources sectors, which have fallen by 27% in aggregate over the same period, reflecting adverse supply side dynamics. Commodities companies have invested huge sums in recent years to meet Chinese demand. The fruits of this investment are expected to be picked over coming years. The consequent increase in supply comes at a time when Chinese demand is growing less quickly.

Cost and capacity disciplines have helped balance sheets remain strong: 40% of the portfolio is invested in companies that are expected to have net cash on their balance sheets by the end of 2013. The Manager would prefer to see more of that balance sheet strength deployed in a profitable fashion. While there are signs that the ratio of capex to depreciation is picking up, cash flows remain strong. These are supportive of dividend payments, as is average portfolio dividend cover of 3.0x, which is towards its highest ever level. The Fund's dividend experience has remained positive: 54 of the 98 holdings increased their most recent dividends.

Investment Manager's Report (continued)

The portfolio's historic dividend yield is 2.9%, which is higher than the NSCI (XIC)'s 2.5%. This is consistent with the Manager's value investment style and is also reflected in an EV/EBITA (the ratio of enterprise value to earnings before interest, tax and amortisation) of 8.9x, which is 15% below that of the index and 40% below that of a subset of 34 growth stocks. This value stretch has narrowed slightly over the first half, a period in which style influences were less pronounced than in previous years. A further narrowing of the stretch between the valuations of the portfolio and the growth stocks would bode well for the Fund's relative performance.

CHANGES TO PROSPECTUS

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

DETAILS OF INVESTMENTS

Top 10 Holdings

	30 June 2013		31 December 2012	
	Company	**% Total**	Company	% Total
1	**CSR**	**2.9**	RPC Group	3.0
2	**JD Sports Fashion**	**2.7**	Bodycote	3.0
3	**Northgate**	**2.6**	Galliford Try	2.7
4	**RPC Group**	**2.5**	e2v technologies	2.6
5	**e2v technologies**	**2.5**	CSR	2.6
6	**St. Modwen Properties**	**2.2**	JD Sports Fashion	2.5
7	**Spirit Pub Company**	**2.1**	Northgate	2.4
8	**Tullett Prebon**	**2.0**	Spirit Pub Company	2.4
9	**Galliford Try**	**1.9**	St. Modwen Properties	2.3
10	**Regus**	**1.9**	Howden Joinery Group	2.0
	Other investments	**75.3**	Other investments	74.0
	Total other net assets	**1.4**	Total other net assets	0.5
	Total net assets	**100.0**	Total net assets	100.0

Sector Analysis (% Weightings)

	30 June 2013		31 December 2012	
	% Total of Fund	**% of the Index**	% Total of Fund	% of the Index
Oil & Gas	**2.7**	**4.6**	2.6	5.5
Basic Materials	**3.2**	**5.5**	5.3	7.5
Industrials	**33.3**	**27.9**	32.3	27.7
Consumer Goods	**2.9**	**7.5**	4.8	6.9
Health Care	**2.3**	**3.0**	3.1	3.1
Consumer Services	**23.2**	**25.6**	20.2	23.6
Telecommunications	**0.9**	**2.0**	1.0	2.0
Utilities	**–**	**0.4**	–	0.5
Financials	**17.4**	**18.0**	16.8	17.2
Technology	**12.7**	**5.5**	13.4	6.0
Liquidity	**1.4**	**–**	0.5	–
	100.0	**100.0**	100.0	100.0

Performance Summary

Total Return	The Fund(%)[1]	Index(%)[2]
6 months to 30 June 2013	15.8	13.2

Historic Total Returns

Period	Discrete Annual Returns (%) The Fund[1]	Index[2]
1 year to 30 June 2013	33.3	31.8
1 year to 30 June 2012	–7.8	–4.1
1 year to 30 June 2011	33.5	34.2
1 year to 30 June 2010	18.0	28.0
1 year to 30 June 2009	–13.9	–12.4

Periods to 30 June 2013	Cumulative Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2010	64.2	69.7
5 years from 30 June 2008	66.8	90.3
10 years from 30 June 2003	216.3	254.5
15 years from 30 June 1998	416.3	265.3
Since inception on 20 March 1991	1,422.8	803.6

Periods to 30 June 2013	Annualised Returns (%) The Fund[1]	Index[2]
3 years from 30 June 2010	18.0	19.3
5 years from 30 June 2008	10.8	13.7
10 years from 30 June 2003	12.2	13.5
15 years from 30 June 1998	11.6	9.0
Since inception on 20 March 1991	13.0	10.4

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 2013 consisted of 389 companies, the largest market capitalisation of which was £1.428 billion and the aggregate market capitalisation of which was £141 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

	30 June 2013	31 December 2012	31 December 2011
Total Net Assets	**£85.5m**	£151.3m	£170.2m
Accumulation units in Issue	**461,699.430**	1,166,048.466	1,384,131.836
Income units in issue [i]	**151,676.794**	52,118.400	410,596.916
NAV per unit – accumulation	**£144.53**	£124.92	£97.07
NAV per unit – income	**£123.87**	£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 2008	101.02	56.91	101.02	56.05
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
6 months to 30 June 2013	152.70	126.70	132.88	110.25

Distribution Record

Period	Accumulation Units Net income per Unit (p)	Income Units [i] Net income per Unit (p)
Year to 31 December 2008	249.0879	247.3461
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
6 months to 30 June 2013	222.0124	193.1935

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 30 June 2013

Group 1: Units purchased prior to 1 January 2013

Group 2: Units purchased on or after 1 January 2013

Interim Distribution	Net Income June 2013	Equalisation† June 2013	Distribution/ Accumulation June 2013	Distribution/ Accumulation June 2012
Income units				
Group 1	193.1935p	–	193.1935p	185.0259p
Group 2	97.7296p	95.4639p	193.1935p	185.0259p
Accumulation units				
Group 1	222.0124p	–	222.0124p	205.8613p
Group 2	112.3080p	109.7044p	222.0124p	205.8613p

† 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 £1.7 billion (as at 30 June 2013). The firm is wholly owned by six partners – five investment managers (including three founding partners), and Alan Waite, 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'.

Investment in shares of smaller companies can involve greater risk than in shares of larger companies as smaller companies may have limited product lines, markets or financial resources and may be dependant on a smaller number of key individuals. 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.

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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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 period to 30 June 2013. The interim 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.