Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2023

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) (NSCI (XIC))* over the long term, with the focus on rolling five year periods.

*From 1 January 2024, the benchmark was renamed the Deutsche Numis Smaller Companies Index (excluding Investment Companies).

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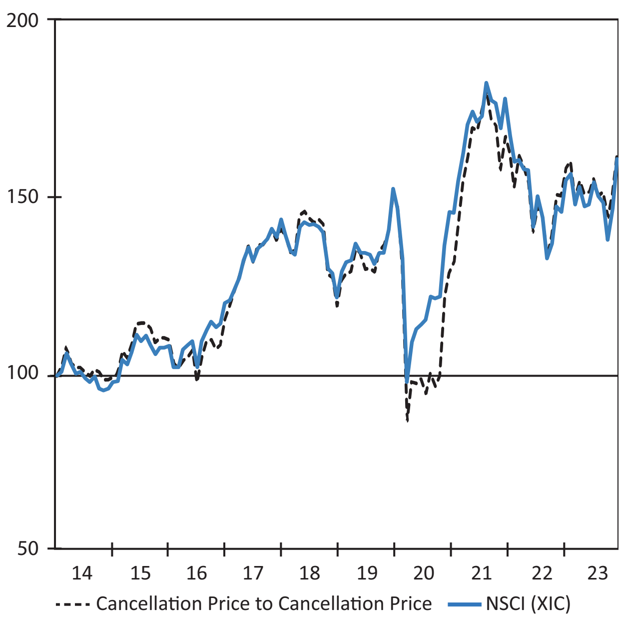
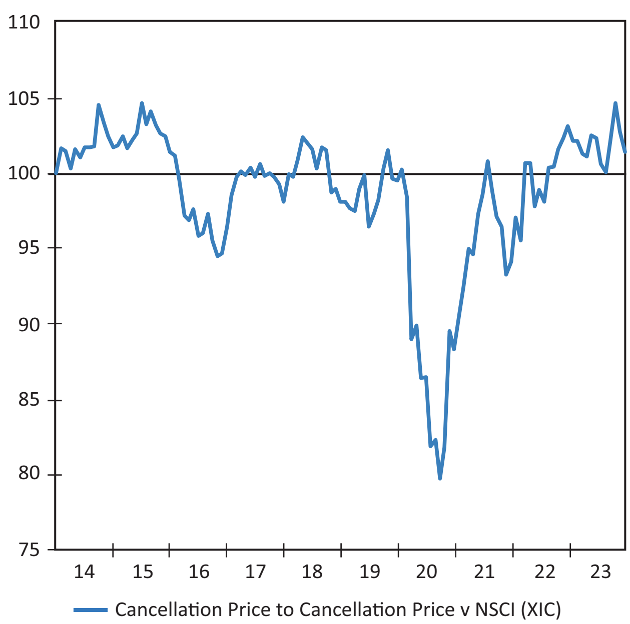
Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2013)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 December 2013)



Investment Record

Performance for the year to 31 December 2023	%
The Fund[1]	**8.3**
Benchmark Index[2]	**10.1**

Prices & Yield		2 January 2024[3]	3 January 2023[3]
Accumulation Units	Issue Price	**£307.98**	£288.62
	Cancellation Price	**£302.03**	£283.55
Income Units (xd)	Issue Price	**£199.49**	£194.28
	Cancellation Price	**£195.64**	£190.87
	Yield[4]	**3.8%**	3.6%
Dealing Spread		**1.9%**	1.8%

Size & Charges	31 December 2023	31 December 2022
Total Net Assets	**£136.1m**	£141.9m
Ongoing Charges[5]	**0.82%**	0.83%
Initial Charge	**Nil**	Nil
Exit Charge	**Nil**	Nil

Historical Returns	Discrete Annual Returns (%) The Fund[1,6]	Index[2]
1 year to 31 December 2023	8.3	10.1
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

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2023	The Fund[1]	Index[2]	The Fund[1]	Index[2]
2 years from 31 December 2021	-1.3	-4.9	-2.6	-9.5
3 years from 31 December 2020	8.2	3.3	26.6	10.3
4 years from 31 December 2019	1.8	1.4	7.5	5.6
5 years from 31 December 2018	6.4	5.7	36.5	32.1
10 years from 31 December 2013	5.0	4.9	63.4	61.2
15 years from 31 December 2008	11.1	11.9	382.6	438.2
From inception on 20 March 1991	11.2	9.1	3,110.3	1,662.3

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 2024 included some 353 companies, the largest market capitalisation of which was £1.7 billion and the aggregate market capitalisation of which was £143 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. 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 2024 (the date of the last annual index rebalancing), the index included 353 companies, with an aggregate market capitalisation of £143 billion. Its upper market capitalisation limit was £1.7 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 around 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. If the index is not available, the Manager will use another index which it considers is comparable to the NSCI (XIC).

In order to facilitate the achievement of 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

The Fund's total return in the twelve months to 31 December 2023 was +8.3%. Over the same period, the NSCI (XIC) – the Fund's benchmark – rose by 10.1%. The FTSE All-Share, which is representative of larger UK companies, was up by 7.9%.

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 £2.0 billion (as at 31 December 2023). 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 two Investment Managers 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 amend the wording of the investment objective, adding 'with the focus on rolling five year periods';
2. to include a definition of 'active share' in the list of defined terms and remove the definition of 'long term' previously included (amended for 5 year rolling periods, as noted above);
3. to update wording in the investment policy regarding the number of stocks, replacing usually have holdings in 'over 80' with 'around 80' small UK quoted companies;
4. to modify wording in the investment strategy to remove 'in order to improve the odds of achieving…' and replace with 'to facilitate the achievement of' the investment objective;
5. to move from the investment objective to the investment strategy a description noting an alternative index would be used if NSCI (XIC) was unavailable; and
6. to update historical performance tables and details relating to the rebalancing of NSCI (XIC) in line with its annual review.

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 background

Geopolitical risk was already elevated at the start of 2023 as the war in Ukraine continued. It rose further towards the end of the year with Hamas's attack on Israel. However, financial markets were dominated by one issue – inflation and its implications for monetary policy, especially US monetary policy. Persistent inflation had driven the Federal Reserve to raise interest rates by a cumulative 525 basis points in the sixteen months to July 2023. This brought to an end the era of very low borrowing costs that followed the global financial crisis of 2007 and 2008. Understandably, markets have struggled with this new reality and have been eager for indications that inflationary pressure might be relenting.

The ebb and flow of sentiment through the year can be gauged from the US ten year government bond yield. This started 2023 at 3.8% and surged to 5.0% in August, which was its highest level since 2007. As inflation data improved and markets started to anticipate lower interest rates, the yield dropped to 3.9% by the year end, a move that was echoed by the strong performance of equity indices over the last two months of the year.

The UK and much of Europe are also facing higher borrowing costs. These contributed to lacklustre economic growth in 2023, compounding the effects of high energy costs and waning momentum from the pandemic recovery. Recession threatens several European economies, including the UK's, while China's reopening has so far proved rather tepid. The brighter spots in terms of economic activity are the US, which is benefiting from government spending through the Inflation Reduction Act and other programmes, and some emerging economies, which are proving more resilient than in past phases of US monetary tightening.

Manager's Report

An overall weaker economic backdrop has complicated trading for companies. Results for 2023 will be reported in the first half of 2024 and are likely to show that profits declined in the UK and in Europe. Even the US stockmarket is expected to experience next to no profit growth, notwithstanding its "magnificent seven" technology leviathans. There are several reasons for this. First, higher interest rates and the other macro-economic uncertainties have put pressure on revenues. Second, it is proving more difficult to raise selling prices as the rate of inflation reduces, but labour costs are continuing to rise. These are harder to pass through to customers, which squeezes profit margins. Third, the cost of borrowing is rising as debt terms are renegotiated in today's environment of higher interest rates.

Turning specifically to small UK quoted companies, the Manager expects a double digit percentage decline in profits for 2023, with falls for nearly half of the profitable companies that they track closely. Unsurprisingly, those companies operating close to the housing market have been most affected, but it has been notable that overseas facing companies also experienced more challenging trading conditions in the second half of 2023. The effect of this slowdown on profits might be close to half of the impact typically experienced in a full economic recession. Strong balance sheets and battle-hardened boards of directors offer mitigation, but what is important for the Fund is how much of this is already embedded in the stockmarket's valuations of the companies. This is considered in detail in the Valuations section of this report.

Analysis of performance and portfolio characteristics

Over the twelve months to 31 December 2023, the Fund's total return was +8.3% and the NSCI (XIC)'s was +10.1%. An analysis of the difference between the two numbers is shown in the table below. The most important influence on the Fund's return was the performance of the companies that make up its portfolio of investments.

Performance for the 12 months ended 31 December 2023	Basis points
Attributable to the portfolio of investments, based on mid prices	
(after transaction costs of 18 basis points)	**(331)**
Movement in mid to bid price spread	40
Cash/other	185
Management fee	(75)
Other expenses	(6)
Total attribution based on bid prices	**(187)**

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the NAV and the Benchmark Index (i.e. Fund = 8.27%; Benchmark Index = 10.14%; difference is -1.87% being -187 basis points).

The next table sets out a series of characteristics of both the portfolio and the NSCI (XIC). The paragraphs that follow provide context and explanation for these characteristics and for the Fund's performance in 2023.

	31 December 2023		31 December 2022	
Portfolio characteristics	**The Fund**	**NSCI (XIC)**	The Fund	NSCI (XIC)
Number of companies	**78**	**353**	79	350
Weighted average market capitalisation	**£590m**	**£957m**	£548m	£866m
Weighting in "smaller small" companies*	**61%**	**28%**	62%	32%
Portfolio turnover	**23%**	**N/A**	19%	N/A
Active share	**75%**	**N/A**	77%	N/A
Price earnings (PE) ratio (historical)	**7.9x**	**12.8x**	8.1x	8.1x
Dividend yield (historical)	**4.2%**	**3.3%**	3.5%	3.4%
Dividend cover (historical)	**3.0x**	**2.3x**	3.5x	3.7x

*"Smaller small" companies are members of the NSCI (XIC) that are not also members of the FTSE 250

Style & size

Since the pandemic recovery started in late 2020, inflation has caused interest rates and bond yields to rise. These conditions have favoured the value investment style. The London Business School analyses style effects within the NSCI (XIC) using price-to-book ratios to differentiate between value and growth stocks. They calculate that the total return of the index's value cohort exceeded that of its growth cohort in 2021, 2022 and 2023. A caveat to this positive style backdrop for value is the very strong share price performance in 2023 of the large US technology companies collectively known as the "magnificent seven". This suggests a more favourable environment for growth stocks, which would be consistent with the stockmarket's current optimism about an end to the cycle of higher interest rates. Nevertheless, the positive backdrop for the value investment style has benefited the Fund's returns over recent years.

Turning to size, the NSCI (XIC) has a significant overlap with the FTSE 250 index: 72% of its value is represented by mid cap stocks. The portfolio's weighting in these is much lower at 39%, with the majority made up of holdings in the more attractively valued "smaller small" companies. The share price performances of the "larger small" and "smaller small" companies were similar through 2023 as a whole. However, the stockmarket rally at the end of the year was led by the mid caps, which out-performed their smaller peers by 5% in just over two months. This hampered the Fund's performance as the year drew to a close. In periods of rapid share price moves, both upwards and downwards, it is common for the "larger small" companies to lead the way and for the "smaller smalls" to catch up in due course.

Balance sheets

The table below shows the balance sheet profile of the portfolio and of the Tracked Universe, which is a subset of the NSCI (XIC). It comprises 234 companies, which the Manager follows closely and which together represent 98% by value of the total NSCI (XIC) index.

Weight in companies with:	Net cash	Net debt/EBITDA < 2x	Net debt/EBITDA > 2x	Other*
Portfolio: 2023	33%	42%	17%	8%
Tracked universe: 2023	34%	41%	17%	8%

*Includes loss-makers and lenders.

Small companies' balance sheets have not been so strong since around 2014. Back then, a phase of balance sheet repair was a reaction to 2009's recession. Today, balance sheets are already in a robust state. This should limit the risk to dividends and the requirement for equity issuance in the event of an economic downturn. Strong balance sheets also help to mitigate refinancing risk, as companies' borrowing costs rise amid the current environment of higher interest rates.

The balance sheet profiles of the portfolio and the Tracked Universe are similar, with high exposures to companies with net cash or modest degrees of leverage. The opportunity for the Fund to invest in these companies comes from the stockmarket's aversion to the UK and to its smaller companies in particular. Their fundamental attributes are being ignored and pricing inefficiencies abound.

Another fundamental change being widely overlooked is the improvement in the funding position of defined benefit pension schemes. For two decades, UK companies have deployed large amounts of their free cash flow to reduce pension deficits. A silver lining to the cloud of higher interest rates has been the narrowing of these deficits. Many pension scheme trustees are now able to contemplate de-risking, which relieves the sponsoring companies of the requirement to make top-up payments. The boost to free cash flow is often significant and several of the Fund's holdings benefited in this way through 2023.

Income

The portfolio's income performance in 2023 was good, with income earned by the Fund reaching its highest ever level. Seven special dividends chipped in, but the main influence was a further recovery in profits from the pandemic. Inevitably, that momentum is starting to fade as profits and pay-out ratios approach pre-pandemic levels.

Nil Payer	Cutter	Unchanged Payer	Increased Payer	New/Returner
15	14	15	31	3

The table above splits the Fund's 78 holdings into five categories, which are determined by each company's most recent dividend action. The most populous category remains the Increased Payers, though there are proportionately fewer than last year. Three companies returned to paying a dividend, having previously been classified as Nil Payers. This transition can provide a significant boost to the Fund's income and a further five holdings are presently expected to make the shift from Nil Payer to New / Returner over the next eighteen months.

The historical dividend yield of the Fund's holdings at 31 December was 4.2%, which was 28% higher than the average over the Fund's 33 year history. Dividend cover of 3.0x also compared well with the long term average of 2.8x. This feature, along with the portfolio's strong balance sheets, should support the Fund's income experience as corporate profitability is coming under pressure.

Manager's Report

Corporate activity

Despite the backdrop of higher interest rates and borrowing costs, M&A continued apace in 2023. The takeovers of twelve NSCI (XIC) constituents were completed in the year. The Fund had holdings in six of these. The average EV/EBITA multiple at which the deals were executed was 12.4x, while the average premium to the pre-announcement share prices was an unusually high 66%.

Somewhat surprisingly, private equity houses were the bidders in seven of the twelve deals. The Manager had expected the higher cost of borrowing to limit this source of interest. However, the very low valuations accorded to small UK quoted companies by the stockmarket give private equity the opportunity. At these valuations, it would appear that debt is not needed at the outset to make M&A models work. This remarkable situation highlights a risk to the Fund and other investors in the asset class – in many cases, even a large takeover premium may not bring the valuation to a level that reflects the true worth of the target company.

In such circumstances, the Manager is prepared to vote against under-priced deals and did so in 2023. The best M&A experiences are often those in which boards of directors 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 they should be consulted in such situations and that they are willing to be insiders for extended periods.

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% for the Fund's portfolio compared with the NSCI (XIC). At 31 December 2023, it stood at 75%.

Value roll and portfolio turnover

The main influence on the Fund's portfolio turnover in any period is usually the stockmarket's appetite for small UK quoted companies. If prices and valuations are rising, the upsides to the Manager's target prices are likely to be narrowing. All else being equal, this would encourage the rotation of the Fund's capital from companies with lower upsides to those with higher upsides. The Manager terms this dynamic the "value roll" and it has played an important role in the Fund's capital and income returns over the years. It follows that periods of higher portfolio turnover are often associated with strong returns for the Fund.

Portfolio turnover is defined as the lower of purchases and sales divided by average portfolio value. In 2023, it was 23%, which is below the long term average. Notwithstanding the Fund's positive return in the year, this suggests that there was less opportunity for "value roll" than usual. This is another symptom of the deep under-valuation of small UK quoted companies – if the stockmarket does not reflect their true value, there is every incentive to maintain the position.

Environmental, social and governance (ESG)

The issues underlying this umbrella term bring both threats and opportunities to individual companies. Additionally, it seems likely that the valuation of the asset class as a whole is affected by the view that small companies are ESG victims. The Manager disagrees and believe that the passage of time will show that small companies are coping well with the challenges of ESG. A broader appreciation of this ought to contribute to a re-rating of the asset class in due course, which should benefit the Fund's returns.

In 2023, the Manager continued to populate the ESG module within their investment database. This module was launched in 2022 and is intended to provide insights into the portfolio's ESG profile as the data set is enriched over time. It also allows the Manager to track and prioritise engagement activities. Work in 2023 indicated that smaller companies are coping well with the increasing expectations and regulations associated with ESG. Disclosure continues to improve and action is being taken to address underlying issues. When that is not the case, the Manager engages to understand the reason and seek change where appropriate. Beyond this, they also encourage companies to think about and articulate opportunities arising from environmental and social issues, such as climate change. To this point, several industrial companies in which the Fund invests manufacture products that generate both financial and emission savings for their customers. Examples are provided in the Stewardship & ESG section of the Manager's website at www.aberforth.co.uk.

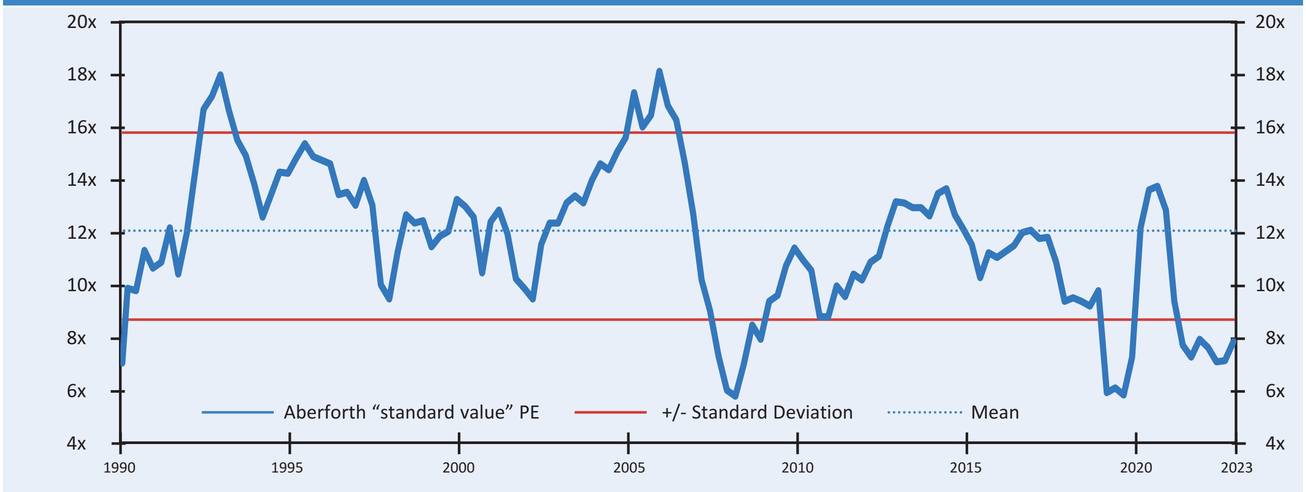
Engagement

Since the Fund's inception in 1990, an integral part of Aberforth's investment process has been engagement with the boards of the investee companies. The Manager often takes significant stakes in investee companies – up to 25% of issued share capital across Aberforth's client base. Engagement is therefore a responsibility. Importantly, it is also a means to improve investment outcomes. Aberforth's approach to engagement is intended to be purposeful, discreet and constructive. It includes regular updates with executive directors and also encompasses meetings with non executives. There is a particular focus on the Chair, which is the most important role in the UK's system of corporate governance. The Manager engages on any topic that affects the value of an investment or the rights of shareholders, with the most common being capital allocation.

The Manager is prepared to be taken inside for extended periods, which indicates their commitment to responsible stewardship and which can be helpful to investee companies. They also expect to be consulted in a timely fashion – the presentation of a fait accompli by the board to shareholders is a risky and unhelpful undertaking. Several of the takeovers in recent years have been presented without due consultation and have led to the Manager engaging to improve the terms for shareholders and / or voting against the deals. The Manager is confident that their purposeful, discreet and constructive engagement has enhanced the Fund's returns over time.

Valuations

Historical PE ratio



The chart depicts the historical price earnings ratio (PE) of the Aberforth "standard value" portfolio. At 31 December 2023, the PE was 7.9x, which was more than one standard deviation below the 33 year average of 12.1x. History suggests that this only happens during recession – the early 1990s downturn towards the left of the chart, the global financial crisis in the middle and more recently the pandemic recession.

If share prices are unchanged over the next twelve months, it is likely that the historical PE will rise. This would reflect lower reported profits, consistent with the description given in the introduction to this report. Lower profits are clearly not to be welcomed, but they are not inconsistent with good equity returns because the stockmarket focuses on what will happen rather than what has happened. In the early 1990s recession, small company profits declined by 25-30% over three years, while the PE of Aberforth's "standard value" portfolio rose from 7x at the end of 1990 to a high of almost 19x at the end of 1993. Investors more than doubled their money in total return terms over that period.

Aside from concern about the near term outlook for corporate profits, three other factors contribute to the particularly attractive levels of valuation currently accorded to the Fund's portfolio. These are the prevailing malaise with the UK and its stockmarket, the concern about the liquidity of smaller companies, and the effect of the Manager's value investment style. The following paragraphs address each of these factors.

- At 31 December 2023, the FTSE All-Share's PE was 35% lower than Panmure Gordon's calculation of the PE for the Rest of the World. Since 1990, the average discount of UK equities has been 16%. Several justifications for today's larger than usual discount are regularly offered.

  First, since the EU referendum in 2016 and with the subsequent succession of Prime Ministers, the UK's reputation for political stability has been impaired. However, the UK does not have a monopoly in political uncertainty. The UK's flirtation with populism may prove to be behind it, while elections over the coming years may cast other countries in a relatively unfavourable light.

  Second, there is a widespread view that the UK's economic performance in recent years has been comparatively poor, from Brexit through a proportionately tougher lockdown experience to a more intransigent problem with inflation. However, Brexit's impact is largely in the past – the companies with which the Manager engages have learned to live with it. Turning to the pandemic, recent revisions by the ONS to its calculation of GDP reveal that the UK's recovery compares well with other members of the G7. Finally, the gap between the UK's inflation rate and that of comparable countries is now narrowing to undermine arguments that the UK is the "sick man of Europe".

  Third, there is a concern that the UK stockmarket itself is dysfunctional. Evidence cited includes its lack of technology companies, infrequent and unsuccessful IPOs, low valuations, and outflows from pension and open-ended funds.

Manager's Report

Some of this reasoning is circular, but the issue has caught the attention of government, for better or worse. Mooted solutions are mandated investment in UK listed companies by pension funds, lower governance standards for UK listings and the dilution of EU inspired regulation on UK capital markets. For the Manager, it is not clear that the UK stockmarket is broken and well-intended legislation is often undermined in due course by the unintended consequences.

- Within the UK market, there is a pronounced valuation discount for size – the lower the market capitalisation, the lower the valuation. Within the NSCI (XIC), the average 2023 EV/EBITA ratio of companies with market capitalisations above £600m (roughly the boundary between the FTSE 250 and the FTSE SmallCap) is 11.0x. For those below the £600m threshold, the "smaller small" companies, the average multiple is 23% lower at 8.4x.

  For smaller companies, the general concerns about the UK are compounded by their greater reliance on the domestic economy. Around 50% of the aggregate revenues of NSCI (XIC)'s constituents are generated within the UK, higher than the 20-25% or so for the entire UK stockmarket. While companies close to the domestic housing market have reported more difficult trading conditions for the past nine months, it is notable that their share prices have often fallen by less than the extent of the downgrade to profit expectations. This is an indication that economic weakness is reflected in valuations, which is a necessary, though not sufficient, condition for recovery.

  Against the background of disinvestment from UK equities, there is a heightened sensitivity towards liquidity on the part of many investors. This is likely to have penalised the valuations of the relatively illiquid asset class of smaller companies. However, such an investment stance risks missing the small company premium, which is the historical out-performance of small over large and which has averaged 1.6% per annum over the Fund's 33 years. Investors are rewarded for taking on liquidity risk over time and relative illiquidity works both ways. Gaining exposure to the asset class when sentiment turns is not straightforward – as so often in investment, time in the market is more important than timing the market.

- Turning to the Fund's portfolio, the 7.9x historical PE at 31 December 2023 was 38% below that of the NSCI (XIC). This compares with an average discount of 12% since 1990.

  The Fund's portfolio is managed in accordance with the value investment style and so a discount to the overall valuation of smaller companies is to be expected. However, the discount today is unusually wide. Part of this is explained by the better value on offer among the NSCI (XIC)'s "smaller small" companies, to which the Fund has a relatively high exposure. Another factor is the Manager's willingness to look through general concern about near term corporate profitability by investing in strong and growing but economically sensitive companies. Unburdened by these distractions, the Fund's opportunity set within the investment universe is presently towards its widest in its history.

The following table sets out further detail about 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 ratios are based on the Manager's profit forecasts for each company that they track. The bullet points following the table summarise its main messages.

EV/EBITA	2022	2023	2024	2025
The Fund	6.8x	8.1x	6.8x	6.0x
Tracked universe (234 stocks)	9.6x	10.0x	8.5x	7.5x
- 35 growth stocks	18.4x	16.7x	13.4x	11.9x
- 199 other stocks	8.7x	9.2x	7.9x	7.0x
- 83 stocks > £600m market cap	10.7x	11.0x	9.5x	8.5x
- 151 stocks < £600m market cap	7.7x	8.4x	7.0x	6.0

- The higher multiples for 2023 compared with 2022 are consistent with earlier comments about lower company profits in 2023. The Manager's forecasts currently point to a profit recovery in 2024, but the precise timing of a rebound relies on the domestic and overseas economic backdrop.
- The average EV/EBITA multiples of the portfolio are lower than those of the Tracked Universe. This has been a consistent feature over the Fund's history and is consistent with the Manager's value investment style.
- The portfolio's 8.1x EV/EBITA ratio for 2023 is considerably lower than the average multiple of 12.4x at which the year's completed M&A deals were struck.
- Each year, the Manager identifies a cohort of growth stocks within the NSCI (XIC). These stocks are on much higher multiples than both the portfolio and the rest of the Tracked Universe

Manager's Report

Outlook and conclusion

The financial markets enter 2024 in much the same way as they did 2023 – focused on US interest rates and hopeful that a turn in the cycle towards looser monetary policy is near at hand. In contrast to twelve months ago, today there is a declining rate of inflation in most economies as energy prices subside and global supply chains improve. A cut in US interest rates in the first quarter of the year is now priced into markets. If this is achieved, the probability rises of a "soft landing" – the Federal Reserve, despite much criticism for having been slow to respond to inflation, may yet be able to loosen monetary policy without first tipping the US economy into recession.

However, some circumspection is necessary. In particular, the US continues its ambitious fiscal programmes, with government spending in the final months of 2023 rising at double digit rates. This contributed to annualised growth in nominal GDP of almost 9% in the third quarter. With full employment and the US electoral cycle to consider, so robust an economic backdrop is not one normally associated with quiescent inflation. Therefore, financial markets may continue to be troubled by inflation and US monetary policy over the next twelve months. Moreover, it would be bold to assume that the recent easing of price pressures means that inflation will return to the very low single digit rates of the pre-pandemic period.

US interest rates are likely to dictate the near term mood of global financial markets, the UK's included. But equity returns over time are heavily influenced by starting valuations, which stockmarkets can take to extreme levels in their fits of despondency and elation. As the previous section of this report described, the low valuations ascribed to UK equities, smaller companies and, in particular, the Fund's portfolio bode well for returns over the medium term. It is not straightforward to identify what will change to shine the spotlight on the value on offer in the UK – were it easy, after all, valuations would not now be so attractive. However, while acknowledging the present debate about the relevance of the UK stockmarket, the Manager retains confidence in its ability to reflect fairer valuations in due course. Awaiting a general re-rating of the UK listed companies, the Fund is well placed to prosper in the meantime.

- With the outlook for inflation and interest rates more nuanced than in the pre-pandemic period, there is reason to believe that the value investment style can help the Fund's returns, as it has over the past three years. The Manager's commitment to value investment sets the Fund apart from most other funds in the small company arena.
- The Fund's portfolio is skewed towards resilient companies with strong balance sheets and experienced boards of directors who proved themselves amid the challenges of the pandemic. If, as seems likely, this is a period of more difficult trading conditions, it is plausible that the investee companies emerge in a stronger competitive position as they have in previous cycles.
- In the absence of a widespread revaluation of companies listed on the UK stockmarket, takeover activity is likely to continue. This is an obvious means through which the value gaps that characterise the Fund's portfolio can be realised. Takeovers are appropriate as long as the offer terms reflect the target company's true value and are not anchored by the prevailing stockmarket price.
- Both in M&A situations and more broadly, the Manager will continue to engage with the boards of investee companies in order to improve outcomes for investors. Discreet, purposeful and constructive engagement is all the more relevant today when valuations are so low and directors are frustrated by what the stockmarket appears to be saying about the companies that they run.

These factors contribute to the strength and relevance of the Fund's investment proposition, which the Manager believes can produce good returns for investors as we wait for a re-rating of the UK equity market and its smaller companies. When that re-rating does arrive, the Fund's attractively valued portfolio means that it is well-placed to take full advantage.

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

1 February 2024

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 in the format of the Financial Reporting Council's (FRC) UK Stewardship Code.
- *ESG Integration Framework:* how Aberforth's integrated ESG framework operates in practice.
- *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 ESG 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. They 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 in a purposeful, discreet and constructive way 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 continues to enhance its proprietary investment database with a module recording 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) compliance and the setting of net zero and science-based targets.

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 2023 this included voting in more than 90 Shareholder meetings on more than 1,380 resolutions. The Manager votes against resolutions that they believe 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 2023. The submission is published on the Aberforth 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 Investment Adviser's approach for their own 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 cultural, human resources and environmental matters. The document also sets out Aberforth's approach to emissions disclosures. It reports on scope 1, 2 & 3 emission disclosures for the firm. 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 Annual 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.

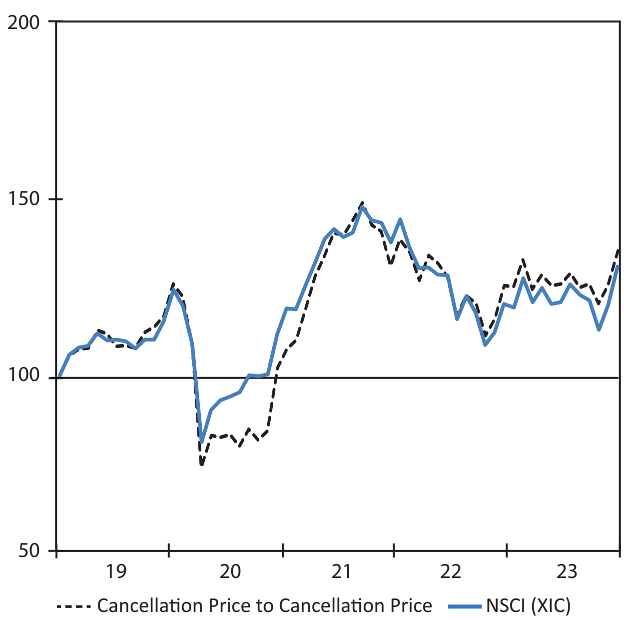
2. Performance

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.

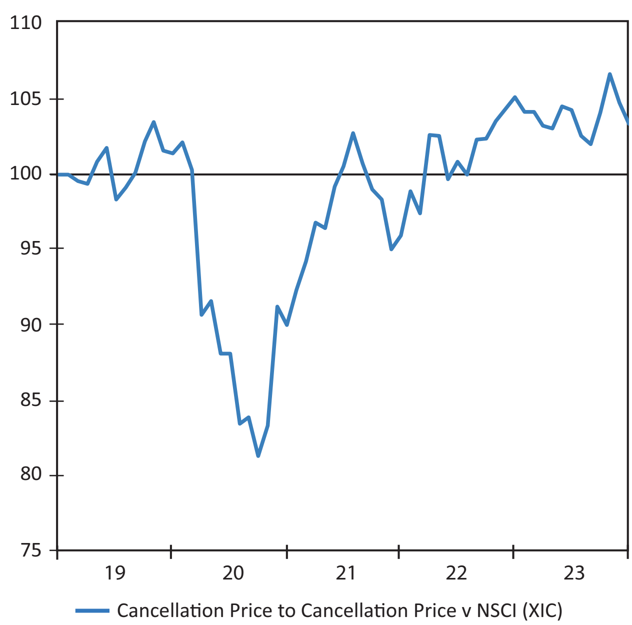
Consistent with the investment objective and with the recommended holding period, the Fund's performance was compared with that of the NSCI (XIC), the Fund's relevant benchmark index, over the long term, with the focus on rolling five year periods. An important element of the Board's assessment was the 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 5-year investment record to 31 December 2023 is shown in the charts below:

Absolute Performance
(figures are total returns and have been rebased to 100 at 31 December 2018)



Relative Performance
(figures are total returns and have been rebased to 100 at 31 December 2018)



Assessment of Value delivered to Unitholders of the Fund

The Fund's historical returns and those of the benchmark index to 31 December 2023 are provided in the table below

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
Periods to 31 December 2023	**The Fund**	**Index**	**The Fund**	**Index**
12 months to 31 December 2023	8.3	10.1	8.3	10.1
5 years to 31 December 2023*	6.4	5.7	36.5	32.1
10 years to 31 December 2023	5.0	4.9	63.4	61.2
From inception on 20 March 1991	11.2	9.1	3,110.3	1,662.3

* Also shown in the charts above.

It was a volatile year for financial markets as they wrestled with inflation and its implications for monetary policy. A positive outturn for 2023 seemed unlikely as late as November, but then favourable inflation data in both the UK and the US encouraged the view that the next move in interest rates would be downwards. This triggered a powerful and welcome rally into the year end. In the UK, this has so far been led by the mid cap stocks, to which the Fund has a relatively low exposure. Through the second half of the year, evidence built of more challenging trading conditions both in the UK's domestic economy and in many overseas markets. The frequency of weaker trading updates rose, and it seems likely that 2023 will be a year of lower profits for many companies, not just in the UK. Another notable feature of 2023 was the persistent despondency about the UK equity market and its constituent companies. Institutional and retail investors continue to move money out of the UK and valuations for most UK companies are very low, particularly among smaller companies. Low need not mean attractive, but the Manager's Report makes a strong case for why the prevailing doom and gloom have been overdone. When a reappraisal happens, the very attractive valuations of the Fund's portfolio bode well for a period of strong investment returns.

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 92% of total expenses in the year ended 31 December 2023. The Manager's periodic fee and Ongoing Charges Figure for the year ended 31 December 2023 were 0.75% and 0.82% 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 2023.

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.

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*
C N Watt, *Director*
Aberforth Unit Trust Managers Limited
1 February 2024

Summary of Material Portfolio Changes

For the year ended 31 December 2023

Purchases	Cost £'000
Close Brothers Group	3,066
Avon Protection	2,346
Redrow	1,903
Videndum	1,868
NCC Group	1,816
Quilter	1,524
Workspace Group	1,490
Zegona Communications	1,458
PageGroup	1,184
Helical	1,149
XP Power	1,025
MJ Gleeson	845
Jupiter Fund Management	688
CMC Markets	599
TI Fluid Systems	590
Macfarlane Group	578
Wincanton	552
Pendragon	545
C&C Group	545
Centamin	525
Other Purchases	7,652
Total Cost of Purchases	**31,948**

Sales	Proceeds £'000
FirstGroup	4,112
Lookers	3,733
RPS Group	3,008
Medica Group	2,882
Energean	2,129
Moneysupermarket.com	1,627
Vanquis Banking Group	1,526
Hyve Group	1,423
Senior	1,305
Rathbones Group	1,127
Centamin	1,109
RHI Magnesita	906
Pendragon	899
Industrials REIT	866
Redde Northgate	854
Keller	684
XPS Pensions Group	615
Bodycote	607
Petrofac	605
Ricardo	508
Other Sales	9,964
Total Proceeds of Sales	**40,489**

Portfolio Statement

As at 31 December 2023

Holding	Security	31 December 2023 Value £'000	31 December 2023 % of Total Net Assets	31 December 2023 % of Index[1]	31 December 2022 % of Total Net Assets	31 December 2022 % of Index
Software and Computer Services		**2,601**	**1.9**	**6.8**	1.0	6.2
139,768	Moneysupermarket.com	392	0.3			
1,715,200	NCC Group	2,209	1.6			
Technology Hardware and Equipment		**1,569**	**1.2**	**1.0**	1.2	0.8
1,004,359	TT Electronics	1,569	1.2			
Telecommunications Equipment		**629**	**0.5**	**0.5**	–	1.2
510,300	Spirent Communications	629	0.5			
Telecommunications Service Providers		**1,784**	**1.3**	**2.4**	0.0	0.8
990,937	Zegona Communications	1,784	1.3			
Health Care Providers		**–**	**–**	**0.7**	1.5	0.8
Medical Equipment and Services		**–**	**–**	**0.1**	–	0.2
Pharmaceuticals and Biotechnology		**–**	**–**	**2.7**	–	0.9
Banks		**2,290**	**1.7**	**3.2**	–	3.7
288,384	Close Brothers Group	2,290	1.7			
Finance and Credit Services		**2,976**	**2.2**	**1.9**	2.2	2.0
2,501,151	International Personal Finance	2,976	2.2			
Investment Banking and Brokerage Services		**9,738**	**7.1**	**12.1**	7.1	11.3
274,907	City of London Investment Group	863	0.6			
1,520,275	CMC Markets	1,596	1.2			
713,000	XPS Pensions Group	1,661	1.2			
120,762	Rathbones Group	2,089	1.5			
1,848,800	Jupiter Fund Management	1,727	1.3			
1,752,900	Quilter	1,802	1.3			
Life Insurance		**3,449**	**2.5**	**0.9**	2.4	0.9
1,012,917	Hansard Global	436	0.3			
3,512,259	Just Group	3,013	2.2			
Non-life Insurance		**4,264**	**3.1**	**1.8**	2.7	1.8
1,207,750	Sabre Insurance Group	1,826	1.3			
520,311	Conduit Holdings	2,438	1.8			
Real Estate Investment and Services		**1,627**	**1.2**	**2.8**	0.7	2.5
3,536,186	Foxtons	1,627	1.2			
Real Estate Investment Trusts		**4,339**	**3.1**	**5.7**	1.6	7.5
700,900	Helical	1,552	1.1			
390,027	Workspace Group	2,206	1.6			
614,000	Empiric Student Property	581	0.4			
Automobiles and Parts		**2,978**	**2.2**	**1.6**	1.6	1.3
1,936,110	TI Fluid Systems	2,978	2.2			
Consumer Services		**724**	**0.5**	**–**	0.5	0.2
1,164,547	RM	724	0.5			
Household Goods and Home Construction		**6,785**	**5.0**	**0.8**	3.1	2.0
947,448	Crest Nicholson	2,048	1.5			
700,947	Headlam Group	1,514	1.1			
349,282	Redrow	2,146	1.6			
222,100	MJ Gleeson	1,077	0.8			
Leisure Goods		**–**	**–**	**0.3**	–	0.3

Portfolio Statement

As at 31 December 2023

		31 December 2023			31 December 2022	
Holding	Security	Value £'000	% of Total Net Assets	% of Index[1]	% of Total Net Assets	% of Index
Personal Goods		**–**	**–**	**1.8**	–	0.1
Media		**7,794**	**5.7**	**2.5**	6.7	3.7
1,729,750	Centaur Media	796	0.6			
2,626,262	Reach	1,967	1.4			
337,046	STV Group	649	0.5			
1,136,129	Wilmington Group	3,772	2.8			
4,693,229	National World	610	0.4			
Retailers		**4,946**	**3.7**	**4.2**	4.9	4.0
2,454,735	Card Factory	2,646	2.0			
998,513	DFS Furniture	1,216	0.9			
2,167,119	Topps Tiles	1,084	0.8			
Travel and Leisure		**8,981**	**6.6**	**7.7**	8.7	8.4
1,566,487	Hostelworld Group	2,131	1.6			
1,096,472	Mitchells & Butlers	2,825	2.1			
2,950,849	Rank Group	2,213	1.6			
5,369,082	Marstons	1,812	1.3			
Beverages		**2,486**	**1.8**	**0.8**	1.7	0.9
1,631,044	C&C Group	2,486	1.8			
Food Producers		**2,092**	**1.5**	**2.3**	1.9	2.4
2,393,926	Bakkavor Group	1,934	1.4			
228,365	R.E.A. Holdings	158	0.1			
Personal Care, Drug and Grocery Stores		**794**	**0.6**	**1.4**	0.2	1.2
1,017,498	McBride	794	0.6			
Construction and Materials		**7,710**	**5.7**	**6.2**	5.4	4.6
1,356,638	Eurocell	1,709	1.3			
112,607	Keller	990	0.7			
967,069	Galliford Try Holdings	2,176	1.6			
422,855	Ricardo	2,072	1.5			
1,200,100	Severfield	763	0.6			
Aerospace and Defense		**4,982**	**3.7**	**1.4**	2.0	2.3
1,492,635	Senior	2,645	2.0			
275,979	Avon Protection	2,337	1.7			
Electronic and Electrical Equipment		**5,570**	**4.1**	**2.7**	4.0	2.8
576,178	Dialight	807	0.6			
1,249,379	Morgan Advanced Materials	3,536	2.6			
90,500	XP Power	1,227	0.9			
General Industries		**622**	**0.5**	**1.3**	–	1.1
530,500	Macfarlane Group	622	0.5			
Industrial Engineering		**10,791**	**7.9**	**2.1**	6.4	1.3
464,777	Castings	1,636	1.2			
719,119	Vesuvius	3,460	2.5			
760,200	XAAR	836	0.6			
828,386	Videndum	2,883	2.1			
332,350	Bodycote	1,976	1.5			

Portfolio Statement

As at 31 December 2023

Holding	Security	31 December 2023 Value £'000	31 December 2023 % of Total Net Assets	31 December 2023 % of Index[1]	31 December 2022 % of Total Net Assets	31 December 2022 % of Index
Industrial Support Services		**11,746**	**8.7**	**5.4**	9.7	6.1
2,000,391	De La Rue	1,720	1.3			
122,140	Paypoint	634	0.5			
581,199	Robert Walters	2,586	1.9			
7,239,830	SIG	2,414	1.8			
2,646,645	Smiths News	1,413	1.0			
2,902,624	Speedy Hire	956	0.7			
415,500	PageGroup	2,023	1.5			
Industrial Transportation		**12,109**	**8.9**	**3.2**	6.8	2.5
1,986,415	FirstGroup	3,474	2.6			
913,029	Redde Northgate	3,314	2.4			
1,192,987	Wincanton	3,698	2.7			
114,100	VP	707	0.5			
297,313	Fisher (James) & Sons	916	0.7			
Industrial Materials		**–**	**–**	**0.1**	–	0.1
Industrial Metals and Mining		**4,564**	**3.3**	**2.4**	6.0	3.1
370,994	Kenmare Resources	1,464	1.1			
1,747,110	Capital	1,551	1.1			
1,548,583	Ecora Resources	1,549	1.1			
Precious Metals and Mining		**3,082**	**2.3**	**1.3**	3.1	2.5
1,516,671	Gem Diamonds	196	0.2			
2,894,428	Centamin	2,886	2.1			
Chemicals		**–**	**–**	**3.1**	0.5	3.1
Oil, Gas and Coal		**2,852**	**2.1**	**4.1**	5.2	4.1
13,996,652	EnQuest	2,111	1.6			
3,480,061	Pharos Energy	741	0.5			
Alternative Energy		**–**	**–**	**0.3**	–	0.1
Electricity		**–**	**–**	**–**	–	0.1
Waste and Disposal Services		**–**	**–**	**0.4**	–	1.1
Investments as shown in the Balance Sheet		**136,874**	**100.6**	**100.0**	98.8	100.0
Net Current (Liabilities)/Assets		**(754)**	**(0.6)**	**–**	1.2	–
Total Net Assets		**136,120**	**100.0**	**100.0**	100.0	100.0

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

[1] Reflects the rebalanced index as at 1 January 2024.

Comparative Tables

Income Unit	31 December 2023 £/unit	31 December 2022 £/unit	31 December 2021 £/unit
Change in net assets per unit			
Opening net asset value per unit	**189.32**	218.30	171.42
Return before operating charges*	**17.07**	(20.35)	53.13
Operating charges	**(1.57)**	(1.64)	(1.67)
Return after operating charges	**15.50**	(21.99)	51.46
Distributions on income units	**(7.59)**	(6.99)	(4.58)
Closing net asset value per unit	**197.23**	189.32	218.30
*after direct portfolio transaction costs of:	**(0.35)**	(0.45)	(1.11)
Income Unit			
Performance			
Total return after charges[1]	**8.2%**	-10.1%	30.0%
Other information			
Closing net asset value (£'000)	**50,771**	50,819	70,899
Closing number of units	**257,415.727**	268,428.553	324,781.700
Operating charges	**0.82%**	0.83%	0.77%
Direct portfolio transaction costs	**0.18%**	0.23%	0.51%
Prices			
Highest issue price (£)	**206.95**	226.39	241.29
Lowest cancellation price (£)	**173.98**	168.21	169.33

Accumulation Unit	31 December 2023 £/unit	31 December 2022 £/unit	31 December 2021 £/unit
Change in net assets per unit			
Opening net asset value per unit	**281.25**	312.54	240.49
Return before operating charges*	**25.60**	(28.92)	74.44
Operating charges	**(2.35)**	(2.37)	(2.39)
Return after operating charges	**23.25**	(31.29)	72.05
Distributions	**(11.38)**	(10.11)	(6.46)
Retained distributions on accumulation units	**11.38**	10.11	6.46
Closing net asset value per unit	**304.49**	281.25	312.54
* after direct portfolio transaction costs of:	**(0.52)**	(0.65)	(1.59)
Accumulation Unit			
Performance			
Total return after charges	**8.3%**	-10.0%	30.0%
Other information			
Closing net asset value (£'000)	**85,349**	91,086	145,386
Closing number of units	**280,295.055**	323,865.267	465,168.170
Operating charges	**0.82%**	0.83%	0.77%
Direct portfolio transaction costs	**0.18%**	0.23%	0.51%
Prices			
Highest issue price (£)	**310.43**	324.13	341.83
Lowest cancellation price (£)	**263.45**	245.61	237.56

[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*
C N Watt, *Director*
Aberforth Unit Trust Managers Limited

1 February 2024

Responsibility Statements

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES AND REPORT OF THE TRUSTEE TO THE UNITHOLDERS OF ABERFORTH UK SMALL COMPANIES FUND (''THE SCHEME'') FOR THE PERIOD ENDED 31 DECEMBER 2023.

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 in 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 Schemes 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

1 February 2024

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 2023 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2023; 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 the Manager's Responsibilities in relation to the report and accounts of the scheme, 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
1 February 2024

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 2023

Statement of Total Return

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Income:					
Net capital gains/(losses)	4		**5,156**		(24,043)
Revenue	5	**6,047**		5,947	
Expenses	6	**(1,141)**		(1,275)	
Interest payable and similar charges		**(6)**		(17)	
Net revenue before taxation		**4,900**		4,655	
Taxation	7	**(9)**		–	
Net revenue after taxation			**4,891**		4,655
Total return before distributions			**10,047**		(19,388)
Distributions	8		**(5,554)**		(5,401)
Change in net assets attributable to Unitholders from investment activities			**4,493**		(24,789)

Statement of Change in Net Assets Attributable to Unitholders

	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Opening net assets		**141,905**		216,285
Amounts receivable on issue of units	**15,105**		16,768	
Amounts payable on cancellation of units	**(28,717)**		(69,670)	
		(13,612)		(52,902)
Change in net assets attributable to unitholders from investment activities		**4,493**		(24,789)
Retained distribution on accumulation units		**3,330**		3,311
Unclaimed distributions		**4**		–
Closing net assets attributable to unitholders		**136,120**		141,905

Financial Statements

As at 31 December 2023

Balance Sheet

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
ASSETS					
Fixed assets:					
Investments assets	16		**136,874**		140,259
Current assets:					
Debtors	9	**269**		259	
Cash and bank balances		**144**		2,426	
Total other assets			**413**		2,685
Total assets			**137,287**		142,944
LIABILITIES					
Creditors:					
Other creditors	10	**(156)**		(134)	
Distribution payable on income units		**(1,011)**		(905)	
Total liabilities			**(1,167)**		(1,039)
Net assets attributable to unitholders			**136,120**		141,905

Cash Flow Statement

For the year ended 31 December 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Net cash inflow from operating activities	11		**4,853**		4,658
Investing activities					
Purchases of investments		**(31,948)**		(28,536)	
Sales of investments		**40,489**		80,988	
Cash inflow from investing activities			**8,541**		52,452
Financing activities					
Amounts received from issue of units		**15,213**		16,983	
Amounts paid on cancellation of units		**(29,029)**		(70,130)	
Distributions paid		**(1,855)**		(1,679)	
Interest paid		**(5)**		(16)	
Cash outflow from financing activities			**(15,676)**		(54,842)
(Decrease)/Increase in cash and cash equivalents			**(2,282)**		2,268
Cash and cash equivalents at the start of the year			**2,426**		158
Cash and cash equivalents at the end of the year			**144**		2,426

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 Gains/(Losses)

	2023 **£'000**	2022 £'000
The net capital gains/(losses) on investments during the year comprise:		
Equity investments	**5,156**	(24,043)

5 Revenue

	2023 **£'000**	2022 £'000
UK dividends	**5,150**	5,200
Overseas dividends	**736**	716
Property income distributions	**122**	22
Bank interest	**39**	9
Total income	**6,047**	5,947

6 Expenses

	2023 **£'000**	2022 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	**1,052**	1,183
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	**40**	42
Other expenses:		
Audit fee	**23**	23
Safe custody fees	**11**	12
Printing fees	**9**	9
Registration fees	**3**	3
Taxation services	**3**	3
	49	50
Total expenses	**1,141**	1,275

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 £658,000 borne by the capital of the Fund (2022: £740,000). 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

	2023 £'000	2022 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	**9**	–
Total current tax charge for the year (note 7(b))	**9**	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	**4,900**	4,655
Corporation tax at 20% (2022: 20%)	**980**	931
Effects of:		
Non-taxable UK dividends	**(1,030)**	(1,040)
Non-taxable overseas dividends	**(147)**	(143)
Unutilised management expenses	**197**	252
Irrecoverable overseas tax	**9**	–
	(971)	(931)
Current tax charge (Note 7(a))	**9**	–

At the balance sheet date, the Fund had excess management expenses of £52,490,000 (2022: 51,510,000). 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 £10,498,000 (2022: £10,302,000).

8 Distributions

	2023 £'000	2022 £'000

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

Interim	**2,612**	2,625
Final	**2,679**	2,499
	5,291	5,124
Add: Income deducted on cancellation of units	**339**	461
Less: Income received on creation of units	**(76)**	(184)
Total distributions	**5,554**	5,401

	2023 £'000	2022 £'000

The difference between the net revenue after taxation and the distributions for the year are as follows:

Net revenue after taxation	**4,891**	4,655
Add: Manager's periodic fee taken to capital	**658**	740
Add: Safe custody fee taken to capital	**5**	6
Distributions	**5,554**	5,401

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

Notes to the Financial Statements

9 Debtors

	2023 £'000	2022 £'000
Accrued income	**263**	225
Amounts receivable for creation of units	**2**	34
Other debtors	**4**	–
Total debtors	**269**	259

10 Other Creditors

	2023 £'000	2022 £'000
Accrued management fee	**82**	92
Other accrued expenses	**38**	33
Amounts payable for cancellation of units	**36**	9
Total creditors	**156**	134

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

	2023 £'000	2022 £'000
Net revenue before taxation	**4,900**	4,655
Adjusted for:		
Interest payable and similar charges	**5**	17
Debtors:		
(Increase)/Decrease in accrued income	**(38)**	24
(Increase) in other debtors	**(4)**	–
Creditors:		
Decrease in accrued management fee	**(10)**	(41)
Increase in accrued other expenses	**5**	3
Taxation	**(9)**	–
Unclaimed distributions	**4**	–
Net cash flow from operating activities	**4,853**	4,658

Notes to the Financial Statements

12 Portfolio Transaction Costs

	2023 £'000	2023 % of purchases	2023 % Average Net Asset Value	2022 £'000	2022 % of purchases	2022 % Average Net Asset Value
Equity purchases in period before transaction costs	**30,562**			28,336		
Commissions	**58**	**0.18**	**0.04**	66	0.23	0.04
Taxes	**138**	**0.43**	**0.10**	134	0.47	0.09
Total equity purchases costs	**196**	**0.61**	**0.14**	200	0.70	0.13
Corporate actions during the period	**1,190**			–		
Total purchase consideration after direct transaction costs	**31,948**			28,536		

	2023 £'000	2023 % of sales	2023 % Average Net Asset Value	2022 £'000	2022 % of sales	2022 % Average Net Asset Value
Equity sales in period before transaction costs	**40,547**			75,184		
Commissions	**(57)**	**(0.14)**	**(0.04)**	(151)	(0.19)	(0.10)
Taxes	**(1)**	**–**	**–**	(1)	–	–
Total equity sales costs	**(58)**	**(0.14)**	**(0.04)**	(152)	(0.19)	(0.10)
Corporate actions during the period	**–**			5,928		
Total sales after transaction costs	**40,489**			80,960		

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 0.15% per annum (2022: 0.17% per annum) of the Fund's average net asset value and taxes have averaged 0.19% per annum (2022: 0.20% 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 2023, the average dealing spread for the underlying Fund investments is 1.13% (2022: 1.39%).

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 2023	Issued	Redeemed	Converted	Closing 31 Dec 2023
Accumulation	323,865.267	23,479.904	(66,821.116)	(229.000)	280,295.055
Income	268,428.553	51,142.415	(62,501.999)	346.758	257,415.727

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 £116,000 (31 December 2022: £67,000) 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 £3,100 (31 December 2022: £3,500).

15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2023 (2022: 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 price in an active market for an identical instrument;

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.

	2023		2022	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Level 1	**136,874**	**–**	140,259	–
Level 2	**–**	**–**	–	–
Level 3	**–**	**–**	–	–
Total	**136,874**	**–**	140,259	–

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% (2022: 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 2023, the impact on Unitholders' funds would have been negative £13.7m (2022: negative £14.0m). If the investment portfolio valuation rose by 10% at 31 December 2023, the impact on Unitholders' funds would have been positive £13.7m (2022: positive £14.0m). 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 2023, 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 2023

	Net Income Dec 2023	Equalisation† Dec 2023	Distribution/ Accumulation Dec 2023	Distribution/ Accumulation Dec 2022
Income units (payable 28 February 2024)				
Group 1: Units purchased prior to 1 July 2023	**392.8468p**	–	**392.8468p**	337.1592p
Group 2: Units purchased on or after 1 July 2023	**227.8572p**	**164.9896p**	**392.8468p**	337.1592p
Accumulation units				
Group 1: Units purchased prior to 1 July 2023	**594.8588p**	–	**594.8588p**	492.2909p
Group 2: Units purchased on or after 1 July 2023	**345.0273p**	**249.8315p**	**594.8588p**	492.2909p

For the six months to 30 June 2023

	Net Income Jun 2023	Equalisation† Jun 2023	Distribution/ Accumulation Jun 2023	Distribution/ Accumulation Jun 2022
Income units (paid on 31 August 2023)				
Group 1: Units purchased prior to 1 January 2023	**365.7168p**	–	**365.7168p**	362.3341p
Group 2: Units purchased on or after 1 January 2023	**245.6728p**	**120.0440p**	**365.7168p**	362.3341p
Accumulation units				
Group 1: Units purchases prior to 1 January 2023	**543.2983p**	–	**543.2983p**	518.7675p
Group 2: Units purchased on or after 1 January 2023	**364.9644p**	**178.3339p**	**543.2983p**	518.7675p

† 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 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
31 December 2023	**1,138.1571**	**758.5636**

Management and Administration

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

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

Investment Adviser
Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

Registrar
Link Fund Administrators Limited*
(A Waystone Group Company)
PO Box 388
Unit 1, Roundhouse Road
Darlington DL1 9UE
Telephone: 0345 608 0940

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

Independent Auditors
PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

**Authorised and regulated by the Financial Conduct Authority*

Buying and Selling
The terms on which units can be bought and sold are set out in the Prospectus, Key Investor Information Document, Supplementary Information Document and Application Pack, 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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