

Aberforth Unit Trust Managers Limited

Assessment of Value delivered to Unitholders of the Aberforth UK Small Companies Fund for the period ended 31 December 2022

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.

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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.

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.

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Administrative services provided by third parties

These comprise services provided by the Trustee & Depositary, the Custodian, the Transfer Agent, the Registrar, and the Fund's Auditors. Again, our judgement on the quality of these services reflected the regular and comprehensive updates and summaries of the compliance monitoring programme run by the Investment Adviser's Risk & Compliance team. This monitoring programme evidenced that the third parties' operations were well-managed and delivered satisfactory outcomes on behalf of the Fund and its unitholders.

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

2. Performance

We reviewed the long-term performance of the Fund, in the context of its investment objective, policy and strategy. Performance is assessed formally on a quarterly basis through reports submitted by the Investment Adviser. These detailed reports address the various factors pertinent to performance, including top-down influences and the impact of individual holdings.

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

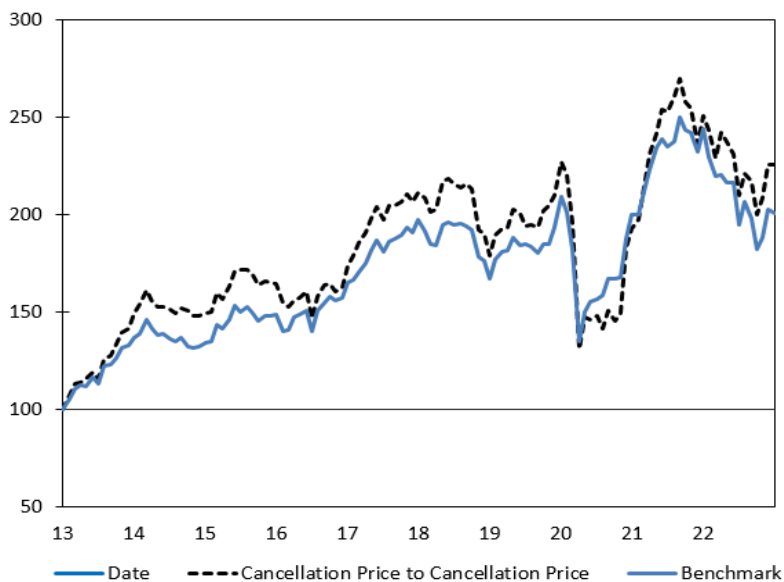
The Fund's ten-year investment record to 31 December 2022 is shown in the charts below:

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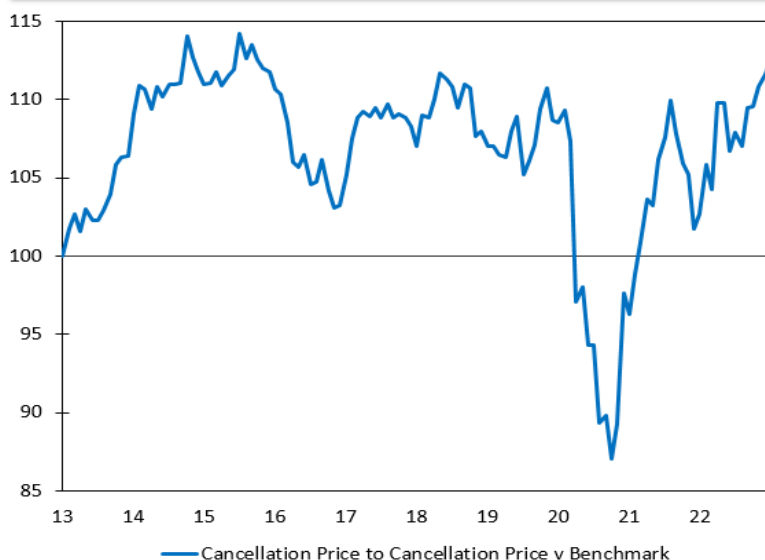
Absolute performance

(figures are total returns and have been rebased to 100 at 31 Dec 2012)



Relative performance

(figures are total returns and have been rebased to 100 at 31 Dec 2012)



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

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

* Also shown in the charts above.

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

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.

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3. Authorised Fund Manager costs - general

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

The most material expense borne by the Fund is the Manager's periodic fee, representing 93% of total expenses in the year ended 31 December 2022. The Manager's periodic fee and Ongoing Charges Figure for the year ended 31 December 2022 were 0.75% and 0.83% respectively.

As noted earlier, the Manager outsources most of its activities to the Investment Adviser and operates on a relatively low margin. The management fee incorporates other services supporting investment management, including administration, compliance, and risk. The Investment Adviser is an associate of the Manager and is constituted as a limited liability partnership. Each of its full time working partners is remunerated through a share in the business profits. We reviewed the Investment Adviser's profitability and are satisfied that, adjusted as appropriate, pro forma profitability is not excessive. The Manager reports a fee peer comparison on a quarterly basis to monitor the levels of management fee and ongoing charge.

The Investment Adviser believes that its clients are best served if it remains a focused boutique, investing in a single asset class, wholly devoted to a small number of institutional clients and delivering value to a wide range of underlying investors. The chosen asset class – small UK quoted companies – experiences periods in which it is in and out of favour, and the effect of this can be exacerbated by the value investment style described above. In addition, the Investment Adviser has a focused business strategy that it determines to be in the best interests of its clients but that limits the scope for business growth and diversification (this capacity constraint is discussed further below under "Economies of scale"). These factors increase the volatility of, and place limits on, the Investment Adviser's income stream, which is wholly variable and largely correlated to funds under management. When this is combined with a relatively fixed cost base, business viability is dependent on margins being sufficient.

Component costs of the ongoing charges figure were also considered against external benchmarks and peers. These costs, such as custody, registration and unit dealing offered reasonable value. External audit fees for the Fund were scrutinised against indicative market costs. The Board discussed the comparison with the Fund's auditors and agreed an increase in the annual audit fee for the year ending 31 December 2022.

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

4. Economies of scale

The Board assessed the extent to which savings and benefits from economies of scale could be achieved, relating to the costs of managing the Fund's property.

We noted that the Investment Adviser's business strategy is to focus on a single asset class – small UK quoted companies – that can be characterised by periods of relative lower liquidity. The Investment Adviser is not an asset gatherer and seeks to limit its capacity, in terms of funds under management, as it believes this to be in the best interests of its existing clients and investors.

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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.

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D M Cooper, *Director*

S G Ford, *Director*

J S Richards, *Director*

P R Shaw, *Director*

S L Wallace, *Director*

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31 January 2023