



Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2015

Investment Objective & Policy

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

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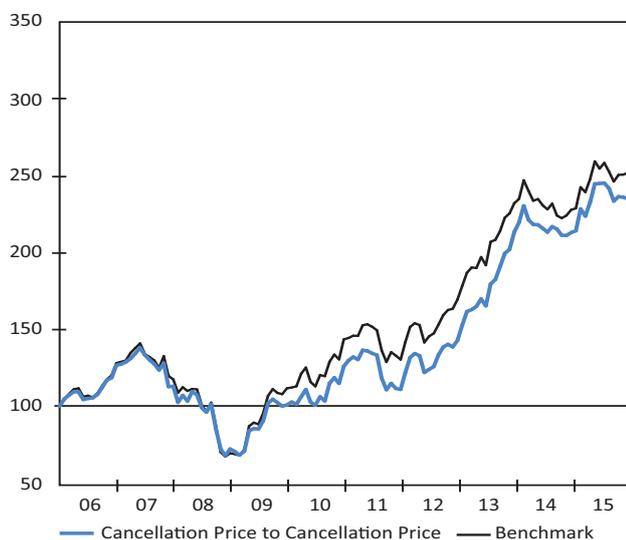
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Data has been sourced from Aberforth Partners LLP unless otherwise stated.

Ten Year Investment Record

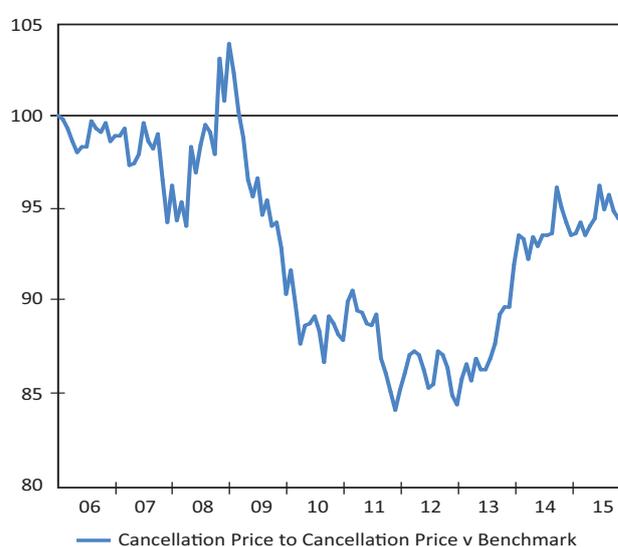
Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2005)



Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2005)



Investment Record

Performance for the year to 31 December 2015		%
The Fund¹		10.3
Benchmark Index²		10.6

Prices & Yield		4 January 2016 ³	2 January 2015 ³
Accumulation Units	Issue Price	£208.46	£189.21
	Cancellation Price	£204.59	£185.90
Income Units (xd)	Issue Price	£168.73	£157.15
	Cancellation Price	£165.60	£154.40
	Yield ⁴	2.7%	2.3%
Dealing Spread		1.9%	1.8%

Size & Charges	31 December 2015	31 December 2014
Total Net Assets	£168.5m	£195.8m
Ongoing Charges ⁵	0.83%	0.85%
Initial Charge	Nil	Nil
Exit Charge	Nil	Nil

Historic Returns	Discrete Annual Returns (%)	
	The Fund ^{4,6}	Index ²
1 year to 31 December 2015	10.3	10.6
1 year to 31 December 2014	-0.2	-1.9
1 year to 31 December 2013	49.4	36.9
1 year to 31 December 2012	28.7	29.9
1 year to 31 December 2011	-11.9	-9.1

Historic Returns	Annualised Returns (%)		Cumulative Returns (%)	
	The Fund ¹	Index ²	The Fund ¹	Index ²
2 years from 31 December 2013	4.9	4.2	10.1	8.6
3 years from 31 December 2012	18.0	14.1	64.4	48.6
4 years from 31 December 2011	20.6	17.9	111.6	93.2
5 years from 31 December 2010	13.3	11.9	86.4	75.5
10 years from 31 December 2005	8.9	9.7	134.7	151.7
15 years from 31 December 2000	11.6	9.1	422.2	270.5
24.8 years from inception on 20 March 1991	13.2	10.5	2,063.2	1,087.0

¹ Represents cancellation price to cancellation price (accumulation units).

² Represents capital appreciation on the Numis Smaller Companies Index (Excluding Investment Companies) with net dividends reinvested. This index comprises the bottom 10% of all UK quoted companies by market value which at 1 January 2016 included some 349 companies, the largest market capitalisation of which was £1.3 billion and the aggregate market capitalisation of which was £150 billion.

³ Prices stated are for the first valuation point after the period end, being the distribution xd date.

⁴ The Yield reflects distributions declared over the past twelve months as a percentage of the mid-market unit price as at the date shown. It does not include any initial charge and investors may be subject to tax on their distributions.

⁵ This is based on actual expenses for the year ended 31 December 2015. 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.

Manager's Report

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.

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 the Collective Investment Schemes Sourcebook.

Changes to Prospectus

During the year, the Prospectus was updated:-

1. in May to note that, with effect from 1 July 2015, the Manager's periodic charge was being reduced to 0.75%; and
2. in August to note that, with effect from 5 October 2015, the due date for payment of proceeds for subscriptions and redemptions of units in the Fund had been reduced to three business days after the date the trade took place.

Introduction

Benefiting from a resilient domestic economy and its low exposure to the struggling resources industries, the Numis Smaller Companies Index (excluding investment companies) ("NSCI (XIC)") performed well in 2015, securing a total return of 10.6%. This was well ahead of the FTSE All-Share's 1.0% and, indeed, compared well with the results for many major stockmarkets, particularly when assessed in sterling. The Fund's total return was 10.3%. While acceptable in the broader context of 2015, this outcome is below that of the benchmark. Reasons for this are set out in the Performance section of this report.

Returning, for the time being, to the broader investment environment, risk assets tended to struggle in 2015, especially in the second half. Uncertainty continued as to the strength of recovery in the Eurozone, notwithstanding the introduction of quantitative easing long promised by Mario Draghi. Meanwhile, the pace of growth in the US ebbed even as speculation about the first rise in interest rates in the present cycle mounted. Adding to these undercurrents came the Autumn's tide of concern about China and the emerging markets in general. Uncertainty rose as to the rate of deceleration in the Chinese economy following a loosening of its currency peg with the strong dollar, which fuelled recurrent fears about years of investment financed by unsustainable levels of debt. The slowdown in China's rate of growth added to pressure on the resources industry, as diminishing demand met still rising supply, a legacy of the boom years. In turn, plummeting commodity prices and a stronger dollar intensified the woes of emerging markets, several of which have relied on dollar denominated debt to fund their growth.

The UK has proved a haven of comparative tranquillity: domestic demand has been boosted by wages rising above the rate of inflation and has offset austerity policies, which have in any case been watered down. However, the FTSE All-Share, which is dominated by large companies, has been weighed down by its significant exposure to the resources industries. This factor helps explain the out-performance of smaller companies in 2015: the NSCI (XIC) has a relatively low exposure to resources companies and a much greater exposure to sectors, such as retailing, that address the domestic economy. That said, overseas-facing companies within the NSCI (XIC) are showing signs of stress as patchy demand growth in other economies combines with the lagged effects of sterling's revaluation over the past four years.

Against this backdrop of modest economic growth and mounting pessimism, government bond yields ended 2015 little changed from the levels at which they started the year. These are very low in a long term historical context and are also influenced by the prevailing monetary regime of zero interest rate policy and quantitative easing. The impact of bond yields on a portfolio of small UK quoted companies constructed in accordance with a value investment discipline is twofold.

- First, as already implied, bond yields are a gauge of underlying economic activity: yields tend to rise to reflect and compete with the returns available from a stronger economy and vice versa. In an environment of low growth across the economy, secular growth companies stand out and can be rewarded by the stockmarket with higher than normal valuations. A rising tide of improving prospects for the general economy should erode that growth premium.
- Second, value stocks may be considered "short duration" equities, which means that more of their worth is determined by near term cash flows from the underlying businesses. In contrast, growth stocks tend to be "long duration" equities, with a greater portion of their value derived from cash flows that are forecast to grow often over many years into the future. As such, the valuation of a growth company is more sensitive to the rate at which the cash flows are discounted to arrive at the business's present value. To this extent, the present climate of very low interest rates and bond yields is likely to result in valuations for growth companies that are even higher than normal.

The theory has translated into practice since the global financial crisis: the value investment style has fared well in years such as 2013 when bond yields rose, but has faced a challenge over the period as a whole as yields have declined. This report's initial focus on the big picture should not be mistaken for a change in the Manager's investment approach: the portfolio remains a collection of individual businesses selected for their attractive valuations and prospects. However, it is clear that the performance of the portfolio, whether Aberforth likes it or not, is influenced by factors beyond its control. Some of this is by design: the Fund ought to benefit from the value premium, which is the out-performance that value stocks have enjoyed over growth stocks over the long term both in the NSCI (XIC) and in equity markets around the world.

Manager's Report

Investment performance

To recap, the Fund's total return in 2015 was 10.3%, which compares with 10.6% from the NSCI (XIC). This section of the report analyses some of the factors behind the relative performance.

For the 12 months ended 31 December 2015	Basis points
Stock selection	(31)
Sector selection	30
Attributable to the portfolio of investments, based on mid prices	(1)
Movement in mid to bid price spread	8
Cash/overdraft	46
Management fee	(78)
Other expenses	(6)
Total attribution based on bid prices	(31)

Note: 100 basis points = 1%. Total Attribution is the difference between the total return of the Fund and the Benchmark Index (i.e. the Fund = 10.30%; Benchmark Index = 10.61%; difference is -0.31% being -31 basis points).

Style & size

With government bond yields remaining at very low levels over the year, the value investment style under-performed in 2015. An additional handicap came from the rebalancing of the NSCI (XIC) on 1 January 2015: this saw the admission of several resources companies, whose share prices had fallen steeply in 2014. According to the price-to-book methodology employed by the London Business School, which maintains the NSCI (XIC), these were classified as value companies. Their continued struggles in 2015 therefore represented a headwind to the value style. As explained in the Sectors paragraph below, the Manager is not a slave to third party definitions of what makes a value investment and chooses to avoid many of these troubled resources businesses.

The Manager's consistent application of the value style has led to a significantly larger exposure than that of the NSCI (XIC) to the smaller constituents of the index. One way to illustrate this is to focus on the NSCI (XIC)'s overlap with the FTSE 250. This overlap accounts for 63% of the NSCI (XIC) but for just 39% of the portfolio. This under-weight position in "larger small" companies and the accompanying over-weight position in "smaller small" companies reflects the strong performance of mid caps over the past 15 years. Consequently, the more attractive valuations are now on offer down the scale of market capitalisations, often irrespective of an individual company's prospects. In part, this state of affairs is a result of the global financial crisis: fears of illiquidity have remained exaggerated and deterred many market participants from venturing below the FTSE 250. With little to choose between the returns from the FTSE 250 and the FTSE SmallCap in 2015, size was not a significant influence on the Fund's relative performance.

Sectors

The resources sectors represent a conundrum for the value investor. Their constituents often look very cheap on metrics such as price-to-book, but their prospects are clouded by macro economic and political influences on underlying commodity prices. The Manager has differentiated between the oil companies and the miners, adopting a higher weight than the index in the former – for the first time in a decade – and remaining under-weight in the latter. An important means of differentiation is the balance sheet: the oil companies in the NSCI (XIC) tend to have stronger balance sheets, with net cash, modest debt or long term borrowing arrangements. In contrast, the miners' balance sheets tend to be stretched. As a consequence, the miners in many cases require higher commodity prices sooner rather than later in order to survive, whereas it is possible to adopt a longer term investment horizon with the oil companies, most of which remain cash flow positive with the oil price at today's depressed levels. On a one year view, the decision to add to the portfolio's position in oil was unhelpful. However, this was out-weighted by the benefit of avoiding the worst of the miners.

Elsewhere, it has been challenging to find value in the healthcare sectors. Healthcare companies offer the benefits of secular growth dynamics and are able to stand apart from concerns about the economic cycle that afflict the majority of stockmarket sectors. As a consequence, they have attracted large amounts of capital, as resources companies were able to do a decade ago, and their valuations have risen to high levels. Another buoyant area of the small cap universe in recent years has been those sectors addressing the domestic UK economy. Housebuilders and retailers have tended to perform well and the Fund has benefited from significant exposure to those industries. However, it would appear that the good news about the UK's recovery is now fully reflected in the valuations of several domestic cyclical. As a consequence, the portfolio's exposure has fallen as valuation targets have been achieved.

Manager's Report

Corporate activity

M&A staged a substantial recovery in 2015. Bids for 27 members of the NSCI (XIC) were completed in the year, against 12 in 2014 and just 5 in 2013. On top of the completed deals, approaches for another 8 companies were outstanding at the year end. Acquirers were predominantly other corporates rather than private equity and takeover premiums were generally fair. Of the 27 completed deals, the Fund held 8. The net effect of the takeover premiums collected by the Fund less those missed was positive, though amounted to less than 100 basis points of relative performance.

The year under review was also noteworthy for the refreshment of the NSCI (XIC): the initial public offerings of 29 companies eligible for inclusion in the index were completed. This compares with 27 in 2014. As at 31 December 2015, the Fund held four of 2015's IPOs. It would appear that the pipeline of potential future IPOs is full, though its realisation clearly relies on acceptable price expectations on the part of the vendors and on general stockmarket conditions – neither of which is a given.

Income

The dividend performance of small companies in recent years has been very strong. In an investment world starved of income by zero interest rate policies, the dividend characteristics offered by the constituents of the NSCI (XIC) have been increasingly sought after. It is scarcely necessary to look further when attempting to understand the good share price performance of the asset class since the global financial crisis. The same logic applies when assessing the performance of small companies against large. Double digit per annum dividend growth and numerous special dividends from the NSCI (XIC) since 2009 contrast with the fortunes of the FTSE All-Share, which is dominated by large sectors, such as the banks and resources companies, whose dividends have been under considerable pressure.

The Fund continues to benefit from this favourable backdrop. Its investment income rose by 25% in 2015, boosted by seven special dividends and also by the impact of companies resuming dividend payments after having suspended them during the 2009 recession. Given this performance, the general craving for income and the higher than average yields of the portfolio's investee companies, it would seem likely that the Fund's income characteristics have been beneficial to both its total return and capital NAV performance in recent years. This would have mitigated to an extent the broader headwinds facing the value style that are associated with low interest rates and bond yields.

It is worth reiterating the caveats about income made in previous reports. First, the double digit growth in small company dividends since 2009 is unsustainable: the long term average is 2.5% per annum adjusted for inflation and there is little reason to believe that the future average should be any higher. Second, the Manager detects an element of faddishness to the rediscovered fondness for dividends: at the risk of too much cynicism, it may be the case that certain dividend decisions are being made with an eye to the shorter term fillip they might afford to a share price rather than to the longer term good of the company. Such situations may only be revealed when the next recession hits. Third, if interest rates and bond yields can begin a journey of normalisation, income becomes less scarce and the income characteristics of small companies become less sought after. This, though, should be a price worth paying by a value investor.

Significant stakes

Throughout the Fund's history, the Manager has been prepared to take large stakes in investee companies across Aberforth's client base. These stakes can rise as high as around 25% of a company's outstanding share capital. The primary motivation relates to the value investment philosophy: the Manager wants valuation to be the main determinant of a company's position in the portfolio. A 25% ownership limit offers flexibility in this regard, though stakes of this size are a relatively small part of the portfolio and are usually amassed slowly, taking advantage of share price weakness.

Clearly, significant stakes can bring additional opportunities and responsibilities. The Manager has an established means of engagement with investee companies that focuses on the role of the chairman, which is the most important position in the UK's corporate governance structure. The Manager may have a view on dividend policy or balance sheet structure, but, with the right person in the chair, it is generally happy to let the board run the company. Engagement is frequently time consuming, but the Manager is well resourced and believes that the investment of time provides a good payback. Significant stakes, with the inevitable mix of successes and failures, have made a net positive contribution to the Fund's returns over the years.

Turnover

Defined as the lower of purchases and sales divided by average month end net asset value over the past twelve months, turnover was 34% over the twelve months to 31 December 2015, which compares with 36% in 2014. In both years, turnover was boosted by situations in which the Fund is in effect a forced seller but which represent good outcomes for shareholders. First, companies that have grown too large to remain in the NSCI (XIC) on its annual 1 January rebalancing are sold in an orderly fashion. Second, companies subject to takeover bids are sold to the acquirer. The turnover figure of 34% implies an average holding period of roughly three years, though the portfolio contains many holdings that have been there for much longer.

Manager's Report

Active share

Active share† is a gauge of how different a portfolio is from an index. A higher active share ratio indicates a greater difference and increases the probability that the portfolio's performance will diverge from that of the index. That divergence could be positive or negative. The Manager monitors active share to ensure that the Fund's portfolio does not inadvertently become too similar to the NSCI (XIC). It targets a ratio of at least 70%, though will tolerate a temporarily depressed number. The target is assessed without the benefit of holdings that are not constituents of the index – such holdings flatter active share. At 31 December 2015, the ratio stood at 77%.

Valuations

Characteristics	31 December 2015		31 December 2014	
	The Fund	NSCI (XIC)	The Fund	NSCI (XIC)
Number of companies	86	349	88	369
Weighted average market capitalisation	£564m	£750m	£614m	£754m
Price earnings ratio or PE (historic)	12.5x	14.6x	13.0x	13.2x
Dividend yield (historic)	3.1%	2.7%	2.5%	2.5%
Dividend cover	2.6x	2.5x	3.0x	3.0x

The table above contains historic valuation data for the Fund's portfolio and for the NSCI (XIC). The portfolio's historic PE fell over the course of 2015, while the NSCI (XIC)'s rose. This is consistent with the style dynamics already described: the small cap universe was led higher by the growth stocks, while value stocks performed less well. Meanwhile, the PE of large companies, represented by the FTSE All-Share, rose from 13.8x to 16.6x over the year. As a consequence, small companies ended the year 12% cheaper than large in terms of PE, which compares with a 4% discount twelve months earlier. As recently as September 2012, small companies were 24% more expensive than large on the basis of PEs.

The average portfolio yield rose in 2015, while the dividend cover dropped. An important influence on these movements is the impact of previously nil yielding companies resuming or starting dividends payments. At 2.6x, cover is now back closer to the long term average of 2.5x, having spent the years since the global financial crisis at above 3.0x.

2016 enterprise value / earnings before interest, tax and amortisation			
43 growth companies	244 other companies	Tracked Universe*	The Fund's portfolio
16.0x	11.1x	11.8x	9.8x

* Companies followed closely by the Manager accounting for 96% by value of the NSCI (XIC).

The table above sets out the forward EV/EBITA ratio for the portfolio, the tracked universe and two subdivisions of the tracked universe, 43 growth companies and the 244 other companies. EV/EBITA is the Manager's favoured valuation metric. It is unaffected by how a company is funded, whether through equity or debt, and it is closer to how a corporate acquirer values a target business. This latter point may explain the important contribution to the Fund's performance over the years from M&A.

Consistent with the Manager's value investment style, the portfolio is valued on a large discount to the tracked universe as a whole. This discount to the growth companies is wider, at 39%. A corollary of growth's leadership in 2015 is that the population of potential investments for the Fund has increased. It is the value investor's contention that discounts will narrow over time to the benefit of the relative returns of portfolios managed in accordance with the style.

Manager's Report

Outlook & conclusion

Although the Manager's day-to-day focus is on individual businesses and their valuations, it is likely that the performance of the Fund over the coming year will be significantly influenced by developments on a larger scale. If the recent interest rate increase in the US heralds a gradual normalisation of monetary conditions around the world and bond yields are higher in twelve months' time, it is probable that the Fund will have benefited from tailwinds for the value investment style. If, however, the rate increase proves more than the economy can take and bond yields stay the same or decline, then the Fund will probably face headwinds similar to those of 2015. The outcome is not one that the Manager is able to call. However, the challenge that the interest rate rise in the US represents to the broader investment world's safe and consensual preference for growth stocks is intriguing.

Closer to home, the outlook for the UK's corporate sector is undeniably cloudy. Demand is challenged by the uncertain pace of growth in much of the world, while costs are, at last, coming under pressure from wages rising above the rate of inflation. Sliding commodity prices – particularly that of oil – offer some mitigation, but a squeeze on margins is plausible. It should not come as a surprise if the profit growth expected by the market for small companies in 2016 – currently around 9% – once again proves too ambitious. In mitigation, balance sheets do not appear stretched across the portfolio and the investment universe in general. Moreover, another year of above average dividend growth from small companies looks likely.

For the Manager, the most encouraging factor is that of valuation. The investment universe continues to offer up numerous attractively valued investment opportunities. Indeed, the consolation of a year in which growth stocks have led the NSCI (XIC) higher is that the valuation gap between growth and value has widened and the number of candidates for inclusion in the portfolio has risen. It is plausible that elements of the undoubted top-down risks are already discounted in valuations of today's portfolio. Accordingly, without becoming hostage to the vagaries of equity returns over one year, the Manager looks to the future with confidence and believes that the Fund can continue to benefit from careful stock selection and exploitation of the value premium.

K F Muir, Director

E R Macdonald, Director

Aberforth Unit Trust Managers Limited

29 January 2016

[†] Active Share is addressed by Antti Petajisto and Martijn Cremers in a 2009 publication from the Yale School of Management: *How Active Is Your Fund Manager? A New Measure That Predicts Performance*. The active share ratio is calculated by summing the absolute differences between a portfolio's weight in a stock and an index's weight in a stock for all the stocks in the portfolio or index. The total is then divided by two to give a ratio between 0% and 100%.

Summary of Material Portfolio Changes

For the year ended 31 December 2015

Purchases	Cost £'000	Sales	Proceeds £'000
Paragon Group	3,592	JD Sports Fashion	12,356
International Personal Finance	3,124	RPC Group	5,980
Nostrum Oil & Gas	2,481	St. Modwen Properties	5,503
Ladbrokes	2,375	QinetiQ Group	5,479
Pendragon	2,233	Tullett Prebon	4,647
De La Rue	1,936	Optos	4,636
Senior	1,821	Spirit Pub Company	4,234
Carpetright	1,598	Mecom Group	3,738
Home Retail Group	1,548	Anite	3,703
Spirent Communications	1,444	Card Factory	3,081
Just Retirement Group	1,434	Synthomer	3,028
Coats Group	1,419	Chime Communications	2,710
Brewin Dolphin Holdings	1,354	Phoenix IT Group	2,446
SDL	1,353	Novae Group	1,732
Eurocell	1,349	e2v technologies	1,714
Findel	1,259	Colt Group	1,660
Northgate	1,229	Just Retirement Group	1,652
Keller	1,142	Acal	1,650
Bodycote	1,123	Spire Healthcare Group	1,454
Colt Group	1,114	Promethean World	1,378
Other purchases	27,014	Other sales	20,538
Total Cost of Purchases	61,942	Total Proceed of Sales	93,319

Portfolio Statement

As at 31 December 2015

Holding	Security	31 December 2015			31 December 2014	
		Value £'000	% of Total Net Assets	% of Index ¹	Total Net Assets	% of Index
Oil & Gas Producers		4,429	2.7	3.0	3.1	4.6
4,092,251	EnQuest	777	0.5			
1,200,287	Hardy Oil & Gas	198	0.1			
432,800	Nostrum Oil & Gas	1,747	1.0			
1,357,196	Petroceltic International	275	0.3			
980,640	SOCO International	1,432	0.8			
Oil Equipment, Services & Distribution		1,955	1.2	1.0	0.6	1.2
1,955,200	Gulf Marine Services	1,955	1.2			
Alternative Energy		–	–	0.1	–	0.2
Chemicals		1,075	0.6	1.7	1.1	2.0
846,300	Carclo	1,075	0.6			
Industrial Metals & Mining		–	–	0.8	0.1	0.2
9,832,752	International Ferro Metals ²	–	–			
Mining		3,083	1.8	2.9	1.4	3.9
1,565,708	Anglo Pacific Group	900	0.5			
3,389,910	Centamin	2,183	1.3			
543,440	Kenmare Resources Warrants 2019 ³	–	–			
Construction & Materials		4,325	2.6	3.6	0.9	2.8
733,676	Eurocell	1,394	0.8			
279,800	Keller	2,314	1.4			
949,145	Low & Bonar	617	0.4			
Aerospace & Defence		3,059	1.8	1.1	3.0	2.8
679,464	Chemring Group	1,240	0.7			
793,390	Senior	1,819	1.1			
General Industrials		5,254	3.1	1.0	4.8	1.7
5,004,254	Coats Group	1,201	0.7			
1,217,572	Vesuvius	4,053	2.4			
Electronic & Electrical Equipment		10,531	6.2	1.8	5.6	2.9
2,180,217	e2v technologies	4,873	2.9			
1,171,988	Morgan Advanced Materials	2,899	1.7			
1,763,170	TT Electronics	2,759	1.6			
Industrial Engineering		7,000	4.1	2.1	3.3	2.1
450,086	Bodycote	2,559	1.5			
403,190	Castings	1,875	1.1			
431,216	Vitec Group	2,566	1.5			
Industrial Transportation		2,885	1.7	1.9	1.2	1.6
1,494,873	Wincanton	2,885	1.7			
Support Services		25,740	15.3	12.1	13.8	9.9
63,534	Acal	175	0.1			
924,485	Capital Drilling	208	0.2			
1,711,411	Connect Group	2,879	1.7			
547,600	De La Rue	2,411	1.4			
4,877,377	Hogg Robinson Group	3,426	2.0			
4,891,177	Management Consulting Group	721	0.4			
837,921	Northgate	3,293	2.0			
1,283,600	Premier Farnell	1,248	0.7			

Portfolio Statement

As at 31 December 2015

Holding	Security	31 December 2015			31 December 2014	
		Value £'000	% of Total Net Assets	% of Index ¹	Total Net Assets	% of Index
Support Services (continued)						
738,027	Robert Walters	2,620	1.6			
1,190,462	RPS Group	2,800	1.7			
4,101,296	Shanks Group	3,958	2.3			
4,880,913	Speedy Hire	2,001	1.2			
Automobiles & Parts						
		–	–	–	–	–
Beverages						
		–	–	0.6	–	0.7
Food Producers						
		4,490	2.7	2.8	2.0	3.3
802,968	Hilton Food Group	4,232	2.5			
100,900	R.E.A. Holdings	258	0.2			
Household Goods & Home Construction						
		4,615	2.7	1.8	2.4	3.2
456,007	Bovis Homes Group	4,615	2.7			
Leisure Goods						
		1,571	0.9	0.5	0.6	0.5
268,549	Games Workshop Group	1,571	0.9			
Personal Goods						
		–	–	2.1	–	1.5
Health Care Equipment & Services						
		–	–	2.8	2.5	3.3
Pharmaceuticals & Biotechnology						
		2,730	1.6	2.8	1.1	2.7
1,550,953	Vectura Group	2,730	1.6			
Food & Drug Retailers						
		1,214	0.7	1.0	0.7	0.6
934,200	McColl's Retail Group	1,214	0.7			
General Retailers						
		12,148	7.1	7.7	6.7	7.7
26,100	N Brown Group	81	–			
285,300	Carpetright	1,355	0.8			
386,700	DFS Furniture	1,285	0.8			
622,600	Findel	1,245	0.7			
59,300	Halfords Group	199	0.1			
1,236,400	Home Retail Group	1,231	0.7			
13,601	JD Sports Fashion	141	0.1			
1,788,735	Mothercare	3,935	2.3			
5,754,400	Pendragon	2,676	1.6			
Media						
		9,410	5.7	3.8	6.7	3.9
1,930,849	Centaur Media	1,352	0.8			
9,364,667	Future	960	0.6			
5,350,981	Huntsworth	2,087	1.2			
286,500	ITE Group	450	0.4			
2,237,207	Trinity Mirror	3,714	2.2			
483,790	UTV Media	847	0.5			
Travel & Leisure						
		17,666	10.5	8.1	8.7	7.6
105,309	Air Partner	432	0.3			
4,089,008	FirstGroup	4,388	2.6			
3,936,266	Flybe Group	3,533	2.1			
149,484	Go-Ahead Group	3,978	2.4			
2,291,900	Ladbrokes	2,741	1.6			
871,597	Punch Taverns	1,079	0.6			
241,800	Rank Group	689	0.4			
472,200	Revolution Bars Group	826	0.5			
Fixed Line Telecommunications						
		2,715	1.6	1.0	1.2	1.7
2,360,534	KCOM Group	2,715	1.6			

Portfolio Statement

As at 31 December 2015

Holding	Security	31 December 2015			31 December 2014	
		Value £'000	% of Total Net Assets	% of Index ¹	Total Net Assets	% of Index
Electricity		–	–	0.7	–	0.5
Gas, Water & Multiutilities		–	–	–	–	–
Banks		–	–	1.6	–	0.5
Nonlife Insurance		2,650	1.6	2.7	1.5	2.1
297,036	Novae Group	2,650	1.6			
Life Insurance		1,276	0.8	1.4	0.5	1.2
1,160,024	Hansard Global	1,276	0.8			
Real Estate Investment & Services		9,326	5.5	6.3	6.3	6.4
483,980	Countrywide	1,933	1.1			
1,618,788	Grainger	3,769	2.2			
1,298,800	Urban&Civic	3,624	2.2			
Real Estate Investment Trusts		5,135	3.1	4.8	2.4	4.7
2,609,144	Hansteen Holdings	3,003	1.8			
820,015	McKay Securities	2,132	1.3			
Financial Services		13,231	7.8	7.9	5.6	6.4
1,337,254	Brewin Dolphin Holdings	4,147	2.5			
415,931	Charles Stanley Group	1,373	0.8			
1,328,953	International Personal Finance	3,841	2.3			
30,500	John Laing Group	64	–			
1,021,519	Paragon Group	3,611	2.1			
75,200	River & Mercantile Group	195	0.1			
Software & Computer Services		8,861	5.3	4.9	6.4	3.4
358,663	Computacenter	3,056	1.8			
898,033	Microgen	961	0.6			
1,371,168	RM	2,194	1.3			
641,753	SDL	2,650	1.6			
Technology Hardware & Equipment		1,627	1.0	1.6	0.9	2.2
5,455,941	Filtronic	273	0.2			
1,893,200	Spirent Communications	1,354	0.8			
Investments as shown in the Balance Sheet		168,001	99.7	100.0	95.1	100.0
Net Current Assets		480	0.3	–	4.9	–
Total Net Assets		168,481	100.0	100.0	100.0	100.0

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

¹ Reflects the rebalanced index as at 1 January 2016

² Suspended security

³ Unquoted security

Comparative Tables

Income Unit	2015 £/unit	2014 £/unit	2013 £/unit
Change in net assets per unit			
Opening net asset value per unit	154.50	158.32	108.71
Return before operating charges*	17.54	1.05	54.25
Operating charges	(1.42)	(1.36)	(1.18)
Return after operating charges*	16.12	(0.31)	53.07
Distributions on income units	(4.53)	(3.51)	(3.46)
Closing net asset value per unit	166.09	154.50	158.32
*after direct portfolio transaction costs of:	(0.55)	(0.60)	(0.84)
Income Unit	2015	2014	2013
Performance			
Total return after charges ¹	10.4%	(0.2)%	48.8%
Other information			
Closing net asset value (£'000)	62,511	82,549	57,331
Closing number of units	376,364.352	534,302.352	362,124.095
Operating charges	0.83%	0.85%	0.84%
Direct portfolio transaction costs	0.32%	0.38%	0.60%
Prices			
Highest issue price (£)	183.70	174.54	162.38
Lowest cancellation price (£)	153.12	145.61	110.25

Accumulation Unit	2015 £/unit	2014 £/unit	2013 £/unit
Change in net assets per unit			
Opening net asset value per unit	186.02	186.48	124.92
Return before operating charges*	20.90	1.15	62.84
Operating charges	(1.72)	(1.61)	(1.28)
Return after operating charges*	19.18	(0.46)	61.56
Closing net asset value per unit	205.20	186.02	186.48
Retained distributions on accumulation units	5.49	4.16	4.00
* after direct portfolio transaction costs of:	(0.66)	(0.71)	(0.91)
Accumulation Unit	2015	2014	2013
Performance			
Total return after charges	10.3%	(0.2)%	49.3%
Other information			
Closing net asset value (£'000)	105,970	113,262	111,465
Closing number of units	516,414.412	608,875.844	597,739.561
Operating charges	0.83%	0.85%	0.84%
Direct portfolio transaction costs	0.32%	0.38%	0.60%
Prices			
Highest issue price (£)	221.18	205.58	189.46
Lowest cancellation price (£)	184.36	173.42	126.70

¹ Does not assume reinvestment of the interim distribution.

Information on Aberforth Unit Trust Managers Limited

The Manager is wholly owned by Aberforth Partners LLP (the “firm”). The predecessor business of the firm, Aberforth Partners, was established in 1990 to provide institutional and wholesale investors with a high level of resources focused exclusively on small UK quoted companies. Since then funds under management have grown to £2.1 billion (as at 31 December 2015). The firm is wholly owned by five partners – four investment managers, and Alan Waite, who is responsible for the firm’s administration. Five investment managers work as a team managing the Fund’s portfolio on a collegiate basis. The biographical details of the investment managers are as follows:

Euan R Macdonald BA (Hons)

Euan joined Aberforth Partners in May 2001, became a partner in May 2004, and is responsible for investment research and stock selection in the following areas – Automobiles & Parts; Industrial Engineering; Industrial Transportation; Insurance; Leisure Goods; Software & Computer Services; Support Services; Technology Hardware & Equipment; Telecommunications; and Utilities. Previously he was with Baillie Gifford for 10 years where he managed portfolios invested in small companies both in Continental Europe and in the UK.

Keith F Muir BEng (Hons), CFA

Keith joined Aberforth Partners in March 2011, became partner in May 2014, and is responsible for investment research and stock selection in the following areas – Construction & Materials; Household Goods & Home Construction; Industrial Metals & Mining; Mining; and Real Estate. Previously Keith was an Investment Director with Standard Life Investments for 13 years and spent the last 9 years as a senior member of the Smaller Companies team with associated portfolio management responsibilities. Prior to that he gained experience with Southpac, Scottish Equitable and Murray Johnstone.

Richard M J Newbery BA (Hons)

Richard was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Alternative Energy; Electronic & Electrical Equipment; Food & Beverage; Forestry & Paper; General Industrials; Personal Goods; and Retailers. Previously he was with Ivory & Sime for 9 years where he managed international portfolios for a range of clients including those with a small company specialisation.

Alistair J Whyte

Alistair was a founding partner in May 1990 and is responsible for investment research and stock selection in the following areas – Aerospace & Defence; Health Care; Media; Oil & Gas Producers; and Oil Equipment, Services and Distribution. Previously he was with Ivory & Sime for 11 years where latterly he managed portfolios in Asia. Prior to that he managed portfolios with the objective of capital growth from smaller companies in the UK and internationally.

Mark R Williamson

Mark joined Aberforth in October 2014 and is responsible for investment research and stock selection in the following areas – Banks; Chemicals; Financial Services; and Travel & Leisure. He joined from Peel Hunt, where he spent five years as an analyst on the Financials sector. Prior to that he gained experience with several broking houses, having commenced his career in 1992 with Albert E Sharp as a buy-side analyst.

Further information on Aberforth Partners LLP and its clients is available on its website – www.aberforth.co.uk

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;
- follow United Kingdom accounting standards;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements;
- 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.

K F Muir, *Director*

E R Macdonald, *Director*

Aberforth Unit Trust Managers Limited

29 January 2016

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES AND REPORT OF THE TRUSTEE TO THE UNITHOLDERS OF ABERFORTH UK SMALL COMPANIES FUND FOR THE YEAR ENDED 31 DECEMBER 2015

The trustee is responsible for the safekeeping of all the property of the scheme (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the trustee to take reasonable care to ensure that the scheme is managed in accordance with the Financial Conduct Authority's Collective Investment Scheme Sourcebook ("the Regulations"), the scheme's trust deed and prospectus, in relation to the pricing of, and dealings in, units in the scheme; the application of income of the scheme; and the investment and borrowing powers of the scheme.

Having carried out such procedures as we considered 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 Manager:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with the Regulations, the trust deed and prospectus, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

National Westminster Bank plc

Corporate Banking

3 Redheughs Avenue

Edinburgh EH12 9RH

29 January 2016

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

Reports on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the financial position of the Fund as at 31 December 2015 and of the net revenue and the net capital gains of the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements of Aberforth UK Small Companies Fund (the "Fund"), which are prepared by Aberforth Unit Trust Managers Limited (the "Authorised Fund Manager"), comprise :

- the balance sheet of the Fund as at 31 December 2015;
- the statement of total return of the Fund for the year then ended;
- the cash flow statement for the year then ended;
- the statement of change in unitholders' net assets of the Fund for the year then ended;
- the notes to the Fund's financial statements, which include a summary of significant accounting policies and other explanatory information; and
- the distribution table.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by The Investment Management Association (the "Statement of Recommended Practice for UK Authorised Funds"), the Collective Investment Schemes sourcebook and the Trust Deed.

In applying the financial reporting framework, the Authorised Fund Manager has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on matters prescribed 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; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Other matters on which we are required to report by exception

Propriety of accounting records and information and explanations received

Under the Collective Investment Schemes sourcebook we are 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Authorised Fund Manager

As explained more fully in the Authorised Fund Manager's Responsibilities Statement set out on page 13, the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 January 2016

- (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 2015

Statement of Total Return

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
Income:					
Net capital gains/(losses)	4		13,354		(5,751)
Revenue	5	5,466		4,942	
Expenses	6	(1,513)		(1,638)	
Interest payable and similar charges		(12)		(2)	
Net revenue before taxation		3,941		3,302	
Taxation	7	–		–	
Net revenue after taxation			3,941		3,302
Total return before distributions			17,295		(2,449)
Distributions	8		(4,830)		(4,270)
Change in net assets attributable to Unitholders from investment activities			12,465		(6,719)

Statement of Change in net assets attributable to unitholders

	2015		2014	
	£'000	£'000	£'000	£'000
Opening net assets		195,811		168,796
Amounts receivable on issue of units	16,564		55,274	
Amounts payable on cancellation of units	(59,183)		(24,173)	
		(42,619)		31,101
Stamp duty reserve tax		–		(5)
Change in net assets attributable to unitholders from investment activities		12,465		(6,719)
Retained distribution on accumulation units		2,824		2,638
Closing net assets attributable to unitholders		168,481		195,811

Financial Statements

As at 31 December 2015

Balance Sheet

	Notes	2015		2014	
		£'000	£'000	£'000	£'000
ASSETS					
Fixed assets:					
Investments assets			168,001		186,258
Current assets:					
Debtors	9	1,292		10,143	
Cash and bank balances		50		1,866	
Total other assets			1,342		12,009
Total assets			169,343		198,267
LIABILITIES					
Creditors:					
Other creditors	10	(195)		(1,534)	
Distribution payable on income units		(667)		(922)	
Total liabilities			(862)		(2,456)
Net assets attributable to unitholders			168,481		195,811

Cash Flow Statement

	Notes	2015 £'000	2014 £'000
Net cash inflow from operating activities	11	4,142	3,302
Investing activities			
Purchases of investments		(62,813)	(93,140)
Sales of investments		93,387	67,808
Cash inflow/(outflow) from investing activities		30,574	(25,332)
Financing activities			
Amounts received from issue of units		25,452	47,063
Amounts paid on cancellation of units		(59,850)	(23,819)
SDRT paid		-	(5)
Distributions paid		(2,122)	(1,441)
Interest paid		(12)	(2)
Cash (outflow)/inflow from financing activities		(36,532)	21,796
Decrease in cash and cash equivalents		(1,816)	(234)
Cash and cash equivalents at the start of the year		1,866	2,100
Cash and cash equivalents at the end of the year		50	1,866

Notes to the Financial Statements

1 Accounting Policies

- (a) The financial statements have been prepared on the historical cost basis, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice for Authorised UK Funds (the "SORP") issued by The Investment Management Association in May 2014.
- (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 31 December 2015. Suspended securities are initially valued at the suspension price but are subject to constant review.
- (c) Dividends on equities are recognised when the security is quoted ex-dividend. UK dividend income is shown net of any related tax credit. 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 5/8 of the Manager's periodic charge is allocated to capital and the remaining 3/8 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. In general, the tax accounting treatment follows that of the principal amount. 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. 3/8 of the Manager's periodic charge is deducted from revenue for purposes 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 currency risk arises.

The main risks arising are market price, liquidity and credit risks. 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 current synthetic risk and reward indicator is 5 and remains unchanged during the year. Further information can be found in the Key Investor Information Document available on the Manager's website.

Market Price Risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. 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. In addition, in accordance with the Prospectus terms, redemptions may be settled by an in specie transfer of assets.

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 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)

	2015 £'000	2014 £'000
The gains/(losses) on investments during the year comprise:		
Equity investments	13,354	(5,751)

5 Revenue

	2015 £'000	2014 £'000
UK dividends	5,169	4,707
Property income distributions	74	55
Overseas dividends	220	172
Bank interest	3	8
Total income	5,466	4,942

6 Expenses

	2015 £'000	2014 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	1,413	1,549
Payable to the Trustee or associate of the Trustee		
Trustee's fees	46	47
Other expenses:		
Audit fee	12	8
Safe custody fees	16	14
Registration fees	14	10
Printing fees	9	10
Taxation services	3	–
	54	42
Total expenses	1,513	1,638

With effect from 1 July 2015, 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 (previously 0.80% per annum). Included within this fee is £883,000 borne by the capital of the Fund (2014: £968,000). 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

	2015 £'000	2014 £'000
(a) Analysis of charge in the year:		
Irrecoverable overseas tax	–	–
Current tax (note 7(b))	–	–
Total tax charge for the year	–	–
(b) Factors affecting current tax charge for the year:		
Net revenue before taxation	3,941	3,302
Corporation tax at 20%	788	660
Effects of:		
Non-taxable dividends	(1,034)	(941)
Non-taxable overseas dividends	(44)	(34)
Unutilised management expenses	290	315
	(788)	(660)
Current tax charge (Note 7(a))	–	–

From 1 July 2009, dividends from companies incorporated overseas are not subject to UK tax.

At the balance sheet date, the Fund had excess management expenses of £41,572,000 (2014: £40,125,000). 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 £8,315,000 (2014: £8,025,000).

8 Distributions

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

	2015 £'000	2014 £'000
Interim	2,904	2,276
Final	1,787	2,173
	4,691	4,449
Add: Income deducted on cancellation of units	221	108
Less: Income received on creation of units	(82)	(287)
Total distributions	4,830	4,270

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

	2015 £'000	2014 £'000
Net revenue after taxation	3,941	3,302
Add: Manager's periodic fee taken to capital	883	968
Add: Safe custody fee taken to capital	6	–
Distributions	4,830	4,270

Details of the distribution per unit are shown on page 24.

Notes to the Financial Statements

9 Debtors

	2015 £'000	2014 £'000
Amounts receivable for creation of units	910	9,716
Sales awaiting settlement	–	68
Accrued income	374	354
Other debtors	8	5
Total debtors	1,292	10,143

10 Other Creditors

	2015 £'000	2014 £'000
Amounts payable for cancellation of units	16	462
Purchases awaiting settlement	44	915
Accrued management fee	108	126
Other accrued expenses	27	31
Total creditors	195	1,534

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

	2015 £'000	2014 £'000
Net revenue before taxation	3,941	3,302
Adjusted for:		
Interest payable and similar charges	12	2
Debtors:		
(Increase) in accrued income	(20)	(73)
(Increase)/decrease in other debtors	(3)	5
Creditors:		
(Decrease)/increase in accrued management fee	(18)	21
(Decrease)/increase in accrued other expenses	(4)	4
(Decrease) in stamp duty reserve tax	–	(5)
Special dividends taken to capital	234	46
Net cash flow from operating activities	4,142	3,302

Notes to the Financial Statements

12 Portfolio Transaction Costs

	£'000	2015 % of purchases	% Average Net Asset Value	£'000	2014 % of purchases	% Average Net Asset Value
Equity purchases in period before transaction costs	60,820			90,875		
Commissions	128	0.21	0.07	188	0.20	0.10
Taxes	283	0.46	0.16	387	0.42	0.20
Total equity purchases costs	411	0.67	0.23	575	0.62	0.30
Rights issues taken up during the period	711			2,103		
Total purchase consideration after direct transaction costs	61,942			93,553		

	£'000	2015 % of sales	% Average Net Asset Value	£'000	2014 % of sales	% Average Net Asset Value
Gross equity sales in period before transaction costs	84,154			67,851		
Commissions	(172)	(0.18)	(0.09)	(151)	(0.22)	(0.08)
Total equity sales costs	(172)	(0.18)	(0.09)	(151)	(0.22)	(0.08)
Takeovers completed during the period	9,337			176		
Total sales in the period after transaction costs	93,319			67,876		

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 0.19% per annum (2014: 0.21% per annum) of the Fund's average net asset value and taxes have averaged 0.23% per annum (2014: 0.21% 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 2015, the average dealing spread for the underlying Fund investments is 1.54% (2014: 1.32%).

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 Unitholders' Funds

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 page 11. All units, adjusted for the current accumulation factor, have the same rights on winding-up.

Number of units	Opening	Issued	Redeemed	Converted	Closing
Accumulation	608,875.844	66,281.790	(150,097.326)	(8,645.896)	516,414.412
Income	534,302.352	97,448.201	(265,827.031)	10,440.830	376,364.352

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 Unitholders' Net Assets. The balance due from Aberforth Unit Trust Managers Limited at the year end in respect of these transactions was £786,000 (31 December 2014: £9,128,000). Trustee fees paid are shown in note 6. The balance due to National Westminster Bank plc at the year end in respect of these fees was £4,000 (31 December 2014: £4,000).

15 Contingencies, financial commitments and contingent assets

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2015 (2014: nil).

16 Fair value

All investments are valued using prices for identical instruments in active markets under the definition of the SORP, with the exception of two investments valued at £nil, namely Kenmare Resources Warrants and International Ferro Metals (31 December 2014: All investments were valued at quoted prices for identical instruments in active markets, other than Kenmare Resources Warrants valued at £nil). The four levels of fair value hierarchy per the SORP are:

- (1) Quoted prices for identical instruments in active markets
- (2) Prices of recent transactions for identical instrument
- (3) Valuation techniques using observable market data
- (4) Valuation techniques using non-observable data

Distributions

Distribution Table

For the period 1 July to 31 December 2015

	Net Income Dec 2015	Equalisation [†] Dec 2015	Distribution/ Accumulation Dec 2015	Distribution/ Accumulation Dec 2014
Income units				
Group 1: Units purchased prior to 1 July 2015	177.3464p	–	177.3464p	172.5395p
Group 2: Units purchased on or after 1 July 2015	49.7681p	127.5783p	177.3464p	172.5395p
Accumulation units				
Group 1: Units purchased prior to 1 July 2015	216.8436p	–	216.8436p	205.4882p
Group 2: Units purchased on or after 1 July 2015	60.8521p	155.9915p	216.8436p	205.4882p

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

Distribution Record

Year to	Accumulation Units Net income per Unit (p)	Income Units Net income per Unit (p)
31 December 2011	298.9537	274.5042
31 December 2012	377.5214	336.4382
31 December 2013	399.7750	345.5453
31 December 2014	416.0784	351.3320
31 December 2015	548.9197	453.1564

Notes

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

Management and Administration

Manager

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

Trustee

National Westminster Bank plc*
Trustee & Depository Services
The Younger Building
1st Floor
3 Redheughs Avenue
Edinburgh EH12 9RH

Investment Adviser

Aberforth Partners LLP*
14 Melville Street
Edinburgh EH3 7NS

**Authorised and regulated by the Financial Conduct Authority*

Registrar

Capita Financial Administrators Limited*
2 The Boulevard
City West One Office Park
Gelderd Road
Leeds LS12 6NT
Telephone: 0345 608 0940

Custodian

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

Auditors

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Buying and Selling

The terms on which units can be bought and sold are set out in the Prospectus, Supplementary Information Document and Application Pack that are all available on the Manager's website www.aberforth.co.uk. These documents provide the most up to date terms on which Units are issued and redeemed, how and when money is held in a client money account and the risks relating to that.

Units may be bought and sold by contacting the Manager by telephone using the dealing number shown above. Alternatively, please contact Capita, the Registrar, using the address above or by email (ordergroup@capitafinancial.com). In addition, orders can be placed electronically via various transaction networks including EMX and Calastone. Valuation of the Fund takes place each business day at 4.30 pm on a forward pricing basis.

Regulatory Developments

Due to further changes being implemented across Europe 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 dividends received by overseas investors. Further information is available on the Manager's website.

Changes were also made by the Financial Conduct Authority in relation to their Rules on how client money and assets handled with effect from 1 June 2015. For further information, please refer to the current version of the Supplementary Information Document for the Fund which is also available on the Manager's website.

