



# Aberforth UK Small Companies Fund

Annual Report and Financial Statements

31 December 2018

## Investment Objective & Policy

The objective of Aberforth UK Small Companies Fund (the “Fund”) is to achieve a total return (with income reinvested) greater than that of 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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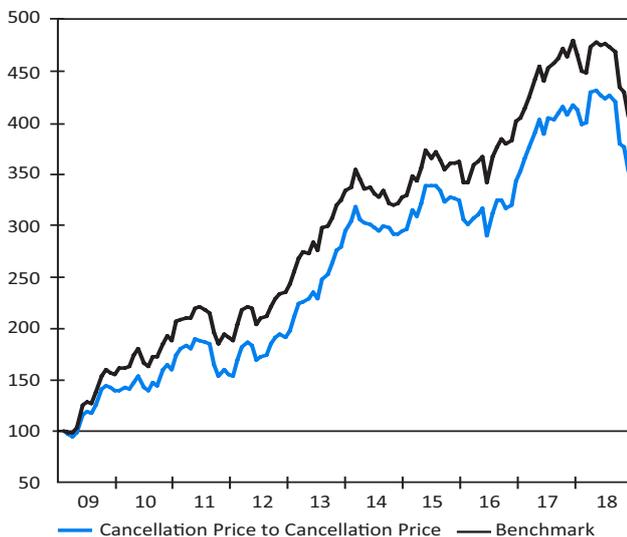
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Data has been sourced from Aberforth Partners LLP unless otherwise stated.

## Ten Year Investment Record

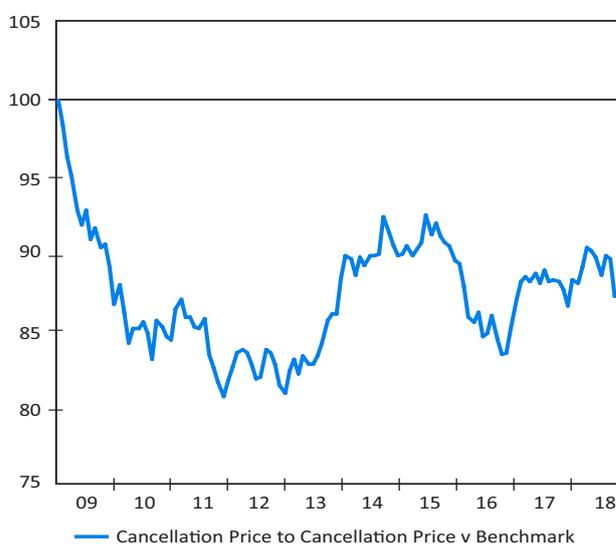
### Absolute Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2008)



### Relative Performance

(figures are total returns and have been rebased to 100 at 31 Dec 2008)



# Investment Record

Performance for the year to 31 December 2018		%
<b>The Fund<sup>1</sup></b>		<b>-15.3</b>
<b>Benchmark Index<sup>2</sup></b>		<b>-15.3</b>

Prices & Yield		2 January 2019 <sup>3</sup>	2 January 2018 <sup>3</sup>
Accumulation Units	Issue Price	<b>£228.37</b>	£268.84
	Cancellation Price	<b>£223.63</b>	£263.41
Income Units (xd)	Issue Price	<b>£169.26</b>	£205.47
	Cancellation Price	<b>£165.75</b>	£201.32
	Yield <sup>4</sup>	<b>3.5%</b>	2.6%
Dealing Spread		<b>2.1%</b>	2.0%

Size & Charges	31 December 2018	31 December 2017
Total Net Assets	<b>£143.4m</b>	£249.0m
Ongoing Charges <sup>5</sup>	<b>0.81%</b>	0.79%
Initial Charge	<b>Nil</b>	Nil
Exit Charge	<b>Nil</b>	Nil

Historical Returns	Discrete Annual Returns (%)	
	The Fund <sup>4,6</sup>	Index <sup>2</sup>
1 year to 31 December 2018	-15.3	-15.3
1 year to 31 December 2017	21.6	19.5
1 year to 31 December 2016	5.6	11.1
1 year to 31 December 2015	10.3	10.6
1 year to 31 December 2014	-0.2	-1.9

Historical Returns	Annualised Returns (%)		Cumulative Returns (%)	
	The Fund <sup>1</sup>	Index <sup>2</sup>	The Fund <sup>1</sup>	Index <sup>2</sup>
Periods to 31 December 2018				
2 years from 31 December 2016	1.5	0.6	2.9	1.2
3 years from 31 December 2015	2.8	4.0	8.7	12.4
4 years from 31 December 2014	4.6	5.6	19.9	24.3
5 years from 31 December 2013	3.7	4.1	19.7	22.0
10 years from 31 December 2008	13.5	15.1	253.5	307.3
15 years from 31 December 2003	10.0	10.3	318.7	336.2
27.8 years from inception on 20 March 1991	12.0	9.8	2,251.3	1,233.8

<sup>1</sup> Represents cancellation price to cancellation price (accumulation units).

<sup>2</sup> 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 2019 included some 359 companies, the largest market capitalisation of which was £1.3 billion and the aggregate market capitalisation of which was £140 billion.

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

<sup>4</sup> 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.

<sup>5</sup> This is based on actual expenses for the year ended 31 December 2018. 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.

<sup>6</sup> 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.

## 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 2018). The firm is wholly owned by seven partners – six investment managers and an Operations Partner, who is responsible for the firm's administration. Seven investment managers work as a team managing 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](http://www.aberforth.co.uk).

## Changes to Prospectus

On 10 August 2018, the Trustee changed from National Westminster Bank plc to NatWest Trustee and Depository Services Limited. The ultimate parent company of both entities is The Royal Bank of Scotland Group plc.

## Remuneration Policy

The Manager has delegated all investment management activities for the Fund to Aberforth Partners LLP. Directors and staff working on the Fund are not remunerated by the Manager. Aberforth Partners LLP is subject to regulatory requirements on remuneration that are equally effective under BIPRU and AIFMD. Details of its remuneration policy are available on request.

## Introduction to Performance

In common with most other equity markets, UK stocks struggled in 2018. The FTSE All-Share, which is dominated by large companies, produced a total return of -9.5%. Small companies were weaker still, with a total return from the NSCI (XIC) of -15.3%. Despite the good start to the year described in the interim report, the Fund also generated a net asset value total return of -15.3%. The principal influences on this performance are described in the Investment Performance section of this report.

These weak returns render 2018 the first bad year for UK equities since 2011. Nevertheless, total returns from the NSCI (XIC) and the FTSE All-Share since 2011 have been 117% and 66% respectively. After so strong a run, the chances of a setback inevitably climb, though probability offers little comfort when prices start to fall. Back in 2011, the Eurozone crisis was in full swing. Today, the obvious equivalent is the UK's impending exit from the European Union. Brexit has indeed affected the performance of small caps in general and the portfolio, but, as the year progressed, it became clear that the UK no longer has a monopoly on gloom. Macro-economic and populist challenges have arisen around the globe to undermine 2017's synchronised global recovery and equity valuations.

Europe, whose growth surprised so positively in 2017, faltered in 2018. The uncertainties of Brexit inevitably cast a shadow and the European Central Bank's move to taper its quantitative easing programme adds further uncertainty. Meanwhile, Italy's populist government has challenged the European Commission with its controversial budget, a confrontation complicated by higher government spending in France as Emmanuel Macron backtracked on fuel duty increases. Further afield, China has also seen a slowdown in its rate of growth, which at this stage seems as much a function of internal policy to address lending excesses as a result of trade wars with the US.

Donald Trump's "America First" policies have helped to keep the US economy moving ahead at an enviable rate but have also represented a challenge to the era of globalisation, which has favoured capital over labour to the advantage of financial markets. One manifestation has been the strong dollar, which is itself problematic for overseas businesses that have taken on dollar borrowings. Another important influence on the dollar has been the tightening of monetary policy by the Federal Reserve. Jay Powell, the recently appointed chairman, has thus far proved resolute in balancing the stimulus of the president's inflationary fiscal policies with quantitative tightening and higher interest rates. In response, US government bonds repriced, with the ten year yield rising from 2.4% at the start to the year through 3.2% in November. However, financial markets grew increasingly alarmed about the pace of tightening and the ten year yield dropped back to 2.7% by the year end. Through all this, the US yield curve – the difference between the yields of short and long dated bonds – flattened and has come close to inversion. An inverted yield curve, where long dated yields are below short dated yields, has historically proved a good, though not flawless, indicator of recession. Such concerns explain much of the weakness of global equity markets as 2018 came to an end – after a decade of very low interest rates and quantitative easing, normalisation of monetary policy in the world's largest economy was never going to be straightforward.

# Manager's Report

While influenced by these global issues, the UK financial markets remain a case apart and, with Brexit unresolved, scepticism about the domestic economy abounds. While catastrophe did not follow the referendum, it is clear that the leave vote has imposed an opportunity cost on the UK economy as it has dropped down the G7 growth rankings. Sterling and asset valuations have taken the strain, but the risk of a hard Brexit and an economic downturn remains. This risk disproportionately affects small UK quoted companies, which are more reliant on the domestic economy than their larger peers. However, with valuations already depressed, the opposite also holds true: all else being equal, anything short of a departure without a deal should bode well for the asset class.

## Brexit survey

To gain a different perspective on the ubiquitous Brexit debate, in September the Manager undertook a survey of the 93 companies held within Aberforth funds. The questions focused on the companies' reactions to the referendum and on potential future actions. The response rate was 94%, which represents a useful cross-section of the small cap universe.

The overall impression was of frustration with the politics, the Brexit process and lingering uncertainty. The lengthiest and most detailed responses tended to come from businesses oriented towards the domestic economy. This is unsurprising, though to an extent reassuring, since it is these companies that have been most affected by the decision to leave the EU. The survey identified three principal areas of concern.

- **Employment:** executives are worried about the availability of relatively cheap and skilful labour from the EU against the background of the rising national living wage.
- **Sterling:** there is an overwhelming assumption that sterling would weaken further in the event of a hard Brexit, which would be to the disadvantage of domestic businesses but to the benefit of overseas-oriented businesses.
- **Supply chain:** there is concern that a deal-less Brexit would complicate the movement of goods into and out of the UK at least in the short term. Contingency planning for several companies involves pre-emptive inventory building ahead of March.

The results of the survey need to be considered in the context of the continuing uncertainty about the Brexit process and outcome: company executives are having to operate with limited information and little guidance to date from government. Nevertheless, the survey did suggest that the companies are not complacent: money and time are being spent on preparations. This cannot, however, guarantee that the businesses will emerge unscathed, despite the commendable resilience displayed since the referendum in 2016.

## Investment performance

To recap, the total return of both the Fund and the NSCI (XIC) was -15.3%. Clearly, the most significant influence on the Fund's performance was the weak returns from equities in general. Beginning with the table below, the following section analyses the other important influences in 2018.

For the year to 31 December 2018	Basis points
Stock selection	-83
Sector selection	85
<b>Attributable to the portfolio of investments, based on mid prices</b> (after transaction costs of 22 basis points)	<b>2</b>
Movement in mid to bid price spread	1
Cash/other	79
Management fee	-77
Other expenses	-4
<b>Total attribution based on bid prices</b>	<b>1</b>

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 = -15.34%; Benchmark Index = -15.35%; difference is 0.01% being 1 basis point).

## Sectors

The overhang of Brexit means that sector exposure has been an unusually large influence on the performance of the Fund and of small caps in general since the referendum. The following comments on sectors are not made with reference to the NSCI (XIC)'s forty or so industrial classifications that determine the "Sector selection" data in the table above. Rather, sector exposure here refers to two distinct groups of companies: those that derive a majority of their sales from the domestic economy and those more dependent on overseas markets. The fortunes of these two groups have diverged substantially since the referendum, with the domestics under-performing the overseas earners by 24%. This reflects different profit dynamics under the influence of sterling weakness. The overseas companies have seen their sterling profits rise as income streams earned in euros or dollars have been translated into pounds. In contrast, the domestics have had to deal with insipid consumer spending and a hit to gross margins as foreign currency input costs have risen in sterling terms.

## Manager's Report

The table below sets out the geographical exposures of the portfolio and of the benchmark. These are calculated by reference to the sales of the underlying companies. In comparison with the NSCI (XIC), the Fund was well positioned for what followed the referendum and relative performance benefited accordingly. However, the extent of the under-performance by the domestics is such that their valuations have become increasingly attractive. Consistent with the Manager's value investment discipline and as part of the usual bottom-up stock selection process, this resulted in capital within the Fund's portfolio gradually moving from overseas to domestic businesses. It is worth noting, though, that the pervasive market weakness of the fourth quarter has levelled the playing field somewhat: there are opportunities in all parts of the stockmarket.

	The Fund		NSCI (XIC)	
	Overseas	Domestic	Overseas	Domestic
End 2018	38%	62%	42%	58%
End 2016	47%	53%	41%	59%

### Style & Size

Following a bad year for value investment in 2017 – the ninth worst since 1955 – the interim report noted the improved performance of the style through the second quarter and suggested that this might have been assisted by the sharp rise in US government bond yields. The second half of the year saw the market question the lofty valuations of many of the US's high growth internet businesses, but the relapse in bond yields into the end of the year undermined the rotation towards value. In addition, style dynamics within the NSCI (XIC) were influenced by the specific issue of Brexit: today's typical small cap value stock is sensitive to the economic cycle and so is likely to be particularly affected by the uncertain outlook. Data from the London Business School suggest that, despite its strong start to the year, value modestly lagged growth over 2018 as a whole. Given the Manager's value investment philosophy, this represented a hindrance to the Fund's returns.

Turning to size, this was an important factor within the UK stockmarket. Against the backdrop of heightened risk-aversion, particularly through the latter part of the year, small companies under-performed large in 2018, with a total return of -15.3% from the NSCI (XIC) and -9.5% from the FTSE All-Share. However, within the NSCI (XIC) itself, size was not a significant influence on performance. The NSCI (XIC) represents the bottom tenth of the total value of the UK stockmarket. This means that its largest constituent has a market capitalisation of £1.3 billion and that 59% of its total value is made up of an overlap with the FTSE 250. A useful gauge of size effects within the NSCI (XIC) is to compare the performances of the FTSE 250 and FTSE SmallCap. In 2018, the latter fell by slightly less than the former. Therefore, since the Fund retains its bias towards the more attractively valued "smaller small" companies, the size factor would have been a modest boost to performance in 2018.

### Balance sheets

To generalise, the boards of companies within the NSCI (XIC) reacted to the financial crisis by conserving cash to strengthen their balance sheets. This was an understandable reaction to what they had endured in 2008 and 2009. In more recent years, there have been signs of a return to more normal levels of confidence, with unusually strong balance sheets put to work in the form of greater investment, acquisitions or returns of cash to shareholders. Assuming that investment propositions have been well judged, the Manager welcomes this development, but there is the risk that balance sheets become over-stretched as happened in the years before the crisis. This would not yet appear to be the case, as shown in the table below, which sets out the distribution of the portfolio and of the NSCI (XIC) by balance sheet strength of the underlying companies.

Based on 2019 estimates	Net cash	Net debt/EBITDA	Net debt/EBITDA	Loss makers
		< 2x	> 2x	
The Fund	22%	51%	27%	0%
NSCI (XIC)	27%	38%	28%	7%

As 2018 progressed, there were indications that banks have become choosier in their lending and that credit conditions are becoming less easy, with the retail and construction sectors appearing to be under particular pressure. It is too early to determine whether this is simply a consequence of Carillion's failure or if the lenders are girding themselves in the run-up to the departure from the EU.

### Income

Dividend growth has been one of the most positive features of the small cap universe in recent years. Between 2012 and 2017, annual growth from the NSCI (XIC) averaged 9%, adjusted for inflation, well above the 62 year average rate of 3%. History dictates that a slowdown is inevitable and there are indications that it may have started in 2018. It is tempting once again to identify Brexit concerns as an influence. However, such a theme is not explicit in companies' results statements and the deceleration would appear to be a function of one-off cuts and fewer special dividends. Clearly, though, this might change in the event of a hard Brexit.

## Manager's Report

Turning to the portfolio's dividend experience, the table below splits holdings into categories that are determined by each company's most recent dividend announcement, excluding specials. Notwithstanding the previous comments about small cap dividends in general, the message from the table is similar to that of recent years: a handful of dividend cutters, the persistence of several nil payers and a bias to companies that most recently increased their dividends. As a reminder, the "Other" category includes companies that have returned to the dividend register or that have paid dividends for the first time and that therefore do not have a meaningful comparative payment in the previous year. While the outlook for the Fund's dividends will be substantially influenced by the fortunes of smaller companies in general, the balance sheet picture described above and average portfolio dividend cover of 2.9x continue to offer support.

Down	Nil payers	No change	Increase	Other
7	18	24	28	3

### Corporate activity

Against a backdrop of buoyant M&A activity around the world, Brexit concerns contributed to a quieter period for corporate activity within the NSCI (XIC). Only 14 bids for NSCI (XIC) constituents were completed or were outstanding at the end of the year, down from 17 in 2017 and from 33 two years before that. Of the 14, the Fund held three, one of which was announced towards the end of 2017. Overall, M&A dragged on the Fund's relative returns in 2018.

Despite some ambitious advisers and what is reputedly a full pipeline of potential deals, the frequency of IPOs also declined in 2018, with 13 completed against 21 the previous year. The Fund did not participate in any of the 13: in the opinion of the Manager, the valuations of the companies did not offer sufficient compensation for the information advantage enjoyed by the sellers.

### Turnover

Portfolio turnover was 28% in 2018. As usual, an element of this was driven by situations in which the Fund is effectively a forced seller, such as when a holding is taken over or is deemed too large to remain in the NSCI (XIC). The underlying rate of turnover tends to be influenced by investment performance: if the stockmarket chooses not to re-rate the Fund's holdings, there is not the scope to rotate capital into cheaper companies and so turnover is low. Conversely, better relative performance tends to be associated with a pick-up in turnover.

### Active share

Active share is a measure of how different a portfolio is from an index. It is calculated as half of the sum of the absolute differences between each stock's weighting in an index and its weighting in the portfolio. A higher active share would indicate that a portfolio has a better chance of performing differently from the index, for better or worse. The Manager targets a ratio of at least 70% for the Fund in relation to the NSCI (XIC) and at the start of January 2019 the ratio was 77%. Active share can be flattered by holding companies that are not constituents of the comparable index. The Manager believes that it is important for investors to know in what part of the stockmarket the Fund is invested and accordingly there are limited circumstances in which the portfolio can hold companies that are not in the NSCI (XIC). At the start of January 2019, all of the portfolio value was represented by constituents of the index.

## Valuations

There is no shortage of data to suggest that sterling assets are particularly unloved at present. Anxiety has intensified as Brexit enters, presumably, its final phase. The bias of small companies to the domestic economy renders them particularly vulnerable to a badly handled departure. As the table below shows, this has been reflected in a sharp de-rating of the asset class, with the historical PEs of both the NSCI (XIC) and the portfolio dropping sharply through 2018. At 10.9x, the PE of the index is 19% below its average since 1990. The only two occasions in which the multiple has been lower for a sustained period of time have coincided with recession, specifically in the early 1990s and during the financial crisis.

Characteristics	31 December 2018		31 December 2017	
	The Fund	NSCI (XIC)	The Fund	NSCI (XIC)
Number of companies	80	359	86	350
Weighted average market capitalisation	£523m	£732m	£710m	£878m
Price earnings (PE) ratio (historic)	9.6x	10.9x	12.4x	14.3x
Dividend yield (historic)	3.7%	3.6%	2.9%	2.8%
Dividend cover	2.9x	2.6x	2.8x	2.5x

The table below provides forward-looking valuation data using the Manager's favoured metric of enterprise value to earnings before interest, tax and amortisation (EV/EBITA). Ratios are shown for the portfolio, the tracked universe and certain subdivisions of the tracked universe. The tracked universe refers to the 284 companies that the Manager follows closely and that account for 97% by value of the entire NSCI (XIC).

# Manager's Report

EV/EBITA	2018	2019	2020
The Fund	9.7x	8.3x	7.5x
Tracked universe (284 stocks)	10.5x	9.6x	8.5x
– 49 growth stocks	16.5x	14.7x	13.2x
– 235 other stocks	9.7x	8.8x	7.9x

The table demonstrates the valuation advantage enjoyed by the portfolio, which has been a constant feature of the Fund's portfolio over its 28 years and is a function of the Manager's value investment philosophy. Underlying that valuation advantage are three particular features of today's universe of small UK quoted companies.

- Despite pressure on the valuations of some of the world's technology titans in recent months, the table shows that growth stocks remain significantly more expensive than value stocks. In the UK context, that premium would be challenged by a period of more buoyant economic conditions and by progress towards a normalisation of monetary policy.
- There remains a distinct premium for size and, by extension, liquidity. The average 2019 EV/EBITA ratio of "larger small" companies (i.e. those with market capitalisations of at least £500m) is 27% higher than that of the "smaller smalls", despite no obvious difference in the underlying business prospects for the two groups.
- Using average 2019 EV/EBITA ratios, overseas facing companies enjoy a 12% premium to the domestics, which are perceived as potential Brexit victims. The premium is not vast, but the profit dynamics of the two groups have diverged as sterling weakness has taken the profits of many overseas earners to all-time highs but has eroded margins of the domestic players.

## Outlook & conclusion

The uncertainties surrounding the UK's departure from the EU have clearly been a fundamental influence on the UK stockmarket over the past year and, with the matter yet to be resolved, it continues to affect the valuation opportunities described above. It is tempting, as many have done, to portray investment in small UK quoted companies as binary at the current time.

- In the event of a hard Brexit, the economy would be vulnerable to a further slowdown and, given presently low rates of growth, recession. Renewed monetary stimulus would be likely. It is possible that the risks of a downturn and further uncertainty would prove not to have been fully reflected in share prices and in sterling. Weaker sterling would insulate the overseas earners, but businesses reliant on the domestic economy would come under renewed pressure.
- A softer Brexit, along the lines of the prime minister's withdrawal agreement, would avoid a near term downturn and, through the removal of uncertainty, might see an acceleration in the economy as businesses increase investment. Sterling would plausibly recover at least some of its losses since the referendum and the outflow from UK assets would start to reverse. Some of the current headwinds facing the profits of domestic businesses would presumably turn to tailwinds, with the opposite being the case for the overseas earners.

However, this stark portrayal of the Fund's investment proposition feels rather short term. On the one side, it ignores the likelihood that political uncertainty will continue to beset the UK even if an immediate hard Brexit is avoided. On the other, it implies something close to Doomsday for small companies, whereas the events of ten years ago in the financial crisis proved their resilience. Good management and the support of the equity markets in the refinancing of 2009 allowed businesses to recover and grow. From its previous peak in May 2007 to the end of 2018, the NSCI (XIC) doubled in total return terms. The Manager therefore suspects that, after the inevitable short term adjustment to a hard Brexit, a degree of clarity would return to allow small companies to resume their well established habit of creating wealth for their shareholders.

The binary view also risks ignoring economic and financial developments in the rest of the world, which, as the events of the fourth quarter demonstrate, will affect perceptions of and future returns from UK equities. Notably, there is potential for a normalisation of US monetary policy to upset the established investment strategies since the financial crisis. This is not to argue that the valuations of growth stocks cannot move even higher or that the path to a normal cost of money will be short and without setbacks. However, to judge by the portfolio profiles of investment and unit trusts investing in small UK quoted companies, the desire to own growth stocks is extreme, while value investing remains very much out of fashion.

Finally, the binary characterisation is essentially the consensus view. This in itself does not mean that the view is wrong, but history suggests that a strong consensus can often lead to opportunities within financial markets, such as in 1981 when 364 economists penned a poorly timed letter criticising government policy. The strength of the consensus against the majority of small UK quoted companies is evident in their unusually depressed valuations. The Manager believes that the differentiation of the Fund's well diversified portfolio keeps it relevant and that, with sentiment towards UK equities, small companies and value investment so negative, it is well placed to generate good returns in the future.

K F Muir, Director  
P R Shaw, Director  
Aberforth Unit Trust Managers Limited  
25 January 2019

## Summary of Material Portfolio Changes

For the year ended 31 December 2018

Purchases	Cost £'000	Sales	Proceeds £'000
TI Fluid Systems	4,134	Vesuvius	9,330
Dunelm Group	3,544	Bovis Homes Group	7,710
Ultra Electronics Holdings	3,451	Coats Group	6,000
Mitchells & Butlers	2,279	Hogg Robinson Group	5,581
Capital & Regional	1,807	Computacenter	5,507
Lancashire Holdings	1,802	Bodycote	4,410
Restaurant Group	1,789	Huntsworth	4,127
Wilmington Group	1,605	Laird	3,601
Just Group	1,568	TT Electronics	3,501
Rank Group	1,534	Senior	3,148
Nostrum Oil & Gas	1,461	Future	3,124
De La Rue	1,324	Vitec Group	2,851
Morgan Advanced Materials	1,318	Restaurant Group	2,611
Headlam Group	1,211	Robert Walters	2,260
FirstGroup	1,192	Grainger	2,165
Future	1,162	Urban&Civic	2,056
Lookers	1,145	Pendragon	1,973
Carpetright	1,088	Keller	1,944
Grainger	1,084	FirstGroup	1,880
Alfa Financial Software Holdings	1,073	Brewin Dolphin Holdings	1,768
Other purchases	21,577	Other sales	54,116
<b>Total Cost of Purchases</b>	<b>57,148</b>	<b>Total Proceeds of Sales</b>	<b>129,663</b>

# Portfolio Statement

As at 31 December 2018

Holding	Security	31 December 2018			31 December 2017	
		Value £'000	% of Total Net Assets	% of Index <sup>3</sup>	% of Total Net Assets	% of Index
<b>Oil &amp; Gas Producers</b>		<b>5,741</b>	<b>4.0</b>	<b>3.2</b>	3.9	2.6
14,345,565	EnQuest	3,142	2.2			
1,387,587	Hardy Oil & Gas	35	–			
1,484,928	Nostrum Oil & Gas	1,527	1.1			
667,400	Premier Oil	443	0.3			
873,554	Soco International	594	0.4			
<b>Oil Equipment, Services &amp; Distribution</b>		<b>447</b>	<b>0.3</b>	<b>1.1</b>	0.7	1.1
4,341,584	Gulf Marine Services	447	0.3			
<b>Alternative Energy</b>		–	–	–	–	–
<b>Chemicals</b>		<b>722</b>	<b>0.5</b>	<b>2.8</b>	0.5	1.7
913,329	Carclo	722	0.5			
<b>Industrial Metals &amp; Mining</b>		–	–	<b>0.8</b>	–	–
9,832,752	International Ferro Metals <sup>1</sup>	–	–			
<b>Mining</b>		<b>3,623</b>	<b>2.5</b>	<b>3.5</b>	1.7	2.5
1,503,965	Anglo Pacific Group	2,136	1.5			
837,093	Capital Drilling	318	0.2			
1,062,637	Gem Diamonds	1,169	0.8			
2,717	Kenmare Resources Warrants 2019 <sup>2</sup>	–	–			
<b>Construction &amp; Materials</b>		<b>7,124</b>	<b>5.0</b>	<b>4.5</b>	5.0	4.9
1,122,059	Eurocell	2,356	1.7			
1,057,083	Forterra	2,336	1.6			
494,813	Keller	2,432	1.7			
<b>Aerospace &amp; Defence</b>		<b>4,681</b>	<b>3.3</b>	<b>1.8</b>	2.3	2.6
738,522	Senior	1,388	1.0			
253,527	Ultra Electronics Holdings	3,293	2.3			
<b>General Industrials</b>		<b>408</b>	<b>0.3</b>	<b>0.9</b>	6.9	0.9
3,002,445	Low & Bonar	408	0.3			
<b>Electronic &amp; Electrical Equipment</b>		<b>5,483</b>	<b>3.8</b>	<b>1.8</b>	3.5	2.1
215,400	Dialight	862	0.6			
988,187	Morgan Advanced Materials	2,601	1.8			
1,031,770	TT Electronics	2,020	1.4			
<b>Industrial Engineering</b>		<b>5,311</b>	<b>3.7</b>	<b>1.8</b>	4.9	2.1
405,226	Castings	1,520	1.1			
319,916	Vitec Group	3,791	2.6			
<b>Industrial Transportation</b>		<b>3,121</b>	<b>2.2</b>	<b>2.3</b>	1.7	2.3
1,357,153	Wincanton	3,121	2.2			
<b>Support Services</b>		<b>19,351</b>	<b>13.2</b>	<b>7.8</b>	14.8	11.3
3,083,671	Connect Group	1,318	0.9			
564,690	De La Rue	2,360	1.6			
685,407	Essentra	2,336	1.6			
25,375,758	Management Consulting Group	447	0.3			
121,400	Menzies (John)	619	0.4			
856,926	Northgate	3,169	2.2			
556,198	Robert Walters	3,059	2.1			
1,629,634	RPS Group	2,213	1.5			
1,360,777	SIG	1,494	1.0			
3,959,918	Speedy Hire	2,336	1.6			

# Portfolio Statement

As at 31 December 2018

Holding	Security	31 December 2018			31 December 2017	
		Value £'000	% of Total Net Assets	% of Index <sup>3</sup>	Total Net Assets	% of Index
<b>Automobiles &amp; Parts</b>		<b>1,953</b>	<b>1.4</b>	<b>0.6</b>	–	0.8
1,169,324	TI Fluid Systems	1,953	1.4			
<b>Beverages</b>		–	–	<b>1.0</b>	–	0.7
<b>Food Producers</b>		<b>1,701</b>	<b>1.2</b>	<b>3.5</b>	1.4	2.8
676,500	Bakkavor Group	954	0.7			
316,511	R.E.A. Holdings	747	0.5			
<b>Household Goods &amp; Home Construction</b>		<b>1,084</b>	<b>0.8</b>	<b>3.1</b>	3.1	3.5
264,298	Headlam Group	1,084	0.8			
<b>Leisure Goods</b>		–	–	<b>0.9</b>	0.5	0.9
<b>Personal Goods</b>		–	–	<b>1.4</b>	–	1.6
<b>Health Care Equipment &amp; Services</b>		–	–	<b>1.4</b>	–	1.9
<b>Pharmaceuticals &amp; Biotechnology</b>		<b>1,629</b>	<b>1.1</b>	<b>1.7</b>	1.2	2.0
2,327,492	Vectura Group	1,629	1.1			
<b>Food &amp; Drug Retailers</b>		<b>526</b>	<b>0.4</b>	<b>1.0</b>	1.4	1.0
984,893	McColl's Retail Group	526	0.4			
<b>General Retailers</b>		<b>9,812</b>	<b>6.9</b>	<b>6.0</b>	5.6	6.1
3,919,354	Carpetright	655	0.5			
924,517	DFS Furniture	1,681	1.2			
611,700	Dunelm Group	3,294	2.3			
476,100	Halfords Group	1,214	0.8			
1,071,100	Lookers	988	0.7			
918,914	N Brown Group	842	0.6			
1,818,548	Topps Tiles	1,138	0.8			
<b>Media</b>		<b>11,176</b>	<b>7.9</b>	<b>3.7</b>	5.5	4.3
1,883,714	Centaur Media	836	0.6			
873,733	Future	4,176	2.9			
3,169,852	Huntsworth	3,360	2.4			
2,143,880	Reach	1,372	1.0			
818,500	Wilmington Group	1,432	1.0			
<b>Travel &amp; Leisure</b>		<b>18,856</b>	<b>13.2</b>	<b>9.9</b>	9.6	7.8
274,975	Air Partner	228	0.2			
1,516,000	Ei Group	2,753	1.9			
5,303,841	FirstGroup	4,423	3.1			
163,209	Go-Ahead Group	2,494	1.8			
1,445,192	Mitchells & Butlers	3,703	2.6			
873,500	Rank Group	1,204	0.8			
1,793,591	Restaurant Group	2,556	1.8			
1,128,450	Stagecoach Group	1,495	1.0			
<b>Fixed Line Telecommunications</b>		<b>1,251</b>	<b>0.9</b>	<b>2.1</b>	0.6	1.8
1,728,034	KCOM Group	1,251	0.9			
<b>Electricity</b>		–	–	<b>0.9</b>	–	0.7
<b>Banks</b>		–	–	<b>1.6</b>	–	3.5
<b>Nonlife Insurance</b>		<b>1,558</b>	<b>1.1</b>	<b>2.3</b>	0.5	1.8
257,600	Lancashire Holdings	1,558	1.1			

# Portfolio Statement

As at 31 December 2018

Holding	Security	31 December 2018			31 December 2017	
		Value £'000	% of Total Net Assets	% of Index <sup>3</sup>	% of Total Net Assets	% of Index
<b>Life Insurance</b>		<b>3,196</b>	<b>2.2</b>	<b>1.0</b>	2.3	0.4
1,396,918	Hansard Global	617	0.4			
2,838,101	Just Group	2,579	1.8			
<b>Real Estate Investment &amp; Services</b>		<b>11,318</b>	<b>7.9</b>	<b>6.0</b>	5.9	5.7
4,944,481	Countrywide	423	0.3			
1,781,400	Grainger	3,737	2.6			
1,285,121	U and I Group	2,654	1.9			
1,732,200	Urban&Civic	4,504	3.1			
<b>Real Estate Investment Trusts</b>		<b>4,256</b>	<b>3.0</b>	<b>5.0</b>	2.4	5.4
2,964,800	Capital & Regional	817	0.6			
940,704	Hanstee Holdings	869	0.6			
1,061,852	McKay Securities	2,570	1.8			
<b>Financial Services</b>		<b>12,546</b>	<b>8.7</b>	<b>9.2</b>	6.6	8.3
1,353,538	Brewin Dolphin Holdings	4,364	3.0			
625,151	Charles Stanley Group	1,700	1.2			
871,600	CMC Markets	906	0.6			
1,525,606	International Personal Finance	3,115	2.2			
3,728,100	Non-Standard Finance	2,461	1.7			
<b>Software &amp; Computer Services</b>		<b>6,509</b>	<b>4.5</b>	<b>4.6</b>	5.3	4.0
543,800	Alfa Financial Software Holdings	629	0.4			
1,275,013	RM	2,550	1.8			
711,477	SDL	3,330	2.3			
<b>Technology Hardware &amp; Equipment</b>		<b>3,672</b>	<b>2.6</b>	<b>0.8</b>	2.5	0.9
3,101,000	Spirent Communications	3,672	2.6			
<b>Investments as shown in the Balance Sheet</b>		<b>147,055</b>	<b>102.6</b>	<b>100.0</b>	100.3	100.0
<b>Net Current Liabilities</b>		<b>(3,697)</b>	<b>(2.6)</b>	–	(0.3)	–
<b>Total Net Assets</b>		<b>143,358</b>	<b>100.0</b>	<b>100.0</b>	100.0	100.0

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

<sup>1</sup> Listing suspended

<sup>2</sup> Unquoted security

<sup>3</sup> Reflects the rebalanced index as at 1 January 2019

## Comparative Tables

Income Unit	31 December 2018 £/unit	31 December 2017 £/unit	31 December 2016 £/unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	201.38	170.14	166.09
Return before operating charges*	(28.64)	38.12	10.14
Operating charges	(1.60)	(1.52)	(1.28)
Return after operating charges	(30.24)	36.60	8.86
Distributions on income units	(5.81)	(5.36)	(4.81)
Closing net asset value per unit	165.33	201.38	170.14
*after direct portfolio transaction costs of:	(0.52)	(0.55)	(0.48)

Income Unit			
<b>Performance</b>			
Total return after charges <sup>1</sup>	-15.0%	21.5%	5.3%
<b>Other information</b>			
Closing net asset value (£'000)	45,883	48,686	62,887
Closing number of units	277,528.376	241,758.267	369,607.953
Operating charges	0.81%	0.79%	0.80%
Direct portfolio transaction costs	0.26%	0.28%	0.30%
<b>Prices</b>			
Highest issue price (£)	218.32	207.98	175.14
Lowest cancellation price (£)	163.56	170.73	140.11

Accumulation Unit	31 December 2018 £/unit	31 December 2017 £/unit	31 December 2016 £/unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	263.49	216.72	205.20
Return before operating charges*	(38.31)	48.73	13.12
Operating charges	(2.12)	(1.96)	(1.60)
Return after operating charges	(40.43)	46.77	11.52
Distributions	(7.66)	(6.87)	(5.99)
Retained distributions on accumulation units	7.66	6.87	5.99
Closing net asset value per unit	223.06	263.49	216.72
* after direct portfolio transaction costs of:	(0.69)	(0.71)	(0.60)

Accumulation Unit			
<b>Performance</b>			
Total return after charges	-15.3%	21.6%	5.6%
<b>Other information</b>			
Closing net asset value (£'000)	97,475	200,330	138,930
Closing number of units	436,989.840	760,295.152	641,058.237
Operating charges	0.81%	0.79%	0.80%
Direct portfolio transaction costs	0.26%	0.28%	0.30%
<b>Prices</b>			
Highest issue price (£)	285.65	269.08	220.73
Lowest cancellation price (£)	217.30	217.47	173.37

<sup>1</sup> 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;
- 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*

P R Shaw, *Director*

Aberforth Unit Trust Managers Limited

25 January 2019

# Responsibility Statements

## 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 2018

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 of 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 Scheme's 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  
Drummond House  
1 Redheughs Avenue  
Edinburgh EH12 9RH

25 January 2019

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

## Report on the audit of the financial statements

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### Opinion

In our opinion, Aberforth UK Small Companies Fund financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2018 and of the net revenue and the net capital losses 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 2018; the statement of total return, the statement of change in net assets attributable to unitholders and the statement of cash flows for the year then ended; the distribution tables; and the notes to the financial statements, which include a description of the significant accounting policies.

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### 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.

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### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

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### 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.

### 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.

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

## Responsibilities for the financial statements and the audit

### *Responsibilities of the Manager for the financial statements*

As explained more fully in the Responsibilities Statement set out on page 12, 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.

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.

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](http://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.

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## 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  
144 Morrison Street  
Edinburgh  
EH3 8EB  
United Kingdom  
25 January 2019

# Financial Statements

For the year ended 31 December 2018

## Statement of Total Return

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Income:					
Net capital (losses)/gains	4		(29,710)		39,694
Revenue	5	6,950		7,896	
Expenses	6	(1,680)		(1,996)	
Interest payable and similar charges		(5)		(1)	
Net revenue before taxation		5,265		5,899	
Taxation	7	–		–	
Net revenue after taxation			5,265		5,899
<b>Total return before distributions</b>			<b>(24,445)</b>		45,593
Distributions	8		(6,264)		(7,089)
<b>Change in net assets attributable to Unitholders from investment activities</b>			<b>(30,709)</b>		38,504

## Statement of Change in net assets attributable to unitholders

	2018		2017	
	£'000	£'000	£'000	£'000
<b>Opening net assets</b>		249,016		201,817
Amounts receivable on issue of units	28,400		61,654	
Amounts payable on cancellation of units	(106,811)		(58,148)	
		(78,411)		3,506
Change in net assets attributable to unitholders from investment activities		(30,709)		38,504
Retained distribution on accumulation units		3,462		5,189
<b>Closing net assets attributable to unitholders</b>		<b>143,358</b>		249,016

# Financial Statements

As at 31 December 2018

## Balance Sheet

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Fixed assets:					
Investments assets	16		147,055		249,877
Current assets:					
Debtors	9	425		660	
Cash and bank balances		–		–	
Total other assets			425		660
Total assets			147,480		250,537
<b>LIABILITIES</b>					
Creditors:					
Bank overdraft		(3,252)		(770)	
Other creditors	10	(141)		(190)	
Distribution payable on income units		(729)		(561)	
Total liabilities			(4,122)		(1,521)
<b>Net assets attributable to unitholders</b>			<b>143,358</b>		<b>249,016</b>

## Cash Flow Statement

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Net cash inflow from operating activities</b>	11	<b>5,973</b>	5,772
<b>Investing activities</b>			
Purchases of investments		(57,093)	(87,982)
Sales of investments		129,663	79,650
Cash inflow/(outflow) from investing activities		<b>72,570</b>	(8,332)
<b>Financing activities</b>			
Amounts received from issue of units		28,589	61,925
Amounts paid on cancellation of units		(108,296)	(58,762)
Distributions paid		(1,313)	(1,810)
Interest paid		(5)	(1)
Cash (outflow)/inflow from financing activities		<b>(81,025)</b>	1,352
<b>Decrease in cash and cash equivalents</b>		<b>(2,482)</b>	(1,208)
Cash and cash equivalents at the start of the year		(770)	438
Cash and cash equivalents at the end of the year		<b>(3,252)</b>	(770)

# 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 Collective Investment Schemes Sourcebook (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 31 December 2018. 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. 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  $\frac{5}{8}$ <sup>th</sup> is allocated to capital and the remaining  $\frac{3}{8}$ <sup>th</sup> 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.
- (g) The quoted investments of the Fund have been valued at bid market value at market close on the last working day of the accounting period.

## 2 Distribution Policies

The policy is to distribute all available revenue, after deduction of those expenses which are chargeable in calculating the distribution.  $\frac{3}{8}$ <sup>th</sup> 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 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 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. 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

	2018 £'000	2017 £'000
The net (losses)/gains on investments during the year comprise:		
Equity investments	(29,710)	39,694

## 5 Revenue

	2018 £'000	2017 £'000
UK dividends	6,634	7,444
Property income distributions	89	152
Overseas dividends	167	300
Scrip dividends	55	–
Bank Interest	4	–
Placing commission	1	–
Total income	6,950	7,896

## 6 Expenses

	2018 £'000	2017 £'000
Payable to the Manager or associate of the Manager:		
Manager's periodic fee	1,591	1,895
Payable to the Trustee or associate of the Trustee:		
Trustee's fees	48	51
Other expenses:		
Audit fee	13	12
Safe custody fees	16	19
Registration fees	3	10
Printing fees	7	7
Taxation services	2	2
	41	50
Total expenses	1,680	1,996

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 £994,000 borne by the capital of the Fund (2017: £1,184,000). 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

	2018 £'000	2017 £'000
<b>(a) Analysis of charge in the year:</b>		
Irrecoverable overseas tax	–	–
<b>Total current tax charge for the year (note 7(b))</b>	<b>–</b>	<b>–</b>
<b>(b) Factors affecting current tax charge for the year:</b>		
Net revenue before taxation	5,265	5,899
Corporation tax at 20%	1,053	1,180
Effects of:		
Non-taxable UK dividends	(1,338)	(1,489)
Non-taxable overseas dividends	(33)	(60)
Unutilised management expenses	318	369
	<b>(1,053)</b>	<b>(1,180)</b>
<b>Current tax charge (Note 7(a))</b>	<b>–</b>	<b>–</b>

At the balance sheet date, the Fund had excess management expenses of £46,333,000 (2017: £44,742,000). 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 £9,267,000 (2017: £8,948,000).

## 8 Distributions

	2018 £'000	2017 £'000
The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:		
Interim	2,690	4,034
Final	2,253	2,845
	<b>4,943</b>	<b>6,879</b>
Add: Income deducted on cancellation of units	1,491	517
Less: Income received on creation of units	(170)	(307)
<b>Total distributions</b>	<b>6,264</b>	<b>7,089</b>

	2018 £'000	2017 £'000
The difference between the net revenue after taxation and the distributions for the year are as follows:		
Net revenue after taxation	5,265	5,899
Add: Manager's periodic fee taken to capital	994	1,184
Add: Safe custody fee taken to capital	5	6
<b>Distributions</b>	<b>6,264</b>	<b>7,089</b>

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

# Notes to the Financial Statements

## 9 Debtors

	2018 £'000	2017 £'000
Amounts receivable for creation of units	17	36
Accrued income	408	624
<b>Total debtors</b>	<b>425</b>	<b>660</b>

## 10 Other Creditors

	2018 £'000	2017 £'000
Amounts payable for cancellation of units	12	6
Accrued management fee	104	157
Other accrued expenses	25	27
<b>Total creditors</b>	<b>141</b>	<b>190</b>

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

	2018 £'000	2017 £'000
Net revenue before taxation	5,265	5,899
Adjusted for:		
Interest payable and similar charges	5	1
Scrip dividends received	(55)	–
Debtors:		
Decrease/(increase) in accrued income	216	(166)
Creditors:		
(Decrease)/increase in accrued management fee	(53)	36
(Decrease)/increase in accrued other expenses	(2)	2
Taxation	–	–
Special dividends taken to capital	597	–
<b>Net cash flow from operating activities</b>	<b>5,973</b>	<b>5,772</b>

# Notes to the Financial Statements

## 12 Portfolio Transaction Costs

	£'000	2018 % of purchases	% Average Net Asset Value	£'000	2017 % of purchases	% Average Net Asset Value
Equity purchases in period before transaction costs	51,770			86,770		
Commissions	121	0.23	0.06	173	0.20	0.07
Taxes	245	0.47	0.12	422	0.48	0.17
Total equity purchases costs	366	0.70	0.18	595	0.68	0.24
Corporate actions during the period	5,012			579		
Total purchase consideration after direct transaction costs	57,148			87,944		

	£'000	2018 % of sales	% Average Net Asset Value	£'000	2017 % of sales	% Average Net Asset Value
Gross equity sales in period before transaction costs	128,305			69,267		
Commissions	(182)	(0.14)	(0.09)	(125)	(0.16)	(0.05)
Total equity sales costs	(182)	(0.14)	(0.09)	(125)	(0.16)	(0.05)
Corporate actions during the period	1,540			10,509		
Total sales after transaction costs	129,663			79,651		

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 0.13% per annum (2017: 0.13% per annum) of the Fund's average net asset value and taxes have averaged 0.16% per annum (2017: 0.17% 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 2018, the average dealing spread for the underlying Fund investments is 1.55% (2017: 1.20%).

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

Number of units	Opening				Closing 31 Dec 2018
	1 Jan 2018	Issued	Redeemed	Converted	
Accumulation	760,295.152	32,450.956	(354,610.668)	(1,145.600)	436,989.840
Income	241,758.267	110,456.798	(76,186.393)	1,499.704	277,528.376

## 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 £99,100 (31 December 2017: £127,000). 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 £3,700 (31 December 2017: £4,400 due to National Westminster Bank plc).

## 15 Contingencies and financial commitments

The Fund had no financial commitments, contingent assets or liabilities as at 31 December 2018 (2017: 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 prices for identical instruments in an active market.

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.

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	147,055	–	249,877	–
<b>Total</b>	<b>147,055</b>	<b>–</b>	<b>249,877</b>	<b>–</b>

## 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% (2017: 100%) of the net assets of the Fund were invested in ordinary shares or stock units admitted to an official stock exchange. If the investment portfolio valuation fell by 10% at 31 December 2018, the impact on Unitholders' funds would have been negative £14.7m (2017: negative £24.9m). If the investment portfolio valuation rose by 10% at 31 December 2018, the impact on Unitholders' funds would have been positive £14.7m (2017: positive £24.9m). 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 2018, 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. The only exceptions to this were Kenmare Resources Warrants and International Ferro Metals which have been fair valued at £nil (2017: £nil).

# Distributions

## Distribution Table

For the six months to 31 December 2018

	Net Income Dec 2018	Equalisation <sup>†</sup> Dec 2018	Distribution/ Accumulation Dec 2018	Distribution/ Accumulation Dec 2017
Income units (payable 28 February 2019)				
Group 1: Units purchased prior to 1 July 2018	<b>262.5189p</b>	–	<b>262.5189p</b>	232.1606p
Group 2: Units purchased on or after 1 July 2018	<b>129.2830p</b>	<b>133.2359p</b>	<b>262.5189p</b>	232.1606p
Accumulation units				
Group 1: Units purchased prior to 1 July 2018	<b>348.7808p</b>	–	<b>348.7808p</b>	300.3617p
Group 2: Units purchased on or after 1 July 2018	<b>171.7645p</b>	<b>177.0163p</b>	<b>348.7808p</b>	300.3617p

For the six months to 30 June 2018

	Net Income Jun 2018	Equalisation <sup>†</sup> Jun 2018	Distribution/ Accumulation Jun 2018	Distribution/ Accumulation Jun 2017
Income units (paid on 31 August 2018)				
Group 1: Units purchased prior to 1 January 2018	<b>318.8306p</b>	–	<b>318.8306p</b>	303.3928p
Group 2: Units purchased on or after 1 January 2018	<b>122.4338p</b>	<b>196.3968p</b>	<b>318.8306p</b>	303.3928p
Accumulation units				
Group 1: Units purchased prior to 1 January 2018	<b>417.1557p</b>	–	<b>417.1557p</b>	386.4433p
Group 2: Units purchased on or after 1 January 2018	<b>160.1915p</b>	<b>256.9642p</b>	<b>417.1557p</b>	386.4433p

† 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 2014	416.0784	351.3320
31 December 2015	548.9197	453.1564
31 December 2016	599.1922	481.2787
31 December 2017	686.8050	535.5534
<b>31 December 2018</b>	<b>765.9365</b>	<b>581.3495</b>

# 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](mailto:ordergroup@linkgroup.co.uk)  
Email: [enquiries@aberforth.co.uk](mailto:enquiries@aberforth.co.uk)  
Website: [www.aberforth.co.uk](http://www.aberforth.co.uk)

## Trustee & Depositary

NatWest Trustee & Depositary Services Limited\*  
Drummond House  
1 Redheughs Avenue  
Edinburgh EH12 9RH

## Investment Adviser

Aberforth Partners LLP\*  
14 Melville Street  
Edinburgh EH3 7NS

## Registrar

Link Fund Administrators Limited\*  
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

## 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 that are all available on the Manager's website [www.aberforth.co.uk](http://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 the risks relating to that.

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](mailto: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](http://www.fca.org.uk/consumers/protect-yourself-scams). You can also call the FCA Consumer Helpline on 0800 111 6768.

