

Aberdeen UK Smaller Companies Fund

Annual short report for the year ended 31 July 2013

Investment objective and policy

The investment objective of Aberdeen UK Smaller Companies Fund is to provide capital growth from investment in smaller UK companies being companies which are not included within the 200 largest UK companies at the time of purchase, in terms of market capitalisation.

Risk profile

Shareholders should be aware of the risks inherent in investing in securities and other financial instruments. Financial markets can be vulnerable to unpredictable price movements and are affected by a number of factors.

The value of your investment and the revenue derived from it will rise and fall due to market and company specific factors.

The specific risk warnings relating to this fund are as follows:

- The Fund invests in smaller companies which are likely to carry higher risks than larger companies.
- Smaller companies shares tend to be less liquid than those of larger companies.
- The Fund invests in a specific country market which may increase share price volatility.
- Due to the specialist nature of its investment the Fund, at time, may experience difficulty in realising some of its underlying holdings.

Cumulative performance (%)

	Period of report 31/07/2012 to 31/07/2013	5 years 31/07/2008 to 31/07/2013	Since launch 30/04/1993 to 31/07/2013 ^c
Fund - A Accumulation	34.32	90.14	484.31
Benchmark ^a	48.49	73.56	430.10

Annual discrete performance to 31 July^b

	31/07/2012 to 31/07/2013	31/07/2011 to 31/07/2012	31/07/2010 to 31/07/2011	31/07/2009 to 31/07/2010	31/07/2008 to 31/07/2009
% change	34.32	(1.94)	24.42	29.92	(10.70)

Source: Lipper, Total Return, NAV to NAV, UK Net income reinvested, £.

^a Hoare Govett Smaller Companies Ex IT's to 31/03/2006 then FTSE Small Cap Ex IT's.

^b Figures are as at valuation point.

^c Figures for Aberdeen UK Emerging Companies Unit Trust prior to 17 June 2005.

Please remember that past performance is not a guide to future returns. The price of shares and the revenue from them may fall as well as rise. Investors may not get back the amount originally invested.

Market review

Domestic equities rose during the year under review, with UK smaller companies outperforming their larger counterparts, as ample liquidity from loose fiscal and monetary policies kept markets buoyant worldwide. Specifically, it was the European Central Bank's (ECB) decision to buy unlimited amounts of short-term debt, through its outright monetary transactions programme, that assuaged fears of a Eurozone breakup early in the reporting period. During this time, the US Federal Reserve (Fed) also announced its long-awaited third round of quantitative easing. In March, markets were briefly shaken by the near-collapse of Cyprus' banking system, which sparked worries of a run in other parts of the European periphery. Confidence returned after the ECB lowered interest rates and said it could impose negative deposit rates to encourage lending. It is believed such a move could bolster demand on the Continent and in turn help UK exporters. Towards the period-end, gains were clipped by concerns that the Fed would soon scale down its asset purchases, but nascent signs of recovery and the Bank of England's (BoE) pledge to keep rates low for an extended period reassured investors. On the economic front, second-quarter GDP growth was buttressed by the expansion of all sectors for the first time in nearly three years.

Portfolio review

At the stock level, our holdings Bellway and Numis were among the top contributors to relative return. House builder Bellway did well as increased confidence in the UK housing market translated into rising volumes and moderately higher prices. Stockbroker Numis also outperformed as its first-half results rose on the back of soaring equity markets, which revived share flotations. Relative return was also bolstered by the lack of exposure to nickel miner Talvivaara and gold miner Avocet, which fell in line with the decline in global commodity prices.

Conversely, top detractors included Fenner and RPC Group. China's economic slowdown, which has affected global mining activity, weighed on industrial conveyor belt manufacturer Fenner. However, management is positive on the company's future prospects, and expects a return to growth in the current financial year. Plastic packaging company RPC's full-year profits were hurt by higher material costs and foreign exchange losses. The non-holdings in travel company Thomas Cook and inkjet printing specialist Xaar also cost the Fund. Investors were cheered by Thomas Cook's narrowed losses and reduced debt in the first half, while Xaar was buoyed by strong revenue and profit growth.

In portfolio activity, we introduced Devro, a sausage skin maker, given its leading position in a consolidated sector and opportunities to grow in both developed and emerging markets. We also bought Acal, a specialist provider of technology products and services throughout Europe with an attractive yield.

Against this, we divested Chemring amid concerns over its balance sheet and a lack of earnings visibility over the short to medium term. We pared several positions on the back of share price strength, including Oxford Instruments, Restaurant Group and funeral services provider Dignity.

Outlook

At the time of writing, additional positive data, from industrial output and exports to manufacturing and services Purchasing Managers' Index, have lifted hopes that a recovery is well underway. Buoyed by the stronger readings, the BoE upgraded its GDP growth outlook. While we are similarly encouraged, we feel that optimism should be tempered with some caution. Unemployment remains sticky at 7.8%, domestic demand is still sluggish and more investments are needed to ensure a sustainable turnaround. On the housing front, price rises have sparked fears of a new bubble forming. Against this uncertain backdrop, stock-picking remains key. After the hefty gains of the previous years, a correction in the domestic market might prove timely, particularly when the US starts tapering. This could provide an opportunity to pick up or add to well-managed companies with the market leadership and financial strength that will help them weather the current headwinds and emerge stronger.

Portfolio breakdown

Portfolio of investments	As at 31 July 2013%	As at 31 July 2012%
Basic Materials	4.79	4.88
Industrials	37.30	37.75
Consumer Goods	9.02	7.89
Health Care	3.45	3.75
Consumer Services	24.85	24.66
Financials	12.65	10.96
Technology	4.54	4.63
Investment assets	96.60	94.52
Net other assets	3.40	5.48
Net assets	100.00	100.00

Fund facts

	Interim/annual accounting dates	Income payment dates
	31 January, 31 July	30 April, 31 October

	Ongoing charges figure % as at 31/07/2013	Ongoing charges figure % as at 31/07/2012
Share class A	1.61	1.62
Share class I	0.86	N/A
Share class Z	0.11	0.12

The ongoing charges figure is calculated in accordance with the guidelines issued by the European Securities and Markets Authority. It is the ratio of the total ongoing charges to the average net asset value over twelve months and includes the annual management charge, the other operating expenses and any synthetic element to incorporate the ongoing charges of any underlying collective investments.

Distribution summary

	Total distribution (p) for the year to 31/07/2013	Total distribution (p) for the year to 31/07/2012
Share class A - Accumulation	2.9227	2.8357
Share class I - Accumulation	2.0264	N/A
Share class Z - Accumulation	6.8192	5.9279

Distributions in respect of the Fund come with a tax credit of 1/9th of the amount stated. UK higher and additional rate taxpayers not holding through an ISA may have additional income tax to pay. Non taxpayers are not entitled to a refund of the 1/9th tax credit. Distributions received by corporate investors are subject to the corporate streaming rules.

Performance summary

	Net asset value as at 31/07/2013 pence per share	Net asset value as at 31/07/2012 pence per share	Net asset value % change
Share class A - Accumulation	248.22	185.32	33.94
Share class I - Accumulation	125.88	N/A	N/A
Share class Z - Accumulation	276.82	203.60	35.96

Net of tax and expenses.

Performance record

Calendar year		Highest share price (p)	Lowest share price (p)
2009	Accumulation A	140.27	86.24
2009	Accumulation Z	147.81	90.06

Calendar year		Highest share price (p)	Lowest share price (p)
2010	Accumulation A	182.56	137.17
2010	Accumulation Z	195.84	145.21
2011	Accumulation A	195.22	156.04
2011	Accumulation Z	211.08	169.69
2012	Accumulation A	207.51	162.38
2012 ^A	Accumulation I	104.77	98.86
2012	Accumulation Z	229.38	176.92
2013 ^B	Accumulation A	248.11	211.04
2013 ^B	Accumulation I	125.81	106.57
2013 ^B	Accumulation Z	276.63	233.34

^A I Accumulation share class launched on 1 October 2012.

^B to 31 July 2013.

Risk and reward profile

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

Typically lower rewards, lower risk				Typically higher rewards, higher risk		
←				→		
1	2	3	4	5	6	7

Risk and reward indicator table as at 31 July 2013.

- This Fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past.
- Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases. The indicator does not take into account the following risks of investing in this Fund:
- Smaller companies: Shares of smaller companies may be more difficult to buy and sell than those of larger companies. This means that the Investment Manager may not be able to buy and sell at the best time or may suffer losses. This could reduce your returns.
- Specialist: The Fund invests in a specialist sector and it will not perform in line with funds that have a broader investment policy.
- A full list of risks applicable to this Fund can be found in the Prospectus.
- The latest risk and reward profile can be found on the Key Investor Information Document (KIID) for this Fund which is available on our website at www.aberdeen-asset.co.uk

Other information

Name change – Aberdeen Unit Trust Managers Limited

As a result of a recent review of our company names, on 20 May 2013 Aberdeen Unit Trust Managers Limited changed its name to **Aberdeen Fund Managers Limited**. The name change does not affect your holdings with Aberdeen or the way in which they are managed.

Literature and Fund information

Our website contains a wealth of information on our funds and investment approach, including Key Investor Information Documents (KIIDs) for all of the funds available for investment. We also publish Supplementary Information Documents (SIDs) which contain Application forms and additional information, such as Terms and Conditions.

You can invest online and access fund performance and pricing information.

Please visit:

www.aberdeen-asset.co.uk

www.aberdeenukprices.com

Alternatively please contact our Customer Services Team on:

Tel: **0845 300 2890**

Email: customer.services@aberdeen-asset.com

Report and accounts

Copies of the annual and half-yearly long form report and accounts for this Fund are available free of charge on request to Aberdeen Fund Managers Limited.

Aberdeen UK Smaller Companies Fund is a sub-fund of Aberdeen Investment Funds ICVC, an open-ended investment company ('OEIC') authorised under the Financial Services and Markets Act 2000.

Aberdeen Fund Managers Limited only provides information about its own products and will not give individual financial advice. If you are in any doubt about the suitability of a product to meet your financial needs, then you should seek the advice of a financial intermediary.

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Fund during the period it covers, and the results of those activities at the end of the period. The naming of specific shares or bonds is not a recommendation to deal in them. The views expressed are those of Aberdeen Fund Managers Limited and should not be construed as advice either to buy, retain, or sell a particular investment. Investment in the Fund should generally be viewed as a long-term investment.

Appointments

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