

# Aberdeen European Smaller Companies Fund

Annual short report for the year ended 31 July 2013

## Investment objective and policy

The Fund aims to achieve capital growth primarily by investing in equity and equity-related securities of European smaller companies. Income is not a consideration.

## 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 value of your investment will rise or fall with any movement in exchange rates.

## Cumulative performance (%)

	Period of report 31/07/2012 to 31/07/2013	5 years 31/07/2008 to 31/07/2013	Since launch 19/10/1990 to 31/07/2013 <sup>c</sup>
Fund - A Accumulation	24.30	51.07	968.97
Benchmark <sup>a</sup>	42.55	61.06	772.24

## Annual discrete performance to 31 July<sup>b</sup>

	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	24.30	(5.46)	21.85	31.56	(19.81)

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

<sup>a</sup> HSBC Smaller Companies Europe ex UK to 31/10/09 then HSBC Smaller Companies Europe inc UK.

<sup>b</sup> Figures are as at valuation point.

<sup>c</sup> Figures for Aberdeen European Smaller Companies Fund, a sub-fund of Aberdeen Investments I, prior to 10 April 2006.

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.

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## Market review

European small-cap equities rallied during the year under review, 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 May, markets received another shot of confidence when the ECB lowered its main refinancing rate and said it could impose negative deposit rates to boost lending. It is believed such a move could help bolster demand. The market gains belied ongoing headwinds, however. Recession in the currency bloc deepened while unemployment rose to a record high. Political wrangling over how to control budget deficits and monitor bad banks threatened to split governments while the near-collapse of Cyprus' banking system also spooked investors. Towards the period-end, gains were clipped by concerns that the Fed would soon scale down its asset purchases but the Bank of England and ECB's pledges to keep rates low for an extended period reassured investors. Encouragingly, UK quarterly GDP growth quickened and European manufacturing expanded in July for the first time in two years.

## Portfolio review

In stock selection, our holdings in GEA Group and Symrise lifted performance. Engineering group GEA reported healthy results that benefited from higher revenues and improved margins, and reaffirmed its fiscal year 2013 forecasts. Flavours and fragrances producer Symrise was supported by growth in both divisions, particularly in Asia and North America. The non-holding in African Barrick Gold also aided performance as higher energy and maintenance costs eroded profits at the gold miner, which projected a muted outlook for the year.

On the flip side, our exposure to Kongsberg Gruppen, Vopak and Viscofan detracted. Kongsberg Gruppen's results met expectations with good performance in both the marine and defence businesses whereas activity slowed in the division that supplies remote weapon stations. Lower demand for storage and higher costs hurt Vopak's bottom-line. The chemical storage specialist subsequently lowered its profit outlook. Nevertheless, we like the company for its global network of attractive infrastructure assets that should benefit from further growth in energy transportation. Meanwhile, Viscofan's share price corrected after outperforming in the year earlier. The maker of sausage casings continued to enjoy robust global demand for its products.

In portfolio activity, we introduced four new holdings. Kaba Holding is a Swiss security systems provider with attractive growth prospects and a resilient business model that is augmented by solid recurring revenues and a decent valuation. Euromoney Institutional Investor, a niche business-to-business media group with a proven track record, is also reasonably priced given its growth potential. UK defence specialist Ultra Electronics was introduced for its exposure to a number of niche growth areas while German packaging company Gerresheimer is characterised by a robust business model and loyal customer base.

Conversely, we sold payment hardware and software provider Ingenico due to concerns over its long-term outlook and a stretched valuation. We also divested technical services provider Royal Imtech because of cash flow issues at its Polish unit and concerns over its balance sheet. Elsewhere, we pared the position in cocoa and chocolate products maker Barry Callebaut because of worries over the integration of Singapore-based Petra Foods and weakened finances.

## Outlook

At the time of writing, additional positive economic data, including UK industrial output and Eurozone GDP, have lifted hopes that a recovery is in sight. However, headwinds remain. Unemployment is still high and domestic demand lacklustre. In the UK housing market, price rises have sparked fears of a new bubble forming while the strengthening euro could hamper continental exports that appear to be picking up pace. Political uncertainty ahead of the German election and unsteady coalitions in other parts of Europe, amid mounting anti-austerity sentiment, are further risks. Against this uncertain backdrop, stock-picking remains key. After the hefty gains, a market correction 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%
Austria	4.00	4.02
France	3.57	5.75
Germany	19.89	17.93
Netherlands	7.64	9.86
Norway	4.61	5.39
Spain	4.79	4.56
Sweden	2.02	1.40
Switzerland	10.76	11.07
United Kingdom	39.65	36.27
<b>Investment assets</b>	<b>96.93</b>	<b>96.25</b>
<b>Net other assets</b>	<b>3.07</b>	<b>3.75</b>
<b>Net assets</b>	<b>100.00</b>	<b>100.00</b>

## Fund facts

	Interim/annual accounting dates	Income payment date
	31 January, 31 July	31 October
	Ongoing charges figure % as at 31/07/2013	Ongoing charges figure % as at 31/07/2012
Share class A	1.64	1.65
Share class I	0.89	N/A
Share class Z	0.14	0.15

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	12.3077	7.7375
Share class I - Accumulation	2.3943	N/A
Share class Z - Accumulation	29.9405	21.5602

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 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	1,007.91	806.98	24.90
Share class I - Accumulation	119.19	N/A	N/A
Share class Z - Accumulation	1,142.50	900.64	26.85

Net of tax and expenses.

## Performance record

Calendar year		Highest share price (p)	Lowest share price (p)
2009	Accumulation A	699.11	390.64
2009	Accumulation Z	748.46	414.62
2010	Accumulation A	845.68	647.91
2010	Accumulation Z	921.95	696.96
2011	Accumulation A	912.23	691.94
2011	Accumulation Z	1,002.25	762.98
2012	Accumulation A	906.25	738.82
2012 <sup>A</sup>	Accumulation I	106.67	98.59
2012	Accumulation Z	1,018.09	822.38
2013 <sup>B</sup>	Accumulation A	1,013.45	913.79
2013 <sup>B</sup>	Accumulation I	119.67	107.61
2013 <sup>B</sup>	Accumulation Z	1,145.48	1,027.41

<sup>A</sup> Accumulation I share class launched on 1 October 2012.

<sup>B</sup> 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 6 because funds of this type have experienced 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:
  - Exchange rates: Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
  - 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.
- 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](http://www.aberdeen-asset.co.uk)

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## 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](http://www.aberdeen-asset.co.uk)**

**[www.aberdeenukprices.com](http://www.aberdeenukprices.com)**

Alternatively please contact our Customer Services Team on:

**Tel: 0845 300 2890**

**Email: [customer.services@aberdeen-asset.com](mailto: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 European 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.

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## Appointments

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