

Aberdeen UK Smaller Companies Equity Fund

Interim short report for the six month period to 31 January 2014

Investment objective and policy

The investment objective of Aberdeen UK Smaller Companies Equity 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.

Cumulative performance (%)

	Period of report 31/07/2013 to 31/01/2014	5 Years 31/01/2009 to 31/01/2014	Since launch 30/04/1993 to 31/01/2014 ^B
Fund - A Accumulation	14.01	200.31	566.14
Benchmark ^A	19.45	231.97	533.20

Annual discrete performance to 31 January

	31/01/2013 to 31/01/2014	31/01/2012 to 31/01/2013	31/01/2011 to 31/01/2012	31/01/2010 to 31/01/2011	31/01/2009 to 31/01/2010
% change	31.56	25.30	(5.83)	30.24	48.55

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

Figures are as at valuation point.

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

Small-cap UK equities rose amid increasing volatility in the six months under review, despite improvements in the domestic economy. Initially, sentiment was buoyant, boosted by better global macroeconomic conditions and loose monetary policy. Even the US Federal Reserve's (Fed) decision to taper quantitative easing was met with hope that America was recovering, which foreshadowed better earnings growth. On the home front, economic growth continued to strengthen in tandem with healthier employment data, which appears set to fall below 7%, well ahead of the Bank of England's expectations. However, the central bank's pledge to keep policy accommodative helped underpin investor sentiment. Towards the period end, the local benchmark tempered on the back of familiar fears over a possible slowdown in China and its impact on emerging markets, while the Fed's move to cut asset purchases by US\$10 billion added further pressure.

Portfolio review

At the stock level, our holding in Anite and lack of exposure to Darty proved costly. Software company Anite lagged as lower handset-testing demand and higher costs eclipsed good results in network testing and the travel business segments. Darty is the old Kesa business, retailing electronic goods. Its shares performed well as management made progress on cost cutting in France and closed loss-making operations in Italy and Spain. However, we do not believe the business model to be attractive, especially in the context of its slim profit margins, significant net debt, as well as ever increasing competition from online retailers.

Conversely, we benefited from our holdings in Wilmington and RPC. Publishing and events group Wilmington rebounded after having underperformed earlier in the period. At the same time, RPC, the world leader in rigid plastics, outperformed on the back of advancements in its strategy to acquire struggling rivals in recent years to expand manufacturing capabilities in regions where it lacked scale, as well as streamlining its existing business divisions. Its new chief executive has made good progress on both of these fronts, leaving the company well poised to benefit from the shift to plastic packaging that is being driven by government regulation and from a pick-up in the European economy.

In portfolio activity, we introduced Enquest and Hansteen. Enquest is a North Sea-focused oil company with solid management, a good mix of development and production assets, and a healthy balance sheet. Hansteen operates an attractive portfolio of industrial properties in the UK and Europe. We also topped up Dechra, Devro, and Greggs on relative price weakness, while adding to Aveva, given the niche design software developer's attractive demand drivers and the significant percentage of its revenue which is recurring in nature. In addition, we increased our position in Domino Printing, given its attractive growth prospects and reasonable valuation. Against this, we trimmed Fuller Smith & Turner on the back of fuller valuations.

Outlook

We believe that earnings have the potential to recover and this should be supportive of UK equities, given the accommodative monetary policies of major central banks that have underpinned the macroeconomic environment. In the UK, the reliance on the housing market and higher consumer borrowings to boost GDP growth has to give way to rising wages and a rebalancing of the economy in order for the recovery to be more sustainable. Although valuations are now less appealing on an absolute basis, they remain attractive relative to other asset classes. Britain is home to many good quality companies with strong competitive positions, robust balance sheets and attractive long-term growth prospects. Despite the difficulty in predicting the vagaries of economic activity, we are nevertheless confident that our holdings can deliver attractive earnings growth over the longer term, based on our in-depth company analysis.

Portfolio breakdown

Portfolio of investments	As at 31 January 2014%	As at 31 July 2013%
Oil & Gas	1.36	-
Basic Materials	5.42	4.79
Industrials	37.99	37.30
Consumer Goods	9.12	9.02
Health Care	3.08	3.45
Consumer Services	23.79	24.85
Financials	13.29	12.65
Technology	4.98	4.54
Investment assets	99.03	96.60
Net other assets	0.97	3.40
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 31/01/2014	Ongoing charges figure % as at 31/07/2013
Share class A	1.61	1.61
Share class I	0.86	0.86
Share class Z	0.11	0.11

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 period to 31/01/2014	Total distribution (p) for the period to 31/01/2013
Share class A - Accumulation	0.9943	1.2131
Share class I - Accumulation	1.0187	0.7252
Share class Z - Accumulation	3.3649	3.0101

Distributions in respect of the Fund come with a tax credit of 1/9th of the amount stated. UK higher 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 31/01/2014 pence per share	Net asset value as at 31/07/2013 pence per share	Net asset value % change
Share class A - Accumulation	283.14	248.22	14.07
Share class I - Accumulation	144.14	125.88	14.51
Share class Z - Accumulation	318.16	276.82	14.93

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
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	Accumulation A	281.80	211.04
2013	Accumulation I	143.36	106.57
2013	Accumulation Z	316.23	233.34

Calendar year		Highest share price (p)	Lowest share price (p)
2014 ^B	Accumulation A	287.27	278.53
2014 ^B	Accumulation I	146.20	141.78
2014 ^B	Accumulation Z	322.60	312.93

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

^B to 31 January 2014.

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 January 2014.

- 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

On 01 January 2014 the name of the fund changed from Aberdeen UK Smaller Companies Fund to Aberdeen UK Smaller Companies Equity Fund.

Initial Charge

On 17 February 2014 the initial charge was removed from Aberdeen UK Smaller Companies Equity Fund. This change reflects a movement in the UK funds' industry towards increased transparency of fund charges and associated costs.

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 Equity 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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