

Aberdeen Australian Small Companies Fund



Investment objective

To outperform the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, after fees, over rolling three year periods.

Investment objective

The Aberdeen Australian Small Companies Fund utilises Aberdeen's proven investment philosophy and approach to invest in a concentrated portfolio of around 30-55 small companies (outside of the S&P/ASX 100) that are listed on the ASX and have the potential for capital growth and increased earning potential.

Performance summary

	1 Month %	3 Months %	1 Year %	3 Years %pa	5 Years %pa	Since Inception [^] %pa
Australian Small Companies Fund Net returns*	6.40	-6.38	-28.27	-5.17	7.48	15.32
Australian Small Companies Fund Gross returns**	6.48	-6.17	-27.63	-4.32	8.45	16.36
S&P/ASX Small Ordinaries Accumulation Index returns	10.21	-1.96	-45.77	-13.82	1.15	6.64
Net returns* vs Index	-3.81	-4.42	17.50	8.65	6.33	8.68
Gross returns** vs Index	-3.73	-4.21	18.14	9.50	7.30	9.72

* Net performance figures are calculated using end-of-month exit prices, post standard fees, reflect the annual reinvestment of distributions and make no allowance for tax. If investing through an IDPS Provider, the total after fees performance returns of your investment in the Fund may be different from the information we publish due to cash flows specific to your portfolio and any fees charged by the IDPS Provider.

** Gross performance figures are calculated using end-of-month exit prices, pre-fees, reflect the annual reinvestment of distributions and make no allowance for tax. These returns are provided for the purpose of wholesale investors only. Retail investors should refer to net returns.

[^] This figure represents the annualised performance of the Fund from the first full month of operation. Please note: Prior to 4 June 2007 the Fund was known as the Deutsche Australian Small Companies Fund and performance prior to this date was achieved using a different investment process to that of Aberdeen.

Past performance is not a reliable indicator of future results.

Performance review

The Fund underperformed the benchmark in March by 3.81% (after fees). For the quarter the Fund has underperformed by 4.42% (after fees), while over the twelve months ending 31 March 2009 the Fund has outperformed by 17.50% (after fees).

Our holdings in Ramsay Healthcare and Lihir Gold were among the detractors from performance in March. Ramsay Healthcare fell on the back of a general rotation away from defensives and towards cyclical stocks. We continue to hold Ramsay Healthcare for the solid management team, good quality private hospital portfolio and defensive cashflows. Lihir Gold underperformed following profit taking in the gold sector. We remain attracted to Lihir Gold for its unhedged gold exposure and diversified asset base.

In March positive contributors to performance were our overweight positions in Bendigo & Adelaide Bank and David Jones. Bendigo and Adelaide Bank outperformed following positive global sentiment for the banking sector. We hold Bendigo & Adelaide Bank as it is a solid retail bank with the highest customer satisfaction of all domestic banks.

David Jones outperformed following its first half financial result, which fell in line with guidance and consensus; NPAT rose 2.4% on an increase in sales of 6.4%. We remain attracted to David Jones for its strong brand and proven management.

Quarterly market review

The Australian equity market, as measured by the S&P/ASX 200 Index, fell by 3.8% over the March quarter, chalking up its sixth consecutive losing quarter. The low for the quarter came in early March and was followed by a 15% bounce, with a rotation away from defensives and towards more cyclical stocks. The materials (+4.6%) and energy (+3.9%) sectors posted positive returns for the quarter on the back of commodity and oil price gains. The REIT sector was the worst performing, down over 26% for the quarter. Earnings reports for the December 2008 half showed evidence of a deteriorating outlook, with few companies providing guidance. Strains on balance sheets, capital raisings and dividend cuts appear to be a common theme. At the macro level, economic stimulus was the focus, the federal government announced a package equal to

Top ten holdings

	Fund %
Ramsay Health Care	6.19
Invocare	6.17
Australian Worldwide Exploration	6.05
Healthscope	5.17
David Jones	4.96
IRESS Market Technology	4.37
Tower Australia Group	4.36
Primary Health	4.28
Lihir Gold	3.94
Bendigo and Adelaide Bank	3.94

Sector breakdown

	Fund %	B/mark %
Utilities	0.00	8.40
Financials ex Prop	11.94	7.38
Consumer Staples	0.00	3.04
Telco Services	1.83	0.10
Industrials	15.37	16.79
Information Technology	9.21	3.10
Consumer Discretionary	15.65	7.95
Health Care	16.29	9.11
Materials	12.51	25.28
Property Trusts	2.85	4.17
Energy	6.05	14.68
Cash	8.30	0.00

Further information

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4% of GDP and the RBA lowered rates by 100 basis points to 3.25% in February but kept rates steady in March. The Fourth Quarter 2008 GDP report showed a fall of 0.5%, the first quarterly contraction in 8 years, and the unemployment rate jumped to a 4 year high of 5.2% from 4.5%. The AUD lost ground against the USD, down 2% over the quarter, but most of this was in January, with the AUD bouncing from its early March lows of \$0.62 to finish at \$0.69, driven by commodity prices and the March decision not to cut interest rates.

Outlook

The key question for 2009 is how pronounced the economic downturn will be in Australia. The headwinds for the year will be falling demand, a poor earnings results season, falling terms of trade from weakened commodity prices, and negligible global growth. However, falling interest rates, fiscal stimuli and a weaker Australian dollar compared with 2008 will provide some support and there could be early signs of a recovery later in the year. Market valuation is modest and stock prices have returned to levels which we believe are close to their fundamental value.

In the longer term, the outlook for the Australian market is positive, although unemployment is expected to rise. We continue to have our portfolio defensively positioned given the uncertainty over the outlook for earnings. We continue to monitor companies for buying opportunities, given more reasonable valuations. We are committed to good-quality companies with strong fundamentals and cash flows.

Fund Strategy

The Fund is overweight Information Technology, Financials (ex Property), Health Care, Consumer Discretionary and Industrials. We are overweight Information Technology as we regard this as a high-growth sector containing good quality companies, generally with strong intellectual property, dominant market positions, recurring revenues and high cash flows. We are overweight in Financials (ex Property) to gain exposure to the high-growth wealth management market and we are overweight Health Care to benefit from the sector's defensive qualities.

Consumer Discretionary is another favoured sector, largely as a result of overweight positions in Invocare, David Jones and Austereo Group. We hold Invocare for its defensive position as a provider of services related to funerals, burials and cremations. David Jones is held for its strong brand and attractive customer demographic and Austereo for its well-established radio networks and highly recognised brands. These companies all have stable, experienced management teams.

Our investment in the Industrials sector is made up of a range of stocks, each of which we invest in for different reasons. For example, we have a 2% active position in Cabcharge. This is the dominant player in the regulated taxi industry and is a strong cash generator. Our overweight position in Bradken gives us exposure to mining services, while an active position in Crane Group means we will benefit from a pick-up in the building cycle.

In the Materials sector, the active position in Brickworks is poised to benefit from an upswing in the building cycles of the markets in which it operates. We are underweight in this sector as we fear the pure-line metal producers and/or explorers have limited ability to expand in a cost-effective way and are exposed to volatile base metal prices. Our materials exposures include active positions in Lihir Gold and Avoca Resources.

We are underweight Utilities because of concerns about rising debt costs, inflating asset prices, complex trust structures and onerous management fees.

Key information

APIR Code	MGL0001AU
Benchmark	S&P / ASX Small Ordinaries Accum
Date of Launch	1 April 2003
Income Payable	30 June and 31 December
MER	0.90%
Fund Size	A\$35.3m
Redemption Unit Price	\$1.2330

Important information

This document has been prepared by Aberdeen Asset Management Limited ABN 59 002 123 364 AFSL No. 240263.

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