

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.

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The Aberdeen Australian Small Companies Fund utilises Aberdeen's proven investment philosophy and approach to invest in a concentrated portfolio of around 20-45 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*	6.08	13.45	7.27	1.62	9.85	18.92
Australian Small Companies Fund Gross returns**	6.15	13.71	8.23	2.54	10.84	19.99
S&P/ASX Small Ordinaries Accumulation Index returns	5.05	21.82	6.26	-1.65	7.62	13.29
Net returns* vs Index	1.03	-8.37	1.01	3.27	2.23	5.63
Gross returns** vs Index	1.10	-8.11	1.97	4.19	3.22	6.70

* 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 outperformed against the benchmark in September by 1.03% (after fees).

In September positive contributors to performance were overweight positions in Programmed Maintenance Services, SMS Management and Technology Limited, and David Jones.

Programmed Maintenance Services and SMS Management both benefited from investor shifts towards more cyclical type stocks as market confidence continued to improve. David Jones posted a decent result for FY09 with sales down 5.4% but profit after tax up 14.2% as margins expanded due to cost reductions. We hold Programmed Maintenance Services for its diversified customer base and its strengthening balance sheet, while David Jones is held for its management quality and its tight inventory control. SMS is held for its strong management team and balance sheet.

Our holdings in Avoca Resources and Austereo were among the detractors from performance in September. For Avoca, uncertainty over the Dioro acquisition impacted stock prices, while Austereo underperformed due to negative publicity over one of its radio hosts. We hold Avoca Resources for its experienced management and its high grade low cost gold assets, while Austereo is held for its market leader positions and the high barriers of entry into the industry.

During September, the Fund sold out of Nufarm due to concerns over a deteriorating fertiliser industry and weaker cashflow position.

Market review

The Australian equity market as measured by the S&P/ASX 200 Accumulation Index was up 21.5% during the September quarter, continuing the positive trend from last quarter. Property and financials stocks were the strongest performers during this quarter, posting returns of 32.4% and 36.3% respectively. The telecommunications sector was the only one registering negative growth, down 2.0%. In economic news, Australian economic growth accelerated during the June quarter, up 0.6% quarter on quarter vs 0.4% from the quarter before. Domestic demand drove

Top ten holdings

	Fund %
Ramsay Health Care	6.69
Healthscope	6.63
Invocare	5.71
Programmed Maintenance	5.22
Tower Australia Group	5.14
IRESS Market Technology	4.95
Brickworks	4.76
Aust. Worldwide Exploration	4.43
David Jones	4.13
Bunnings Warehouse Property	4.11

Sector breakdown

	Fund %	B/mark %
Information Technology	11.02	3.28
Industrials	19.28	18.58
Consumer Discretionary	17.73	10.74
Consumer Staples	0.00	2.91
Utilities	2.48	6.66
Teleco Services	0.00	0.22
Materials	8.88	24.16
Financials ex REITS	10.27	8.57
REITS	4.11	5.42
Health Care	16.96	7.07
Energy	4.43	12.39
Cash	4.84	0.00

Further information

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GDP growth in Q209, with household consumption and import volumes up 0.8% and 2.4% quarter on quarter respectively. Consensus forecasts for GDP growth of the Australian economy in 2009 and 2010 have been upgraded to +0.8% and +2.4% respectively. This is a substantial improvement from 6 months ago, with growth forecasted at -0.6% and +1.3% for 2009 and 2010 respectively. The revised forecasts reflect widespread signs of economic improvement, including the major rebound in equity markets, narrowing of credit spreads and the resumption of unguaranteed issuance in credit markets, which all seem to point to an improvement in confidence and risk appetite. The RBA left the cash rate unchanged at 3.00% during the quarter, while the unemployment rate reported during the quarter remained steady at 5.8%.

Market outlook

The key for the remainder of 2009 and into 2010 is early signs of recovery developing into a sustained economic recovery however unemployment and interest rates are expected to rise. Australia managed to avoid a "technical" recession and recent Australian data releases have included very strong consumer sentiment and business confidence data, rising retail sales and continuing low unemployment. Generally, global economic indicators have also continued to recover. Market valuations have priced in a recovery.

In the longer term, the outlook for the Australian market is positive given the exposure to high growth economies, such as China. We continue to monitor companies for buying opportunities, and remain committed to investing in good-quality companies with strong fundamentals and cash flows.

Fund Strategy

The Fund is overweight information technology, financials (ex REITs), 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 REITs) to gain exposure to the high-growth wealth management market and we are overweight health care to benefit from the sector's stable earnings and cashflows.

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. 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 pure 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\$45.0m
Redemption Unit Price	\$1.5800

Important information

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

This is not an offer of securities or financial products, nor is it financial product advice. The Fund referred to is a registered managed investment scheme managed by Aberdeen Asset Management Limited. A Product Disclosure Statement (PDS) is available for the Fund and can be obtained by calling Aberdeen Client Services on 1800 636 888, online at www.aberdeenasset.com.au, or from your financial adviser. Applications can only be made on the application form contained in the current PDS. This document has been prepared without taking account of your individual objectives, financial situation or needs. You should obtain and consider the PDS before deciding whether to acquire, or to continue to hold units in the Fund.

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