

Shires Smaller Companies plc



Investment objective

To provide a high and growing dividend and capital growth from a portfolio invested principally in the ordinary shares of small companies and UK fixed income securities.

Benchmark

FTSE SmallCap Index (ex Investment Companies) total return.

Cumulative performance (%)

	as at 30/06/10	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	103.0p	3.5	6.7	12.1	46.2	(50.7)	(32.3)
NAV ^A	121.6p	1.1	0.0	10.7	56.6	(45.7)	(23.6)
FTSE SmallCap ex IC		(1.5)	(5.3)	(3.6)	20.3	(36.8)	(11.1)

Discrete performance (%)

Year ending:	30/06/10	30/06/09	30/06/08	30/06/07	30/06/06
Share Price	46.2	(39.3)	(44.4)	25.8	9.1
NAV ^A	56.6	(42.5)	(39.7)	22.2	15.2
FTSE SmallCap ex IC	20.3	(21.0)	(33.6)	20.3	17.0

Total return, NAV to NAV net income reinvested. GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at par. Source: Aberdeen Asset Managers Limited, Factset and Morningstar.

^A Excluding current year revenue.

Past performance is not a guide to future performance. The value of shares may go down as well as up and an investor may not get back the amount invested.

Fund managers' report

Markets were again weak during June, with the FTSE All- Share Index declining by 4.9%. Larger companies underperformed their smaller counterparts though in part this was a function of the ongoing travails of BP. The news from the US was quite disappointing, especially the housing data, which saw national home sales fall by 33%, and payroll and retail sales numbers come in below expectations. Conversely US Industrial Production was better than expected, the revised EU Q1 2010 GDP reading remained positive and China indicated that it was to allow a limited increase in the strength of the yuan. Appetite for risk continued to decline. Therefore whilst this macroeconomic data could best be described as mixed a greater level of importance was applied to negative news flow. It is notable that two of the more commonly used indicators of investor sentiment now suggest that risk aversion is approaching levels that have historically represented a buying opportunity.

Merger and acquisition activity continued to be a feature of the market especially amongst small and mid sized companies. The Trust has benefited from bids for Chloride Group and Rensburg. Both positions have now been exited. In addition Forth Ports was bid for though the bid subsequently failed as shareholders didn't believe that it represented a fair price for the company. We have taken advantage of the subsequent share price weakness to continue to build our position. We also took advantage of the declines in the market to re-deploy some of the proceeds from the holdings that were acquired. Top ups included, Aveva, Mothercare, Savills, Helical Bar, Dechra Pharmaceuticals, Bellway and Bloomsbury. We also exited the holding in Marshalls where we became increasingly concerned about the outlook for big ticket consumer spending in the UK and the impact that any decline would have on their ability to maintain the dividend.

Fund managers' report continues overleaf

The risks outlined overleaf relating to gearing, smaller companies and single country market exposure are particularly relevant to this trust but should be read in conjunction with all warnings and comments given.

Ten largest equity holdings

	%
XP Power	3.7
BSS	3.0
Chesnara	2.9
Weir	2.7
Brit Insurance	2.6
RM	2.3
Chaucer	2.1
Morgan Sindall	2.0
Oxford Instruments	1.9
Mothercare	1.9
Total	25.1
Total number of investments	59

Ten largest fixed income holdings

	%
General Accident 8.875%	4.1
Aviva 8.75%	3.7
Balfour Beatty Cum Cnv 10.75%	3.1
BUPA Finance 6.125% 16/09/20	2.1
National Westminster 7.625% 21/01/49	2.0
Telecom Italia 5.625% 29/12/15	1.8
Ecclesiastical Insurance Non Cum	1.8
Land Securities Capital Mkts 4.625% 03/02/13	1.4
Wales & West Utilities Finance 6.75% 17/12/36	1.2
Deutsche Telekom International Fin 7.125% 26/09/12	1.1
Total	22.3

Sector allocation

	%
Industrials	43.7
Consumer Services	20.3
Financials	17.9
Consumer Goods	6.5
Technology	4.8
Basic Materials	4.4
Health Care	2.4
Total	100.0

Figures may not add up to 100 due to rounding.

Further information

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 Institutional investors **Kenneth Harper**
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 Website **www.shiresmallercompanies.co.uk**

Receive the factsheet of your choice by email as soon as they are available by registering at www.investments.co.uk/ITemail

All sources (unless indicated): Aberdeen Asset Managers Limited 30 June 2010.

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Fund managers' report – continued

In the UK the emergency budget has been generally well received by markets. The clear determination of the coalition Government to address the deficit was rewarded with a strengthening of sterling and gilts. The reduction is to be split with approximately 77% coming from cost reductions and 23% from tax rises, of which the 2.5% rise in VAT to 20% is the most notable. How this will eventually impact the outlook for companies remains to be seen as we await the details of the where the cuts will be implemented, news is due at the autumn Comprehensive Spending Review. It is clear though that the current administration is prepared to take difficult decisions as evidenced by this week's announcement that previously committed capital spending on education is to be curtailed.

There is a clear divergence of view between the UK and much of the rest of the developed World, with the UK opting to tackle the deficit immediately. Many others adopting a more relaxed approach and choosing to continue spending in an attempt to support their economy's recovery in the anticipation that they will be able to take the necessary actions at a later date.

China has begun to tighten policy in some areas, most notably in housing. Given the role that developing markets will play in driving Global growth this is beginning to cause concern amongst some investors, as is perhaps most clearly illustrated in the performance of the miners.

The outlook is uncertain but we continue to identify companies with solid balance sheets, cost bases that are capable of coping with a slowing in the pace of recovery and that are trading on attractive valuations.

Key information

Calendar		
Year end	31 December	
Accounts published	March	
Dividend paid	January, April, July, October	
AGM	April	
Established	1992	
Fund managers		
Susan Anderson Phil Webster		
Total expense ratio		
2.2%		
Annual management fee^B		
0.75%		
^B 0.75% per annum of the value of the Company's gross assets.		
Premium/(Discount)		
(15.3)%		
Yield (Historic)		
6.3%		
Gearing		
Equities ^C	(5.3)%	
Total ^D	33.7%	
Assets		
	£'000	%
Equities	25,885	94.7
Convertibles	1,112	4.1
Fixed income	9,544	34.9
Total investments		
36,541 133.7		
Other assets/(liabilities)		
3,080 11.3		
Debt		
(12,297) (45.0)		
Net assets		
27,324 100.0		
^C Expressed as a percentage of total equities held divided by shareholders' funds.		
^D Expressed as a percentage of total investments divided by shareholders' funds.		
Capital structure		
Ordinary shares	22,109,765	
Allocation of expenses and interest		
Capital	50%	
Revenue	50%	
Trading details		
Bloomberg/Epic/Reuters code	SHD	
Market makers	CAN, CAZR, WINS	

Important information

Risk factors you should consider prior to investing:

- In common with most investment companies, investment trusts may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that a relatively small movement, down or up, in the value of a trust's assets will result in a magnified movement, in the same direction, of that NAV.
- In order to maintain the high level of dividend paid by the Trust some of the assets selected for the underlying portfolio may be liable to diminish in capital value over time.
- The value of shares and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to the future.
- Exposure to a single country market increases potential volatility.
- There is no guarantee that the market price of shares in the Trust will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of investment trust shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread.
- High income investments, in order to meet their income objectives, may charge expenses to capital which in turn may erode the capital value of the investment to less than the amount invested.
- Funds that invest in the securities of smaller companies are likely to carry a higher degree of risk than most funds.
- In certain circumstances, the Manager may enter into derivatives transactions in order to manage risk in the portfolio and generate income.
- The market in these instruments can be highly volatile and there is a high risk of loss.
- Derivatives may only be used subject to the restrictions set out for the Trust.

Other Important Information:

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