

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 31/12/09	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	95.0p	0.5	1.9	30.4	96.6	(51.8)	(35.6)
NAV ^A	112.6p	1.2	1.1	41.5	52.8	(48.5)	(24.8)
FTSE SmallCap ex IC		0.9	(7.7)	24.8	57.7	(33.1)	(2.2)

Discrete performance (%)

Year ending:	31/12/09	31/12/08	31/12/07	31/12/06	31/12/05
Share Price	96.6	(66.4)	(27.0)	12.4	18.7
NAV ^A	52.8	(59.6)	(16.6)	18.2	23.7
FTSE SmallCap ex IC	57.7	(48.3)	(17.9)	22.9	19.0

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

Shires Smaller Companies ended a turbulent year outperforming the Index over December with an NAV total return of 1.2% against the FTSE SmallCap (ex Investment Companies) Index which recorded a total return of 0.9%. There was little in the way of stock specific news to drive the markets through the month but there was a defensive bias to performance with smaller companies lagging their larger peers. The worst performing asset class over the period was Government All Stocks which fell 2.7%, highlighting fears over the winding down of quantitative easing and the state of Government finances.

The pre-budget report offered very little in the way of anything tangible in terms of fiscal tightening. The Chancellor stuck to targets on GDP and borrowing forecasts which still hang on an optimistic outlook for the UK economy. The Bank of England left the base rate at 0.5% while CPI inflation came in marginally above expectations at 1.9%. In overseas markets US economic data remained mixed with unemployment data better than expected while GDP was revised sharply downward. The downgrading of Greece was one of the month's talking points as the economy struggles under one of Europe's largest debt burdens.

We introduced Savills in early December following a period of weakness. The real estate consultant has seen earnings hit on the back of low transactions in commercial real estate which was in part offset by cost cutting, and a strong performance from property management. They have seen volumes pick up in residential, particularly in the South East, and with a net cash balance sheet remains well placed to take advantage of an international property recovery. We added to Umeco and Helical Bar and trimmed our position in British Polythene after a strong bounce. We remain cautious on the outlook but where valuations look attractive we will continue to deploy the cash from the previous month bond sales.

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	2.8
Chesnara	2.4
Chaucer	2.3
Brit Insurance	2.2
McBride	2.2
Mothercare	2.0
James Fisher and Sons	1.9
Morgan Sindall	1.9
Weir	1.8
BSS	1.7
Total	21.2
Total number of investments	64

Ten largest fixed income holdings

	%
General Accident 8.875%	4.5
Aviva 8.75%	4.4
Balfour Beatty Cum Cnv 10.75%	3.2
Society of Lloyds 6.875% 17/11/25	2.5
Northumbrian Water 6% 11/10/17	2.4
Deutsche Telekom 7.125% 26/09/12	2.1
BUPA Finance 6.125% 16/09/20	2.0
National Westminster 7.625% 21/01/49	2.0
Phoenix Life 7.28%	2.0
Telecom Italia 5.625% 29/12/15	1.8
Total	26.9

Sector allocation

	%
Industrials	46.0
Financials	19.4
Consumer Services	16.0
Consumer Goods	7.7
Health Care	4.6
Basic Materials	4.2
Technology	2.1
Total	100.0

Figures may not add up to 100 due to rounding.

Further information

Private investors **0500 00 00 40**
 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 31 December 2009.

Shires Smaller Companies plc

Key information

Calendar	
Year end	31 December
Accounts published	May
Dividend paid	January, April, July, October
AGM	April
Established	1992

Fund manager	Susan Anderson Phil Webster
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Total expense ratio	2.1%
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Annual management fee^B	0.75%
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^B 0.75% per annum of the value of the Company's gross assets.

Premium/(Discount)	(15.6)%
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Yield (Historic)	7.4%
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Gearing	
Equities ^C	(8.2)%
Total ^D	37.7%

Assets	£'000	%
Equities	23,305	91.8
Convertibles	1,206	4.8
Fixed income	10,436	41.1

Total investments	34,947	137.7
Other assets/(liabilities)	2,706	10.7
Debt	(12,275)	(48.4)

Net assets	25,378	100.0
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^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	CANA, 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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