



Invesco Australian Smaller Companies Funds

Quarterly update

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December quarter 2009

Market review

The S&P/ASX Small Ordinaries Index rose 4.9% over the final quarter of 2009 but powered to a 57.4% gain over the full year. As in the broad market, small cap stocks generally performed well on the back of improved risk appetite, as investor money moved back into the equity market including the small cap segment. A highlight over the year was the strong performance of mining and energy stocks, especially gold and soft commodities (later in the year). Unlike the large cap sector, smaller bank stocks underperformed throughout the year.

The best sector performers for the fourth quarter included Transport, Consumer Services and Diversified Financials, with the worst being Telecomms, Banks and Food, Beverage & Tobacco. Over the year the best performing sectors were Pharmacy & Bio, Retailing and Property Trusts, with the worst being Food & Staples Retailing, Food Beverage & Tobacco and Banks.

Contributors to performance

The Fund returned 5.4% in the December quarter, outperforming its Small Ordinaries benchmark return of 4.9%. We outline the key contributors to the quarterly relative return below.

Added value:

- The overweight positions in Virgin Blue (+37%) and Mermaid Marine again delivered outperformance in the Transport sector.
- A rise in junior service provider TPG Telecom (+34%), following further profit upgrades, also added value.
- The Media sector outperformed. Holdings in Austereo (+21%), Village Roadshow (+29%) REA (+29%) and Prime Media (+22%), and no holding in Ten Network (-12%), all contributed.
- Underperformance by agribusiness stocks AWB (-11%), Elders (-35%) and Graincorp (-18%) not held in the portfolio resulted in a positive return from the food sectors.

Detracted value:

- The Capital Goods sector underperformed largely due to declines in Nomad (-38%) and Crane Group (-14%) following profit warnings, and RCR Tomlinson (-20%).
- The Energy sector underperformed. While Beach Petroleum (+24%) performed well this was more than offset by having no holding in Karoon Gas (+36%), which jumped on speculation regarding the success of its Browse Basin oil exploration, and Aquila Resources (+71%) on FIRB confirmation of a deal with a large Chinese steel mill.
- Commercial Services also detracted value. Increases in Spotless (+18%) and PMP (+17%) were offset by underperformance by Skilled (+1%) following a profit update, and Programmed Maintenance (-12%) on announcement of an acquisition and capital raising.
- The underweight position in Metals & Mining also detracted value for the quarter.



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Performance

Performance to 31 December 2009				
	Wholesale Fund %	Retail Fund %	Benchmark* %	Value add† %
3 months	5.1	4.9	4.9	0.2
1 year	46.1	44.7	57.4	-11.3
3 years p.a.	-2.0	-2.8	-4.8	2.8
5 years p.a.	8.1	7.2	6.7	1.4
10 years p.a.	12.5	8.9	6.2	6.3
Since inception p.a.‡	13.5	11.2	6.8	6.7
Calendar year to date	46.1	44.7	57.4	-11.3

*Benchmark: S&P/ASX Small Ordinaries Accumulation Index

†Wholesale Fund

‡Wholesale Fund inception date 31 March 1988, Retail Fund inception date 25 October 1993

Investments can go up and down. Past returns are not a reliable indicator of future returns. Future returns may be affected by a range of factors including economic and market influences. Returns are calculated after fees and expenses and assume reinvestment of income distributions. Performance does not take into account entry fees of 0-4% that may have been paid on retail funds.

Tracking error* to 31 December 2009

	Tracking error %
1 year	11.8
3 years p.a.	9.1
5 years p.a.	7.6

*Wholesale Fund

Information Ratios to 31 December 2009

	Information ratio
1 year	-1.0
3 years p.a.	0.3
5 years p.a.	0.2

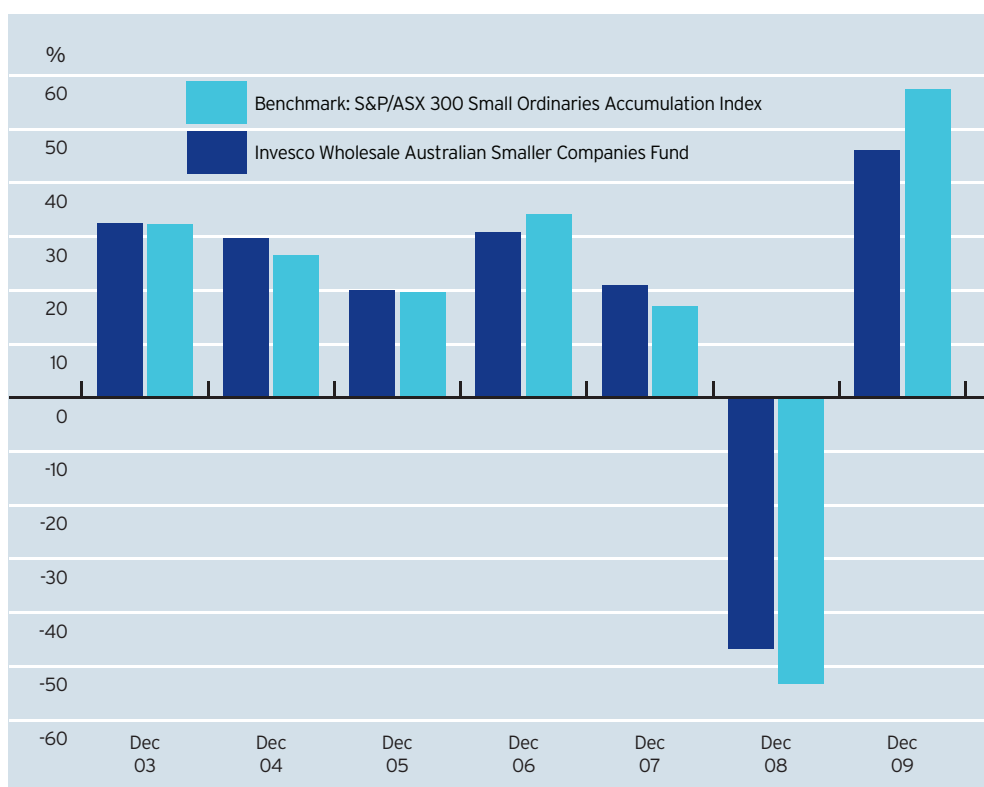
*Wholesale Fund

Fund size at 31 December 2009

Wholesale	218.3
Retail	10.8

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Annual returns versus benchmark



Largest holdings

Top ten stock holdings* at 31 December 2009	
	% of portfolio
Healthscope Ltd.	4.7
Adelaide Brighton Ltd.	4.1
Programmed Maintenance Services Ltd.	4.0
Ramsay Health Care Ltd.	3.8
Mermaid Marine Australia Ltd.	3.2
Virgin Blue Holdings Ltd.	3.1
Ausdrill Ltd.	2.7
Challenger Financial Services Group Ltd.	2.7
SMS Management & Technology Ltd.	2.7
Tower Australia Group Ltd.	2.6

*Wholesale Fund

Note: Security selection is based on information at the time of investment. This information can change. You should not rely on this statement in making an investment decision about any security, but should make your own independent enquiries.

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Outlook/strategy

Following the strong recovery since the bottom of the market in March 2009, shares appear appropriately valued on our earnings expectations. Investors will watch the forthcoming interim results season closely for evidence that earnings are recovering from the severe downturn which occurred in the second half of FY 2009. The partial withdrawal of some of the emergency government stimulus measures, which pulled forward some expenditures by both consumers and businesses, as well as higher interest rates, will slow growth.

While company earnings in the second half of FY 2010 are expected to be ahead of the previous corresponding period, higher borrowing costs, and in many cases, a significant increase in issued capital, will temper the growth in earnings per share. On balance, we remain optimistic on the outlook for the small cap sector.

In terms of portfolio strategy, our underweight exposure to Resources has been somewhat reduced over recent months. However, good quality investments remain elusive and this underweight is likely to remain in place.

Sector allocation* as at 31 December 2009

	Fund %	Benchmark† %	Active weight %
Energy	3.4	12.6	-9.2
Metals & mining	12.2	22.7	-10.5
Materials ex-metals & mining	7.8	2.6	5.2
Industrials	27.1	18.3	8.8
Consumer discretionary	18.1	11.9	6.2
Consumer staples	0.0	4.2	-4.2
Health care	9.2	6.9	2.3
Financials ex LPTs	10.2	6.0	4.2
Listed property trusts	0.0	5.6	-5.6
Information technology	3.3	3.5	-0.2
Telecommunication services	2.2	0.1	2.1
Utilities	2.6	5.6	-3.0
Cash	3.9	0.0	3.9
Total portfolio	100.0	100.0	

*Wholesale Fund
†Benchmark: S&P/ASX Small Ordinaries Accumulation Index

To learn more about the Funds, please call your Invesco representative or call freecall 1800 813 500. You can also visit us at www.invesco.com.au.

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