

Q2 2020

Standard Life European Smaller Companies Fund

Aberdeen Standard
Investments

Environment

European equities recorded strong gains in line with stock markets around the world, despite data suggesting a collapse in economic activity across the Eurozone. After weeks of political infighting, the European Central Bank announced a programme of massive government and corporate bond purchases to provide liquidity to bond markets. Nevertheless, political division hampered initial attempts at an EU-wide economic bailout fund. Shares later rose on hopes of an end to lockdowns and evidence of an incipient global and regional economic recovery.

Government interventions have been significant in many countries, with support provided to companies and individuals. Our investment team has successfully moved to a home-working environment, and we have been making contact with as many of our investments as possible, remaining focused on the long term and ensuring we don't make any rash decisions.

We believe that the importance of balance-sheet strength will come to the fore over the coming months, and we have examined balance-sheet positions across the Fund. Our clear focus on quality companies and an aversion to loss-making or speculative businesses have been positive in a challenging market environment. Cash is running at a higher level than usual to ensure we have some 'dry powder' to take advantage of share-price weakness in our favoured long-term holdings.

Activity

We topped up the holding in UK-listed infrastructure supply company Hill & Smith. We continue to believe that the business is well placed to benefit from growing UK infrastructure expenditure, with this likely to be reinforced by recent government stimulus announcements.

We topped up our position in Dutch lactic-acid manufacturer Cobion, following a positive update that highlighted the growth opportunity from using polylactic acid as a compostable bioplastic. This product helps address the major problem of single-use plastics. Corbion is investing heavily in capacity and is seeing extremely good demand for the product.

We reduced our holding in UK quoted remote actuator business Rotork. The business is high quality and has a strong balance sheet; we have reduced the Fund weighting in line with a falling Matrix score (our proprietary screening tool).

Outlook

The economic outlook remains challenging, with a significant short-term hit to growth from Covid-19 and uncertainty over the shape of economic recovery. The prospect of a second spike in cases presents a clear downside risk. Our process focuses on the long term, the quality of investments and with an aversion to loss-making businesses. We believe we stand in good stead in what may continue to be highly volatile markets over the coming months.

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Cumulative and Annualised Performance as at 30/06/2020

	3 Months (%)	1 Year (%)	3 Years p.a. (%)	5 Years p.a. (%)
Standard Life European Smaller Companies	22.8	2.0	4.8	6.3

Discrete annual performance - year to 30/06

	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Standard Life European Smaller Companies	2.0	-0.6	13.4	22.3	-3.4

Fund performance has been calculated net of Annual Management Charge.
Source: Aberdeen Standard Investments (Fund)

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

Performance

Our holding in Troax was relatively strong over the period following better-than-expected results. The business has seen good order intake in the warehouse automation segment, as customers press ahead with projects. We believe this market will continue to remain strong as the demand for warehousing – specifically, warehouse automation – will continue to benefit from the move towards online retail, which, if anything, should accelerate following the Covid-19 crisis.

The holding in the UK-listed private market business Intermediate Capital rebounded strongly over the period, having been sold off aggressively in March, as financial stocks generally came under pressure. Despite the rebound in share price, we believe the market is not giving the management team due credit for the considerable change in the business model over the last 10 years. Its third-party asset management division is now the biggest contributor to profitability. This business has an average fund-life of seven years in closed-end vehicles, with no redemption risk and excellent revenue visibility. We continue to believe that the long-term trend of increasing asset allocation towards private markets will continue and we retain the holding.

The holding in Fineco also performed strongly over the period. The business continues to announce

positive net asset flows highlighting that it is a winner in the current market environment, given a strong technology platform. We retain the holding.

On the downside, the holding in German online-ticketing business CTS Eventim was relatively weak over the period. The business is seeing a virtual shutdown of the events industry, so short-term trading remains challenging. That said, we do not believe there is any permanent change to the company's growth prospects and we retain the holding. The business has significant net cash on the balance sheet.

Additionally, the holding in UK construction company Morgan Sindall was weak over the period, reflecting general concerns around the short-term impact of Covid-19 on the UK construction sector. The company has a strong balance sheet and is starting to see a resumption of activity on sites. Moreover, the business is well placed to benefit from any government stimulus programmes, which are likely to target the construction and infrastructure markets.

The holding in Patrizia was also relatively weak, with no company-specific newsflow. The business remains well positioned to grow assets as a leader in the European market, with significant net cash on the balance sheet providing additional comfort and optionality around further industry consolidation.

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Important information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. This investment may be affected by changes in currency exchange rates.

Risk factors you should consider before investing:

- The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. Past Performance is not a guide to future performance.
- The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund may invest in equities and equity related securities in European emerging markets. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The shares of smaller companies may be less liquid and more volatile than those of larger companies.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund does not make extensive use of derivatives.
- A concentrated portfolio may be more volatile than a more broadly diversified one.

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Standard Life European Smaller Companies Fund is a Unit Linked Insured Fund. The fund is invested in the Aberdeen Standard Investments European Smaller Companies Fund.

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