Q2 2020

Standard Life Global Absolute Return Strategies Fund

Aberdeen Standard Investments

Activity

In April, we increased our equity exposure after central banks and governments responded to the Covid-19 crisis with unprecedented support measures. Specifically, we increased our US large-cap equity position, reduced our short US small-cap equity position and closed the US equity hedge embedded within our global REITs (real estate investment trusts) strategy. We closed our Japanese and emerging markets (EM) equity exposures and increased the Korean equity allocation. We further increased allocations to both Korean and US equity later in the period. Additionally, we closed the US equity volatility and short US equity technology positions and removed the hedge on our European equity positions. To complement these changes, we reduced our defensive Japanese yen versus US dollar currency pair and added Swiss franc versus euro and yen versus euro strategies reflecting our concerns around political risk and the economic outlook in Europe.

We substantially increased our exposure to developed market corporate bonds, as central banks broadened the scope of their bond-buying programmes. We increased allocations to investment-grade and high-yield bonds, and added a new position in contingent capital bonds (also called contingent convertible bonds or 'CoCos') to enhance portfolio income. Given our concerns about the outlook for EM economies, we closed the Mexican and Indonesian government bond positions and reduced the EM income strategy. Additionally, we added an EM currency relative-value strategy that seeks to exploit the perceived vulnerability of certain EM currencies in the current environment. We closed the US dollar versus Thai baht position as the baht is no longer our favoured expression of the weakening EM theme.

We switched interest rate exposure from Sweden to Australia where, in our view, there is greater potential for rate cuts. We reduced the US yield curve steepener allocation, taking profits. Also, we converted the US versus German interest rates strategy into an outright US rates position, which offered better upside potential while retaining defensive qualities.

We later added a global equity gold miners strategy, comprising a basket of stocks with earnings linked to gold prices. We consider gold attractive, given the scale of monetary stimulus and its potential effects on currencies. We added global equity video games and 5G strategies where we see substantial growth potential beyond the immediate boost of the 'stay at home' environment. We also added a position in UK equity mid-cap stocks.

Following news of European stimulus packages, we raised the level of risk (and therefore return potential). Specifically, we increased our high-yield corporate bond exposure and removed the hedge from the European equity infrastructure strategy. Also, we reduced the yen versus euro position and closed the Swiss franc versus euro position.

In June, positive market drivers started to fade and market valuations looked less appealing. This prompted us to again reduce risk levels by decreasing US and Korean equity market exposures. We also added a new European yield curve steepener strategy. We expect this to benefit from economic recovery over the very long term, from central bank purchases and from anticipated changes to Dutch pensions regulations. To complement these changes, we reduced our US and Australian interest rate exposures. We closed the short US small-cap equity strategy and added further to high-yield corporate bonds, where central bank support is directed. We also took profits on our European investment-grade corporate bond and Korean equity strategies.

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Portfolio positioning and outlook

While improving Covid-19 infection and mortality trends have allowed some countries to start releasing lockdowns, we view the progress as limited. The pace of normalisation is also likely to be slow, particularly in those parts of the service sector reliant on close interaction with clients. Levels of unemployment have risen at record rates, so the potential knock-on consequences for consumption and therefore businesses are material. Mitigating this are central bank and government stimulus packages of unprecedented scale. This will underpin some assets, and it is in these areas we have aligned our positioning. The range of potential outcomes for economies and markets is extraordinarily wide. Some equity markets appear to already price in an optimistic recovery scenario, hence our holdings in those are relatively low. These volatile conditions do, however, offer the potential for valuable new opportunities which our team is on the alert to uncover.

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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 Global Absolute Return Strategies	2.3	0.7	-0.9	-1.3
6 Month EURIBOR	0.0	-0.3	-0.3	-0.2

Discrete annual performance - year to 30/06

	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Standard Life Global Absolute Return Strategies	0.7	1.2	-4.5	2.3	-6.0
6 Month EURIBOR	-0.3	-0.2	-0.3	-0.2	-0.1

Fund performance has been calculated net of Annual Management Charge.
Source: Aberdeen Standard Investments (Fund) and Thomson Reuters DataStream (Benchmark).

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

The rebound in global equities boosted our US and Korean equity positions. These gains were partly offset by negative contributions from our US equity volatility, short US equity technology and short US small-cap equity strategies. Developed market corporate bonds benefited from central banks' accommodative stance. This drove positive returns from our European and US investment-grade and high-yield corporate bond positions. Renewed risk appetite also supported our exposure to South African government bonds.

Developed market government bonds advanced (yields fell), with German bunds outperforming US Treasuries. Consequently, our US versus German government bonds strategy hampered performance. Elsewhere, our currency pair preferring the Japanese yen over the euro posted a negative return, as the yen's defensive qualities proved less appealing in the prevailing environment.

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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. The fund makes extensive use of derivatives for investment purposes. Past Performance is not a guide to future performance.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- 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 emerging market equities and / or bonds. 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 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 will 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 makes extensive use of derivatives.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

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Standard Life Global Absolute Return Strategies Fund is an Irish Unit Linked Fund. The fund is invested in the Global Absolute Return Strategies Fund, managed by Aberdeen Standard Investments.

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