

Q2 2020

# Standard Life Global Smaller Companies Fund

**Aberdeen Standard**  
Investments

## Environment

Global equities rallied in the second quarter as the announcement of massive central bank and government stimulus packages to combat the coronavirus epidemic reinvigorated risk appetite.

After selling off steeply in March amid mounting evidence that the public health crisis had sent major economies into freefall, stock markets around the world surged in April as, urged on by President Trump, the US Federal Reserve committed to unlimited purchases of government and corporate debt and slashed interest rates to zero.

Global shares continued to rise in May and June as businesses in Western countries began to re-open and hopes of a rapid economic recovery took hold. Investor optimism was tempered by fears of a potential second wave of infections and warnings, including from the Federal Reserve, that the road back to normality would be a long one.

US equities rose strongly, outperforming other regions as US policymakers moved swiftly and decisively to mitigate economic fallout from the epidemic. As US states began to emerge from lockdown, a turnaround in several economic datapoints supported hopes of a rapid recovery, with employment and retail sales figures for May both defying expectations to record large rises.

## Activity

We bought new positions in Dolby Laboratories, Kesko, Douzone Bizon and Dunelm. US-listed Dolby Laboratories is a pioneer and market leader of sound and picture quality technology. We believe the company is in the early stages of a new product cycle that will drive accelerating revenue growth and profit margin expansion. Kesko is a Finnish retailer that operates a chain of supermarkets and DIY stores. Initiatives by management to improve growth and margins going forward should lead to continued

outperformance. South Korean software solutions business Douzone Bizon will be one of strongest companies to emerge from the coronavirus outbreak, given the relatively little impact in the country. As Douzone currently holds 80-90% market share in cloud-computing products, it stands to benefit, with growth being boosted by the launch of new products. We took an initial position in Dunelm, the UK homewares retailer. The group is well positioned in the value segment of the market and management's investment in its digital platform and marketing has been working well.

On the other hand, we sold Dart Group, as the outlook for its Jet2 airlines is uncertain, with a return to international travel likely to be one of the last areas to recover. We also sold US bank Wintrust Financial. Although it is a good operator in the Chicago region, its profit outlook has deteriorated from falling interest rates and rising loan losses. Moreover, we exited Aspen Technology, which provides software to process industries such as oil refineries and petrochemical plants. The company was hit by delays in orders from customers, due to a weak oil price and lockdown uncertainty. Lastly, we sold out of Evolent Health in light of the Kentucky contract loss. We believe the sale of Passport Health will remain an overhang on the stock and our conviction in the management team has waned.

## Outlook and strategy

Small-cap valuations are attractive and supported outperformance versus large caps. We still favour our quality, growth and momentum approach – we believe any rotation to value will be short lived. Various forthcoming macro events are likely to lead to further uncertainty in markets: finalisation of the UK's exit from Europe; tech sector dislocation, as negotiation continues around Huawei's technology and the US election. We believe the Fund is well positioned to outperform in this uncertain environment.

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## Cumulative and Annualised Performance as at 30/06/2020

|  | 3 Months<br>(%) | 1 Year<br>(%) | 3 Years<br>p.a. (%) | 5 Years<br>p.a. (%) |
|--|-----------------|---------------|---------------------|---------------------|
| Standard Life Global Smaller Companies | 27.8            | 3.9           | 8.4                 | 8.8                 |

## Discrete annual performance - year to 30/06

|  | 2020<br>(%) | 2019<br>(%) | 2018<br>(%) | 2017<br>(%) | 2016<br>(%) |
|--|-------------|-------------|-------------|-------------|-------------|
| Standard Life Global Smaller Companies | 3.9         | -2.2        | 25.4        | 22.6        | -2.4        |

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

Positioning in Kornit Digital, the Israeli digital printer manufacturer for the textile and apparel industries, added value over the quarter. The company provided earnings guidance for the rest of the year that was much better than expected and it expects to be able to grow its revenues year on year in the second half of the year. Chegg also contributed positively to returns, thanks to a surge in subscriptions for its online education tools. We see Chegg as a market leader in this space and an example of a business where the lockdown has accelerated a secular trend towards digitalisation that was already under way. Moreover, the Fund's holdings in Appen, a world leader in data labelling and annotation, also drove relative returns. The stock has benefited from a spike in demand for their data services as more people work from home, and usage of social media and online search engines continues to expand. Appen's customers include Facebook, Google and Amazon.

Conversely, holdings in care-home provider Chemed was the main detractor from performance over the quarter. After performing strongly in March, the company gave up some of its strong performance as the market rebound favoured riskier stocks. However, the stock has rebounded after this initial dip. Additionally, the Fund's positioning in Mani, the Japanese manufacturer of precision medical supplies sold off after it reduced 2020 earnings guidance, as the Covid-19 crisis had caused delays to surgical procedures. Lastly, the Fund's exposure to Genus, the biotechnology company, is a world leader in the supply of genetics for selective bovine and porcine breeding. The shares were negatively impacted by the lockdown of the coronavirus-affected meat-processing industry.

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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.
- A concentrated portfolio may be more volatile than a more broadly diversified one.
- 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.

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

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