

# Standard Life Global Smaller Companies Fund



31 March 2022

## Market Review

The first quarter proved difficult for global equities. Following the sharp value rally in January and the start of February, investors had to contend with Russia's invasion of Ukraine and its economic implications, which included even more aggressive central bank rhetoric. The Russia-Ukraine conflict pushed energy prices up, as commodities generally strengthened on the back of sanctions against Russia and continued supply constraints. Brent crude, the global oil benchmark, hit its highest level in more than seven years. In Asia, renewed lockdowns in China dampened markets.

Central banks were forced to take action sooner and more decisively than previously expected. Unsurprisingly, given the market backdrop of tightening monetary policy and heightened geopolitical risk, the energy and materials sectors topped the performance table. By contrast, information technology and consumer discretionary companies lagged. Small caps underperformed their larger-cap counterparts.

## Activity

In keeping with our quality, growth and momentum process, we tilted the portfolio towards stocks with a greater degree of earnings visibility, such as Insulet, and trimmed names with a higher discretionary element to revenues, and names which face near-term margin pressure, including CIE Automotive and Yeti.

New additions to the portfolio over the quarter included Gaztransport Et Technigaz, a global market leader in the design and engineering of liquefied natural gas carriers; Envista, a US supplier of consumable equipment and services to the dental industry; Aspeed, the founder-run Taiwanese semiconductor chip designer; Watches of Switzerland, a dominant player in the UK luxury watch market; Asics, a sports product company; and Interroll Holding, a leading manufacturer of intralogistics equipment.

We sold positions in Maximus, a US operator of government health and HR programmes, as growth slowed; TechnoPro, a staffing and services company, after a disappointing meeting with management; Dolby Labs, the audio and imaging technology company, after several quarters of muted earnings guidance; and Cerence, an automobile software designer, as our in-house scorecard turned negative and the company's CEO and CFO departed.

## Portfolio positioning and outlook

We were encouraged to note that forecast price-to-earnings (P/E) ratios for small-cap growth stocks across all geographies, except for Asia excluding Japan, were at or below the 5-year average at the end of March. In the US and UK, valuations were below pre-Covid levels. This, coupled with the relief rally following the first interest rate hike in the US, suggested that the value rally had largely played out and that investors had priced in future interest rate increases.

Our attention has now turned to the longer-term fallout from the crisis in Ukraine. Inflationary pressures appear more entrenched as sanctions against Russia take effect. While companies continue to see strong demand across the board, costs are rising due to input pressures and investment spend. This is dampening the outlook for margins.

As we move towards the second half of the year, the extent to which higher costs bite into consumers' purses is being assessed, hence greater caution on discretionary names.

Areas of strength remain in digitisation, cloud computing, alternative energy and healthcare. This is reflected in our portfolio positioning. We continue to focus on quality companies with clear competitive advantages, solid market share and healthy balance sheets as we believe these names are better placed to raise prices and manage inventory risk. We are considering companies with a high degree of earnings visibility, either through recurring revenue streams or supportive structural growth trends.

## 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.



**Cumulative and Annualised performance as at 31/03/2022**

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %
Standard Life Global Smaller Companies Fund	-19.9	-2.2	10.7	10.4

**Discrete annual performance year to 31/03**

	2022	2021	2020	2019	2018
Standard Life Global Smaller Companies Fund	-2.2	65.1	-15.9	5.2	14.8

Fund performance has been calculated net of Annual Management Charge.

Source: abrdrn

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**

It was a challenging quarter for the Fund too. This reflected the extremity of share-price moves, heightened by historic levels of concentration seen in markets. Russia's invasion of Ukraine did little to help matters. All stocks, barring energy and materials names, sold off as the crisis escalated. We saw a brief period of outperformance as the US Federal Reserve embarked on its highly anticipated tightening schedule. The move was met with some relief that the central bank was taking action against runaway inflation. However, the end of the period was marked by underperformance, as consumer discretionary names weakened and several companies flagged rising and sustained cost inflation.

A key laggard over the quarter was Trex, the US supplier of wood alternative products. Its share price fell on the back of weaker-than-expected guidance from management. Higher

branding and marketing expenses combined with inflationary pressures are expected to squeeze margins. The stock continued to face pressure as housing-related companies bore the brunt of selling following interest rate rises.

Future weighed on relative returns. The company issued a solid trading statement, but its shares were unfairly punished for only being in line with consensus forecasts. Underlying operations remain firm, albeit the company does face tougher year-on-year comparatives at the start of the year.

On the positive side, ALS, an Australian life sciences and minerals testing company, performed well. Exploration activity by ALS' clients remains robust and translated into higher volumes and pricing.

**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.**

The information contained in this marketing document should not be considered as an offer, investment recommendation or solicitation, to deal in the shares of any securities or financial instruments. It is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited. No information, opinions or data in this document constitute investment, legal, tax or other advice and are not to be relied upon in making an investment or other decision.

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

\*abrdrn means the relevant member of Standard Life Aberdeen group, being abrdrn plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Issued by Aberdeen Standard Investments Luxembourg S.A. 35a, Avenue J.F. Kennedy, L-1855 Luxembourg. No.B120637. Authorised in Luxembourg and regulated by CSSF. Standard Life Investments Global SICAV is an umbrella type investment company with variable capital registered in Luxembourg (no. B78797) at 2-4, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg.

www.abrdrn.com © 2022 abrdrn plc.

