Dec
2018

Global Smaller Companies Fund

Aberdeen Standard Investments

31 December 2018

The fund aims to provide long term growth by investing predominately in the shares of smaller companies listed on the global stock markets. The fund typically holds a concentrated portfolio of stocks and is actively managed by our investment team, who will select stocks to try to take advantage of opportunities they have identified. Due to the nature of the companies in which the fund invests, investors must be willing to accept a relatively high degree of stock specific risk.

The value of investments within the fund can fall as well as rise and is not guaranteed - you may get back less than you pay in. The fund may use derivatives for the purposes of efficient portfolio management, reduction of risk or to meet its investment objective if this is permitted and appropriate. The value of assets held within the fund may rise and fall as a result of exchange rate fluctuations.

SICAV Fund

Equity Fund

Monthly

Fund Manager	Alan Rowsell
Launch Date	10 Jan 2018
Fund Currency	USD
Benchmark	MSCI AC World Small Cap
Current Fund Size	$66.3m

This document is intended for use by individuals who are familiar with investment terminology. To help you understand this fund and for a full explanation of specific risks and the overall risk profile of this fund and the shareclasses within it, please refer to the Key Investor Information Documents and Prospectus which are available on our website – www.standardlifeinvestments.com.
Aberdeen Standard Investments has not considered the suitability of investment against your individual needs and risk tolerance. If you are in any doubt as to whether this fund is suitable for you, you should seek advice. An adviser is likely to charge for advice. We are unable to provide investment advice.

Fund Information *

Composition by Country

	Fund %		Fund %
USA	42.7	France	3.4
UK	12.9	Hong Kong	1.7
Japan	7.5	Korea	1.5
China	5.7	Spain	1.2
Germany	5.7	Ireland	0.8
Taiwan	4.5	Netherlands	0.7
Italy	4.2	Cash and Other	3.8
Australia	3.7		

Composition by Sector

	Fund %
Industrials	21.5
Consumer Discretionary	18.7
Information Technology	18.6
Financials	14.5
Health Care	12.2
Consumer Staples	8.7
Cash and Other	3.8
Materials	1.1
Real Estate	0.8
Energy	0.1

Top Ten Holdings

Stocks	Fund %
Teleperformance	3.4
Shenzhou International	3.0
Pigeon	2.9
HMS	2.9
Aspen Technology	2.8
Kemper	2.8
Alarm.com	2.8
TCI	2.8
Abiomed	2.7
ServiceMaster	2.7
Assets in top ten holdings	28.8

Fund Performance *

Note: This fund has been running for less than one year therefore no past performance has been shown

Definitions

Cash and Other - may include bank and building society deposits, other money market instruments such as Certificates of Deposits (CDs), Floating Rate Notes (FRNs) including Asset Backed Securities (ABSs), Money Market Funds and allowances for tax, dividends and interest due if appropriate.

Market Review

The market finished the year on a weak note. A big sell-off in December meant it posted its first down year since 2011. The principle reason for this was tightening monetary policy, led by the US Federal Reserve.

This has been a valuation correction. The reason was higher interest rates rather than economic concerns. Many will point to trade wars, Brexit and the Italian budget. However, the principal dynamic was rising interest rates. The inevitable impact of this was lower valuations.

What seems to have changed over the course of 2018 is the realisation that the Federal Reserve (the Fed) is ending the era of easy money. The forecast for next year is for two more interest rate hikes. The Fed is on course to raise interest rates to 3%, a level not seen since 2008. It has also started reducing the size of its balance sheet. This is withdrawing liquidity from the market. Perhaps of more significance is the change in tone from the Fed. The “Fed put”, the willingness to provide monetary stimulus whenever the market wobbles, is no longer available. The market has now realised this, and has reacted by driving equity prices lower.

Activity

Replacing losers with emerging winners

The sell-off led to Matrix (our quant research tool) scores deteriorating. There was also a loss of momentum in some of our holdings. The strength of our process is that it forces us to question the rationale of the investment. It ensures we don’t miss potential new winners – companies that are outperforming and seeing earnings upgrades. This has led to some changes this month.

We sold Japan Lifeline, a maker of medical devices such as cardiac pacemakers. The business has not met our expectations and management execution has been poor. This resulted in lower forecast earnings, which turned the Matrix score negative. Management failed to address our concerns at a recent meeting. This resulted in the sale of the Fund’s holding.

We also exited Forum Energy Technologies, the US oilfield equipment company. It became clear that demand for its products is going to remain weak for the foreseeable future. We reinvested the proceeds into Chegg, a US online education company that provides study services to college students. We see strong revenue growth as it reaches more students and offers an expanded range of products.

We also invested in Appen, an Australian specialised staffing company that is the no.1 in data annotation services to train AI-related algorithms.

We bought a position in Insulet, a US company that makes the Omnipod insulin management (automatic pump) system for diabetes patients. We expect revenue growth to accelerate in 2019. This will be driven by patients shifting from injections to Omnipod to manage their diabetes.

Finally, we bought a small position in First Derivatives, the UK-listed big data software business. Revenues are growing strongly, with upgrades coming through to earnings estimates.

Performance

Fund outperforms over the year but finishes on a weak note

The market sell-off that began in October continued in December. The sharp fall in the price of the Fund reversed the strong gains made earlier this year. However, it was a good year in relative terms with the Fund outperforming its benchmark significantly.

The US healthcare company HMS was the worst performer this month. It audits medical payments and helps healthcare insurers to better understand the needs of their patients. This was one of our best performing stocks in 2018. Its success was based on its competitive advantage in patient information. However, the recent risk-off environment meant it suffered from profit-taking. There was no fundamental news and we continue to believe in the long-term prospects for the business.

Wabtec also underperformed. It is the global market leader in supplying components for trains and rail track. It was another strong performer that suffered from profit taking in the current market environment. The end-market for Wabtec’s products is considered to be cyclical. With fears of slower global growth, the risk is lower expenditure on rail equipment. However, we see improvement in Wabtec’s outlook as the company has a number of opportunities ahead.

Pigeon of Japan was the best performing stock. It did well thanks to the resilience of its earnings. As a manufacturer of baby products, sales are usually unaffected by a slowdown in global growth

TCI also held up well in December. The Taiwanese company continues to see strong demand for its health supplements. It is a good example of the type of company we like. One with resilient earnings that are less sensitive to changes in the economic cycle.

Outlook & Strategy

Valuations now look attractive

Despite some weaker economic data and a few profit warnings, the economy and earnings outlook are relatively solid. The market correction has brought valuations down to reasonable levels.

Small caps look cheap in a historical context and compared to US large caps.

Most of the Fund’s holdings trade at higher valuations compared to the index. We prefer higher-quality businesses with better-than-average growth prospects. Many of the companies held are trading at their lowest multiples for many years. For example, the valuation of Fever-Tree is the lowest that it has been since we bought it in August 2015. This builds confidence that the market correction is just about complete.

Looking ahead, it is likely that earnings will be the driver of share prices rather than valuation multiples. Our focus is on quality and resilient earnings. We are confident that the Fund is well positioned to deliver good earnings growth and strong returns.

Other Fund Information

	Retail Acc	Retail Dist	Institutional Acc	Institutional Dist	Currency
Bloomberg	SLGAUAU LX	-	SLGDUAU LX	-	USD
ISIN	LU1741498957	-	LU1741499419	-	USD
WKN	N/A	-	n/a	-	USD

Domicile	Luxembourg
Custodian Name	The Bank of New York Mellon SA/NV, Luxembourg Branch, 2-4 Rue Eugene Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg
Auditor Name	KPMG Luxembourg, 39, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg

	Interim	Annual
Reporting Dates	30 Jun	31 Dec

Settlement Time	T+3
Email	LUXMB-ASI-TA@bnymellon.com
Telephone	+352 24 525 716
Share Price Calculation Time	15:00 (Luxembourg time)
Dealing Cut Off Time	13:00 (Luxembourg time)

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To find out more about our fund range, visit our website or alternatively speak to your usual contact at Standard Life Investments.

www.aberdeenstandard.com

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