April 2021

Thoughts from a Fund Manager

ASI UK Equity Fund

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Head of UK Equities

"Rising optimism around a global economic recovery and President Biden signing a US$1.9 trillion stimulus package into law drove stocks upwards."

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What happened in the markets?

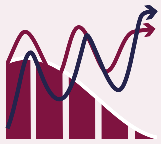
Like other developed nation stock markets, the UK market performed well in March, ending the month around 4% higher.

Rising optimism around a global economic recovery and President Biden signing a US$1.9 trillion stimulus package into law drove stocks upwards. Meanwhile, the COVID-19 vaccine rollout continued to support investor sentiment, despite concerns over global supply and a slow rollout across Europe.

Commodity prices fell over the month. Notably oil prices fell sharply mid-month over concerns that Europe's slow vaccination programme could stunt travel and economic growth. Although the blockage of the Suez Canal by a grounded container ship threatened to disrupt global oil supply, both Brent Crude and West Texas Intermediate finished lower over March. From a size perspective, the large-cap FTSE 100 Index performed better than mid-cap UK shares, although smaller companies outperformed overall.

Gilt prices fell over the month. Bonds sold off after the UK Government announced plans to issue close to £300 billion worth of government bonds in the upcoming financial year. Elsewhere, Chancellor Sunak extended the furlough programme until the end of September in his Budget. Meanwhile, there was some optimism around the economy, as the Office for Budget Responsibility revised up its UK growth forecasts for 2022. Furthermore, consumer confidence rose to a 12-month high in March. The Bank of England kept interest rates and its bond-buying programme unchanged, but is more hopeful about the UK's economic outlook.

How has the Fund performed?



The fund underperformed the FTSE All-Share Index by around 1.8% in March, lagging a buoyant market.

By and large, high-quality businesses continue to struggle to keep up with the market as the derating fuelled by rising interest rate expectations caused their pullback to continue. And, although the fund does include stocks that have benefitted from improving macro sentiment, this has proved a headwind to the fund's long-term quality approach.

Strong performers in March included: Softcat, which saw yet further upgrades as the business continued to beat and raise organic growth expectations; Bodycote, which bounced on indications that cyclical indicators for the business have troughed following very resilient operational performance through a tough 2020; and Prudential, which continued its bounce back after weakness in January as investors looked forward to the point at which it becomes a pure play, high-quality Asian growth business. The fund also benefitted from not having exposure to oil and mining stocks, which lagged the most recent step-up in the market.

Meanwhile, Genus, Abcam and Weir Group were among the stocks that gave up some of their recent strong performance. But we believe that the medium-term return potential of all three stocks remains attractive.

"The fund's performance remains strong over one, three and five years."

Aberdeen Standard Investments

Gilt prices fell over the month

Chancellor Sunak extended the furlough programme until the end of September in his budget

Consumer confidence rose to a 12 month high in March

What have we been buying and selling?

We made two new purchases in March.

Homeserve, which offers home emergency repairs, is a business with compelling long-term organic growth potential as it expands in the US, in which we have seen a buying opportunity as more cyclical stocks have come into favour and a quiet few months for the business has turned the market's attention elsewhere. Howden Joinery is a kitchen supplier in the UK that has an extremely strong market position, putting it in an excellent place to benefit from a post-COVID economic bounce. But it has also shown the ability to navigate more difficult markets successfully over a long period of time.

Although we still think it is a high-quality business, we sold out of Experian. Its valuation has reached a level that means our view of the future return potential does not seem so interesting as ideas such as Homeserve or Howden that are competing for a place in the portfolio.

Following differing relative performance, we switched some WHSmith and Watches of Switzerland into recent relative laggards, Unite Group, Marshalls and Telecom Plus.

Where next for the UK market and the Fund?

The rotation into cyclical value stocks may have another quarter or two to run this year given the likely strength of economic data, particularly in the UK.

However, we believe that for the foreseeable future stockpicking will be a greater source of alpha than style or positioning.

Quality growth companies are unlikely to have the same interest rate tailwind as they have benefitted from in recent years. But reliable, meaningful, long-term growth in earnings is still not going to be easy to come by in a post-Brexit, post-COVID world. Those businesses that can achieve that, particularly if they can beat market expectations, will still have a scarcity value.

We believe the businesses we own combine gearing into cyclical recovery with the resilience to be able to navigate choppy waters if that recovery is a bumpy one. In particular, we are looking to own businesses that are going to emerge from COVID stronger, in terms of competitive position and demand outlook, than they went into it.

We are therefore positive on the portfolio's long-term prospects to build on its strong performance record, and will continue to look to take advantage of opportunities that may arise from volatile markets.

Discrete annual returns - year to 31/03

	2021	2020	2019	2018	2017
Fund (net) (%)	31.75	-11.72	7.55	-0.54	20.01
Performance target (%)	29.71	-15.45	9.36	4.25	24.95

Performance Data: Share Class A Acc. Benchmark history: Performance comparator/Portfolio constraining benchmark – FTSE All Share. Source: Lipper. Basis: Total Return, NAV to NAV, UK Net Income Reinvested. "Fund (Net)" refers to the actual unit price performance of the shareclass shown; "Fund(Gross)" adds back charges such as the annual management charge to present performance on the same basis as the performance target / performance comparator / portfolio constraining benchmark. These figures do not include the initial charge; if this is paid it will reduce performance from that shown.

Past performance is not a guide to future returns and future returns are not guaranteed.

Fund Objective: To generate growth over the long term (5 years or more) by investing in UK equities (company shares).

Performance Target: To achieve the return of the FTSE All-Share Index plus 3% per annum over three years (before charges). The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The ACD believes this is an appropriate target for the fund based on the investment policy of the fund and the constituents of the index.

Find out more about the Fund

Click here for performance and access to fund manager documents such as Key Investor Information Documents (KIIDS).

Contact us on:
Investor Services 0345 113 69 66

Important Information

The following risk factors should be carefully considered before making an investment decision:

- The value of investments and the income from them can fall and investors may get back less than the amount invested
- A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The fund's investments are concentrated in a particular country or sector.
- 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 invests in equity 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.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website aberdeenstandard.com. The fund is a sub-fund of Aberdeen Standard OEIC I, an authorised open-ended investment company (OEIC). The Authorised Corporate Director is Aberdeen Standard Fund Managers Limited.

Aberdeen Standard Investments