August 2019

InFocus

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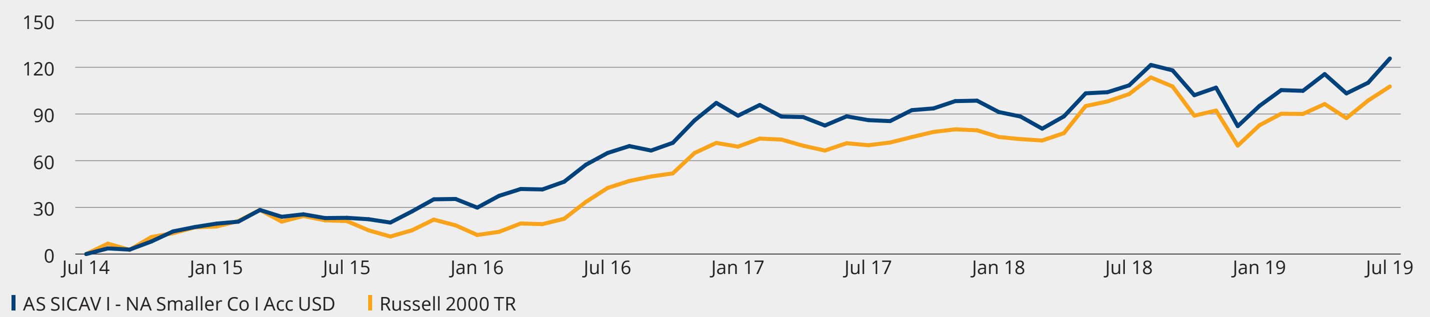
Aberdeen Standard SICAV I - North American Smaller Companies Fund

Key features

Disciplined, long-term investment approach executed by an experienced team	High conviction portfolio construction that reflects the confidence in our alpha generating process	Stock selection results that have yielded compelling risk-adjusted performance outcomes

Performance



	Year to 31/07/19	Year to 31/07/18	Year to 31/07/17	Year to 31/07/16	Year to 31/07/15	5 years % p.a.	YTD %
AS SICAV I - NA Smaller Co I Acc USD	1.08	11.45	11.99	13.84	13.96	10.35	19.08
Russell 2000 TR	-4.42	18.73	18.45	0.00	12.03	8.53	17.66

Source: Lipper US dollar net of fees accumulation to end-July 2019.
The comparator shown may be used for risk monitoring and portfolio construction purposes, as well as to provide a performance comparator; it is not an integral part of the Objective and Investment Policy for the fund and should not be considered as such.

Past performance if not a guide to future results.

The Fund delivered a robust 19.08% year-to-date, outperforming the Russell 2000 Index by 142 basis points. Stock selection and sector allocation both contributed positively to relative performance.

Stock picks were strongest within the information technology sector, with particularly positive results from our software companies. This included payroll software group Paylocity Holdings. The company soared on the back of strong earnings results. Another top contributor was business management software provider Pegasystems. After muted share price performance in 2018, the stock advanced thanks to well-received earnings results and improved 2019 guidance. Additional highlights included Manhattan Associates, Rogers Corp and Casella Waste Systems. However, the Fund experienced more difficult stock selection results in the healthcare, real estate and consumer staples sectors. In particular, positions in diversified biopharma firm Emergent Biosolutions and healthcare-staffing group AMN Healthcare Services disappointed.

How have we positioned the portfolio?

Over 2019, we identified a number of opportunities to buy what we believe are high-quality companies in a variety of sectors. Take Saia, a trucking services firm. We think it has multiple opportunities to improve profitability, driving earnings and potentially a higher valuation. We also purchased market-leader Five9, a developer of cloud-based software for contact centres. We expect robust top-line growth for the foreseeable future, as enterprises upgrade their contact-centre software.

We like Dorman Products, an aftermarket auto-parts business. It should continue to grow at a premium to market-growth rates thanks to its heavy investment in innovation and R&D. Another name to highlight is First Interstate BancSystem, an undervalued, commercially-focused Montana bank. The lender is able to earn healthy returns on equity due to its conservative underwriting culture and relatively high-fee income business.

We also reviewed a number of our holdings that had not delivered as expected. We exited Canadian Western Bank over concerns around escalating funding costs and a weakening macro-environment in Canada. We also closed auto retailer Lithia Motors, given our more cautious view on car sales. On a more positive note, we sold Fair Isaac Corp, the credit scoring and financial software group. This was one of the top contributors to performance over the past several years. So much so, that it is no longer a small-cap stock and therefore not suitable for our strategy. A notable success story.

Looking ahead

Our current market outlook is much more cautious than it was earlier in the year. The confluence of weaker economic data, softer-than-expected inflation, yield-curve inversion and heightened political uncertainty has led to a ratcheting down of GDP growth expectations for this year and next. The increasingly fractious US-China trade war remains a major headwind. Many see the burden of tariffs falling on US companies and consumers, as opposed to exporters. This will further weigh on US growth.

Nonetheless, our sense is that investors are looking through the political noise and are instead embracing the expected benefits of looser monetary policy. This includes the US Federal Reserve, which cut interest rates in July for the first time in a decade. It also announced the halting of its balance sheet reduction activity two months earlier than planned. Meanwhile, central banks in China, Japan and Europe have either signalled or launched measures to support their relative economies. This is a positive for equities in an uncertain world.

We are now over 10 years into a bull market and equity returns may be more modest going forward. In recent years, the concepts of 'downside protection' and 'preservation of capital' have not been at the top of most investors' minds. We think that is changing. As such, we expect our strategy, which is centred around protecting investors in down markets, to become even more relevant in the coming years.

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Ralph Basset
Fund Manager