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Thoughts from a Fund Manager

Aberdeen Standard SICAV I - Global Mid-Cap Equity Fund

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What happened in the markets?

Economic and market recoveries continued in April, despite an alarming rise in Covid cases in India and renewed outbreaks in other geographies.

The extensive global inventory wind-down in 2020 has resulted in higher-than-normal restocking demand. This, coupled with fiscal and monetary stimulus, points to an extended period of economic expansion. Commodity prices, crude oil prices and container shipping rates have all risen. Various macro indicators, ranging from home furnishing buying in the US, to white liquor consumption in China, to Japan factory automation, have recorded multi-year highs. Early signs are pointing to a better-than-expected earnings season overall. Many US-listed companies, in particular, are announcing blockbuster quarters that far exceed consensus expectations and management appear to be increasingly optimistic regarding outlooks while acknowledging comparatives will get tougher as the year progresses.

> "The Fund is positioned to benefit from high-conviction, medium-to-long-term structural growth themes including lifestyle, home-as-a-sanctuary and digitalisation."

Anjli Shah

How has the Fund performed?

The Fund gained 7.87% in April 2021 while the MSCI ACWI Mid-Cap Index rose 4.62%. The relative outperformance can be explained by the market beginning to re-focus on bottom-up fundamentals.

Positive contributors to performance included:

- **Pool** – The US-based swimming pool equipment distributor's first-quarter results exceeded expectations with net sales up 57% year-on-year due to continued consumer home improvement spending. With pool builders reportedly sold out for 2021 and some even taking bookings into 2022, the company's management had the confidence to raise full year earnings guidance by 30%. We continue to believe the themes of home-as-a-sanctuary and migration to southern states and suburbs remain intact.
- **Airtac** – The pneumatic components manufacturer's latest earnings beat expectations after first-quarter orders exceeded previous peaks. Management raised earnings guidance for the financial year, with growth supported in the near term by the cyclical recovery. Further out, we continue to see strong demand for the Taiwan-based company's products on the back of rising automation and the build-out of 5G and the Internet of Things.
- **Trex** – The US-based manufacturer of wood-alternative decking and railing is being viewed as a beneficiary of the growing desire for outdoor living space and the home-as-a-sanctuary trend. While wood still represents 80% of the US decking market, composites are rapidly gaining market share as they require lower maintenance and are more environmentally friendly. Recent soaring lumber prices further highlight the attractive

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value composites can offer over wood. Furthermore, various brokers have upgraded their recommendations on the stock and raised earnings estimates.

Detractors from performance included:

- **Generac** – Shares in the manufacturer of home standby generators have performed well in the year-to-date, but the stock has been subject to some short-term profit taking. At the end of April, the US-based company reported exceptionally strong results, with net sales growing 70% year-on-year. Management raised fiscal year 2021 earnings guidance due to expectations of accelerating demand for generators amid increasingly frequent power outages and expanding build rates. Generac is now looking to boost its capacity expansion plans and launch several new products this year as the clean energy business continues to trend favourably.
- **Synopsys** – The US electronic design automation company's first-quarter results exceeded expectations with revenue growth of 16% year-on-year and management left full-year guidance unchanged. The shares have underperformed despite subsequent announcements that the California-based company has entered into a $100m accelerated share repurchase agreement and acquired MoreThanIP. We believe April's underperformance is likely due to the market favouring consumer-oriented stocks over technology-related investments. The company has a good recurring revenue profile and is another beneficiary of the "Internet of Things" trend.
- **Keysight Technologies** – The electronics testing provider's first quarter results, announced in February, beat expectations and highlighted that order growth of 7% year-on-year had accelerated from 3% growth in the prior quarter. The US-based company also said second-quarter revenue should beat previous expectations but left its previous guidance on earnings per share unchanged. Given a lack of meaningful news flow since the results announcement, the share price performance likely reflects profit-taking and the market favouring consumer-oriented stocks over technology-related stocks. Keysight remains exposed to several structural and multi-year trends including 5G and the proliferation of connected devices.

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What have we been buying and selling?

While we did not make any new purchases this month, we decided to exit our positions in Akamai and Win Semi. Our conviction levels in both names waned and we preferred to re-allocate the capital into higher-conviction, higher-scoring ideas.

- **Akamai** – The US-based internet content service company's delivery network is only growing at a low single digit pace, as growth in global data traffic is being partially offset by price erosion. In addition, 20% of this segment's revenues relate to Covid-impacted end-markets such as travel, leisure and retail. The security segment is growing and is on track to become a larger proportion of the overall group. While the results were satisfactory, there was some disappointment the security segment did not grow faster. Earnings guidance came in below expectations with management comments implying fiscal 2021 would be a transition year.
- **Win Semi** – The Taiwan-based company is the largest foundry globally specialising in gallium-based wafers used by its clients to produce chips for wireless data transfer, 3D sensing and optical devices. While recent results were broadly in-line with management guidance and expectations, the second-quarter 2021 guidance was weak, with management projecting low single digit revenue growth in contrast with analysts' consensus forecasts of 11%. Margins are being adversely impacted by revenue mix as the low-margin mobile business is outperforming while the high-margin infrastructure business is underperforming. The very nature of the business results in volatility and means the management only has visibility for the quarter ahead. Thus, it is hard to say with real certainty whether a hoped-for improvement in the second half of the year will materialise.

Where next for the Global Mid-Cap market and the Fund?

Our focus over the next month will be on earnings results and company guidance for the year ahead.

Taking into account the recent stabilisation in bond yields, reducing factor risk and the relative valuation of cyclical stocks, we believe the next leg of outperformance will be driven by fundamentals.

Although we are bottom-up fundamental investors, there are a number of themes running through the portfolio, including lifestyle, home-as-a-sanctuary and digitalisation. The Fund is positioned to benefit from these high-conviction, medium-to-long-term structural growth themes by investing in quality companies whose growth outlooks are also enhanced by the prospect of economic recovery.

Discrete annual returns - year to 30/04/21 (%)

	2020	2019	2018	2017	2016
Fund (net)	41.57	N/A	N/A	N/A	N/A
Benchmark	41.15	N/A	N/A	N/A	N/A

Performance: Share Class A Acc, EUR, Source: Morningstar Direct, net of fess in GBP, 1 year to 230 April 2021. Benchmark: MSCI ACWI Mid Cap GR EUR. "Fund (Net)" refers to the actual unit price performance of the share class shown 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.

Find out more about the Fund

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

Contact us on:

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The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.

Past performance is not a guide to future results.

- 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.
- The shares of small and mid-cap companies may be less liquid and more volatile than those of larger companies.
- The fund may invest in companies with Variable Interest Entity (VIE) structures in order to gain exposure to industries with foreign ownership restrictions. There is a risk that investments in these structures may be adversely affected by changes in the legal and regulatory framework.
- Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks.
- 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
- 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**

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