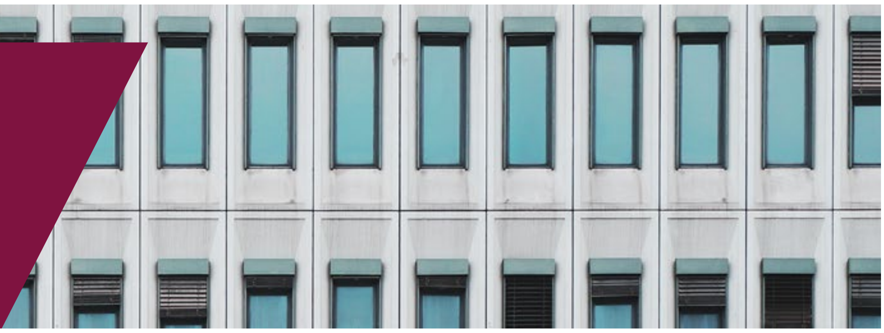

May 2021

Thoughts from a Fund Manager

ASI UK Income Unconstrained Equity Fund

Thomas Moore
Senior Investment Director

"We continue to find plenty of stocks that offer dividends as well as the ability to tap into the nascent economic recovery."

Thomas Moore

What happened in the markets?

Global stock markets continued to respond favourably to the ongoing vaccine roll-out, helping to boost confidence in a rapid economic recovery.

Expectations for UK economic growth continued to be revised upwards, with the Bank of England raising its 2021 GDP growth forecast to 7.25% from 5%. The Bank said households are poised to spend accumulated savings as the country emerges from lockdown.

Economically sensitive cyclical stocks remained perky, despite a stabilisation in global bond yields. Value stocks are generally benefiting from improving company earnings momentum. Stocks with a higher-than-average dividend yield compared to the benchmark have at long last shown signs of improved performance. This is welcome for our portfolio given that we favour well-managed, cash-generative companies. We continue to find plenty of stocks that offer dividends as well as the ability to tap into the nascent economic recovery.

How did the fund perform?

The Fund outperformed the FTSE All-Share Index again in April for the 7th consecutive month. The market backdrop remained supportive for our positioning as investors looked ahead to the prospect of improved economic activity in 2021.

The biggest contributor was registrar business **Equiniti** which surged on confirmation of bid talks with Siris, underlining the intrinsic value of the business.

The Fund also benefited from its holding in industrial business **Tyman**, after the company reported that an encouraging rise in demand is driving volume growth in its key US housing market.

The Fund's holding in housebuilder **Vistry** was another contributor, with the market responding well to encouraging results that highlighted a step-up in housing demand and rapid debt reduction.

The largest detractors from performance were furniture company **DFS**, financial **Randall & Quilter** and infrastructure business **John Laing** on no particular news. The stocks failed to keep pace with a rising market.

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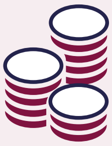
What have we been buying and selling?



We added to our holding in emerging market fuel distributor Vivo Energy, which is well positioned to benefit if the easing of lockdown boosts demand. Improved cash flow has also allowed the dividend to be reinstated, providing a further catalyst for the stock.

We also added to our holding in miner **Anglo American** given that we expect an efficiency plan and the commissioning of a new project to help drive sector-leading growth.

We sold our holding in **National Grid** as our conviction had become relatively low, given some risk from rising bond yields in terms of the discount rate.

We also trimmed our holding in electricity company **SSE** which has performed well on growing enthusiasm towards their renewables business.

Where next for the UK income unconstrained market and the fund?

The portfolio is well positioned for a continuation in the current market rotation as investor confidence recovers following the rapid UK vaccine roll-out.

Although the market is anticipating the economic recovery that lies ahead in 2021, we believe that investors are generally ill-prepared for a return to a more normal economic environment.

As fears of a prolonged economic stagnation recede, we expect a shift away from highly valued quality growth stocks, towards more economically sensitive sectors such as financials and cyclicals. We are also convinced that the robust fundamentals of our holdings are not reflected in their valuations.

We are excited about the fund's prospects, with significant total return potential from a combination of:

1. higher-yielding resilient income stocks (with potential for dividend yields to compress); and

2. cheaply valued cyclicals/financials (with rapid dividend recovery prospects).

We expect many of our holdings to emerge from the crisis with increased market share, enhancing their dividend and capital prospects going forward. The reinstatement of dividends by many of our stocks underlines how quickly income prospects can turn.

We expect more companies to reinstate their dividends in the months ahead and we see this as a catalyst for a recovery in share prices.

We believe that our portfolio is correctly positioned for this environment. The market recovery phase, following a period of macro turmoil, can be prolonged. This is because bad news tends to be sudden (human beings assume the worst when something bad happens), while good news tends to be gradual (human beings gradually climb the wall of worry).

We expect the performance of the portfolio to continue to improve in 2021 as investors switch their focus from macro to micro. We are convinced that many of our holdings are materially mispriced as their valuations do not reflect their robust fundamentals. There are echoes with the period following the global financial crisis in 2009 when economic recovery was the catalyst for very strong performance of our holdings. All of this bodes well for the fund's performance in the months and years ahead.

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

	2021	2020	2019	2018	2017
Fund (net)	11.26	7.15	-2.61	-25.01	27.14
Performance target	20.14	8.16	2.62	-16.68	25.95
Portfolio's constraining benchmark	16.63	5.31	0.70	-16.65	26.13

Source: Morningstar.

Performance data: Share Class Platform 1 Acc GBP. Benchmark history: Performance target/Performance comparator – IA UK Equity Income Sector Average Portfolio constraining benchmark: FTSE All-Share Index Source: Aberdeen Standard Investments (Fund & Benchmark) and Morningstar (Sector). Basis: Total Return, NAV to NAV, UK Net/Gross Income Reinvested. "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.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

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

Performance target: To exceed both the IA UK Equity Income Sector Average return (after charges) over 1 year and to be top quartile over rolling three year periods together with delivering a yield greater than that of the FTSE All-Share Index over rolling three year periods. 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/comparator for the fund based on the investment policy of the fund and the constituents of the index/sector.

Find out more about the fund

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

Past performance is not a guide to the future.

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Important Information

Past performance is no guarantee of future results.
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.
Equity securities of micro, small and mid-cap companies carry greater risk, and more volatility than equity securities of larger, more established companies.

- 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**

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