

# Aberdeen International Small Cap Fund

## Performance highlights

- The Fund underperformed its benchmark, the MSCI All Country (AC) World ex USA Small Cap Index,<sup>1</sup> for the third quarter of 2019.
- Stock selection in Brazil and the UK detracted from Fund performance, though this was partially mitigated by positive stock selection in India.

## Fund performance

Aberdeen International Small Cap Fund (Institutional Class shares net of fees)<sup>2</sup> returned -3.48% for the third quarter of 2019, underperforming the -1.09% return of its benchmark, the MSCI AC World ex USA Small Cap Index.

Stock selection in Brazil and the UK weighed on Fund performance for the quarter. In the UK, shares of protein research tool supplier Abcam fell after it announced additional investment to support the next five years of expansion that resulted in near-term earnings downgrades. We are supportive of the company's action and believe that our long-term investment case remains intact. Brazilian dental benefits provider Odontoprev was hurt by lower-than-expected margins and muted membership expansion in its quarterly

results. The firm has had success in growing individual plans in recent years, and we believe that it could benefit from a cyclical recovery in the corporate segment as well as broadening its business through the bank channel. Similarly, Korean dental implant provider Osstem Implant's stock price fell after it posted quarterly operating profits that missed estimates, due to bad debt provisions and returns and allowances<sup>3</sup> in emerging markets. We subsequently exited the Fund's position in Osstem Implant as we experienced poor communication from the company.

Conversely, stock selection in India boosted Fund performance for the quarter. Shares of consumer goods maker Jyothy Labs gained on expectations that India's corporate tax cuts would bolster its earnings. In the UK, aerospace and defense company Ultra Electronics' stock price rose following its solid earnings report and a contract win worth up to US\$1.0 billion by a joint venture to supply sonobuoys to the U.S. Navy. The Fund's holding in Tesco Lotus Retail Growth, a Thai property fund that owns rental rights to 23 Tesco Lotus hypermarkets, contributed to performance as the company delivered steady profit growth and dividends despite a slowing economy.

From a sector perspective, stock selection in healthcare was the main detractor from Fund performance due to the holdings in Abcam, Odontoprev and Osstem Implant. This was offset by positive returns from the industrials sector, which included Ultra Electronics.

## Fund activity and positioning

We initiated several holdings during the quarter: Simcorp, a Danish financial software provider which we feel is positioned to gain further traction in the U.S.; Israeli robotic pool cleaner manufacturer Maytronics, which has highly competitive products; and Israeli security software provider Cyberark Software, as we believe that it has attractive opportunities for growth and margin improvement.

In addition to Osstem Implant as previously noted, we exited the Fund's positions in Swiss software firm Temenos and cocoa producer Barry Callebaut, as they had exceeded the Fund's small-cap threshold; British polymer solutions provider Victrex, which in our view was facing challenging trading conditions and increasing costs; and Indonesian cement-maker Indocement, as we believe that there are better opportunities elsewhere.

<sup>1</sup> The MSCI AC World ex USA Small Cap Index is an unmanaged index considered representative of small-cap stocks in developed- and emerging-market stock markets, excluding the U.S. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

<sup>2</sup> *The performance quoted represents past performance, which does not guarantee future results. Class A shares have a 0.25% 12b-1 fee. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-387-6977 or visiting [aberdeen-asset.us](http://aberdeen-asset.us).*

<sup>3</sup> Returns and allowances are two distinct business financial transactions that are recorded on one line of a company's income statement. "Returns" represents the value of the merchandise customers bring back after purchase and "allowances" is the amount of discounts that a company provides to dissatisfied customers.

### Market review

International small-cap equities declined in U.S. dollar terms in the third quarter of 2019, amid turbulence in tandem with U.S.-China relations. Trade tensions re-escalated when U.S. President Donald Trump threatened to impose tariffs on Chinese imports after talks stalled. Tensions eased in September as both countries exchanged goodwill gestures to pave the way for the resumption of talks in October. Trade woes also spread elsewhere, with Japan restricting exports vital to South Korea's semiconductor industry. In monetary policy news, the U.S. Federal Reserve reduced its benchmark interest rate in two increments of 25 basis points in July and September — its first rate cuts in more than a decade. The European Central Bank lowered its deposit interest rate further into negative territory, and decided to launch another round of bond-buying.

In politics, Boris Johnson replaced Theresa May as UK prime minister. Johnson failed in a string of maneuvers to further his plan that would take the country out of the European Union (Brexit) by the end of October, even without a deal. Donald Trump faced impeachment inquiry proceedings following revelations that he sought the help of the Ukrainian government to investigate a political rival.

By sector, real estate benefited from the interest-rate cuts during the quarter, while information technology stocks also gained ground amid a recovery in shares of chip-related companies. In contrast, energy and materials stocks saw the most notable losses during the quarter. Despite a short-lived spike following an attack on a Saudi oil processing facility, the Brent crude oil price moved lower over the quarter due to investors' fears of weak demand.

### Outlook

In our view, the recent round of "tit-for-tat" tariffs in the U.S.-China trade talks underlines that trade policy has an increasingly greater influence on financial markets than monetary policy. The slowdown in global manufacturing triggered by trade uncertainty appears to be spilling over and affecting other sectors, labor markets and consumer spending. We believe that monetary policy easing across most parts of the world should provide some support. But in most cases, it most likely will be reactive and gradual, and not substantial enough to change the global economy's current trajectory, in our opinion.

Against this backdrop of unpredictable trade and political developments, we remain focused on our quality approach. We regularly review the investment case for all the Fund's holdings to assess whether their structural growth drivers are still intact. We believe that the companies' clear economic moats,<sup>4</sup> robust balance sheets and stable cash flows will benefit the Fund's performance despite market fluctuations.

### Aberdeen International Small Cap Fund Total Returns (%)

	Cumulative as of September 30, 2019			Annualized as of September 30, 2019				
	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception 09/30/96
Class A w/o sales charges	1.27	-3.57	12.57	3.14	7.81	6.41	10.05	7.21
Class A with sales charges	-4.55	-9.11	6.09	-2.79	5.71	5.16	9.40	6.94
Institutional Class	1.30	-3.48	12.88	3.49	8.18	6.75	10.37	7.35
MSCI AC World ex USA Small Cap Index	2.47	-1.09	10.68	-5.24	5.04	4.37	6.51	6.11

### Annual Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011
Class A w/o sales charges	-9.60	31.75	4.97	-2.50	1.53	9.38	32.19	-9.97
Institutional Class	-9.31	32.18	5.33	-2.27	1.87	9.69	32.61	-9.68
MSCI AC World ex USA Small Cap Index	-17.89	32.12	4.29	2.95	-3.69	20.13	18.96	-18.21

Minimum Initial Investment (A; C; Inst.): \$1,000; \$1,000; \$1,000,000. Gross/Net expense ratio as of most recent prospectus (A; C; Inst.): 1.79%/1.48%; 2.56%/2.15%; 1.52%/1.15%. Annual distributions/annual capital gains. Expenses stated as of the Fund's most recent prospectus. All classes of the Fund have contractual waivers in place and may not be terminated before 2/28/20 without approval of the Independent Trustees.

**PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.** The performance data quoted represents past performance and current returns may be lower or higher. Class A shares have up to a 5.75% front-end sales charge and a 0.25% 12b-1 fee. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, which may be higher or lower than the performance shown above, please call 866-667-9231 or go to [aberdeenstandard.com](http://aberdeenstandard.com).

The Fund changed its investment strategy effective 2/29/16. Performance information for periods prior to 2/29/16 does not reflect the current investment strategy. Returns prior to 7/20/09 reflect a predecessor fund's performance. The inception date is that of the oldest share class. Performance of newer classes may be linked to the oldest share class. No since inception Index performance is shown because the Fund predates the Index. Please consult the Fund's prospectus for more detail. Total returns assume the reinvestment of all distributions. Total returns may reflect a waiver of part of the Fund's fees for certain periods since inception, without which returns would have been lower. Indexes are unmanaged and provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

<sup>4</sup> A moat refers to the ability of a business to maintain competitive advantages over its competitors in order to protect its long-term profits and market share from competing firms.

## Top Ten Fund holdings (as of September 30, 2019)

	% of Fund
Grupo Aeroportuario del Sureste	3.4
Kerry Logistics Network Ltd.	3.1
Aveva Group	3.1
Nabtesco Corp.	3.0
Tecan Group	3.0
Dechra Pharmaceuticals	3.0
Tesco Lotus Retail Growth	2.9
Abcam	2.9
Genus	2.8
Brunello Cucunelli	2.5
<b>Percent of Portfolio in Top Ten</b>	<b>29.7</b>

Figures may not sum due to rounding.  
Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown.

## Portfolio characteristics (as of September 30, 2019)

	Fund	Benchmark
Number of Holdings (not including cash)	48	4,177
Weighted Average Market Cap (bn USD)	3.2	3.3
Beta	0.9	1.0
Alpha	4.7	0.0
Standard Deviation	10.7	11.5
R-Squared	85.7	100.0
Sharpe Ratio	0.7	0.3

The beta, alpha, standard deviation and R-squared are based on a 36-month rolling period. Beta is a measure of the volatility of a portfolio in comparison to a benchmark index. Alpha is a measure of performance that takes the volatility of a mutual fund and compares its risk-adjusted performance to a benchmark index. Standard deviation measures historical volatility. R-squared is a statistical measurement that determines the proportion of a fund's return that can be explained by variations in the market, as measured by a benchmark index. Sharpe ratio measures risk-adjusted performance.

## IMPORTANT INFORMATION

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Equity stocks of small-cap companies generally carry greater risk and more volatility, and may be more illiquid, than equity stocks of larger, more established companies.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries. Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

***Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus, or download at [www.aberdeenstandard.us](http://www.aberdeenstandard.us). Please read the summary prospectus and/or prospectus carefully before investing any money.***

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