

June 2018

# Smaller Companies

Andrew Paisley

**This communication is intended for investment professionals only and must not be relied on by anyone else.**

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

# Accessing European Growth through smaller companies

## Why allocate to European Smaller Companies

- More domestically focussed
- Attractive valuations
- Opportunity to enhance European Equity allocation returns

## A proven, award winning approach

- Consistent investment process leads to predictable performance
- Focus on quality, growth and momentum
- Bottom up approach assisted by a proprietary quants tool
- Attractive risk adjusted returns

**We believe that clients should have a structural overweight to smaller companies**

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# Economic outlook supportive

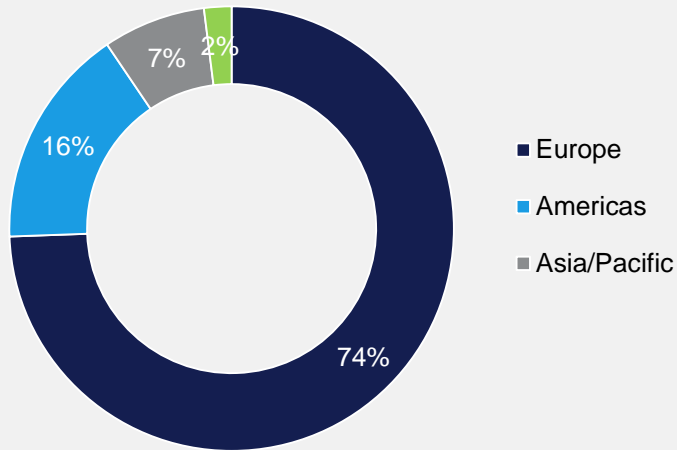
Manufacturing PMIs	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Global	51.6	51.9	51.6	50.9	51.1	51.0	50.8	50.5	50.4	51.0	51.0	50.7	50.9	50.0	50.6	50.2	50.1	50.4	51.0	50.8	51.1	52.0	52.1	52.7	52.8	53.0	53.0	52.7	52.6	52.6	52.7	53.2	53.2
Emerging Markets	50.7	51.1	50.0	49.6	49.8	49.9	49.1	48.6	48.4	49.0	49.2	49.0	49.4	48.9	50.2	49.5	49.5	49.3	50.3	50.1	50.3	51.0	50.8	51.1	50.8	51.3	51.6	50.9	50.6	50.8	50.9	51.7	51.3
Euro Area	51.0	51.0	52.2	52.0	52.2	52.5	52.4	52.3	52.0	52.3	52.8	53.2	52.3	51.2	51.6	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1
Germany	50.9	51.1	52.8	52.2	51.1	51.9	51.8	53.3	52.3	52.1	52.9	53.2	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6
France	49.2	47.6	48.8	48.0	49.4	50.7	49.6	48.3	50.6	50.6	50.6	51.4	50.0	50.2	49.6	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1
UK	52.3	54.1	54.0	52.3	52.1	51.9	52.4	51.5	51.6	54.5	52.4	51.2	52.2	50.9	51.3	49.6	50.5	53.1	48.4	53.0	55.6	54.2	53.4	55.8	55.4	54.6	54.3	57.2	56.4	54.2	55.2	56.7	55.9
Switzerland	49.3	48.1	47.7	48.0	47.3	50.0	50.0	51.3	48.0	49.6	49.0	49.9	50.2	51.1	53.0	53.1	55.3	51.5	51.5	51.6	54.4	55.2	55.9	56.2	54.6	57.8	58.6	57.4	55.6	60.1	60.9	61.2	61.7
Netherlands	54.1	52.2	52.5	54.0	55.5	56.2	56.0	53.9	53.0	53.7	53.5	53.4	52.4	51.7	53.6	52.6	52.7	52.0	53.2	53.5	53.4	55.7	57.0	57.3	56.5	58.3	57.8	57.8	57.6	58.6	58.9	59.7	60.0
Spain	54.7	54.2	54.3	54.2	55.8	54.5	53.6	53.2	51.7	51.3	53.1	53.0	55.4	54.1	53.4	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3
Italy	49.9	51.9	53.3	53.8	54.8	54.1	55.3	53.8	52.7	54.1	54.9	55.6	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3
Greece	48.3	48.4	48.9	46.5	48.0	46.9	30.2	39.1	43.3	47.3	48.1	50.2	50.0	48.4	49.0	49.7	48.4	50.4	48.7	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8
Turkey	49.8	49.6	48.0	48.5	50.2	49.0	50.1	49.3	48.8	49.5	50.9	52.2	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7	48.7	49.7	52.3	51.7	53.5	54.7	53.6	55.3	53.5
Poland	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8	51.0	52.1	51.8	50.3	51.5	52.2	50.2	51.9	54.3	54.8	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7
Russia	47.6	49.7	48.1	48.9	47.6	48.7	48.3	47.9	49.1	50.2	50.1	48.7	49.8	49.3	48.3	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9
Brazil	50.7	49.6	46.2	46.0	45.9	46.5	47.2	45.8	47.0	44.1	43.8	45.6	47.4	44.5	46.0	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1	52.0	50.5	50.0	50.9	50.9
China (Caixin)	49.7	50.7	49.6	48.9	49.2	49.4	47.8	47.3	47.2	48.3	48.6	48.2	48.4	48.0	49.7	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51.0
China (official)	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7	49.8	49.8	49.6	49.7	49.4	49.0	50.2	50.1	50.1	50.0	49.9	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4
US (ISM)	54.3	53.5	52.3	51.5	52.8	53.0	51.7	51.0	50.1	49.6	48.7	47.9	48.6	49.7	51.7	50.7	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5	56.0	57.7	57.2	54.8	54.9	57.8	56.3	58.8	60.8

Source: Bloomberg, MainFirst Research, 30 September 2017

# European Small Caps, more domestically focussed

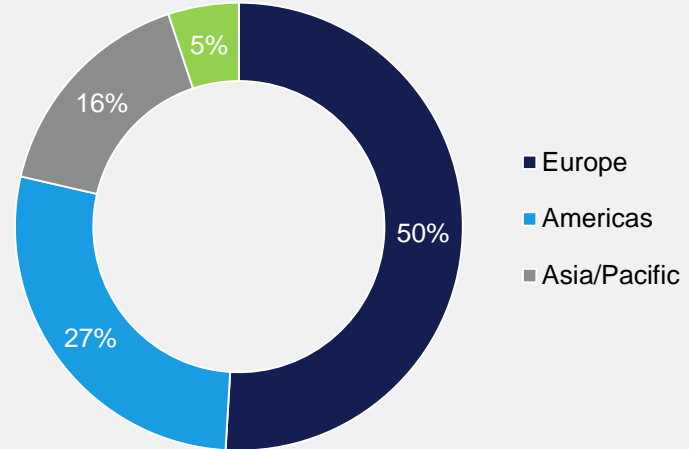
Smaller companies are more geared into European growth story

Standard Life Investments Europe ex UK Smaller Companies Revenues



Source: Aberdeen Standard Investments, 31 March 2018. Geographic revenue split of MSCI Europe ex UK

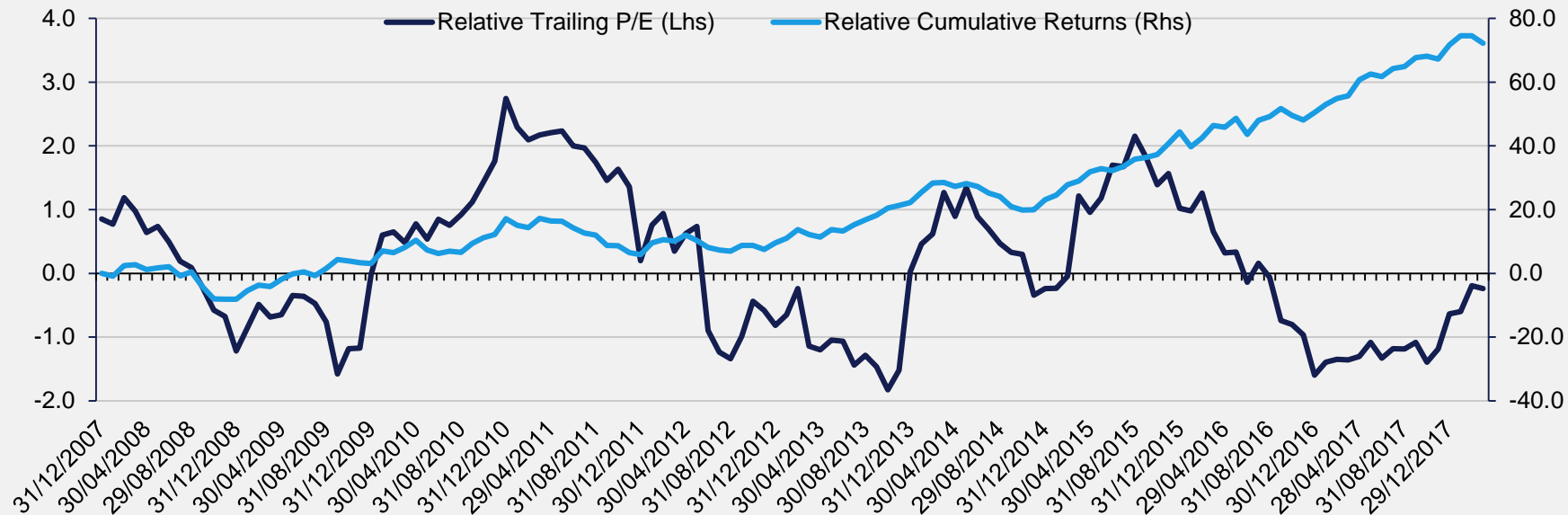
MSCI Europe ex UK Large Cap Revenue



Source: Aberdeen Standard Investments, 31 March 2018. Geographic revenue split of MSCI Europe ex UK

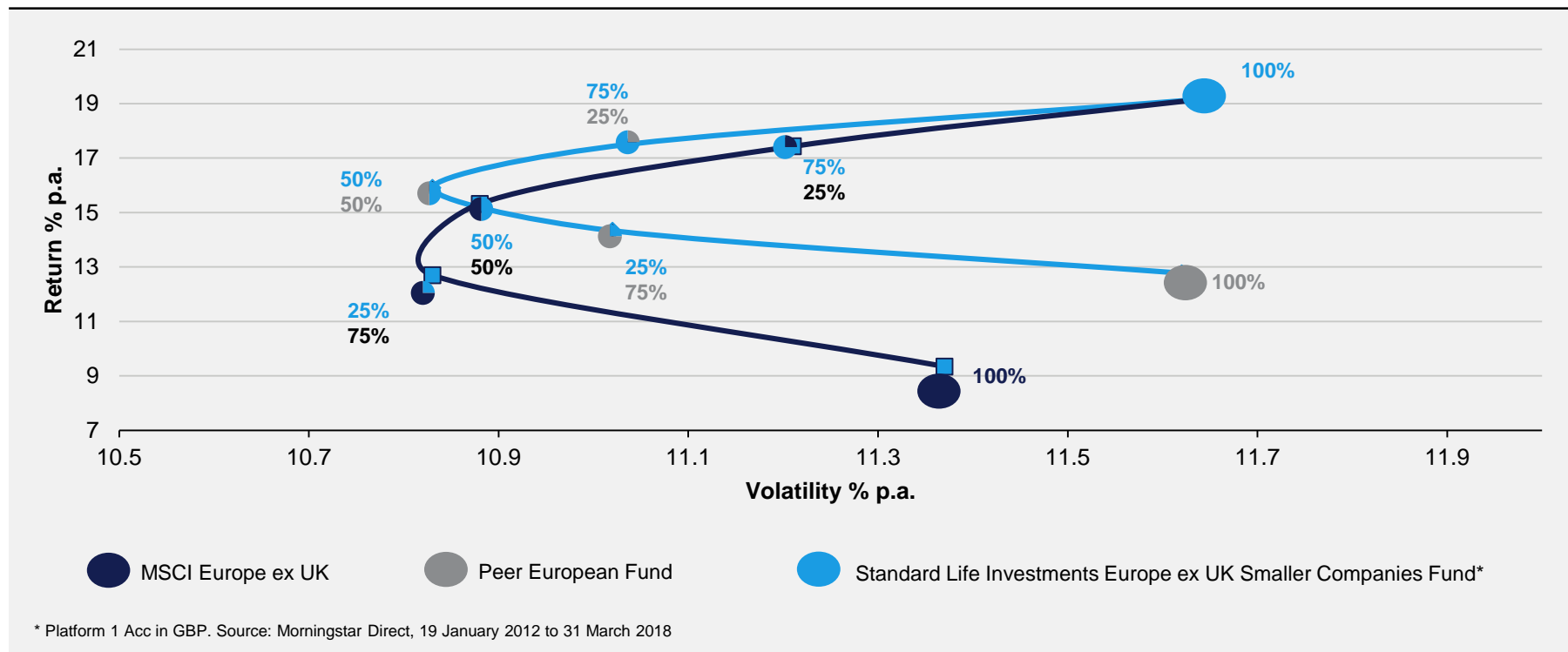
# Despite significant outperformance, valuations remain attractive

MSCI Europe ex UK Small Cap vs MSCI Europe ex UK



Source: Aberdeen Standard Investments, 31 March 2018

# European ex UK Smaller Companies



# Aberdeen Standard Investments Smaller Companies team



Harry Nimmo



Abby Glennie



Andrew Paisley



Anjali Shah



Alan Rowsell



Kirsty Desson



Imogen Harris



Laura Odikanekwu

## UK Smaller Companies

- 20 year track record
- Top decile since launch
- Information ratio of 0.54

## European Smaller Companies

- 10 year track record
- Top decile since launch
- Information ratio of 0.95

## Global Smaller Companies

- 6 year track record
- Top decile since launch
- Information ratio of 0.64

Custodian of the Smaller Companies Regional Stock Selection Tools "Matrix"

Source: Aberdeen Standard Investments, 31 March 2018. UK Smaller companies from 01/12/98. Benchmark is Numis SC ex IT. European Smaller Companies from 01/10/07. Benchmark is FTSE Developed Europe Small Cap . Global Smaller Companies from 01/02/12. Benchmark is MSCI ACWI Small Cap

# Our approach to smaller companies investing

## The principles

Focus on **quality** to enhance return and reduce risk

Look for sustainable **growth**

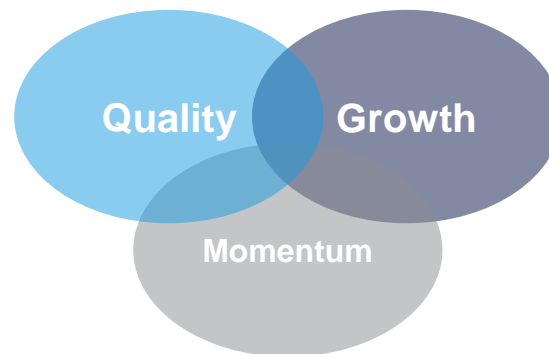
Run your winners and cut your losers – **momentum**

Concentrate your efforts using “the Matrix”

Invest for the long term

Management quality

Valuation



## Buying tomorrow's larger companies today



# Consistent application of process

- Concentrated portfolios
- Stock specific risk the primary driver of returns
- Lower risk approach
- Predictable performance profiles

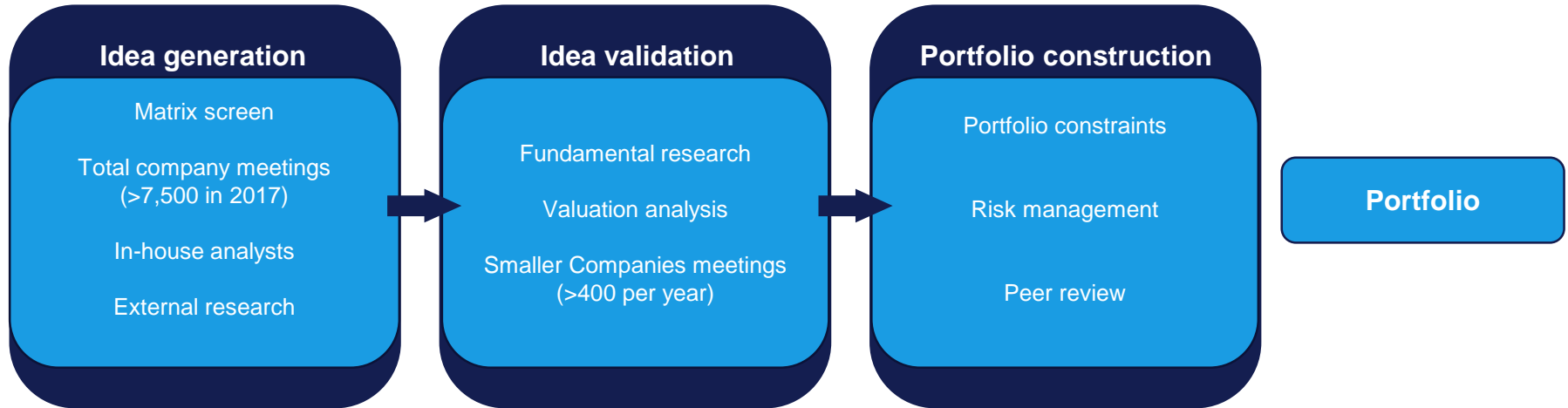
Fund	Number of stocks	Active share	Stock specific risk	Period beta	Downside capture	Upside capture
UK	52	88%	65%	0.84	82%	103%
Europe	47	95%	82%	0.93	86%	112%
Global	52	99%	66%	0.78	43%	98%

Period beta, downside capture, upside capture since respective launch dates; UK – 01 December 1998, Europe, 01 October 2007, Europe ex UK 01 September 2014, Global 01 February 2012  
Source; Aberdeen Standard Investments, Axioma, 31 March 2018

## Predictable alpha within a broader portfolio

# European Smaller Companies: Investment process

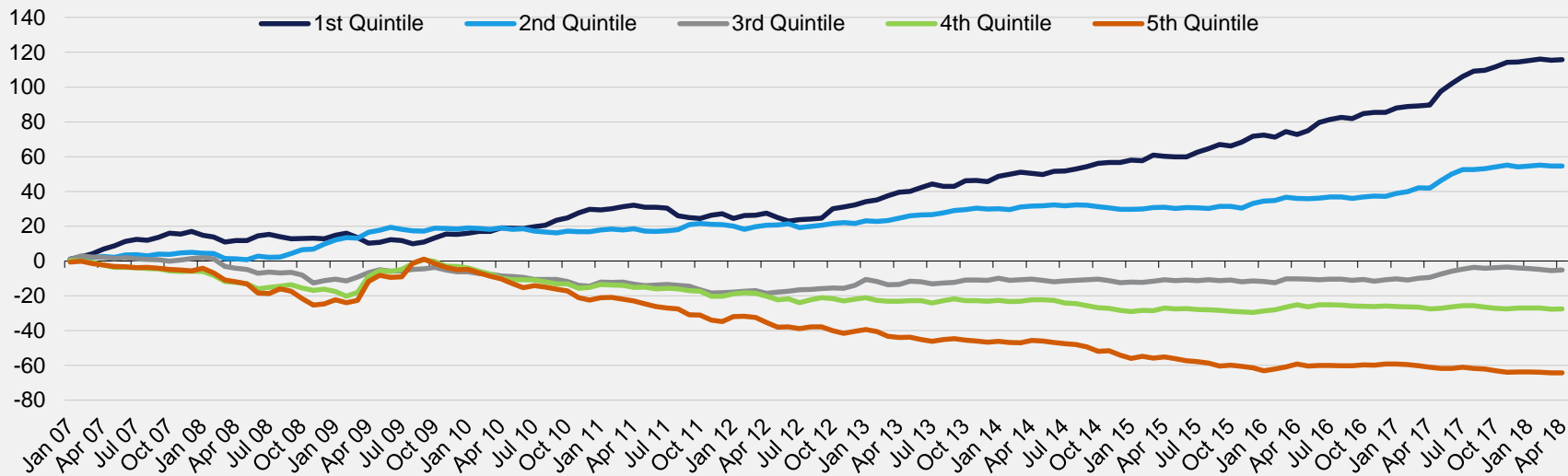
Consistent application of the investment process across geographies



Bottom up approach assisted by proprietary screening tool

# Idea generation: Matrix quintile performance

## Factor Performance by Range Since 1st January 2007



- Universe of >1000 stocks
- Focus on Top 200 opportunities

Performance is relative to FTSE Small Cap Developed Europe (prior 01 April 2008 - HSBC Smaller Europe)  
Recorded on a cumulative monthly basis. Source: Aberdeen Standard Investments, 31 March 2018

# Jungheinrich



- High quality Mittelstand business with a long track-record of growth and innovation in the fork lift truck and warehouse automation markets. Leading position in the European market
- Benefiting from structural growth in warehousing and demand for forklifts as retail sector moves from bricks and mortar to online platforms (bricks to clicks)
- Leading market position in warehouse automation market which results in significant efficiency improvements for customers
- Company medium-term guidance of €4bn of turnover by 2020 looks too conservative

## Matrix

Purchase Date	Quality	Growth	Momentum	Valuation	TOTAL SCORE
August 2014	+5	+2	+5	0	+12



Source: Aberdeen Standard Investments, Thomson Reuters DataStream, 01 September 2014 to 31 December 2017

# European Smaller Companies stock positions

Top 10 positions - Absolute			
Holding	Portfolio weight %	Country	Business
Teleperformance	5.28	France	Business process outsourcing
Nemetschek	5.02	Germany	Software for construction market
Hibernia REIT	4.28	Ireland	Property developer
FinecoBank	4.08	Italy	Financial services, on-line
Kesko	3.83	Finland	Food/DIY retailer
Orpea	3.60	France	Care homes
Komax	3.54	Switzerland	Machines for wire manufacturer
Jungheinrich	3.53	Germany	Forklift trucks, warehouse automation
NORMA	3.52	Germany	Joining technology
Plastic Omnium	3.48	France	Automotive supplier

Source: Aberdeen Standard Investments, 31 March 2018

# Accessing European Growth through smaller companies

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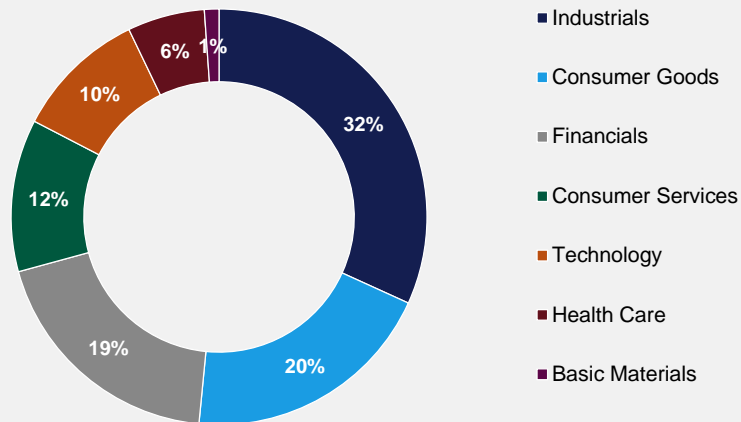
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# Europe ex UK Smaller Companies OEIC

Appendices

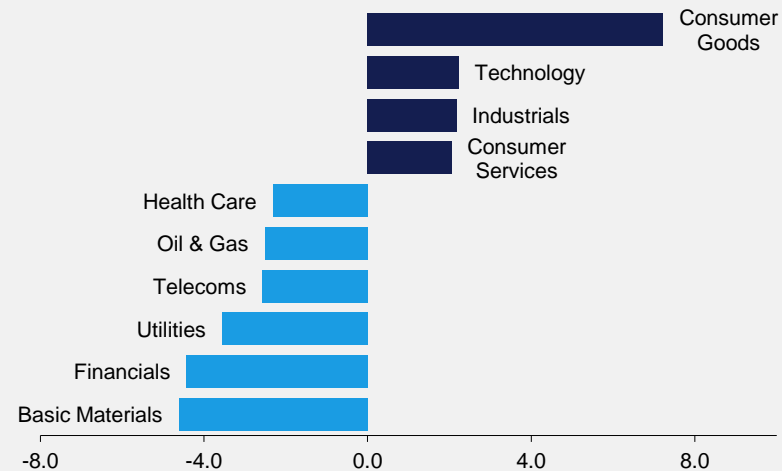
# Europe ex UK Smaller Companies OEIC sector allocation

## Sector weights



Source: Aberdeen Standard Investments, 31 March 2018

## Overweight / Underweight positions

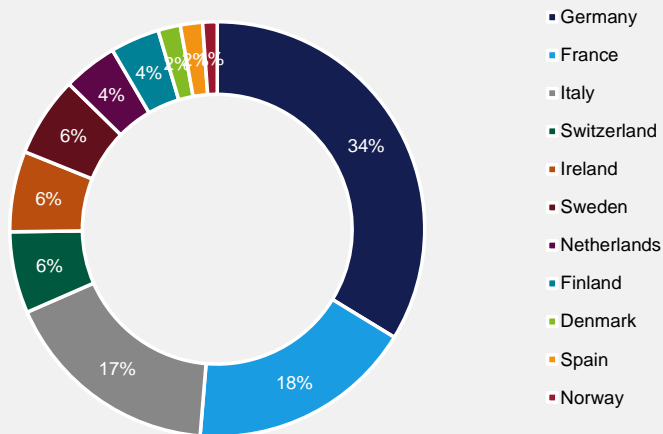


Source: Aberdeen Standard Investments, 31 March 2018



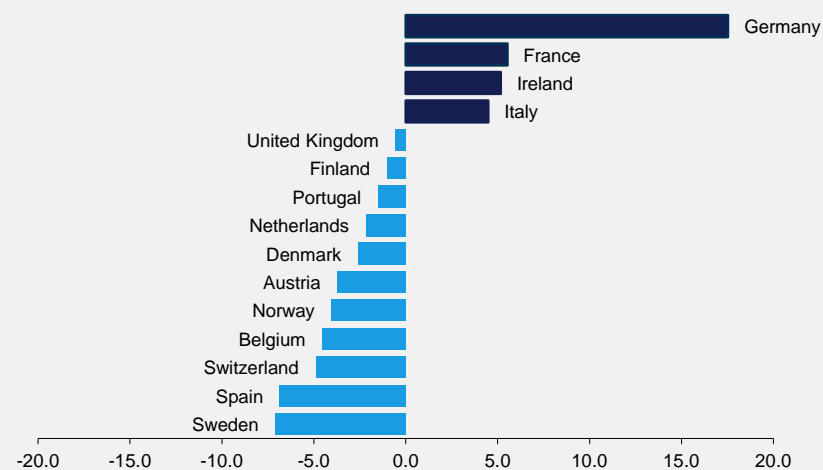
# Europe ex UK Smaller Companies OEIC country allocation

## Country weights



Source: Aberdeen Standard Investments, 31 March 2018

## Overweight / Underweight positions



Source: Aberdeen Standard Investments, 31 March 2018

# Europe ex UK Smaller Companies OEIC

Parameter	Guidelines
Benchmark	Euromoney Smaller Companies ex UK
Outperformance Target	+3%
Limits <ul style="list-style-type: none"> <li>• Stock</li> <li>• Sector</li> </ul>	Max 10% of the Fund Min 5 sectors invested
Number of holdings	40 – 70 (target 40-50)
Tracking Error	4 - 8%
Structure	OEIC

Holdings by Market Cap (GBP)	Portfolio (%)	Benchmark (%)
Market Cap (>£2.0bn)	49.3	56.8
Market Cap (£1.0bn - £2.0bn)	28.8	23.7
Market Cap (<£1.0bn)	21.9	19.5

Strategy characteristics	Strategy	Benchmark
Market capitalisation	£2.5bn	£2.2bn
Dividend yield	1.9%	2.1%
Price / earnings	19.7x	16.0x
Price / book	3.0x	1.5x
Historic 3yr EPS growth	22.4%	19.1%
Return on equity	20.0%	12.0%
Long term debt / capital	25.3%	28.0%
Predicted beta	0.94	-
Predicted volatility	10.6%	10.7%
Active share	94.9%	-
Predicted tracking error	3.7%	-
	% stock specific risk	76.2%
	% factor risk	23.8%

Source: Aberdeen Standard Investments, 31 March 2018

**Meaningful risk control while retaining flexibility to express conviction**

# SICAV European Smaller Cos

<b>Composite Name</b>	SICAV European Smaller Cos
<b>Inception Date</b>	01-10-2007
<b>Firm</b>	Standard Life Investments
<b>Currency</b>	EUR
<b>Report End Date</b>	31-12-2017
<b>Benchmark</b>	FTSE Small Cap Developed Europe

	Anzld Return (Composite)	Anzld Return (Benchmark)	3 Year Anzld StdDev (Composite)	3 Year Anzld StdDev (Benchmark)	Dispersion	Market Value	Total Firm Assets	% of Firm Assets	Number of Portfolios
Dec 2008	-39.55	-50.52	--	--	--	24,628,281	122,024,692,127	0.02	1
Dec 2009	64.22	50.35	--	--	--	46,987,041	142,954,997,814	0.03	1
Dec 2010	36.65	30.70	22.90	25.07	--	65,777,920	153,735,850,524	0.04	1
Dec 2011	-13.18	-16.64	18.33	18.84	--	72,517,491	147,648,287,247	0.05	1
Dec 2012	27.32	26.27	14.93	15.29	--	69,064,273	165,118,070,004	0.04	1
Dec 2013	44.97	33.67	13.98	13.61	--	192,910,328	180,260,162,963	0.11	1
Dec 2014	7.03	7.12	11.12	10.60	--	174,817,702	285,486,638,827	0.06	1
Dec 2015	36.92	21.10	11.15	11.55	--	347,333,272	308,611,442,354	0.11	1
Dec 2016	-2.87	0.08	14.04	13.52	--	393,863,050	281,322,639,138	0.14	1
Dec 2017	22.80	17.73	13.83	13.35	--	671,990,318	258,750,740,312	0.26	1

## Firm Disclosures

A complete list and description of all of the firm's composites are available from Standard Life Investments. There are no minimum asset levels set below which portfolios are not included in a composite. All performance calculations and returns have been calculated gross of management fees. All returns are presented on an all-inclusive basis and as such all capital gains interest income and withholding taxes have been taken into account in market valuations and returns. All indices are on a gross of tax basis apart from FTSE UK indices which are net of Withholding Tax. There are no Non-Fee-Paying portfolios included in any composite. The Daily True Time Weighted Rate of Return methodology has been used from 2001 apart from unithised Cash, Property, GARS and Myfolio products where NAV performance is used. Prior to this NAV performance was used for all products. Additional information regarding policies for calculating and reporting returns is available upon request. Dispersion is calculated using high/low difference. Where there are less than 36 months of returns, the Composite and Benchmark Standard Deviations have not been calculated. Standard Life Investments 'The Firm' consists of all fee-paying funds managed by Standard Life Investments and its Subsidiaries which include Standard Life Investments (Mutual Funds) Limited SLTM Limited Standard Life Investments (Corporate Funds) Limited Standard Life Investments (USA) Limited and Standard Life Investments (Hong Kong) Limited. Past performance results from Standard Life Investments Limited UK Firm and Standard Life Investments Limited Irish Firm have been linked to form the performance record of the new firm Standard Life Investments. The new firm was created on 01 Jan 2008. Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Standard Life Investments has been independently verified by PricewaterhouseCoopers LLP for the periods 1996 to 2017. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

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## Composite Disclosures

Derivatives may be used for efficient portfolio management purposes

Includes part period return for 2007 from 01 October

The composite includes funds that invest in small cap European equities or companies that derive a significant proportion of their revenues or profits from European operations or have a significant proportion of their assets there. The benchmark is FTSE Smallcap Developed Europe

The standard annual fee applicable to this composite is 0.90%, but individual fees are negotiated on an account basis

# Disclaimer

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**The following risk factors apply specifically to this Fund. These are in addition to the generic risks of investing. A full list of the risks applicable to this Fund can be found in the Prospectus which is available on the website or upon request.**

- (a) The fund invests in equities 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.
- (b) The fund may invest in equities and equity related securities in European emerging markets. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- (c) The shares of smaller companies may be less liquid and more volatile than those of larger companies.
- (d) 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 does not make extensive use of derivatives