

abrdrn Global Smaller Companies Fund



31 December 2024

Performance

The Fund performed broadly in line with the index over the quarter. Looking at portfolio holdings, CTS Eventim was the main laggard after its earnings missed expectations. This was largely due to the difference of event timings this year versus last year. Much of the year-on-year shortfall is expected to be recouped in the fourth quarter as several global acts tour. The company also faced one-time costs relating to recent acquisitions. Elsewhere, Tetra Tech underperformed. Its earnings were in-line with street estimates, but the midpoint of guidance was 3% below forecasts. The subsequent 15% drop in the share price appears overdone and reflects profit taking following the strong performance of the stock this year. Finally, some of our US building and construction-related names, Advanced Drainage and Carlisle, weakened on softer non-residential demand figures and pared back expectations of interest rate cuts in the US. Indeed, US small cap stocks, particularly interest rate sensitive names, gapped down on the back of Jerome Powell's more hawkish outlook.

More positively, Axon's shares bounced strongly following better-than-expected third quarter earnings. Both sales and margins beat estimates as the company added more capacity to satisfy Taser 10 demand and deployed greater automation. Axon's domestic and international businesses are performing well.

Market Review

Global small-cap equities ended the quarter lower. Investors became more optimistic about stronger economic growth after Donald Trump's US presidential election victory. However, some of Trump's policies – including increased tariffs and reduced immigration – are seen as potentially inflationary. Therefore, investors are anticipating a more measured pace of easing from the world's major central banks. European equities lagged those in other regions. Political developments added complexity, with France appointing a new prime minister after a vote of no confidence, while Germany headed toward elections in February after its coalition government collapsed. In the Asia Pacific region, Chinese equities weakened as investors were left underwhelmed by the lack of details regarding proposed fiscal and monetary stimulus. Japanese equities rose in yen terms. In a snap general election at the end of October, Japan's ruling coalition lost its parliamentary majority, leading to political uncertainty and yen weakness.

Activity

Given softer third quarter management guidance and macro uncertainty, the Fund was underweight the US market toward the beginning of the quarter. Following the election result and in keeping with our process, we added several names to narrow this underweight.

The first of these stocks was Encompass Health, a US provider of critical care services, namely inpatient rehabilitation facilities (IRF) that offer intensive rehabilitation therapy for patients following a hospital stay. Demographics and ongoing reallocation of health care funding away from high-cost hospitals are supportive of long-term demand growth for this company.

We also initiated a position in Wintrust, a high quality regional bank in the US. Management have been able to maintain net interest margins within a narrow range on account of their stable premium finance portfolio. The recent acquisition of Macatawa bank gives management more fire power to expand the loan book.

We started a new position in Vertex Inc. Vertex is a best-in-class provider of tax compliance software. Over the last few years, the company has invested heavily to differentiate itself further. It is now reaping the rewards of this investment and we see a number of growth drivers for the business going forward.

We initiated a position in Baldwin Insurance Group, a nationwide general insurance broker in the US covering the commercial and retail segment. The company has been gaining share thanks to its strong technology offering, its embedded distribution for the property sector, and its 'high touch' advisory services for businesses and individuals.

Turning from the US to India, we added Newgen Software. Newgen's products allow analogue data to be digitised and processed with the workflow outcome communicated back to the customer. As the system is 'low code', it is easily customised to client requirements and can be integrated with other software. We see scope for further share rerating based on our discounted cash flow model.

These new additions were balanced by selling out of Nextracker and SiteOne.

Risk factors you should consider before investing:

- The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. Past Performance is not a guide to future performance.
- 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.
- A concentrated portfolio may be more volatile than a more broadly diversified one.
- The shares of smaller companies may be less liquid and more volatile than those of larger companies.
- 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.



Portfolio positioning and outlook

As we enter 2025, top-down consensus expectations appear to factor in continued strength in the US market on the back of deregulation and tax cuts. Similarly, investors seem optimistic about ongoing corporate reform in Japan. Meanwhile, sentiment towards Europe and the UK remains tepid, in light of ongoing political woes and an apparent absence of growth catalysts. In Emerging Markets, too, investors are sticking to the sidelines for now. Looking forward, factors which may alter market positioning and, which are worth monitoring, include fiscal deficit containment measures (or lack of), diverging global monetary policy, further trade negotiations, and the investment-return profile of AI and data centre spending.

Given these variables and the fact that earnings expectations and valuations already partly reflect the consensus view, we believe stock selection is key to driving alpha. We are reminded to focus on stocks with a clear competitive advantage and healthy balance sheet, which are less exposed to potential tariff risk and to the rate cycle, as well as companies exhibiting robust earnings momentum, where the drivers of growth are well defined.

Cumulative and Annualised performance as at 31/12/2024

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %
Standard Life Global Smaller Companies Fund	3.0	14.0	-7.3	4.7

Discrete annual performance year to 31/12

	2024	2023	2022	2021	2020
Standard Life Global Smaller Companies Fund	14.0	8.2	-35.5	27.1	24.5

Fund performance has been calculated net of Annual Management Charge.

Source: abrdn

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. This investment may be affected by changes in currency exchange rates.

The information contained in this marketing document should not be considered as an offer, investment recommendation or solicitation, to deal in the shares of any securities or financial instruments. It is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited. No information, opinions or data in this document constitute investment, legal, tax or other advice and are not to be relied upon in making an investment or other decision.

abrdn Global Smaller Companies Fund is a Unit Linked Insured fund. The fund is invested in abrdn Global Smaller Companies fund.

*abrdn means the relevant member of abrdn group, being abrdn plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Issued by abrdn Investments Luxembourg S.A. 35a, Avenue J.F. Kennedy, L-1855 Luxembourg. No.B120637. Authorised in Luxembourg and regulated by CSSF. abrdn SICAV III is an umbrella type investment company with variable capital registered in Luxembourg (no. B120637) at 2-4, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg.

www.abrdn.com © 2025 abrdn plc.

