



New Small Cap Cycle Underway?

July 2023

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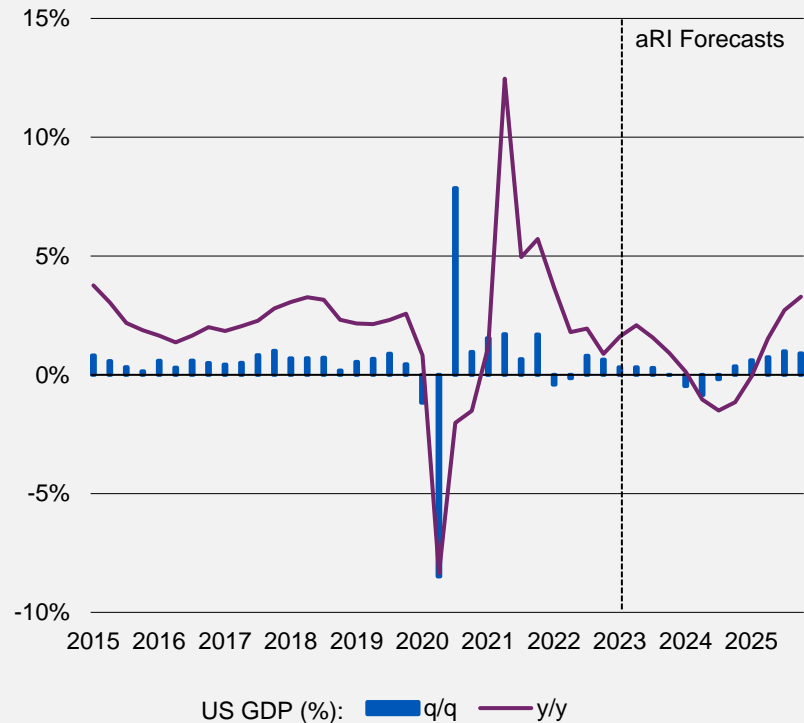


Economic outlook

US recession delayed, not averted

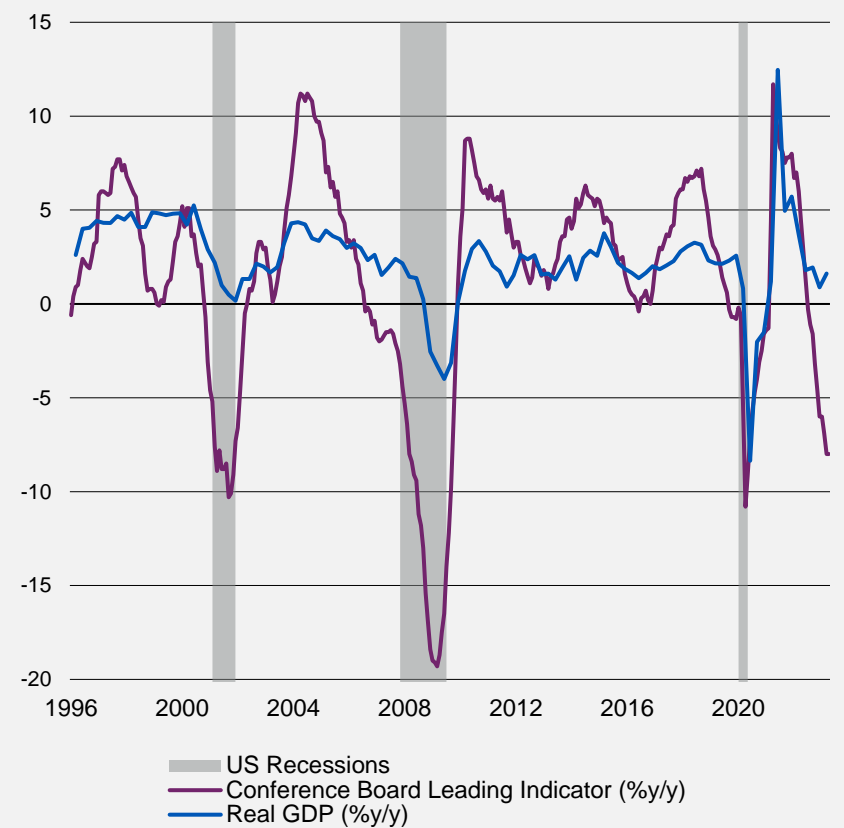
Growth has fared better than expected but leading indicators suggest trouble ahead

Our base case sees the US enter a 3-quarter recession at the turn of the year before recovering in the second half of 2024



Source: Haver, abrdrn, July 2023
Projections are offered as opinion and are not reflective of potential performance. Projections are not guaranteed and actual events or results may differ materially

Conference Board leading indicator has never been this weak outside of recession and soft landings are the exception not the norm

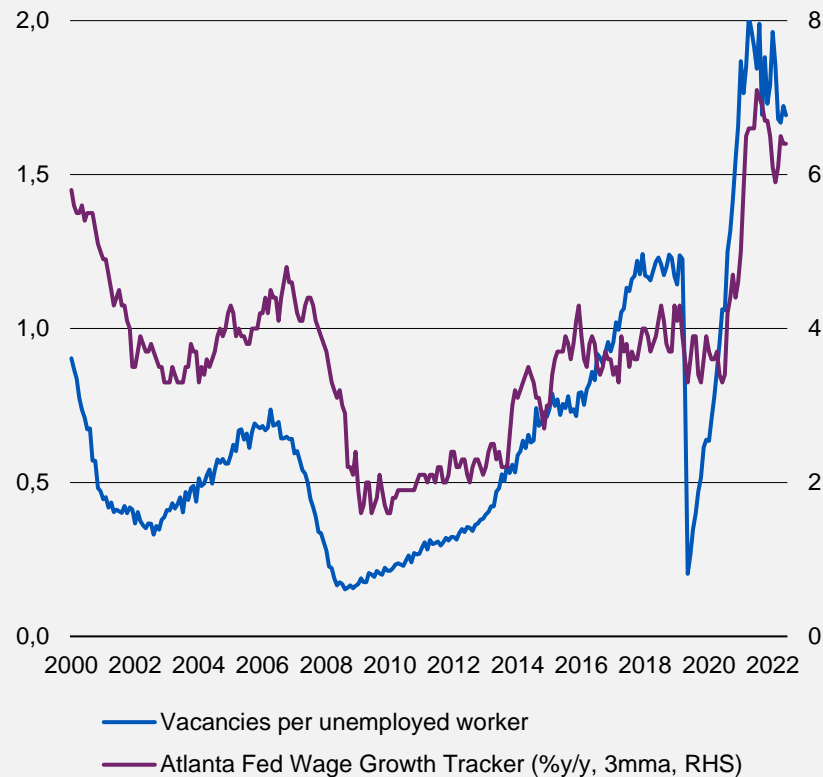


Source: Haver, abrdrn, July 2023

Core inflation has proven sticky

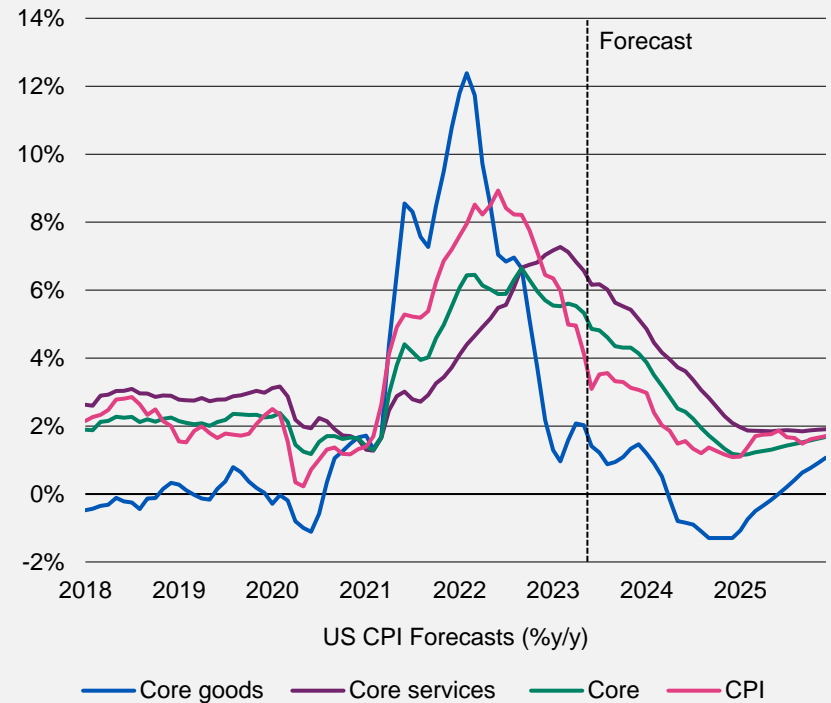
Headline inflation has already begun to soften as food and energy prices ease, but underlying inflation looks like it will be harder to shift

Supply/demand imbalances in the labor market continue to contribute to core inflation stickiness...



Source: Haver, abrdrn, July 2023

... but a recession should tackle these imbalances and bring core inflation down in line with the softening in headline inflation we have already seen



Source: Haver, abrdrn, July 2023

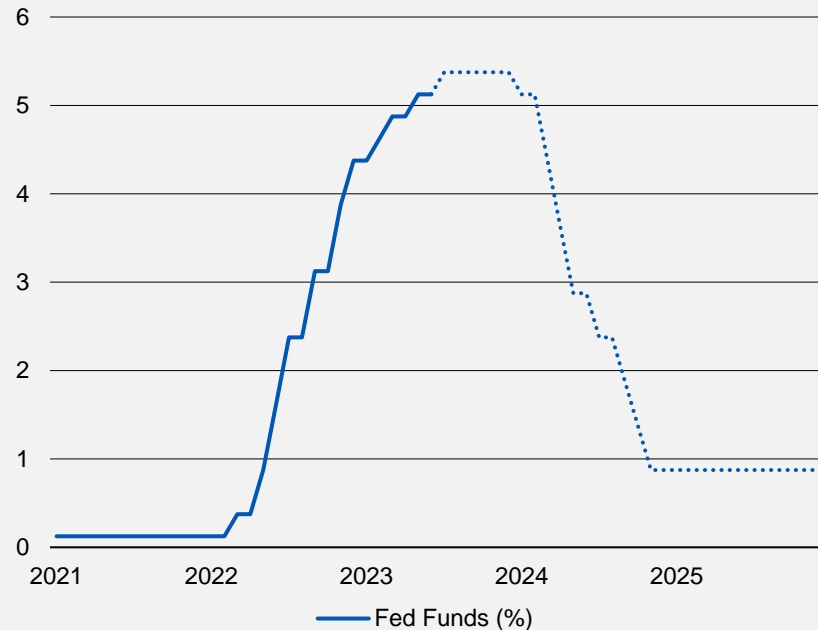
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The recession will likely be followed by a cutting cycle

But the degree of policy loosening depends on both activity and inflation

Fed is likely reaching the end of their tightening cycle and our recession base case pulls inflation back to target allowing rates to be cut to support the economy

Policy Rate (%)

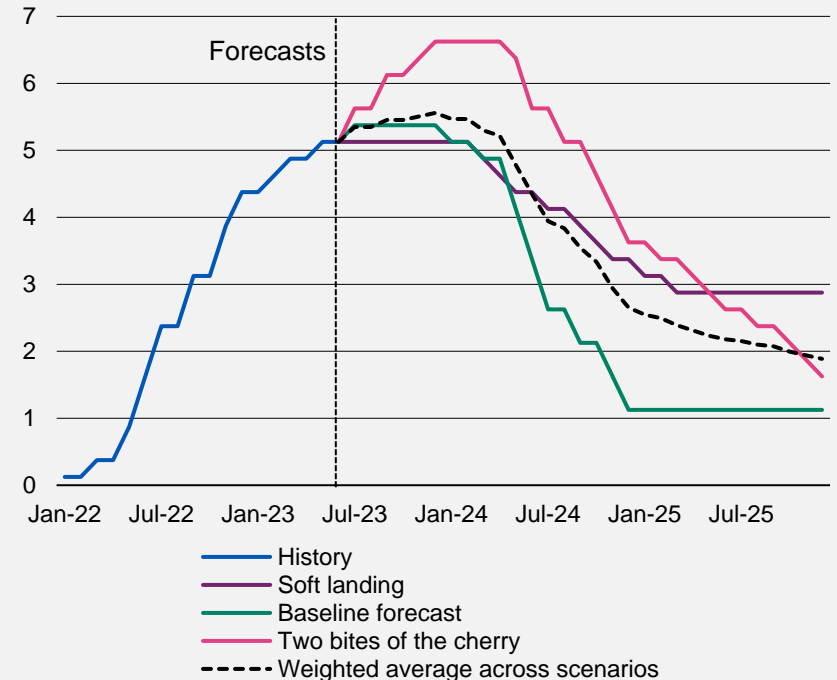


Dotted line indicates abrdn forecasts

Source: Haver, abrdn, July 2023

Projections are offered as opinion and are not reflective of potential performance. Projections are not guaranteed and actual events or results may differ materially

Resilient activity could widen pathway to a soft landing but equally without a softening in inflation the Fed could be forced to deliver more policy tightening and take 'two bites of the cherry'



Source: Haver, abrdn, July 2023

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Small Cap investment landscape

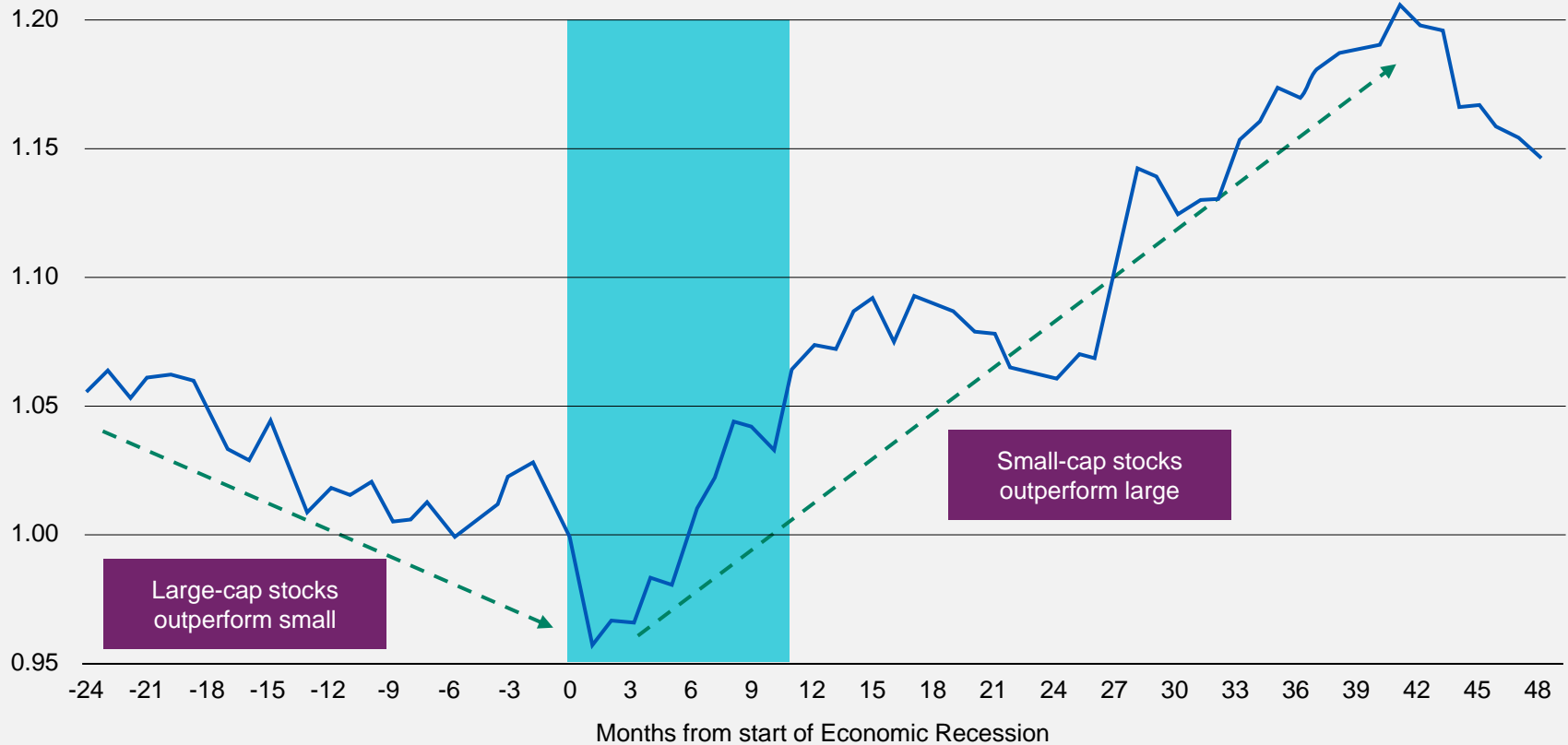
Why Small Cap now?



Source: Furey Research Partners

Recessions are usually buying opportunities for small caps

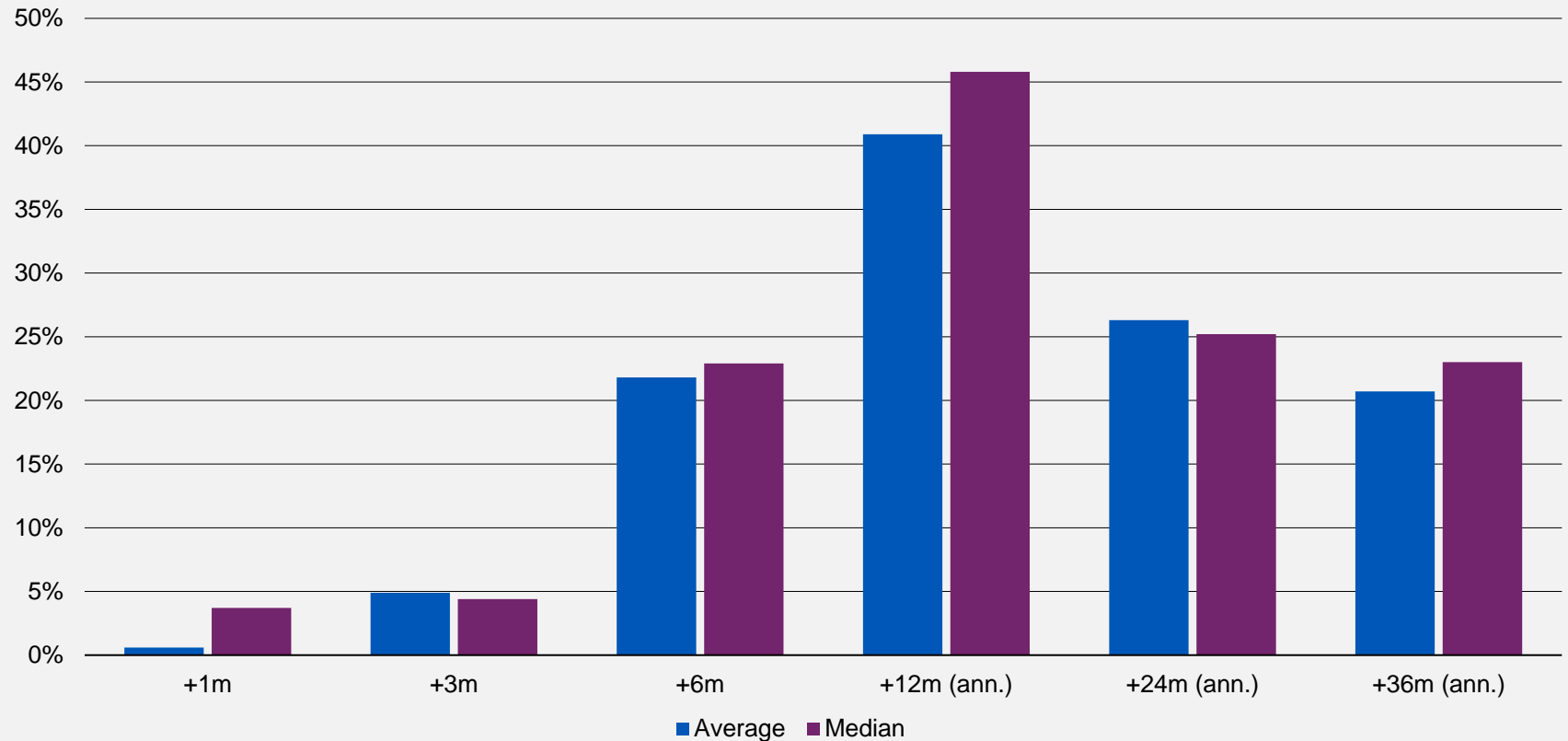
Relative performance of Russell 2000 TR vs S&P 500 TR Around Recessions (Average relative performance for last 6 recessions starting from 1980 to 2022)



Source: Bloomberg, For Illustrative Purposes Only, William Blair Equity Research, October 2022. **Past performance is not a guide to future results**

Strong absolute returns coming out of recessions

Small-cap Forward Return after Real GDP declines in two straight quarters* (1994 to 2021)

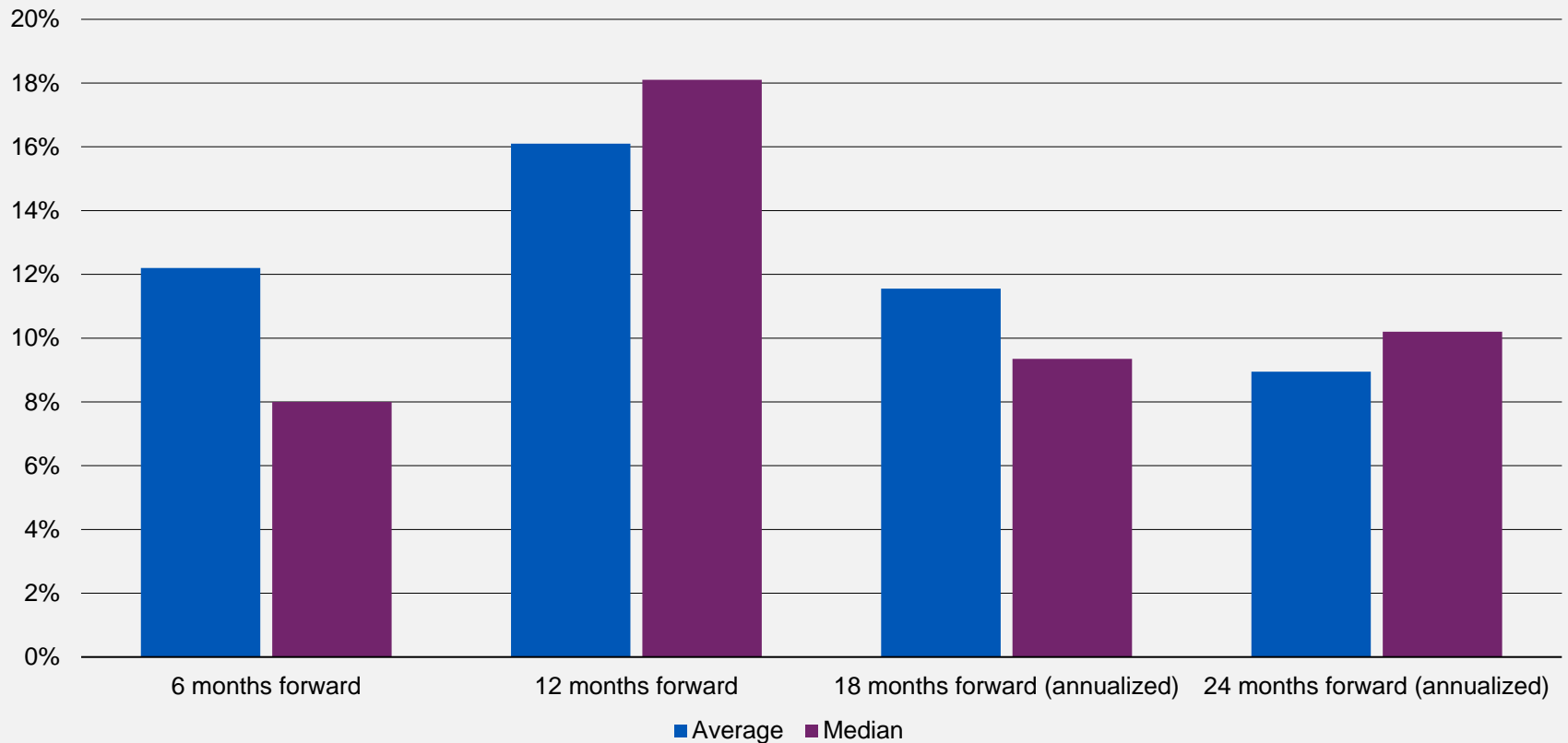


Source: FRP, FactSet, 28 July 2022. **Past performance is not a guide to future results**

* Assumes the GDP number is reported one month after quarter end

Small Cap outperforms Large Cap from recession bottoms

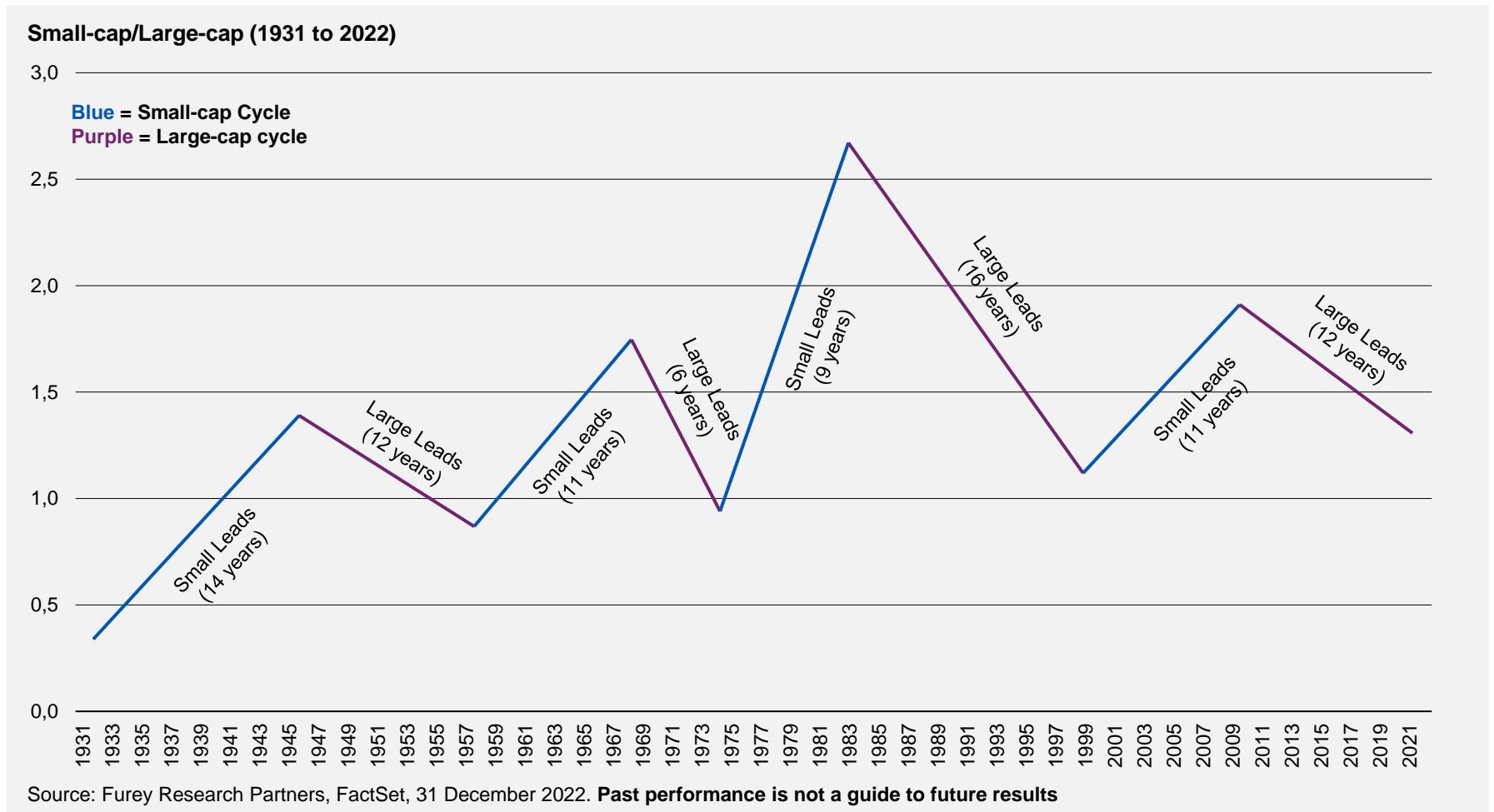
Small-cap Relative Return from Start of New Bull Market after Recession



Source: Furey Research Partners and FactSet, 31 March 2023; examines returns following recessionary bear markets that ended in 1938, 1949, 1962, 1970, 1974, 1982, 1990, 2003, 2009. **Past performance is not a guide to future results**

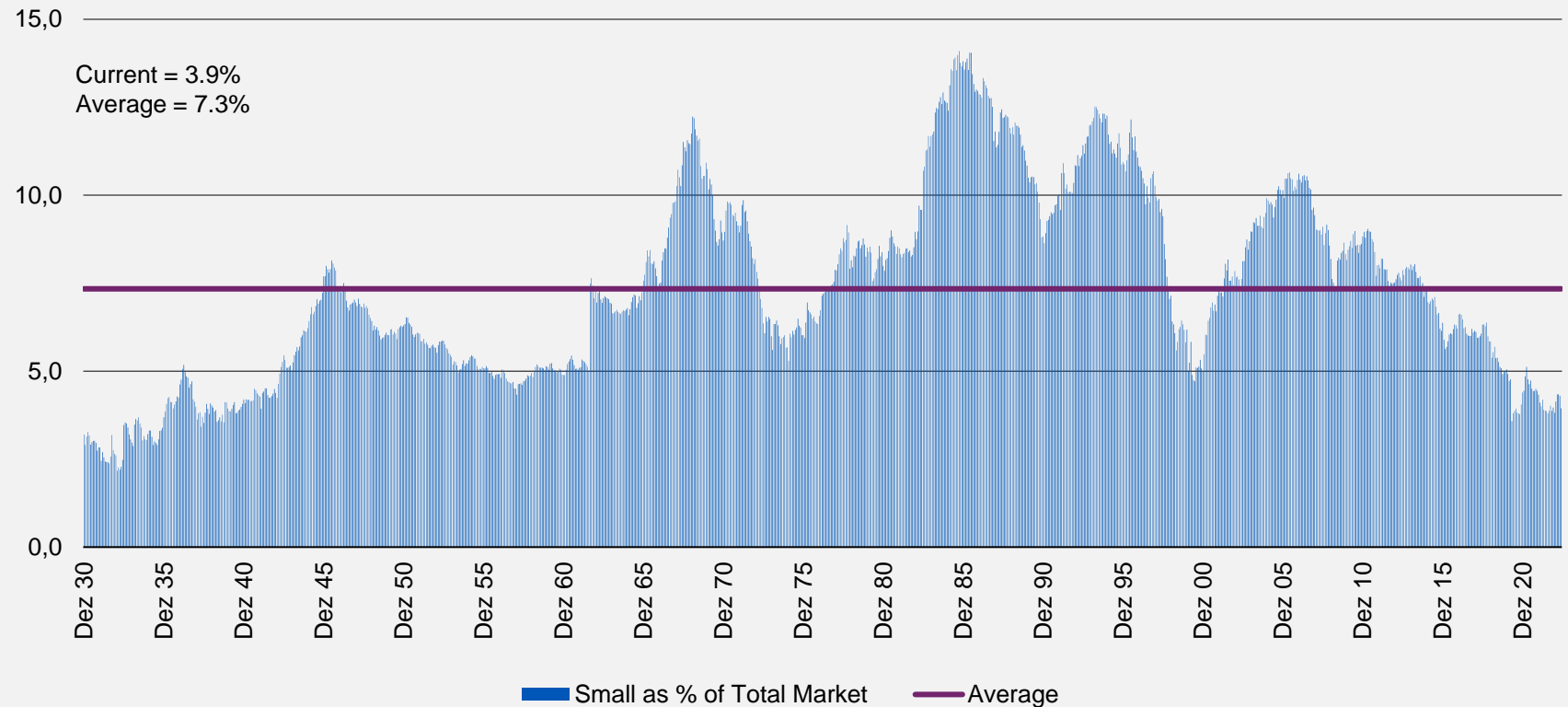
Setting up for the next small cap decade?

Cycles tend to be long



Small caps represents 3.9% of the US equity market

Small-cap/Large-cap (1931 to 2022)



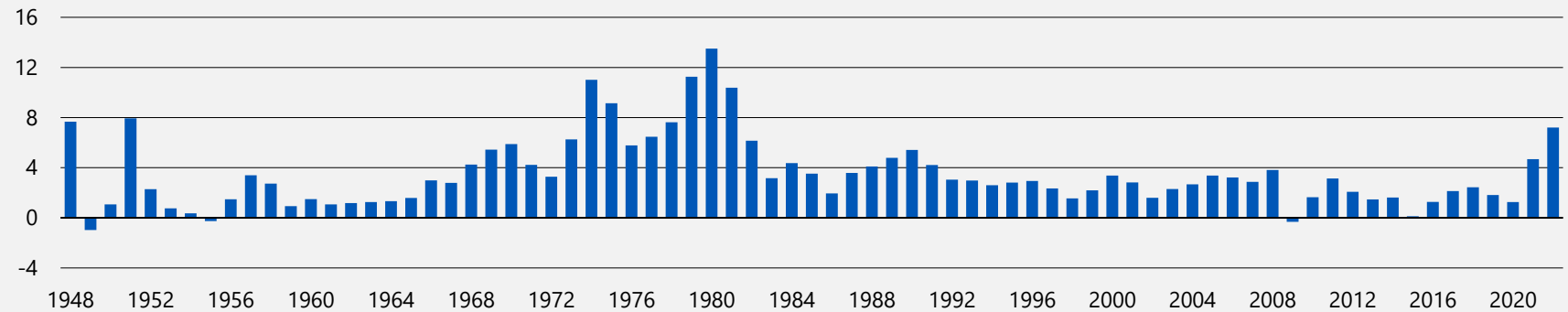
Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business, Jefferies, 30 June 2023. **Past performance is not a guide to future results**

Note: Small represents deciles 6-10 based on Market Capitalization

Favorable Inflationary Backdrop for Small Caps

Small caps tend to outperform in high-but-falling inflationary environment

Annual CPI % change



Source: US Department of Labor; FactSet, 31 December 2022

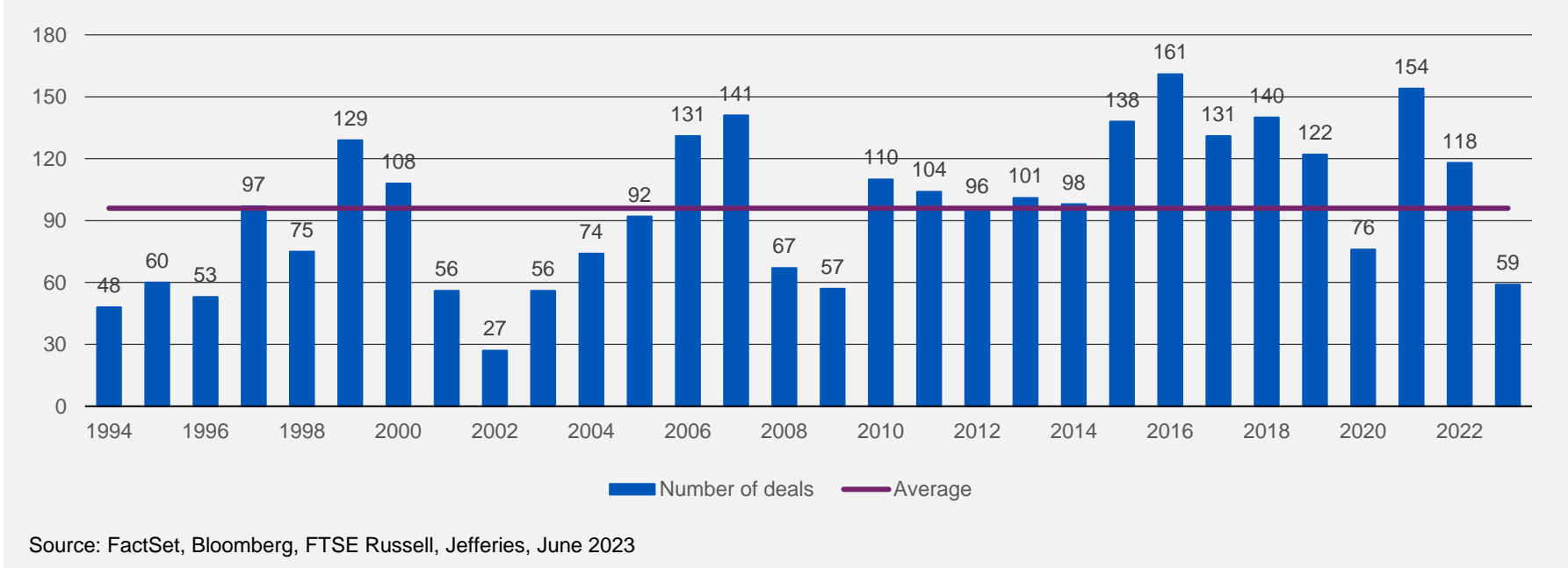
	Annual return			3Y returns annualized			5Y returns annualized		
	Large	Mid	Small	Large	Mid	Small	Large	Mid	Small
CPI >3	7.6	9.4	9.4	9.0	11.4	11.6	10.3	12.7	13.0
CPI <3	16.1	17.5	19.0	13.5	13.9	14.6	11.9	12.4	12.9
CPI >3, Rising This Year	2.1	1.5	0.5	8.9	11.1	10.9	8.7	11.0	11.1
CPI >3, Declining This Year	19.1	25.9	28.5	8.5	11.3	12.5	12.4	15.3	16.3
CPI <3, Rising This Year	14.0	15.7	16.8	12.5	13.5	14.9	11.3	12.0	13.0
CPI <3, Declining This Year	17.7	18.8	20.7	14.3	14.3	14.3	12.5	12.7	12.7
Overall	12.2	13.8	14.7	11.6	12.8	13.3	11.2	12.5	12.9

Source: FactSet, FTSE Russell, Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies, June 2023

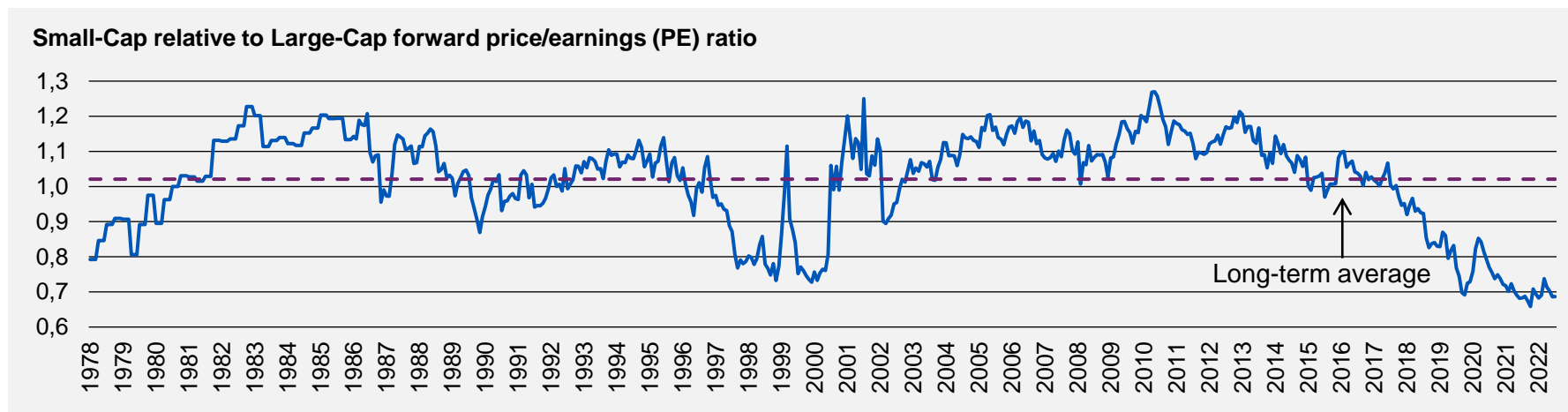
Note: Performance is annual through 2022

M&A activity has accelerated in Small caps; we think the trend will continue

- We have seen a pick up in M&A activity across Small caps
- When M&A accelerates, Small tends to rise nearly 16%
- Given how unloved Small caps have become, we think finding a partner makes sense...
- ...and cash levels stand at \$2.6T
- Companies want to buy growth, scale matters, and getting bigger makes sense these days



Relative valuations for small caps near all-time lows



- Trailing P/E of small caps relative to large caps is at the biggest discount since the late 1990s
- Forward P/E ratio for small caps have returned toward their largest relative discount in over 40 years
- Small caps tend to see more earnings deterioration into a recession, yet tend to rebound faster coming out of poor economic conditions

Source: FactSet, Bloomberg, abrDN, 30 June 2023. **Past performance does not predict future returns**

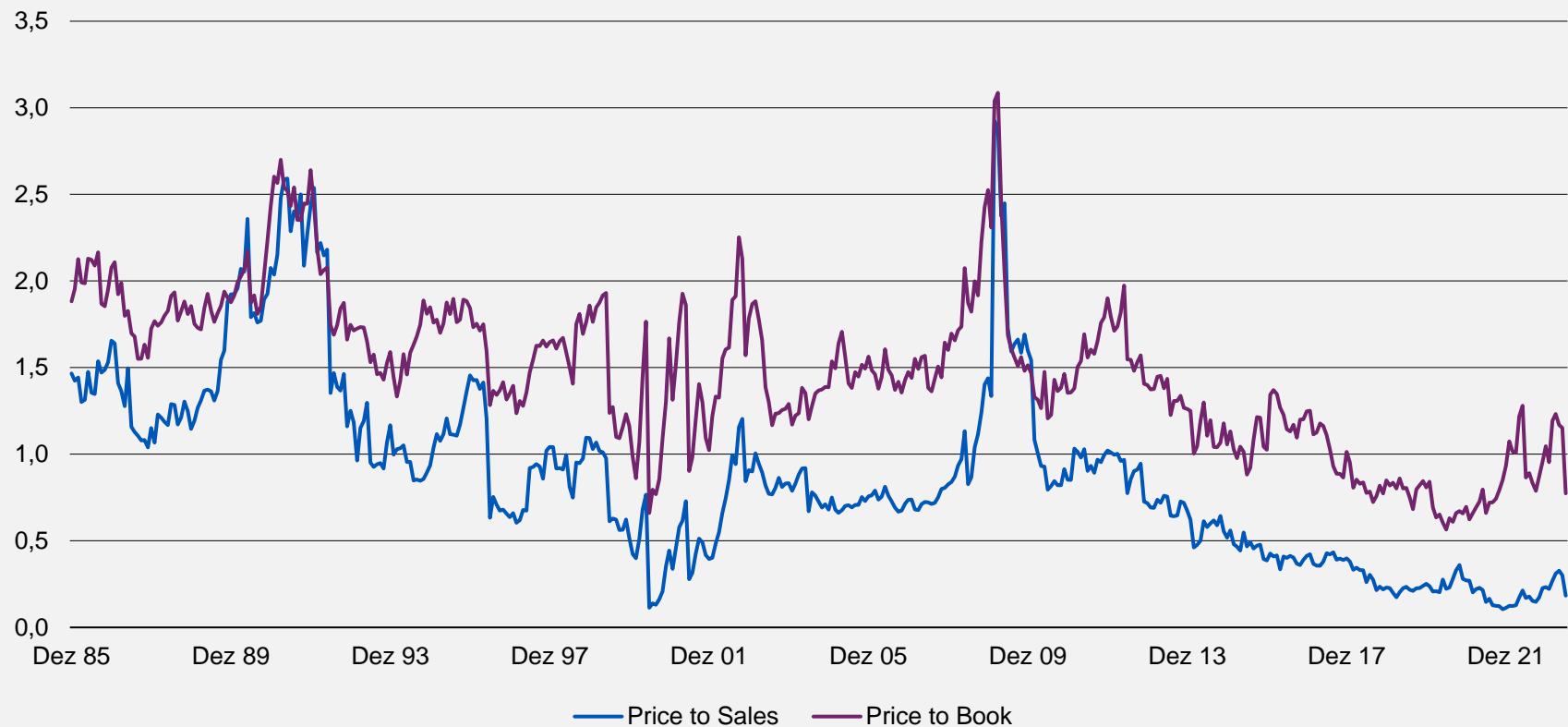
Note: Excluding negative earnings

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Quality: Supportive valuations

Higher quality looks attractively valued relative to lower quality

Russell 2000, Relative valuations: Q1/Q5 Valuations-Highest ROE vs Lowest ROE



Source: abrdn, Jeffries, 30 June 2023

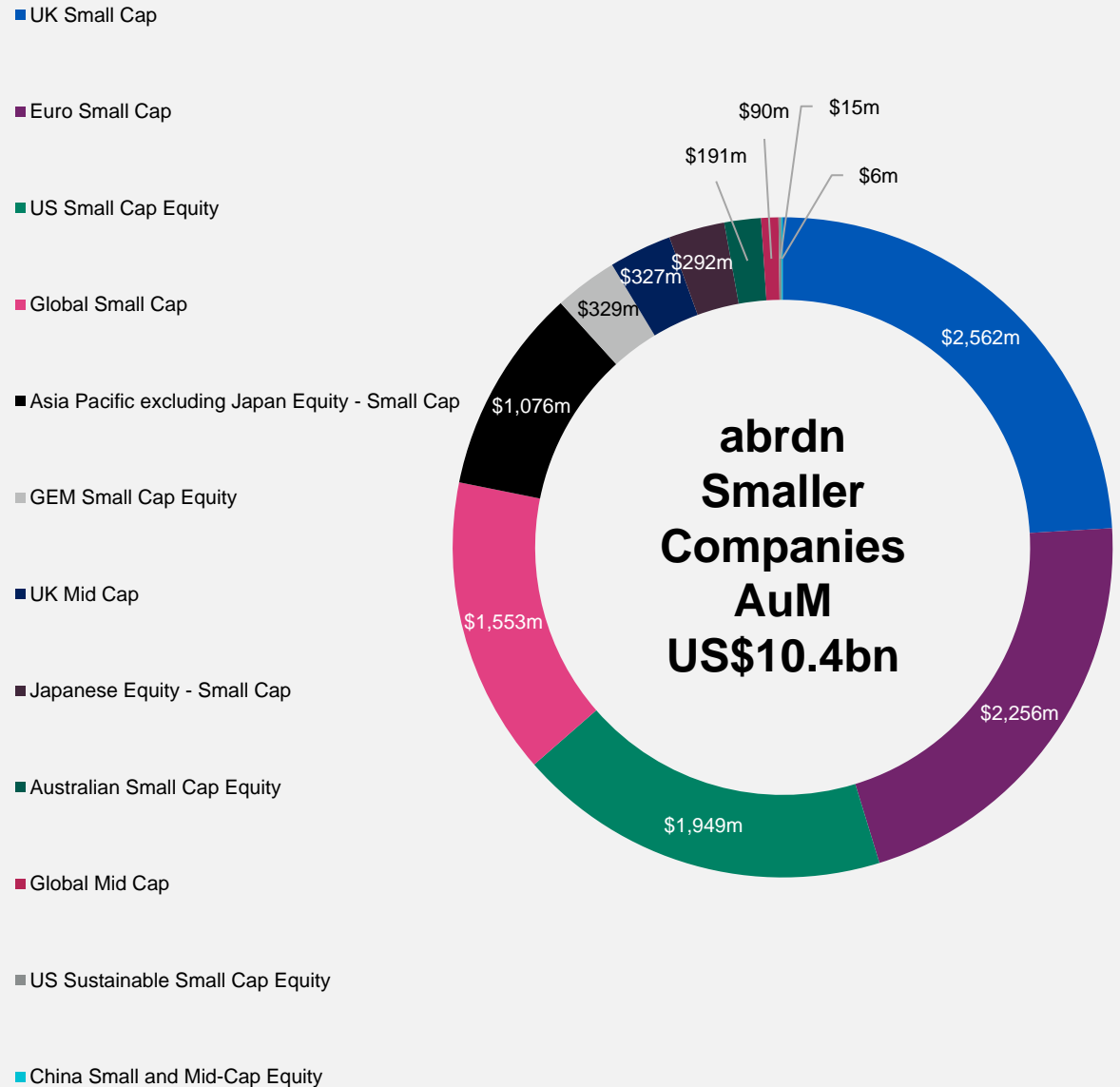
Represents the valuation of the top quintile of the Russell 2000 ranked on return on equity ("Q1 ROE" relative to the bottom quintile of the Russell 2000 ranked on equity (Q5 ROE"))

Smaller Companies credentials at abrdn

Buying tomorrow's larger companies today

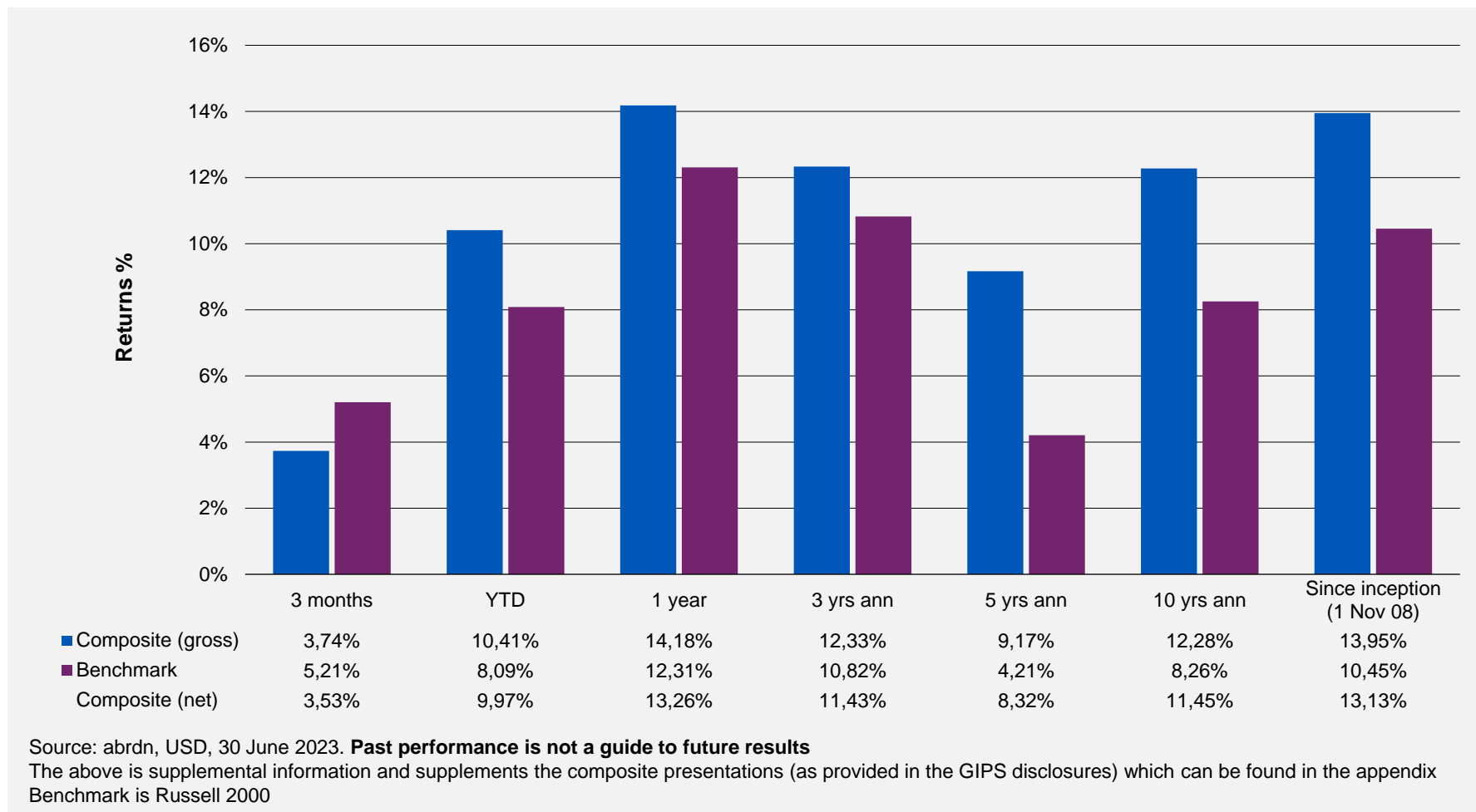
- Diverse range of strategies across all major markets
- Research driven process helpful in a research-light area of the market
- Common focus on quality and the long term

Source: abrdn, 31 December 2022
 Figures may not appear to add due to rounding



Performance to end June 2023

Compelling long term returns relative to benchmark





Appendices

US Equity Small Cap

Composite performance – periods & calendar years

Composite: US Equity Small Cap

Benchmark: Russell 2000 Index

Currency: USD (Reported in USD)

Returns as of: 30 June 2023

Period	Composite Return Gross (%)	Composite Return Net (%)	Benchmark Return (%)	Composite standard deviation (%)	Benchmark standard deviation (%)	Number of Portfolios (*throughout period)	Dispersion (%)	Market Value at end of Period	Percentage of Firm Assets (%)	Total Firm Assets (Legacy History)
3 Months	3.74	3.53	5.21			8 (8)	0.76	1,426,899,378		
Year to date	10.41	9.97	8.09			8 (8)	0.46	1,426,899,378		
1 Year	14.18	13.26	12.31			8 (7)	1.16	1,426,899,378		
2 Years p.a.	-2.85	-3.63	-8.34			8 (7)	1.34	1,426,899,378		
3 Years p.a.	12.33	11.43	10.82	20.05	21.57	8 (7)	3.25	1,426,899,378		
4 Years p.a.	11.00	10.12	6.18	21.81	23.81	8 (7)	4.27	1,426,899,378		
5 Years p.a.	9.17	8.32	4.21	22.34	23.84	8 (6)	5.32	1,426,899,378		
7 Years p.a.	10.17	9.35	8.76	19.85	21.13	8 (<=5)		1,426,899,378		
10 Years p.a.	12.28	11.45	8.26	17.96	19.50	8 (<=5)		1,426,899,378		
Since inception p.a.	13.95	13.13	10.45	19.28	20.36	8 (<=5)		1,426,899,378		
2022	-25.08	-25.68	-20.44	23.86	26.02	8 (7)	0.97	1,787,554,719		
2021	32.12	31.05	14.82	20.99	23.35	8 (8)	2.86	2,561,065,922		
2020	28.79	27.75	19.96	23.24	25.27	8 (8)	1.39	1,887,878,377	0.31	601,184,070,867
2019	26.08	25.20	25.52	15.82	15.71	8 (7)	0.59	1,749,592,234	0.29	599,561,039,999
2018	-12.22	-12.84	-11.01	14.32	15.79	7 (7)	0.76	1,845,914,768	0.30	606,245,078,792
2017	12.31	11.52	14.65	11.40	13.91	7 (<=5)		2,790,353,970	0.75	370,088,382,260
2016	25.19	24.31	21.31	12.40	15.76	<=5 (<=5)		2,066,262,621	0.61	338,134,038,404
2015	10.28	9.51	-4.41	12.27	13.96	<=5 (<=5)		522,782,112	0.14	383,382,349,203
2014	8.23	7.48	4.89	12.31	13.12	<=5 (<=5)		201,433,611	0.04	460,247,164,576
2013	43.66	42.65	38.82	17.27	16.45	<=5 (<=5)		209,886,050	0.07	283,691,791,514

Composite inception: 1 November 2008

Note: Where a calendar year return is shown the annualized standard deviation presented is of 36 monthly returns to the calendar year end

Composite Disclosures: US Equity Small Cap

Definition of the firm

abrdn (or "the Firm") is defined as all portfolios managed globally by the asset management entities of abrdn plc excluding Private Markets, Aberdeen Standard Capital and Lloyds Syndicate portfolios. The Firm inception date is 1st January 2018; and includes track records that either were, or were part of, legacy compliant firms, some of which are compliant from earlier dates: Aberdeen Asset Management plc (compliant from 1st January 1996); Standard Life Investments (compliant from 1st January 1996); and Aberdeen Property (compliant from 1st January 2013). Composite returns, start date and composite and firm assets reported prior to acquisitions represent those of the legacy firm which managed the product at the time. Changes in the firm organization, investment style or personnel have not caused alterations of historical composite performance. Compliant Presentations produced during the period between the annual period end and the date of release to the market of abrdn's financial results will not contain the Firm assets or % of Firm assets for that annual period end. The total Firm assets is material non-public information before the official results release date and to release it in GIPS Compliant Presentations would be against the law: and where laws and/or regulations conflict with the GIPS standards, firms are required to comply with the laws and regulations and make full disclosure of the conflict in the compliant presentation. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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abrdn claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. abrdn has been independently verified for the periods to 31st December 2019. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The effective date of compliance is 1st January 1996. The inception date of the composite is 31/10/2008 and it was created on 02/03/2009. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Available on request are (a) a complete list of composite descriptions, (b) a complete list of pooled fund descriptions for limited distribution pooled funds and (c) a complete list of broad distribution pooled funds.

Composite description

The US Equity Small Cap Core composite is comprised of portfolios which use a core style of equity management with a market capitalization range similar to the Russell 2000 Index.

Composite methodology

Returns are time-weighted total rates of return including cash and cash equivalents, income and realized and unrealized gains and losses. Unless otherwise stated, benchmark returns are gross of withholding taxes whilst returns are net of non-recoverable withholding taxes with recoverable tax included on an accruals basis. Composites results are weighted by individual portfolio size, using start of period market values. Annual returns are calculated using geometric linking of monthly returns. Exchange rates used are WMR 16:00 Closing Spot Rates. Composites may contain portfolios of different base currencies, translated into a common currency for composite returns using the exchange rates stated above. A fund becomes eligible for inclusion the first full calendar month after funding. Inclusion may be deferred in cases where it has not been possible to implement the investment strategy. Terminated funds leave composites at the end of the calendar month before official notification of termination is received. Results include all discretionary, fee paying accounts of the Firm.

The dispersion of annual returns is measured by the range of the portfolio returns represented within the composite for the full period. Dispersion is not calculated for composites with less than five accounts for the whole period. Additional information on policies for calculating and reporting returns is available on request.

Presentation of results

Gross returns are presented before management, performance, custodial and other fees but after all trading expenses. Net returns are calculated after the deduction of a representative management fee. Risk Statistics are presented gross of fees.

Primary index description

Russell 2000 Index.

Representative fee description

The Composite Representative Fee is 0.82%. A pooled fund following this strategy has a highest institutional investment management fee of 0.82% and an OCF (TER) of 1.11%. A segregated account following this strategy has a highest investment management fee of 0.7%. The fee prior to 1st May 2023 was 0.81%.

Derivative instruments

Derivatives are used for efficient portfolio management, alpha generation and beta management purposes. Derivatives used include, but are not limited to, exchange traded futures, interest rate swaps, credit default swaps and forward foreign exchange contracts. Derivatives usage is governed by the appropriate level of risk to meet the return targets rather than by any net nominal implied exposure limits.

Past performance does not predict future returns

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Returns are presented gross of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is an integral part of a

complete presentation and is described in Part II of the firm's ADV, which is available upon request. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary.

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 market countries.

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

Diversification does not ensure a profit or protect against a loss in a declining market.

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Past performance does not guarantee future results.

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