

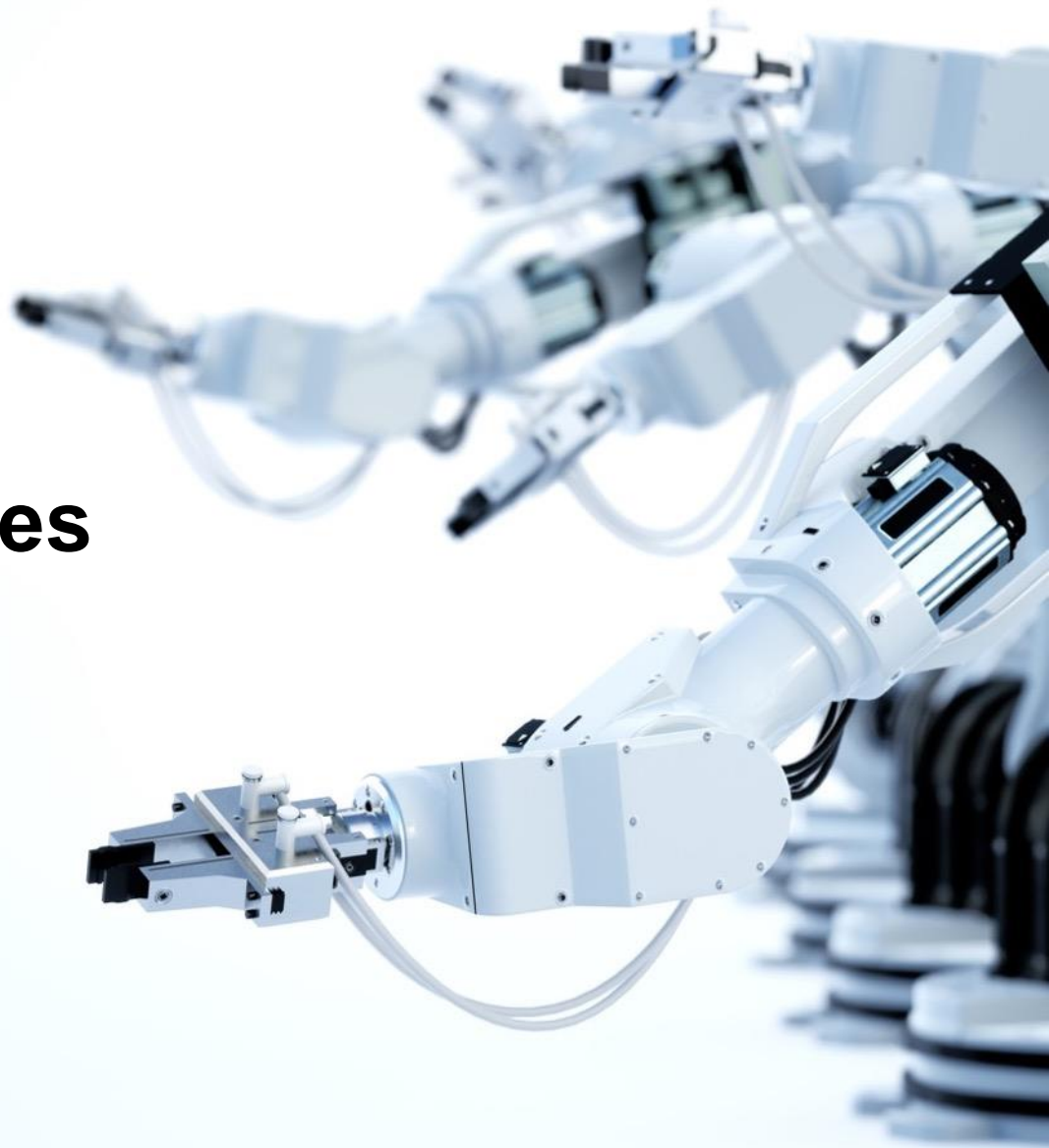


# Smaller Companies

November 2022

[abr dn.com](https://www.abr dn.com)

For Professional Investors Only – Not for Public Distribution



# Contents

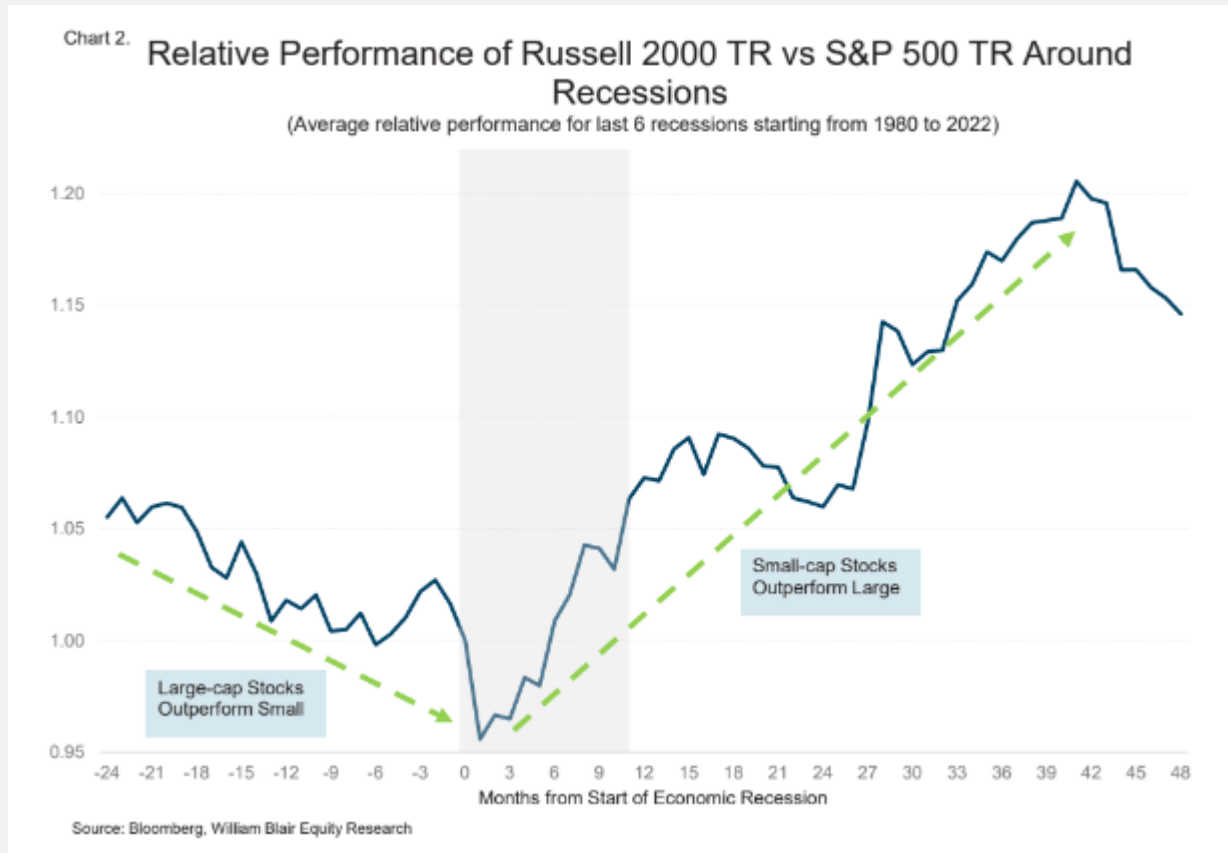
<b>1.</b>	<b>Recession &amp; Inflation – views on Small Cap</b>	<b>03</b>
<b>2.</b>	<b>Inflation at a micro level</b>	<b>06</b>
<b>3.</b>	<b>Look beyond the macro</b>	<b>08</b>
<b>4.</b>	<b>ESG in Smaller Companies</b>	<b>11</b>
<b>5</b>	<b>Why Smaller Companies</b>	<b>13</b>
<b>6</b>	<b>Outlook</b>	<b>18</b>



# Recession & Inflation – views on Small Cap

# Smaller Companies in a recession

Interesting data from William Blair on US Small vs US Large



Source: BlueMatrix - Document Viewer

# Smaller Companies have historically outperformed in periods of high inflation

CPI Ranges (%)	Absolute Returns			Relative vs Large	
	Small	Mid	Large	Small	Mid
> 4	14.3	13.1	9.7	3.5	2.7
2 - 4	14.9	13.4	11.3	3.2	1.9
0-2	14.5	14.6	14.2	0.1	0.4
<0	28.6	27.6	23.8	3.8	3.1
<b>Overall</b>	<b>15.2</b>	<b>14.2</b>	<b>12.1</b>	<b>2.5</b>	<b>1.8</b>

**Smaller caps have outperformed larger caps when inflation is high**

Data shows periods over the past 22 years during which the 10-Year U.S. Treasury yields rose meaningfully, defined as rate increases of 100 bps or more from trough to peak, and we computed the corresponding cumulative returns of the small cap and mid cap indices as well as the S&P 500  
<https://www.abrdn.com/en-us/investor/insights-thinking-aloud/article-page/small-cap-opportunities-outshine-inflation>



# Inflation at a micro level

# Quality companies are price setters not price takers

Market leading companies can successfully pass on higher costs

ADDTECH



RATIONAL



interparfums



© owned by each of the corporate entities named in the respective logos. 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



**Look beyond the  
macro**



# Always 5 reasons not to invest in Europe

Looking at large cap returns can mask the opportunity within regions

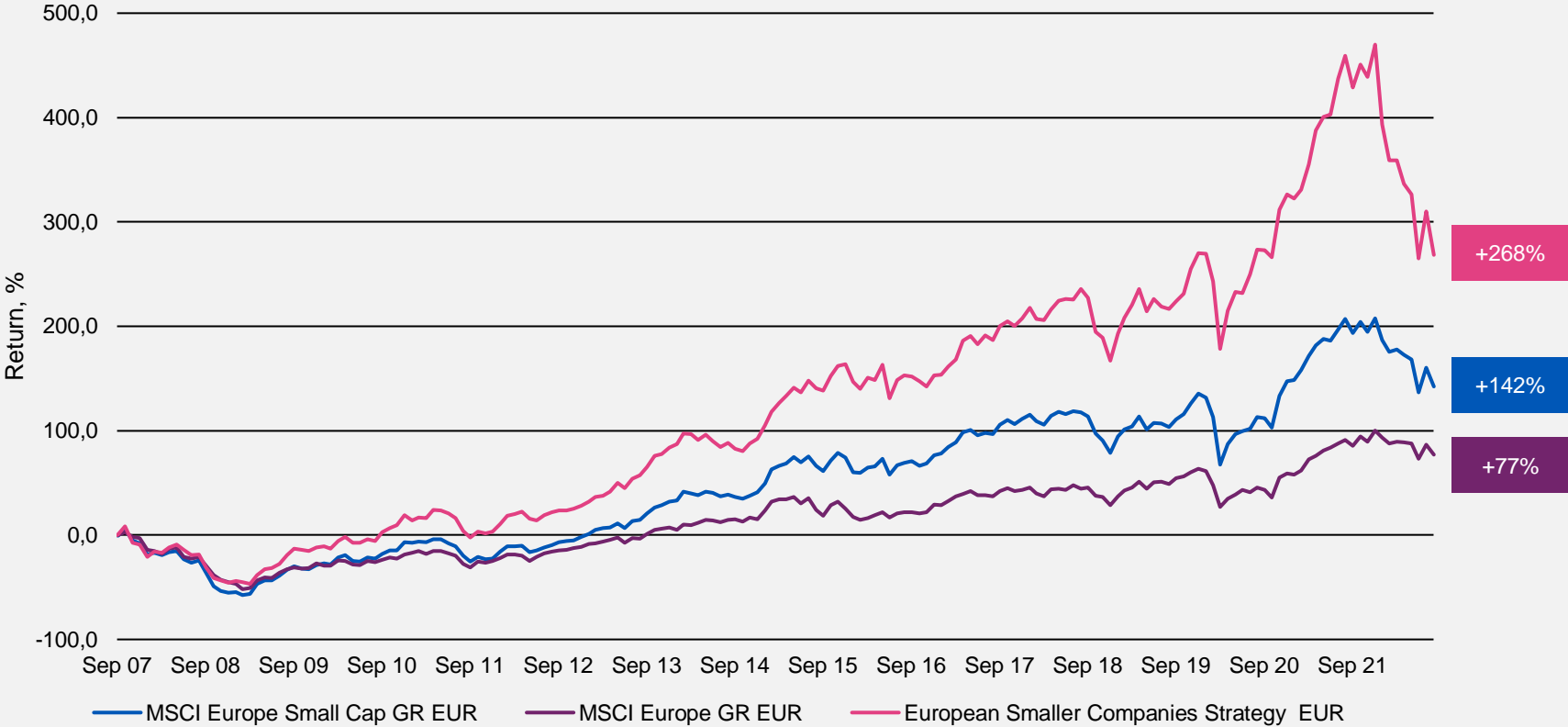
MSCI Europe vs MSCI Europe Small Cap



Source: Morningstar Direct, in EUR, 31 December 2000 to 31 August 2022. Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back. **Past performance does not predict future returns**

# Smaller Companies are a happy hunting ground for active management

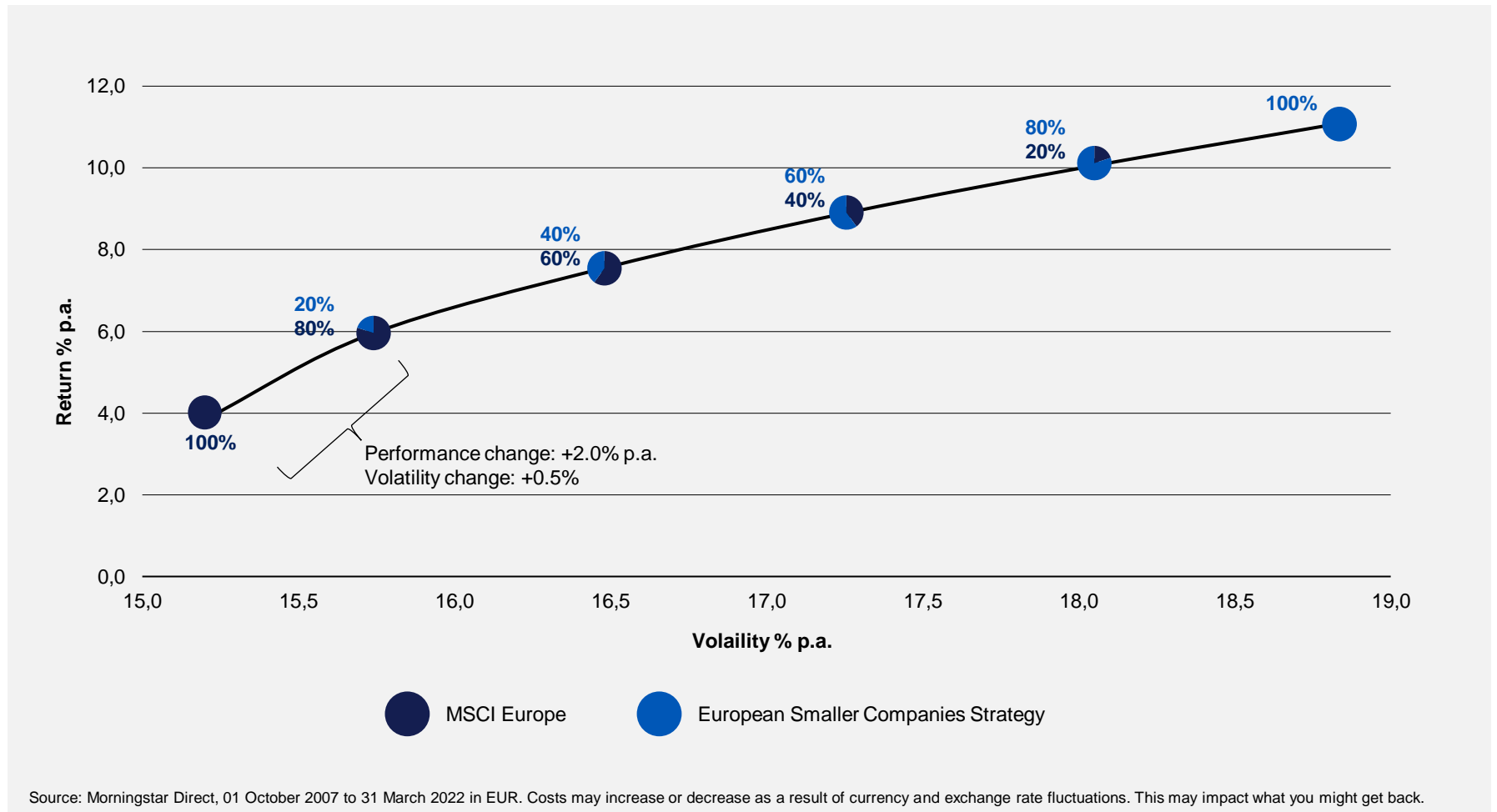
European Smaller Companies Strategy vs MSCI Europe Small Cap and MSCI Europe



Source: Morningstar Direct (net) EUR, 30 September 2007 to 31 August 2022. Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back. **Past performance does not predict future returns**

# European Smaller Companies Strategy

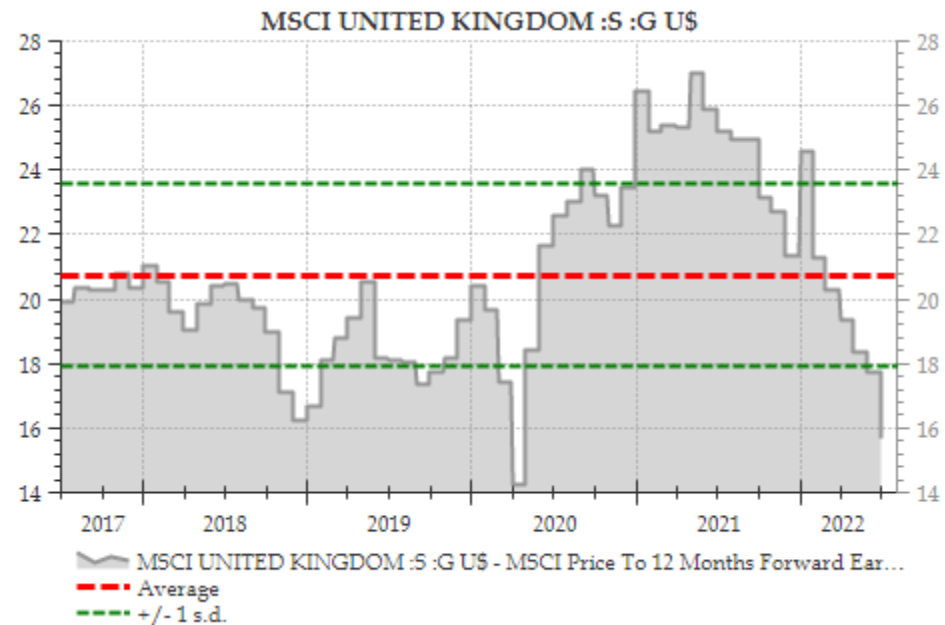
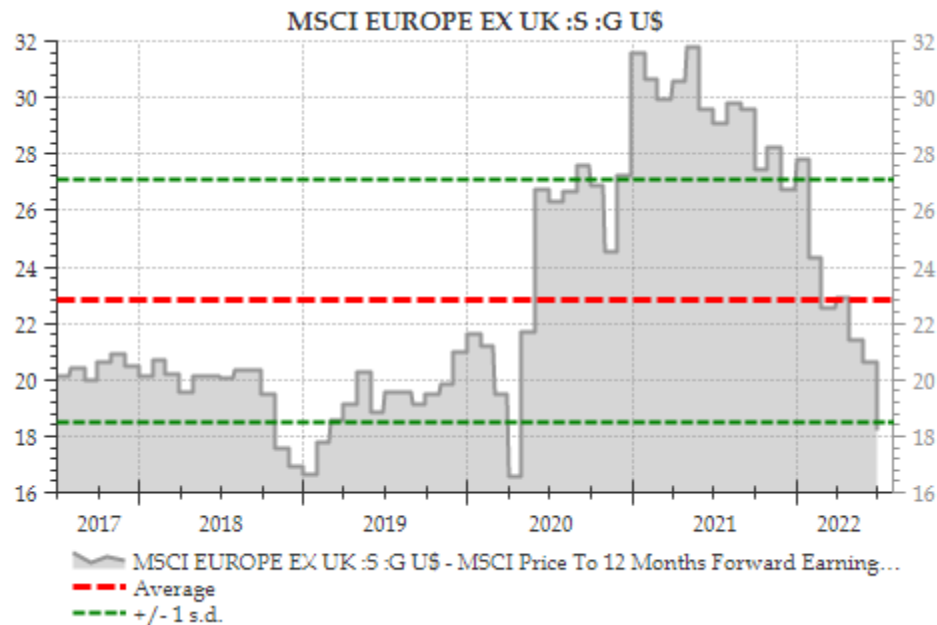
Benefits of a strategic long term allocation





# Outlook

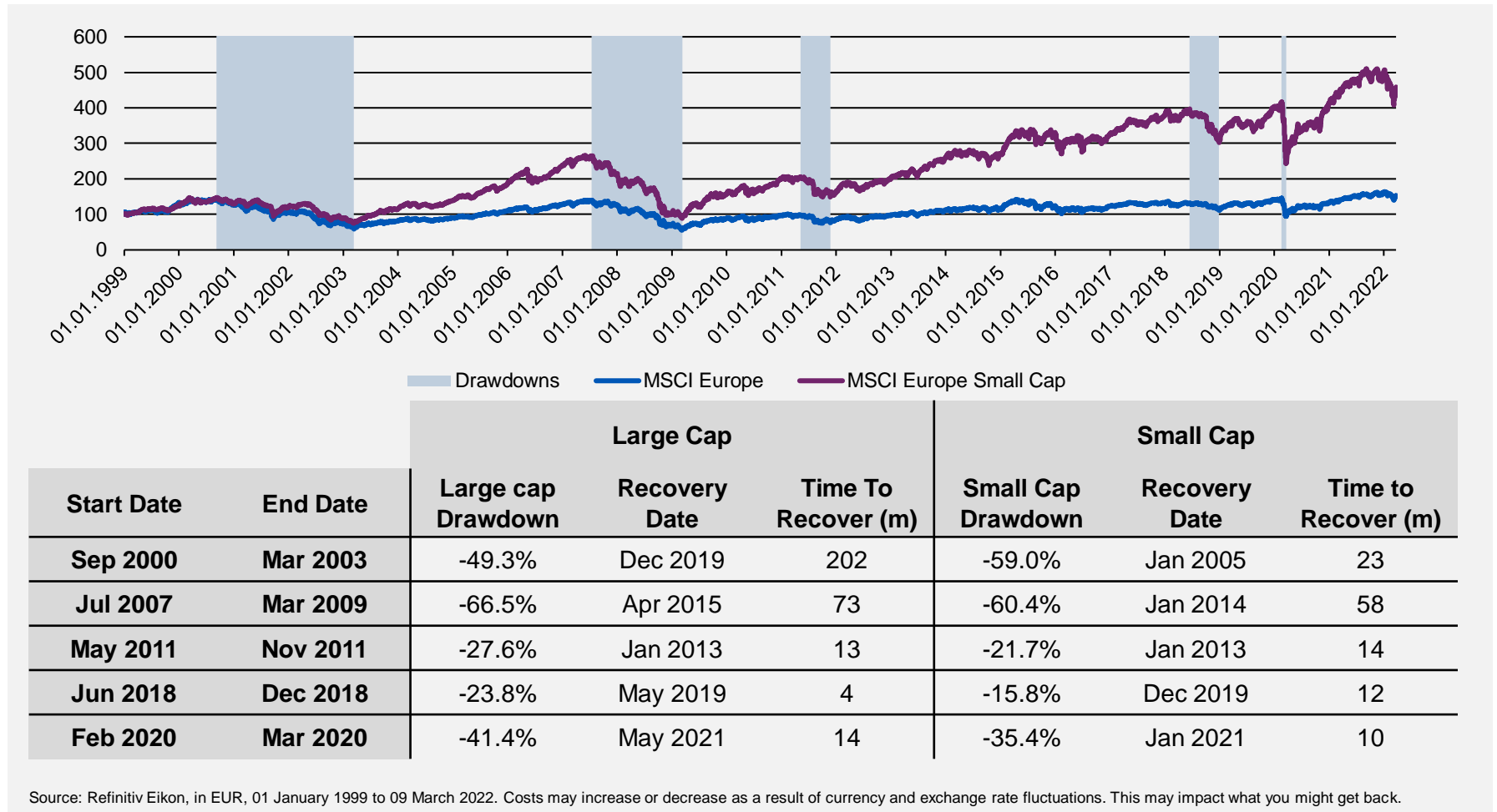
# Growth valuations no longer look stretched



Source: abrdn, Refinitiv Datastream, MSCI, 30 June 2022

# Smaller companies to lead the market higher?

History shows small caps tend to recover quicker than large caps



# The World is changing rapidly, nimble Smaller Companies can adapt and prosper





# Disclaimers



# European Smaller Companies strategy past performance

5 year discrete returns – 1 year to 30 June 2022

	Year to 30/06/2022 (%)	Year to 30/06/2021 (%)	Year to 30/06/2020 (%)	Year to 30/06/2019 (%)	Year to 30/06/2018 (%)
European Smaller Companies strategy	-26.60	50.98	2.09	1.19	15.75
FTSE Small Cap Developed Europe	-16.08	43.35	-7.22	-3.21	8.15

Source: abrdn (net) in EUR, 30 June 2022

Costs, and performance, may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what an investor gets back.

# Composite: European Smaller Cos

## Composite Performance

### Composite: European Smaller Cos

Benchmark: FTSE Small Cap Developed Europe - Total Return

Base currency: EUR (reported in EUR)

Gross returns as of: 30-Jun-2022

Period	Composite return gross (%)	Benchmark return (%)	Number of portfolios (*throughout period)	Dispersion (%)	Market value at end of period	Percentage of firm assets (%)	Total firm assets (legacy history)
3 Months	-18.37	-14.01	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
Year to date	-35.22	-22.04	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
1 Year	-25.94	-16.08	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
2 Years p.a.	6.22	9.68	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
3 Years p.a.	5.14	3.73	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
4 Years p.a.	4.37	1.95	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
5 Years p.a.	6.75	3.16	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
7 Years p.a.	7.72	4.00	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
10 Years p.a.	13.92	9.97	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
Since inception p.a.	10.57	5.20	<=5 (<=5)	N/A	1,730,338,474	N/A	N/A
2021	35.31	25.73	<=5 (<=5)	N/A	3,095,247,362	N/A	N/A
2020	16.51	0.36	<=5 (<=5)	N/A	2,169,178,590	N/A	N/A
2019	41.36	31.59	<=5 (<=5)	N/A	1,158,938,906	0.22	534,130,119,283
2018	-11.60	-15.09	<=5 (<=5)	N/A	856,481,149	0.16	530,328,543,370
2017	22.73	17.73	<=5 (<=5)	N/A	909,307,858	0.35	258,750,717,343
2016	-3.30	0.08	<=5 (<=5)	N/A	587,794,214	0.21	281,322,615,124
2015	36.86	21.10	<=5 (<=5)	N/A	554,298,117	0.18	308,611,442,354
2014	8.06	7.12	<=5 (<=5)	N/A	327,447,337	0.11	285,486,638,827
2013	44.51	33.67	<=5 (<=5)	N/A	334,810,972	0.19	180,260,162,963
2012	27.30	26.27	<=5 (<=5)	N/A	159,551,993	0.10	165,118,083,396

Source: abrdn, BNP Paribas and StatPro

Composite inception: 01-Oct-07

Performance is shown gross of fees and does not reflect investment management fees. Had such fees been deducted, returns would have been lower

Costs, and performance, may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what an investor gets back.

# Composite: European Smaller Cos

## Composite Risk statistics

### Composite: European Smaller Cos

Benchmark: FTSE Small Cap Developed Europe - Total Return

Composite inception: 01-Oct-07

Base currency: EUR (reported in EUR)

Annualised gross returns as of: 30-Jun-22

	Annualised 3 years	Annualised 5 years	Annualised 7 years	Annualised 10 years	Annualised since inception
Composite return (%)	5.14	6.75	7.72	13.92	10.57
Benchmark return (%)	3.73	3.16	4.00	9.97	5.20
Geometric difference (%)	1.36	3.47	3.58	3.59	5.11
Composite standard deviation (%)	22.59	20.00	18.74	16.84	18.66
Benchmark standard deviation (%)	22.09	18.92	17.64	15.88	18.33
Tracking error	8.28	7.33	6.93	6.18	6.84
Info ratio	0.16	0.47	0.52	0.58	0.75
Sharpe ratio	0.25	0.36	0.43	0.84	0.54
Regr. alpha (ann) (%)	1.71	3.75	3.84	3.89	5.53
Beta	0.96	0.99	0.99	0.99	0.95
R <sup>2</sup>	0.88	0.87	0.87	0.87	0.87
Highest return (%)	5.30	6.85	7.87	14.01	10.55
Lowest return (%)	5.13	6.81	7.63	13.91	10.55
Number of portfolios (*throughout period)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)
Market value (M)	1,730.34	1,730.34	1,730.34	1,730.34	1,730.34
Total firm assets (M)	N/A	N/A	N/A	N/A	N/A
Percentage of firm assets (%)	N/A	N/A	N/A	N/A	N/A

Source: abrdn

Risk statistics in this report are calculated using an arithmetic approach. Performance is shown gross of fees and does not reflect investment management fees. Had such fees been deducted, returns would have been lower.

Costs, and performance, may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what an investor gets back.

# Composite: European Smaller Cos

## Composite Disclosures

### Composite Disclosures

As of: 30-June-2022

European Smaller Cos

### Composite Description

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.

### Primary Index Description

FTSE Smallcap Developed Europe

### Representative Fee Description

The standard annual fee applicable to this composite can range from 0.45% to 0.90%, but individual fees are negotiated on an account basis.

### Derivative Instruments

Derivatives may be used for efficient portfolio management purposes.

### 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 organisation, 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 organisation, nor does it warrant the accuracy or quality of the content contained herein. 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 30/09/2007 and it was created on 01/12/2007. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Available on request are a list of composite descriptions and details of Limited and Broad distribution pooled funds. There are no minimum asset levels set below which portfolios are not included in a composite. 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 unitised Cash, Property, GARS and Myfolio products where NAV performance is used. Prior to this NAV performance was used for all products. 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. Gross returns are presented before management, performance, custodial and other fees but after all trading expenses. Net returns are calculated after the deduction of the highest portfolio investment management fee. Risk Statistics are presented gross of fees. Past performance is not an indication of future results.

Source: abrDN

# Disclaimers

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from marketing) any kind of investment decision and may not be relied on as such. Historical data and analysis, should not be taken as an indication or guarantee of any future performance analysis forecast or prediction. The MSCI information is provided on an ‘as is’ basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the ‘MSCI’ Parties) expressly disclaims all warranties (including without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages (www.msci.com).”

FTSE International Limited (‘FTSE’) © FTSE 2022. ‘FTSE®’ is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. RAFI® is a registered trademark of Research Affiliates, LLC. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE’s express written consent.

© 2022 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. For more detailed information about Morningstar’s Analyst Rating, including its methodology, please go to: <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>

# For professional clients only – Not for public distribution

**Past performance does not predict future returns. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.**

The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use abrdn\*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, abrdn\* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

\* 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.

Germany: Issued by abrdn Investment Management Limited which is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK.

GB-150922-180703-1