

# Smaller Companies, Big Opportunities

Video



# Why it could pay to think small

**abrdn UK Smaller Companies Growth Trust (AUSC)**

**Presented by**

Harry Nimmo, Co-Manager of abrdn UK Smaller Companies Trust plc, March 2022

[abrdn.com](http://abrdn.com)

# Smaller Companies team

Dedicated to Small & Mid Cap Equity. Experienced, diverse



**Andrew Paisley**

Head of Smaller Companies

- 7 years exp. at abrdn and 27 years exp. in the industry
- LLB (Hons), Chartered Accountant, IMC



**Kirsty Desson**

Investment Director

- 9 years exp. at abrdn and 21 years exp. in the industry
- MA (Hons), IMC



**Liam Patel**

Investment Analyst

- 1 year exp. at abrdn and 6 years in the industry
- MEng, BEng (Hons), IMC, CFA UK Certificate in ESG Investing



**Laura Odikanekwu**

Senior Quantitative Analyst,  
Equities. Custodian of MATRIX

- 18 years exp. at abrdn
- BSc (Hons), IMC



**Abby Glennie**

Deputy Head, Smaller Companies

- 9 years exp. at abrdn and 14 years exp. in the industry
- MA (Hons), CFA



**Harry Nimmo**

Investment Leader, Smaller Companies

- 37 years exp. at abrdn and in the Industry
- MA (Hons), MBA, Diploma in Surveying



**Amanda Yeaman**

Investment Director

- 2 years exp. at abrdn and 12 years exp. in the industry
- MA (Hons), IMC



**Tzoulianna Leventi**

ESG Analyst & Investment analyst

- 3 years exp. at abrdn and in the industry
- LLM (International Law), LLB (Ord), BA(Hons).



**Domantas Butvilas**

Investment Analyst

- 1 year exp. At abrdn and in the industry
- MSc (Hons)

Source: abrdn, 01 January 2022. CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute

# Why Smaller Companies?

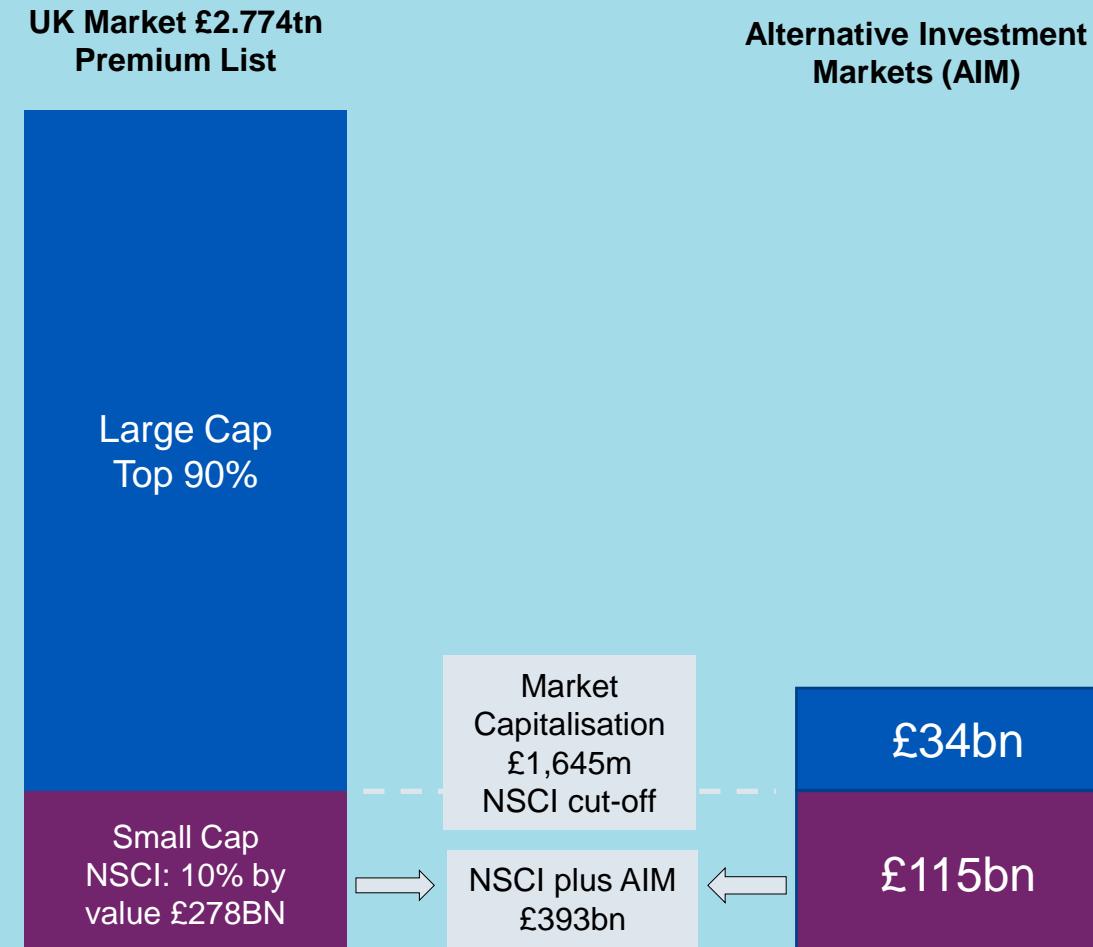
- Better Long Term Returns
- Faster Growth
- Under Researched
- More Nimble in a Fast Changing World
- Over 700 stocks to choose from

## BUT

- Higher Risk

**Only suitable for long term investors who can handle the volatility**

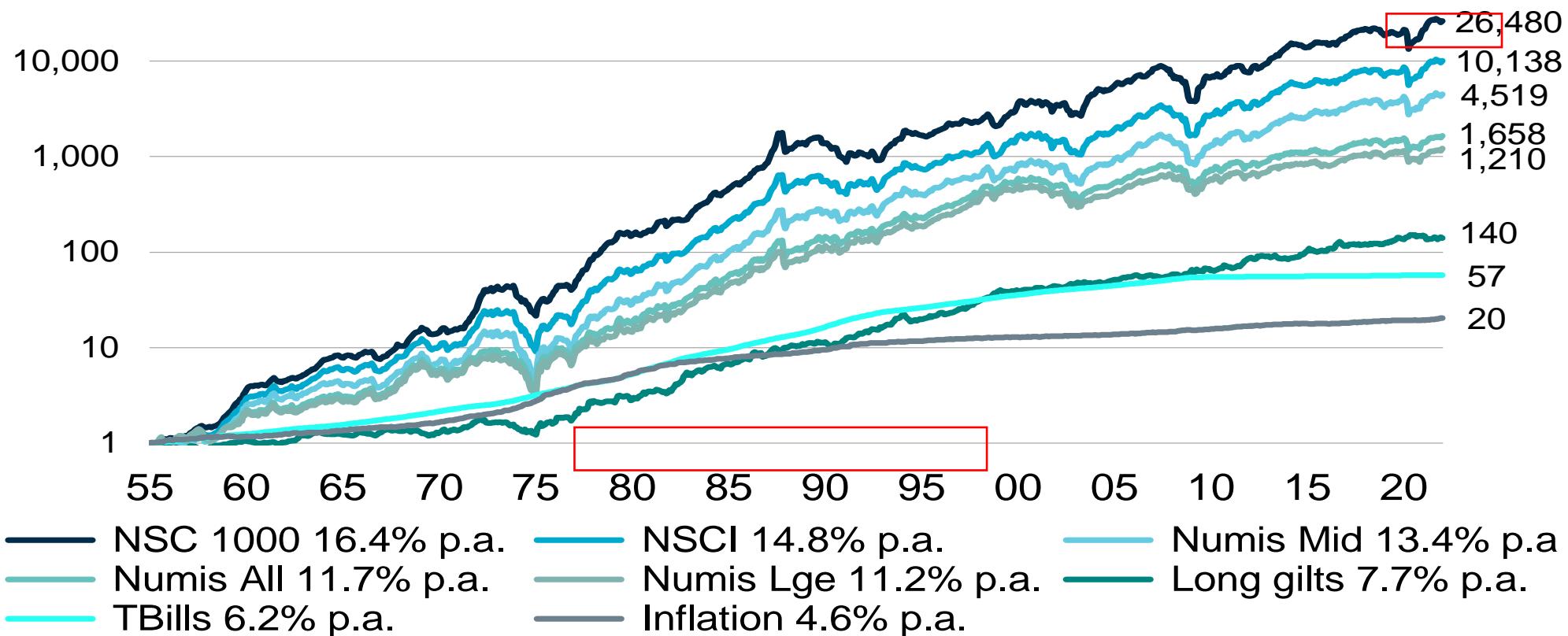
## Numis (NSCI) Smaller Companies Index (Plus AIM)



Source: abrdn, numis 2022 Annual Review

# Long-run nominal returns on UK assets and inflation, 1955–2021

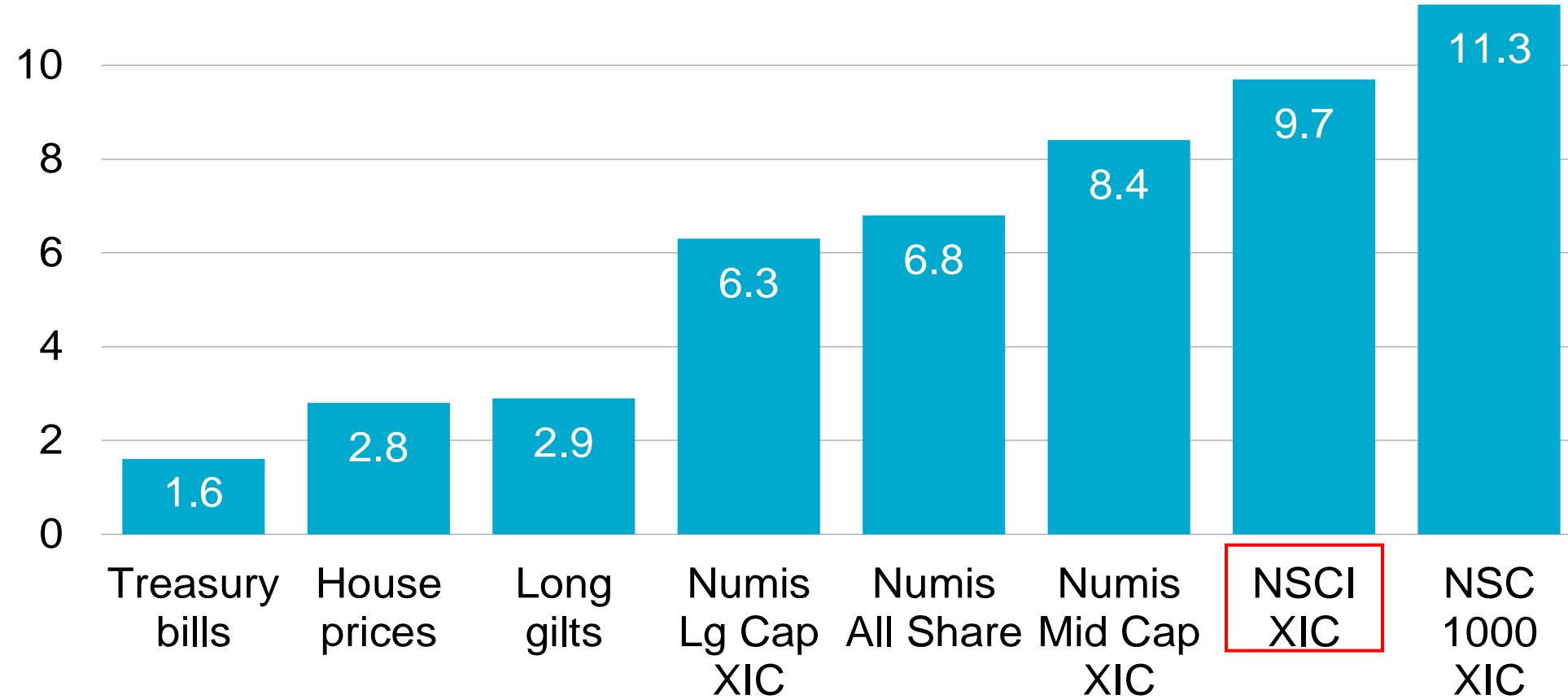
Cumulative return, 1955–2021 (all the equity indices are XIC)



Numis Indices: 2022 Annual Review — Scott Evans and Paul Marsh — Numis, 13 January 2022

# Annualised real returns on UK asset classes, 1955-2021

Annualised real return, 1955–2021



Source: Numis, Numis Indices: 2022 Annual Review — Scott Evans and Paul Marsh — Numis, 13 January 2022

# Long-run performance of UK sized-based indices

## Capital gains

Cumulative value (log scale)

10000

1000

100

10

1

55 60 65 70 75 80 85 90 95 00 05 10 15 20

NSC 1000 XIC

NSCI XIC

Dividends matter

## Total returns

Cumulative value (log scale)

10000

1000

100

10

1

55 60 65 70 75 80 85 90 95 00 05 10 15 20

Numis Mid Cap XIC

Numis Large Cap XIC

The smaller the better

Source: Numis, Numis Indices: 2022 Annual Review — Scott Evans and Paul Marsh — Numis, 13 January 2022

# Attractive mix of domestic exposure and international growth

- UK Small Cap attractive mix of domestic and international
- ✓ ~45% of revenues in Numis plus Aim (ex investment cos) outside the UK

UK isn't all bad, areas of growth exist

Among UK leaders



Structural growth by market share gains

“Expanding into Adjacencies” often drives International revenue growth in our businesses

Exposure to Global Leaders:



Growth by expanding in International:



Limited exposure to importers/exporters across UK borders

© 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. Source: abrdn, 31 December 2021

# Our bottom-up approach to smaller companies investing

## The principles

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

Look for sustainable **growth**

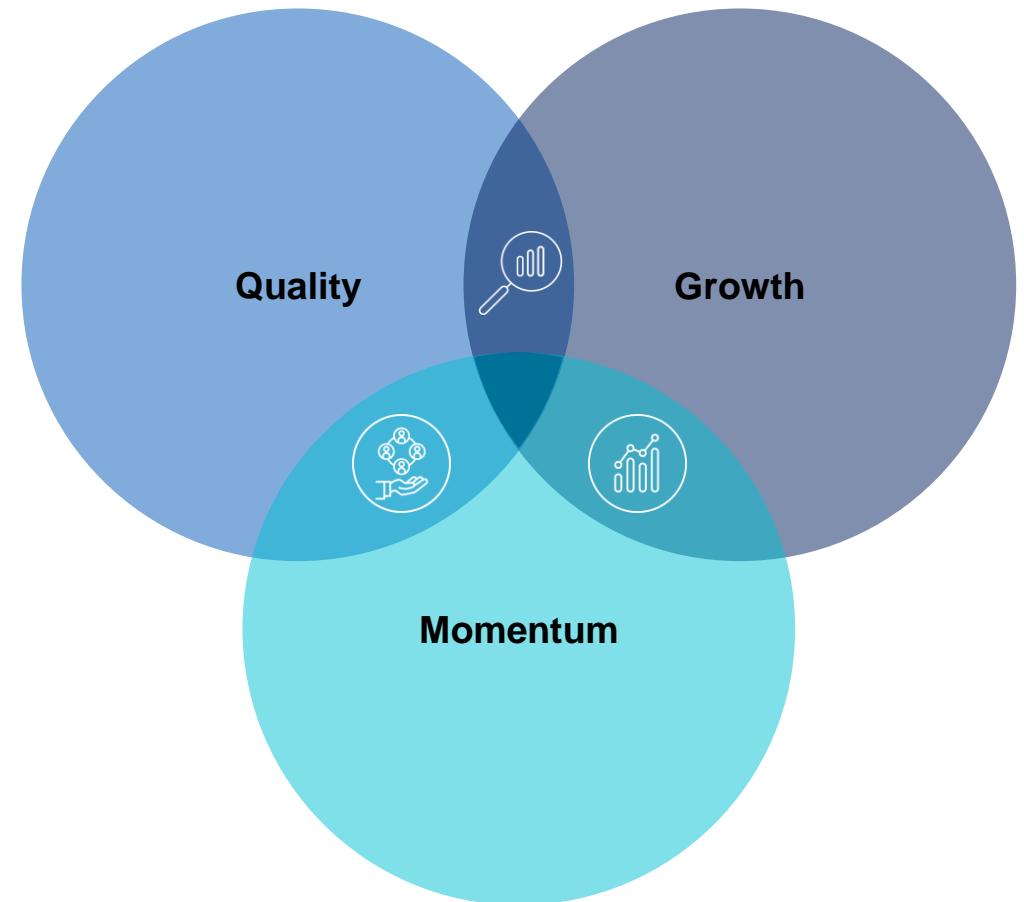
Run your winners and cut your losers – **momentum**

Concentrate your efforts using “the Matrix”

Invest for the long term

Management quality

Valuation aware



Buying tomorrow's larger companies today

# Quality, Growth, Momentum

The characteristics companies need to have to make it into the portfolio



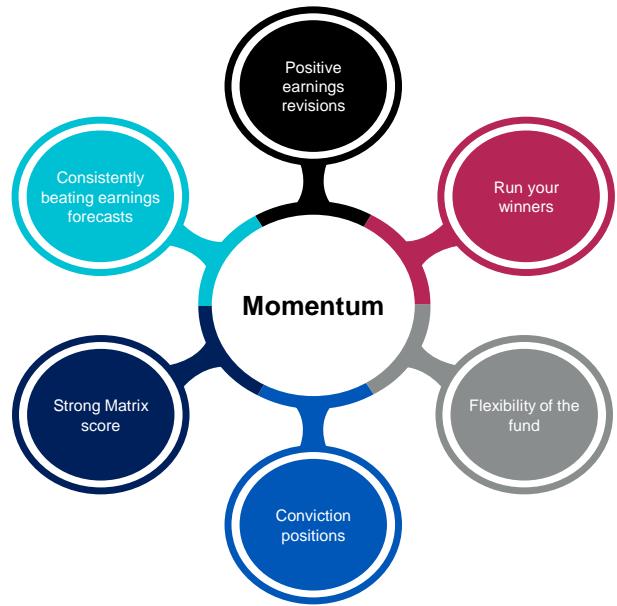
We avoid:

- Loss-making or blue sky
- Highly leveraged
- Highly cyclical earnings
- Poor track record
- Dividend cuts



We avoid:

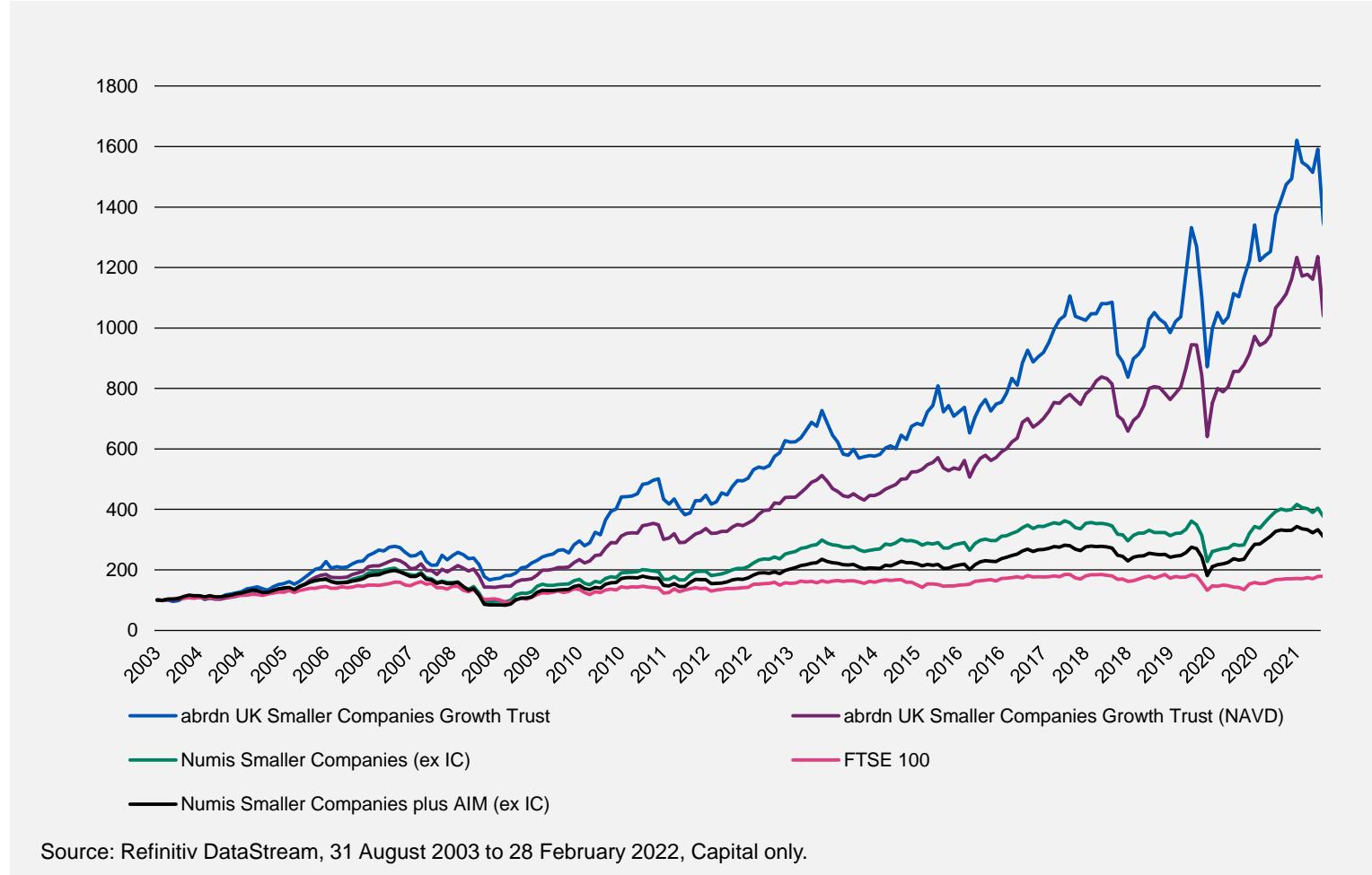
- Threat of new entrant
- Capacity to manage high growth
- Where growth entirely acquisitive



We avoid:

- Earnings downgrades
- Deteriorating Matrix scores

# Capital performance since 31 August 2003



abrdn UK Smaller Companies Growth Trust	+1,173.3%
abrdn UK Smaller Companies Growth Trust (NAVD)	+991.2%
Numis Smaller Companies (ex IC)	+263.1%
Numis Smaller Companies plus AIM (ex IC)	+197.4%
FTSE 100	+79.2%
Compound annual growth rate (CAGR)	
abrdn UK Smaller Companies Growth Trust NAV Total Return	+14.8%
Reference Index	+10.4%
Out/(Under) Performance	+4.0%

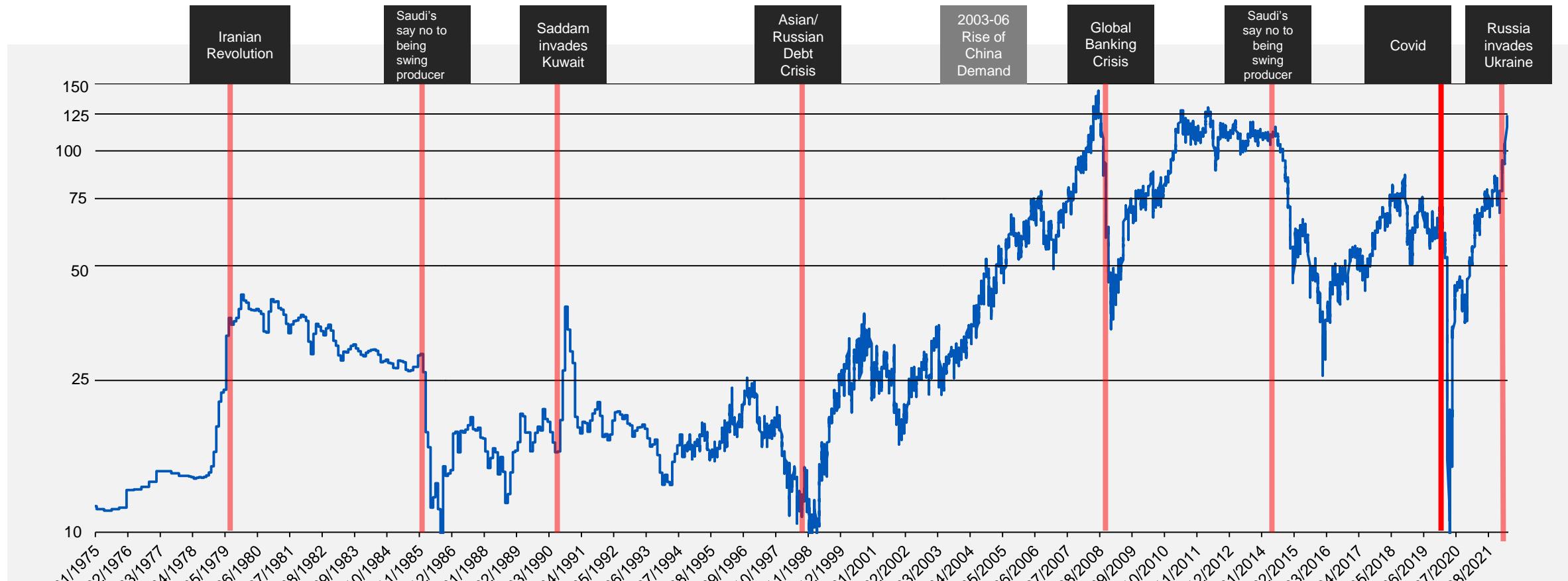
# Trading outlook at our top ten holdings

abrdn UK Smaller Companies Growth Trust

% of Trust	Top ten holdings	Industry	Direction of EPS forecast	Dividend yield	Dividend Growth % 2021	EPS growth 2022 %	PE (December 2022)
4.3	Kainos	Digitalisation	↑	1.5	69	14	35
3.9	Safestore	Self Storage	→	2.0	13	11	27
3.4	Future	Digital Media	↑	0.1	75	19	15
3.3	Watches of Switzerland	Premium Watch Retailing Partner	↑	0	0	69	23
3.1	XP Power	Quality power supplies and converters	↑	2.3	29	17	19
3.1	Hilton Food Group	Food Producer focused on meat and salmon	→	2.6	21	7	16
3.1	Next Fifteen Communications	Digital Media	↑	0.9	79	12	18
3	Gamma Communication	Telecom Services	→	0.8	12	12	21
2.9	Impax Asset Management	Specialist asset manager focused on a sustainable economy	↑	2.2	47	25	19
2.9	Alpha Financials Markets Consulting	Consultant in Asset Management and Insurance Industries	↑	2.1	38	29	19

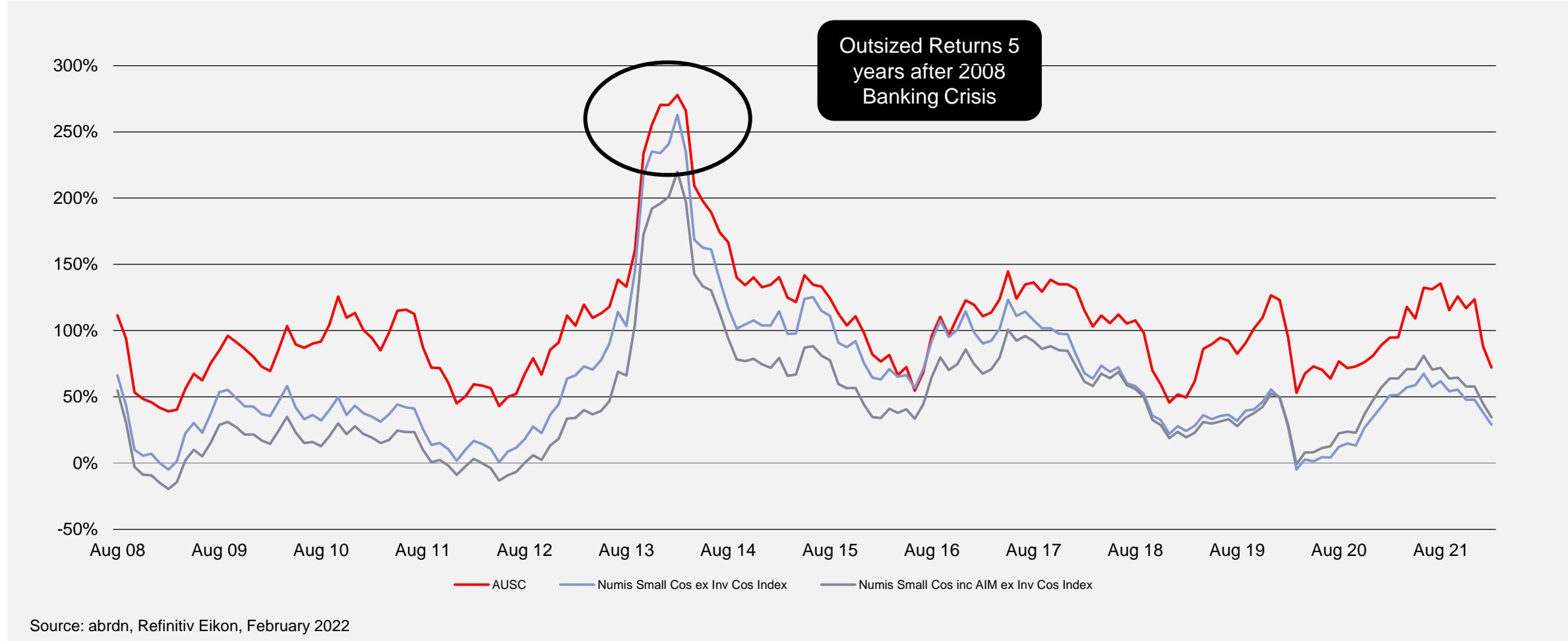
Source: abrdn, Bloomberg, 28 February 2022. For illustrative purposes only. No assumptions regarding future performance should be made.

# Brent Oil Price



Source: abrdn, 28 February 2022

# Monthly rolling 5 year NAV Total Returns of AUSC, plus the Numis Smaller Companies indices to 28 February 2022



# Bear Markets: Length, Depth & Recovery

	Start Date	End Date	Length (months)	% Fall	Time to New High (Months)
FTSE250	October 1987	November 1987	1	-40	20
	January 1990	September 1990	9	-26	20
	May 1992	September 1992	4	-22	3
	June 1998	October 1998	4	-28	9
	September 2000	March 2003	28	-41	22
	June 2007	March 2009	19	-50	24
	February 2020	March 2020	1	-41	13
FTSE All Share	December 1972	December 1974	24	-70	33

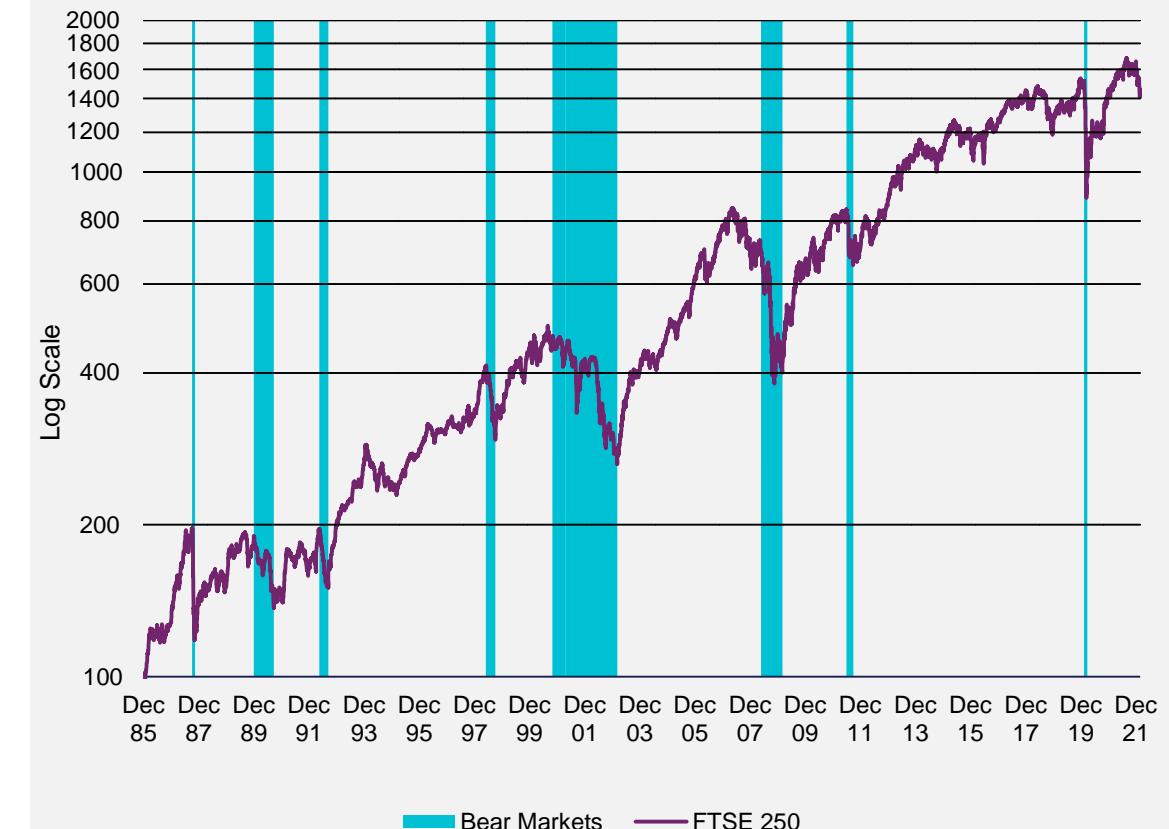
**In the past money has been made by investing for the long term.**

**Setbacks have been severe but comparatively short lived and may represent buying opportunities**

For illustrative purposes only.

Source: Refinitiv Datastream, 28 February 2022

**FTSE 250 as proxy for Small Caps**



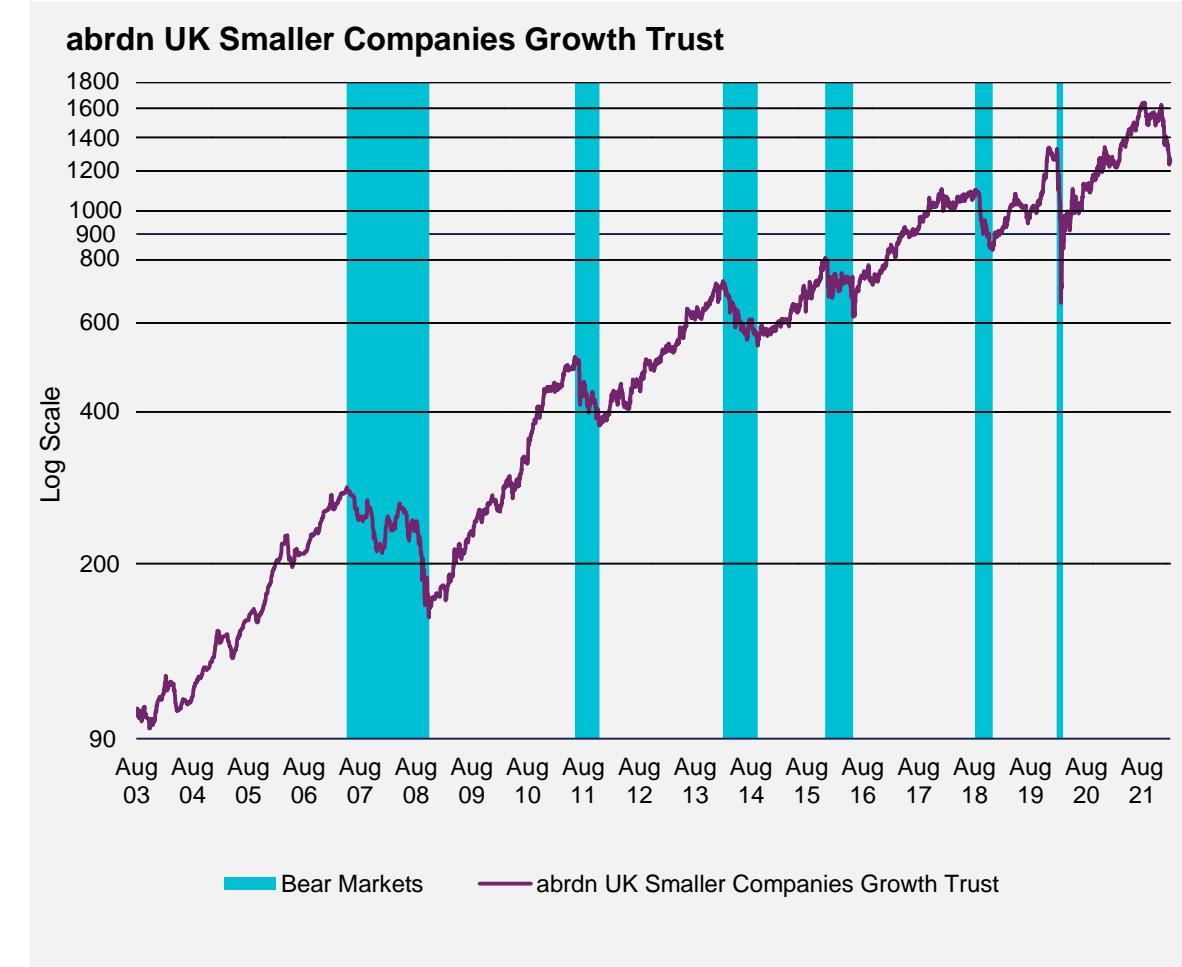
# Bear Markets and the abrdn UK Smaller Companies Growth Trust

Start Date	End Date	Length (months)	% Fall	Months to new high (Months)
June 2007	November 2008	17	-45	16
July 2011	December 2011	5	-26	11
February 2014	October 2014	9	-24	12
December 2015	June 2016	6	-23	10
February 2020	March 2020	1	-50	6
September 2021	--	6	-28(so far)	?

**In the past money has been made by investing for the long term.  
Setbacks have been severe but comparatively short lived and may represent buying opportunities**

For illustrative purposes only.

Source: Refinitiv Datastream, 28 February 2022



# Conclusions

- Better returns
- Long-term investing
- Riskier
- Our track record
- Be alert for potential buying opportunities

Source: abrdn

# Important Information

# abrdn UK Smaller Companies Growth Trust

## Important Information

**Investment objective:** To achieve long term capital growth by investment in UK quoted smaller companies

**Benchmark:** The Numis Smaller Companies plus AIM (excluding Investment Companies) Index

### Discrete Performance

	31/01/22	31/01/21	31/01/20	31/01/19	31/01/18
Share Price	13.6	(1.8)	42.1	(15.1)	39.7
NAV	14.1	2.5	35.3	(8.9)	30.6
Reference Index*	11.6	7.9	13.5	(9.6)	16.5

Source: Refinitiv DataStream, capital returns. The percentage growth figures above are calculated over periods on a mid to mid basis

\* Reference Index is the Numis Smaller Companies (ex Investment Companies) Index up to 31 December 2017, and the Numis Smaller Companies plus AIM (ex Investment Companies) Index thereafter.

# Important Information

## Important information

### Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results. • Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Trust shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- The Company may charge expenses to capital which may erode the capital value of the investment
- The Alternative Investment Market (AIM) is a flexible, international market that offers small and growing companies the benefits of trading on a world-class public market within a regulatory environment designed specifically for them. AIM is owned and operated by the London Stock Exchange. Companies that trade on AIM may be harder to buy and sell than larger companies and their share prices may move up and down very sharply because they have lower trading volumes and also because of the nature of the companies themselves. In times of economic difficulty, companies listed on AIM could fail altogether and you could lose all your money.
- The Company invests in smaller companies which are likely to carry a higher degree of risk than larger companies.
- Specialist funds which invest in small markets or sectors of industry are likely to be more volatile than more diversified trusts

# 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](http://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>

# Important Information

**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 views expressed in this presentation should not be construed as advice or an investment recommendation on how to construct a portfolio or whether to buy, retain or sell a particular investment. The information contained in the presentation is for exclusive use by professional customers/eligible counterparties (ECPs) and not the general public. Documents directly from abrdn and must not be acted or relied upon by persons receiving a copy of this document other than directly from abrdn. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of abrdn. 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.

Issued by Aberdeen Asset Managers Limited, registered in Scotland (No. 108419), 10 Queen's Terrace, Aberdeen AB10 1XL. Authorised and regulated by the Financial Conduct Authority in the UK.