abrdn UK Smaller Companies

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Abby Glennie and Amanda Yeaman, experienced and pragmatic smaller company investors.
- The managers are disciplined in applying their seasoned and successful stock research process in identifying profitable companies with the capacity for long-term growth.
- The managers are passionate about the long-term opportunities in the asset-class but also understand the need to balance investment discipline with pragmatism and patience.

Key characteristics and expected outcome

- We believe the managers' emphasis on resilient companies with recurring revenues and their inclusion of mid caps can help them meet their objective of outperforming during major market downturns.
- This can help mitigate some of the excess volatility risk inherent in investing in smaller companies, although we would note that their focus on long-term growth means that investors should not anticipate a purely defensive performance profile.
- We believe this can be a long-term holding for UK small cap investors as long as they are aware that it is likely to suffer a clear headwind during periods of micro-cap outperformance.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

Our analysis indicates that the fund's risk characteristics are modestly higher than other funds in the sector but in keeping with mainstream UK small-cap equity indices. The fund's distinctive growth bias can sometimes result in bouts of higher volatility. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	20 September 1998
Manager(s) Since:	Abby Glennie (Nov 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	*Deutsche Numis Smaller Companies Plus AIM ex IT
IA Sector:	UK Smaller Companies

*Fund performance is measured against the peer group. The Deutsche Numis index is used for stock and sector analysis.

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A long-established UK smaller companies fund where the managers seek smaller companies that have the potential to grow into the large caps of the future. As the bias is to more established businesses, the fund is invested towards the larger end of the smaller company universe. Within its sector, the fund features in our 'Smaller-Cap, Growth' category.

Investment Team

The fund is managed by Deputy Head of UK Smaller Companies, Abby Glennie, and deputy fund manager, Amanda Yeaman. Ms Glennie was previously co-manager of the fund with Harry Nimmo until his retirement at the end of 2022. Ms Glennie and Ms Yeaman are members of a small team of portfolio managers led by Andrew Paisley, Global Head of Smaller Companies. The team also manages global and European small-cap funds.

Investment Philosophy

The managers believe in their ability to identify small companies with the ability to grow into large caps in the future and to benefit from this growth profile. By dint of their emphasis on growth over short-term valuation metrics, they are long-term investors who focus on company analysis in seeking to invest in high-quality businesses with proven, profitable and resilient business models.

Investment Process

In their search for companies with long-term sustainable growth prospects, the managers are supported by an in-house, quantitative tool called the Matrix. This tool tracks 13 factors that the team has identified as affecting equity performance. These include momentum in earnings and share prices, valuation, earnings growth, cashflow and balance sheet strength and director dealing. Resulting scores aim to highlight stocks that have attractive credentials across the factors of value, growth and quality.

Whilst the Matrix is important in directing and informing the stock selection process, the managers also undertake significant qualitative analysis to confirm that the business model is resilient enough to meet their investment philosophy. They usually meet company management to help them to identify and assess businesses with high market share and pricing power, and they favour companies with established and proven management teams, especially founder-run businesses. Although they are mindful of valuations, the managers believe that a company's ability to deliver long-term, structural growth is a more powerful driver of performance from small caps.

Portfolio Construction and Risk Controls

The portfolio usually comprises fewer than 70 stocks. The managers' focus on long-term growth potential means that turnover is relatively low and they are typically minded to "run their winners". This can lead to weightings of up to 5% at the stock level, although the top holdings will usually also continue to score well on the Matrix. Whilst the primary focus is on established companies with robust and sustainable profitability, the managers will invest up to 5% of the portfolio in more speculative companies when they deem them attractive.

This document is for financial professional use only. Fund Research Centre is a trading name of PSIR Limited, which is a company incorporated in England, company number 07791409. The information in this document, including information from asset managers and third-party sources, is deemed to be correct at the time of publication but Fund Research Centre takes no responsibility for its accuracy. This document has been written for illustrative purposes and as such is neither a solicitation nor a recommendation with respect to the purchase or sale of any securities. Opinions are always stated honestly and with careful consideration, but they can change at any time. Full fund documentation provided by the asset manager should be reviewed as part of any decision-making process. Any investment's value and any income from it may fall as well as rise because of market and currency fluctuations. Investors may not get back the amount originally invested. V.1 25/10