



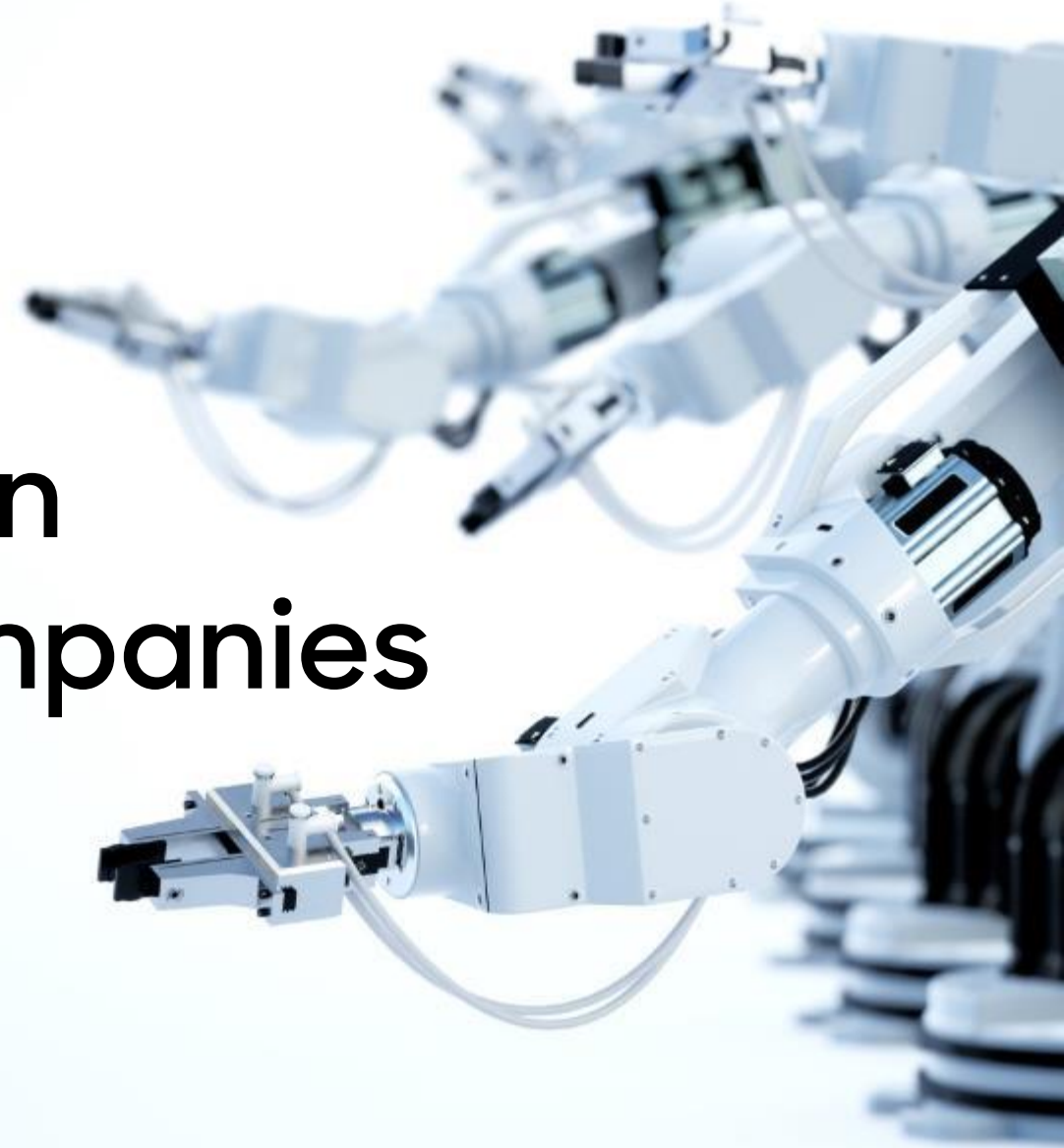
# The search for alpha in European smaller companies

**Andrew Paisley, Head of Smaller Companies**

June 2023

**abrdn.com**

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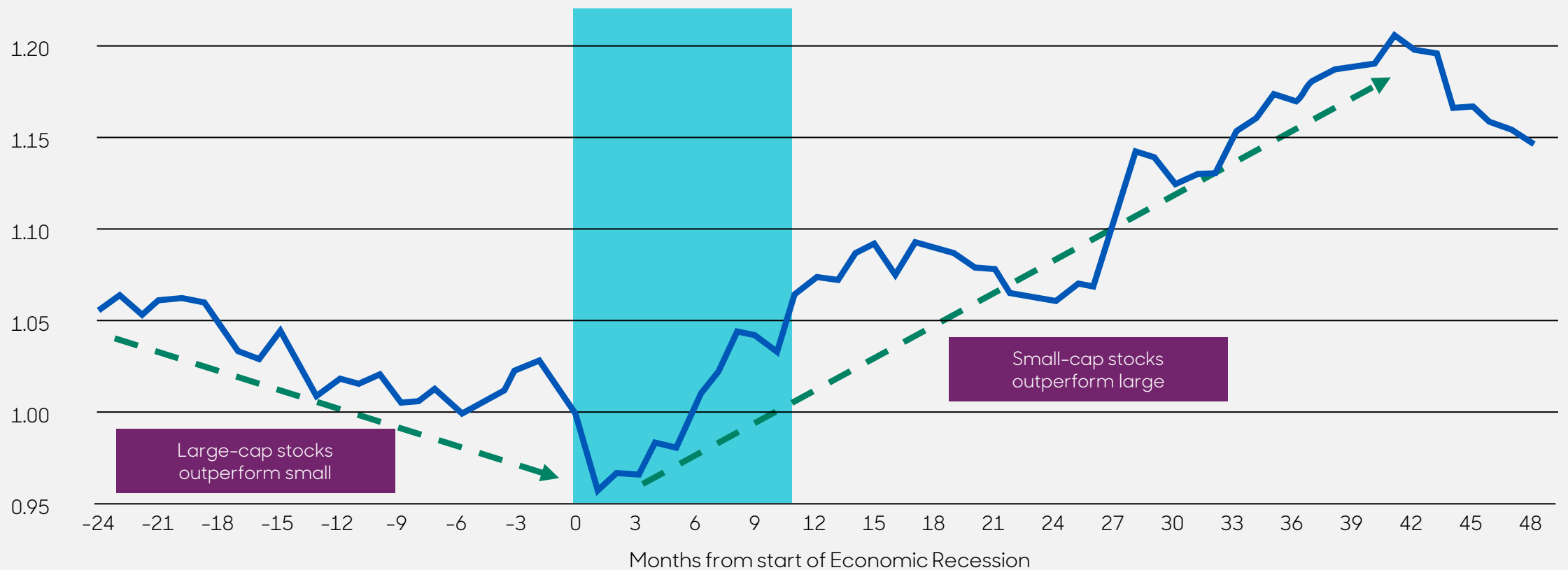


# Recession & Inflation – views on Small Cap

# Smaller Companies in a recession

Interesting data from William Blair on US Small vs US Large

Relative performance of Russel 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

# Smaller Companies have historically outperformed in periods of high inflation

Smaller caps have outperformed larger caps when inflation is high

CPI Ranges (%)	Absolute Returns			Relative vs Large	
	Small	Mid	Large	Small	Mid
> 4	<b>14.3</b>	<b>13.1</b>	<b>9.7</b>	<b>3.5</b>	<b>2.7</b>
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>

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

Source: <https://www.abrdn.com/en-us/investor/insights-thinking-aloud/article-page/small-cap-opportunities-outshine-inflation>, April 2022



# Inflation at a micro level

# Quality companies are price setters not price takers

Market leading companies can successfully pass on higher costs

ADDTECH



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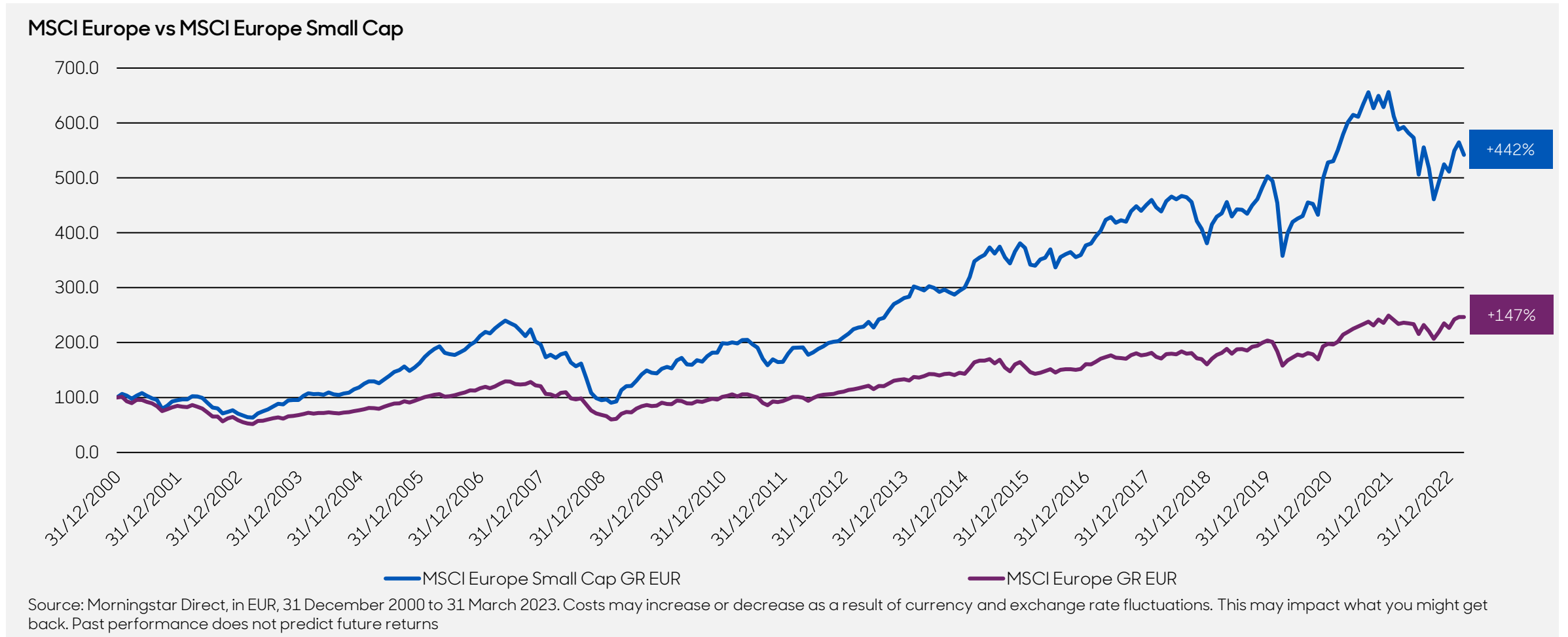


Look beyond the macro

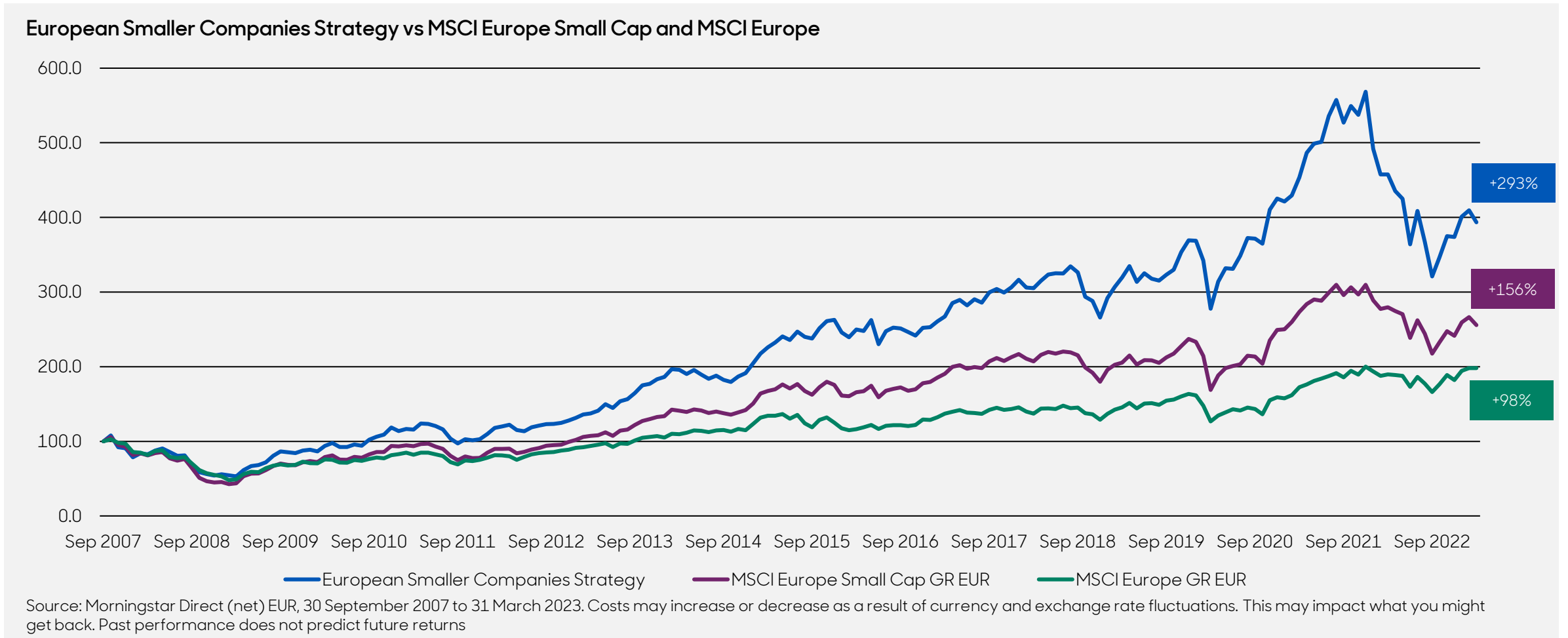


# Always 5 reasons not to invest in Europe

Looking at large cap returns can mask the opportunity within regions



# Smaller Companies are a happy hunting ground for active management

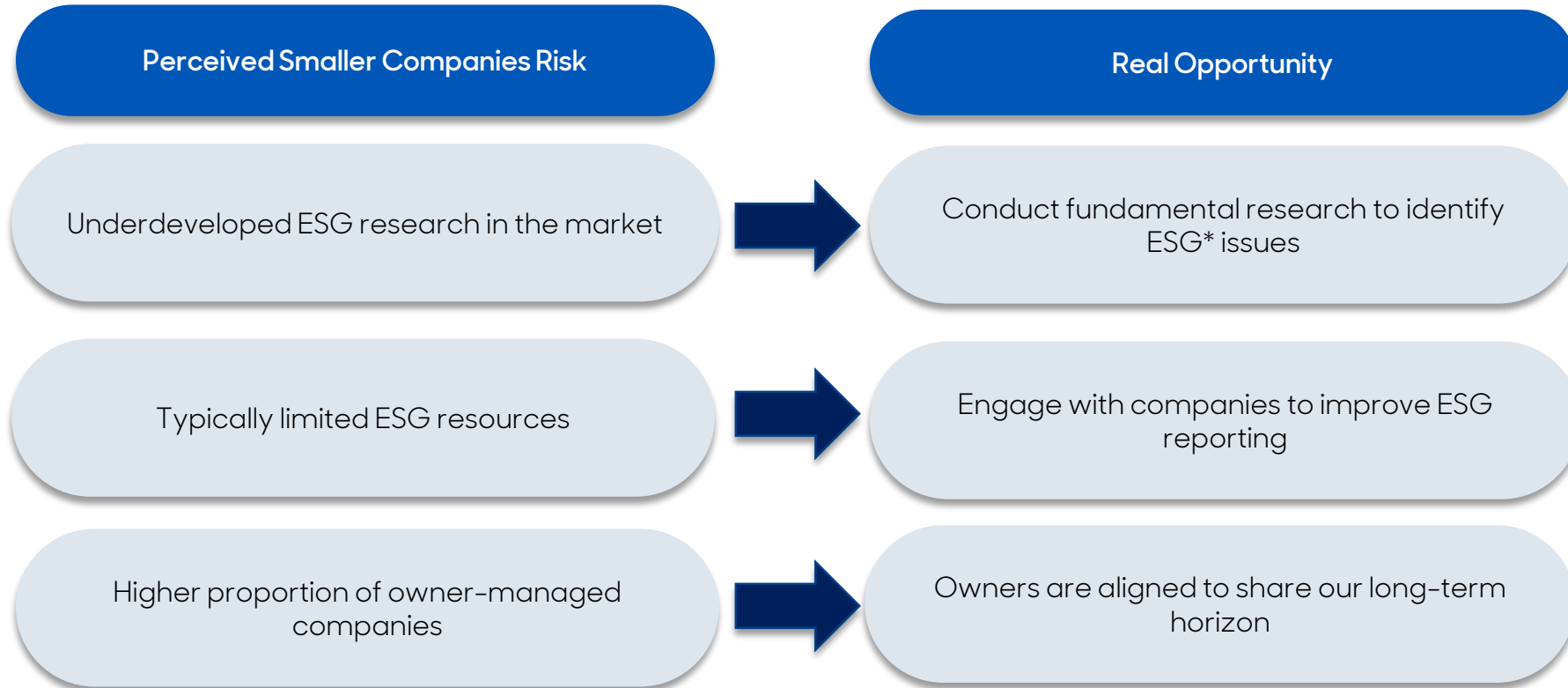




# ESG in Smaller Companies

# ESG in Smaller Companies

Seeing opportunities where others see risks



\* Environment, Social & Governance (ESG). Source: abrdn

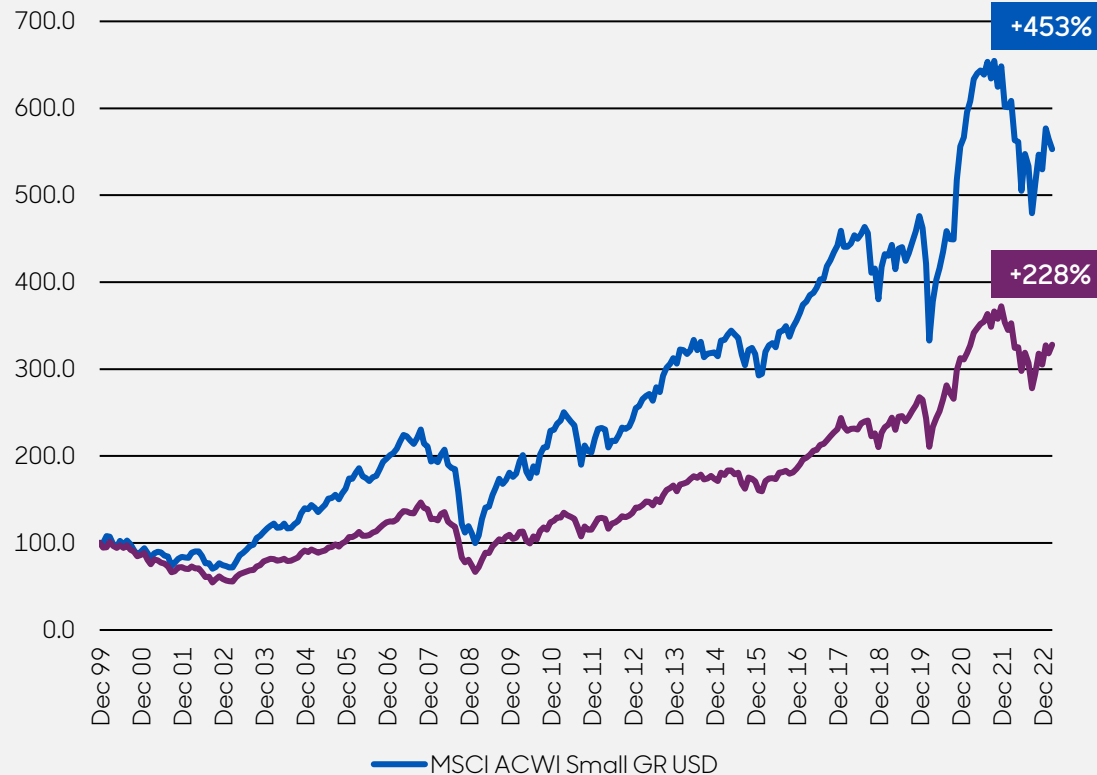


# Why Smaller Companies

# Smaller companies can generate higher returns over the long term

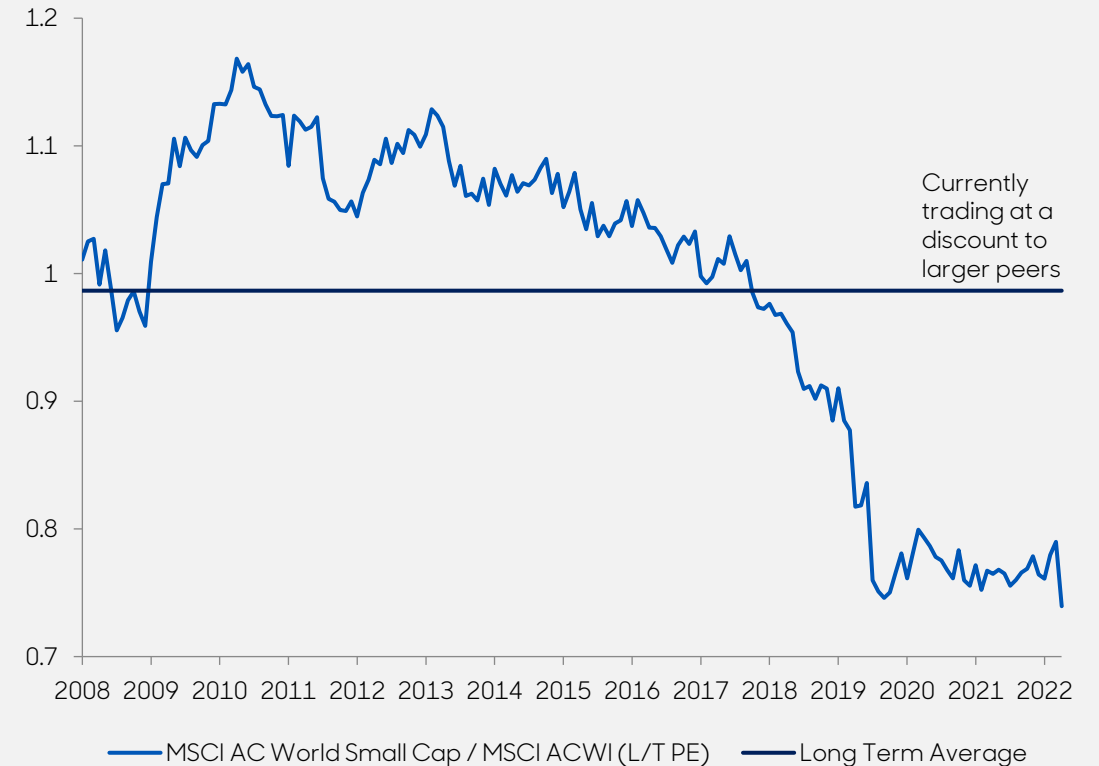
Asset class trading at attractive relative valuations

### Significant outperformance over the long term



Source: Morningstar, Total Return, USD, 31 December 1999 to 31 March 2023. Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might

### Global Small Caps trading near record low relative valuations

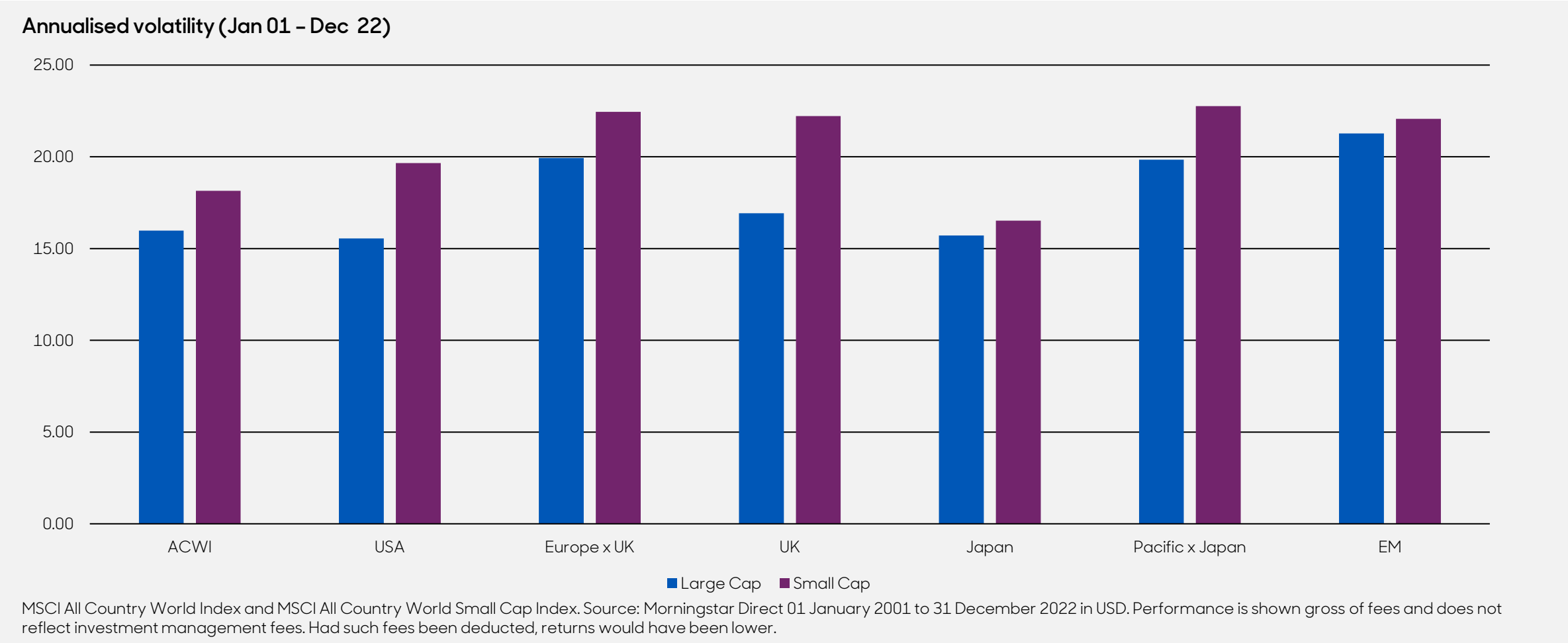


MSCI AC World Small Cap relative to MSCI AC World.  
Source: Bloomberg (Data: Long Term Price Earnings Ratio) 31 Dec 2008 to 31 Mar 2023. For illustrative purposes only. No assumptions regarding future performance should be made. Performance is shown gross of fees and does not reflect investment management fees.

Past performance does not predict future results

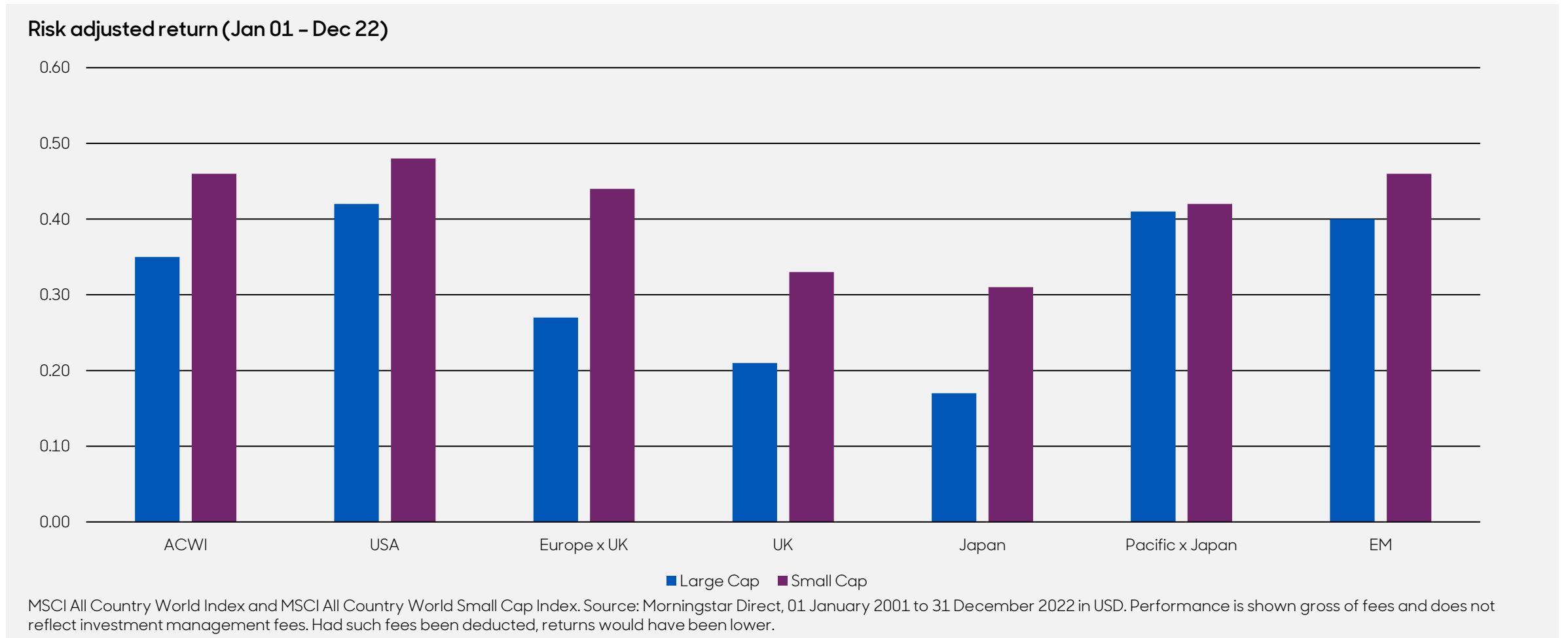
# Are smaller companies higher risk?

Small caps are slightly more volatile



# Better risk-adjusted returns

Smaller companies aim to deliver superior risk-adjusted returns



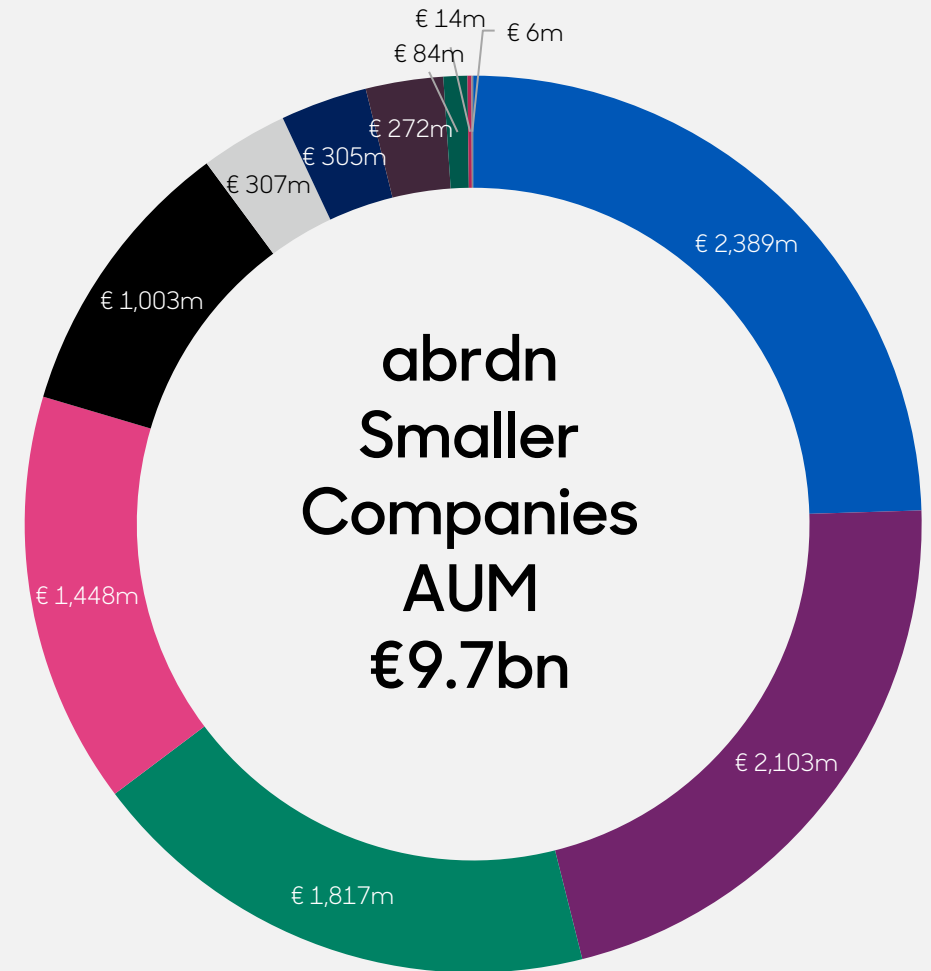


# Smaller Companies credentials at abrdn

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

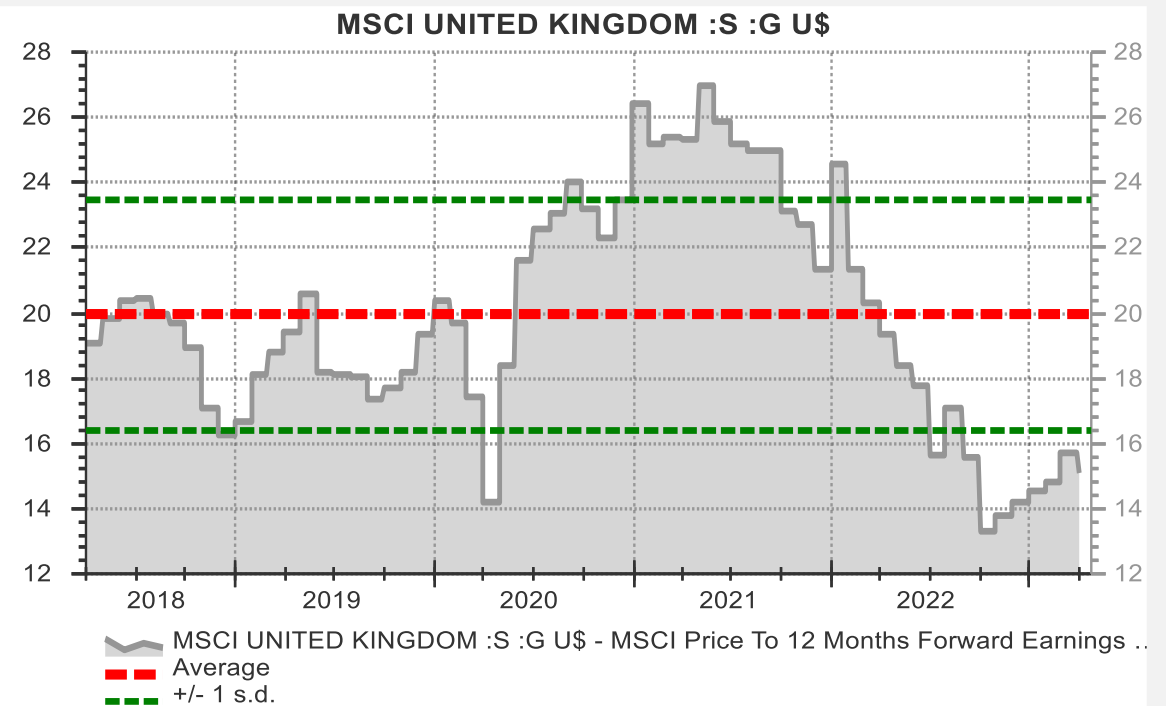
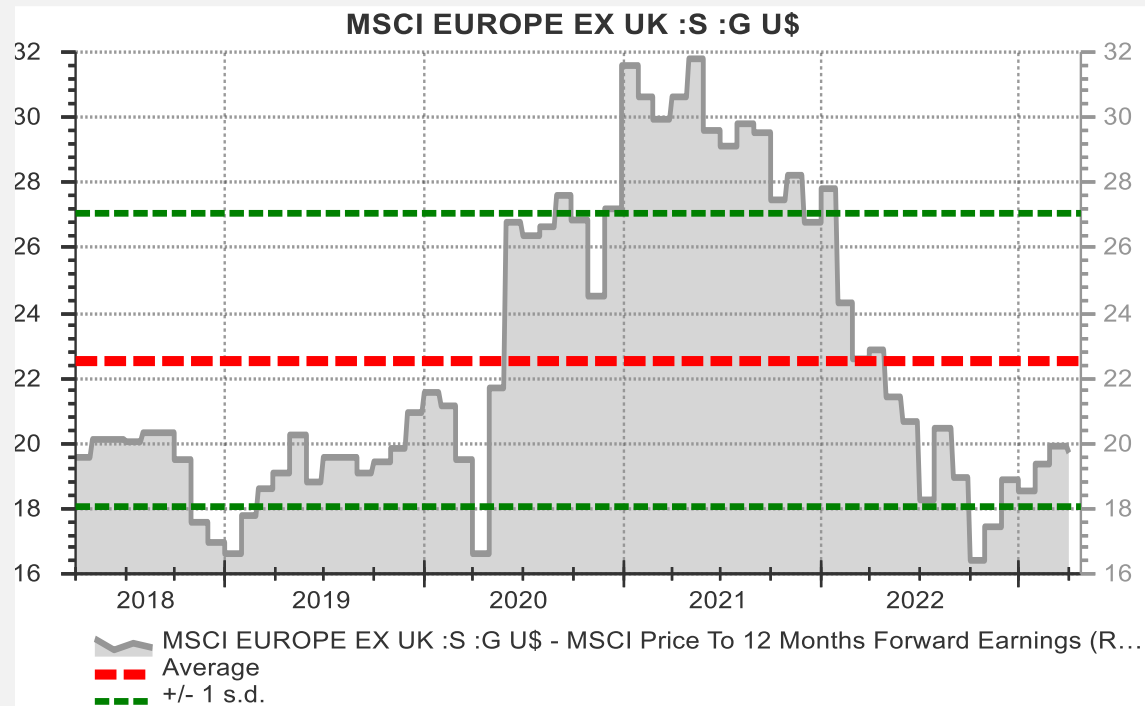
Figures may not appear to add due to rounding. An exchange rate of £1: €1.13 as at 31 December 2022 has been used. Source: abrdn, 31 December 2022





# Outlook

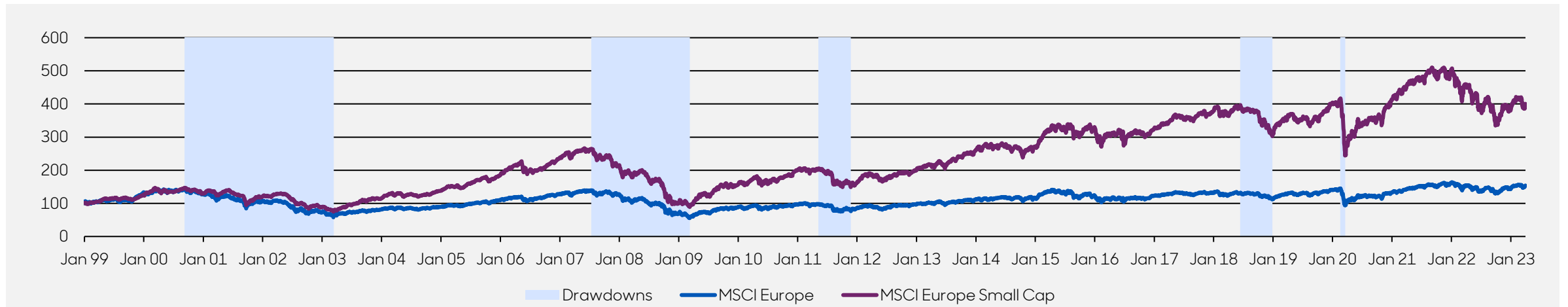
# Growth valuations no longer look stretched



Source: abrdn, Refinitiv Datastream, MSCI, 31 March 2023

# Smaller companies to lead the market higher?

History shows small caps tend to recover quicker than large caps



Start Date	End Date	Large Cap			Small Cap		
		Large cap Drawdown	Recovery Date	Time To Recover (m)	Small Cap Drawdown	Recovery Date	Time to Recover (m)
Sep 2000	Mar 2003	-49.3%	Dec 2019	202	-59.0%	Jan 2005	23
Jul 2007	Mar 2009	-66.5%	Apr 2015	73	-60.4%	Jan 2014	58
May 2011	Nov 2011	-27.6%	Jan 2013	13	-21.7%	Jan 2013	14
Jun 2018	Dec 2018	-23.8%	May 2019	4	-15.8%	Dec 2019	12
Feb 2020	Mar 2020	-41.4%	May 2021	14	-35.4%	Jan 2021	10

Source: Refinitiv Datastream, in EUR, 01 January 1999 to 31 March 2023. Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back.

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



Source: abrdn

# Global Mid Cap Asset Class

Natural extension

Sweet spot of  
growth

Small Cap  
graduates

Higher returns than  
large cap

Lower risk than  
small cap



# Important Information

# European Smaller Companies strategy past performance

10 year discrete returns – 1 year to 31 March 2023

1 Year to 31/03	2023 %	2022 %	2021 %	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %
European Smaller Companies strategy	-12.78	0.35	61.15	-12.17	5.26	14.84	7.58	8.37	19.09	42.62
FTSE Small Cap Developed Europe	-8.21	3.70	58.66	-19.01	-1.03	7.07	14.21	-3.69	18.06	31.31

Source: abrdn in EUR, 31 March 2023, Net of Fees

Costs may increase or decrease as a result of currency and exchange rate fluctuations. This may impact what you might get back.

Please note that the figures are based on net price performance. This will include the effects of fees, charges and any share pricing swings



# Composite: European Smaller Companies

## Composite Performance

### Composite: European Smaller Companies

Benchmark: FTSE Small Cap Developed Europe - Total Return

Base currency: EUR (reported in EUR)

Gross returns as of: 31-Mar-23

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	6.60	4.75	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
Year to date	6.60	4.75	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
1 Year	-12.00	-8.21	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
2 Years p.a.	-5.60	-2.44	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
3 Years p.a.	13.16	14.73	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
4 Years p.a.	6.45	5.16	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
5 Years p.a.	6.40	3.90	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
7 Years p.a.	8.01	5.76	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
10 Years p.a.	12.49	8.25	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
Since inception p.a.	10.57	5.38	<=5 (<=5)	N/A	1,490,571,209	N/A	N/A
2022	-34.50	-20.56	<=5 (<=5)	N/A	1,431,277,990	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

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 Companies

## Composite Risk statistics

### Composite: European Smaller Companies

Benchmark: FTSE Small Cap Developed Europe - Total Return

Composite inception: 01-Oct-07

Base currency: EUR (reported in EUR)

Annualised gross returns as of: 31-Mar-23

	Annualised 3 years	Annualised 5 years	Annualised 7 years	Annualised 10 years	Annualised since inception
Composite return (%)	13.16	6.40	8.01	12.49	10.57
Benchmark return (%)	14.73	3.90	5.76	8.25	5.38
Geometric difference (%)	-1.37	2.41	2.13	3.91	4.92
Composite standard deviation (%)	23.01	22.32	20.26	18.33	19.15
Benchmark standard deviation (%)	20.00	20.79	18.56	17.04	18.63
Tracking error	8.00	7.63	6.98	6.39	6.84
Info ratio	-0.17	0.32	0.30	0.61	0.72
Sharpe ratio	0.58	0.30	0.41	0.69	0.52
Regr. alpha (ann) (%)	-1.99	2.66	2.25	4.06	5.30
Beta	1.08	1.01	1.03	1.01	0.96
R <sup>2</sup>	0.89	0.89	0.89	0.88	0.88
Highest return (%)	13.39	6.60	8.15	12.61	10.56
Lowest return (%)	13.29	6.49	8.01	12.50	10.56
Number of portfolios (*throughout period)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)	<=5 (<=5)
Market value (M)	1,490.57	1,490.57	1,490.57	1,490.57	1,490.57

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 Companies

## Composite Disclosures

### Composite Disclosures

As of: 31-March-23  
European Smaller Companies

### 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.

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