

FUNDAMENTAL FLASH

Spotting Big Winners in Global Small-Caps | Affin Hwang World Series - Global Quantum Fund

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Prepared by Affin Hwang Asset Management

The small-cap space has been one of the biggest winners year-to-date, as prospects of an economic revival becomes clearer. In our latest Fundamental Flash, we speak with Ben Sheehan, Senior Investment Specialist, Equities of Aberdeen Standard Investments to discuss opportunities in global small-caps and the outlook ahead.

1. Why should we invest into the global small-cap strategy and why now?

Small-caps offer a huge and untapped universe of over 6000 stocks. It is also a segment of the market that you can find tomorrow's leaders today. By just focusing on large-cap stocks, you are ignoring about two-thirds of the stock universe.

In addition, small-caps are very inefficient and an under researched segment of the market which makes our job of finding great companies ahead of the pack so much easier.

There is data going back over 90 years that shows small-caps have outperformed large-caps by a big margin. This has happened over a very long time. There is now a generational opportunity to invest in small caps relatively cheaply. So this is not just a great asset class, it is also a great time to get set and build position ahead.

Flashpoints

- Since the market bottomed in March, the global small-cap strategy has returned almost 80% and outperformed the large-cap space.
- Despite the recent strong market performance, valuations of small-caps remain much more attractive compared to large-caps. It is a generational opportunity to invest in small caps.
- There is emerging bullish consensus that 2021 will be a recovery year for economies and markets. Though, volatility will prevail due to US-China tensions.
- However, we could still see support for risk assets with abundance of policy support both monetary and fiscal. Promising data on COVID-19 vaccine trials has also buoyed sentiment.

#GrowWithUs

2. What has done well or not so well for the strategy this year?

The Global Quantum Fund has been performing well during the recovery phase since the market hit rock bottom on March 23 2020. Since then, the fund is up almost 80% and has outperformed the MSCI AC World Small-Cap index by 5%. It's also 20% higher than the MSCI ACWI index which is a large-cap index.

We attribute this strong performance to the quality of the companies we invest in. Quality to us means a strong balance sheet, clear competitive advantage, high margins and the strength of management. Importantly, we choose companies operating in growth industries.

With the market having a laser focus on fundamentals right now, this has been a very good environment for our investment approach.

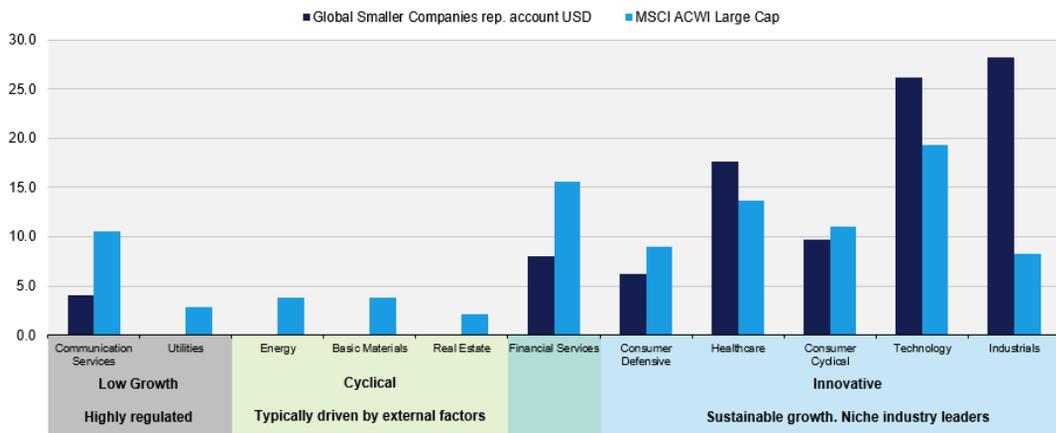
3. Were there any changes to the portfolio positioning as well as key portfolio action?

We have a bias towards innovative companies. Our sector exposure indicate our heavier weight in technology, healthcare, industrials and consumer sectors. On the flipside, we tend to hold less in low growth sectors such as telecom and utilities. We also hold very little in the more volatile energy and materials sectors. These are long-term sector preferences that have continued to serve us well in 2020.

In terms of recent activity, we have added to our consumer-related exposures including a UK homewares retailer and a supermarket operator in Finland. Given global spending habits during COVID-19 have shifted away from services (e.g. travel and experiences) and towards goods (e.g. foods and home upgrades), these type of additions will help ensure earnings certainty in the portfolio.

We have also added a Korean company that specializes in cloud-based accounting software. Given Korea has emerged from COVID-19 in relatively good shape, we expect IT services spending there to remain robust.

To fund these purchases, we have exited travel related names that will fundamentally face headwinds going forward.





4. Where are you finding investment opportunities in this current market?

Through our bottom-up research process we have uncovered various structural growth opportunities. These include plays as diverse as 5G, diabetes treatment, content moderation, green energy, cashless payments and home healthcare.

Many of these are unique opportunities that you can only find in the small cap space. These are effectively going to give you exposure to big structural spending shifts such as those caused by COVID-19, demographic changes like ageing, growing health issues like obesity, a move to a more cashless society, or even global policy makers who are now committing to a greener and lower carbon world. The Global Quantum Fund provides investors exposure to these multi-year structural growth stories.

5. Do you foresee any headwinds for this strategy going forward?

Volatility will remain a feature of equity markets and there are various potential triggers for this volatility. This includes continued frostiness in US-China relations, further waves of COVID-19 and related risks to global growth. We also face a possibility of a no agreement over Brexit.

But offsetting this on the positive side, there is abundance of policy support both monetary and fiscal. We also have some promising data on COVID-19 vaccine trials. Businesses and economies are also now adapting better to a COVID-19 world. Closer to home in Asia, we have also seen the RCEP trade agreement sealed recently between various Asia Pacific nations.

Otherwise, there appears to be an emerging bullish consensus that 2021 will be a recovery year for economies and markets. We all want to leave 2020 and not look back. With regards to volatility that we foresee, we will use it an opportunity to exploit mispricing opportunities.

6. Any words of advice to investors looking to deploy into small-caps?

Despite the recent strong market performance, small-caps remain much cheaper versus large caps than at any time in the last 17 years. This represents a good entry point to get set for the long term. In fact, a generational opportunity.

On top of that, by partnering with us, you are investing in a manager that knows this space well and has generated top decile performance with a consistent process. We are an old hand at this and have gone through many economic cycles. The opportunity is now, where you can identify tomorrow's winners today.



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