

Fund Manager Meeting Research

Fund name	ASI Global Small Cap Strategy
Meeting date	27th January 2021
Written by	Jonathon Curtis
Also present from Skybound	Jaanvi Lachhwani
Present from fund group	Kirsty Desson (fund manager), Graham McCraw (investment specialist), David McMaster (Business Development Director)
Investment sector	IA Global
Expense ratio	1.05%
Units available (acc/inc)	Acc and inc
Currencies available	USD, GBP, EUR, NOK
Domicile(s)	United Kingdom
Launch date	19/01/2012
Fund size	£1.5bn
Strategy AUM	\$2.3bn (\$2bn OEIC, \$95m SICAV, \$200m seg mandates)
12-month strategy growth	21%
Strategy capacity	£3Bbn
GWM % of strategy AUM	n/a
Liquidity (% sold in 30 days)	79%
Manager	Harry Nimmo
Fund management experience	Over 25 years
Managed fund since	Launch in 2012
Other funds managed	ASI UK Smaller Companies and ASI Global Mid Cap Equity
Other responsibilities	None
% time managing this fund	25%
Years with business	Over 25 years (with Standard Life before merger with Aberdeen Investments)
Equity in business	No
Manager	Kirsty Desson
Fund management experience	1 year. Had been an analyst on the fund for 8 years
Managed fund since	2020
Other funds managed	None
Other responsibilities	None
% time managing this fund	100%
Years with business	8 years
Equity in business	No
Remuneration	
Team/analysts	<p>9-person smaller companies 'pod' made up of managers and analysts across UK, Europe and Global teams. Average 15 years industry experience. They all share research and ideas</p> <p>Harry Nimmo stepped back from the team management in 2020 to focus solely on fund management.</p> <p>New recruits – Liam Patel (emerging amrkets) & Tzoulianna Leventi (southern Europe and ESG analyst)</p>

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Investment philosophy	Smaller companies are under-researched and overlooked and will outperform larger ones over the long-run.
Investment style	High-quality, small cap growth
Research process	<p>Can invest in any company within MSCI AC World Small Cap index, but generally avoid companies smaller than \$1bn market cap, and the average company size (\$7.5bn) is much larger than the index average (\$3.8bn).</p> <p>Regional research is split – Harry focuses on UK and US, Kirsty on Japan, Asia and emerging markets, while other members of the team cover Europe and helps them research US, UK and Asia/EM.</p> <p>This fund represents their best ideas from across the other funds within the smaller companies team. Everyone has an analyst role and they generate ideas for the top ideas list.</p> <p>The first step to finding companies is to apply their own proprietary screening tool (that they call the Matrix), which score the 6000 companies in their investment universe on their quality, growth and momentum characteristics. This leaves them with around 800 companies for further research.</p> <p>Harry, Kirsty and Anjali Shah (co-manager of ASI Global Mid Cap along with Harry) then discuss their favourite ideas, before Harry & Kirsty decide if any are worth adding to the fund.</p> <p>They focus on companies with strong finances sustainable growth and high-quality management. They are 'valuation aware' but company valuations are not as important to them as long-term growth potential.</p> <p>They are bottom-up stock pickers so pay little-to-no attention to macro-economic views. They can deviate from benchmark sector/country weights but generally no more than +/-10%. Biggest sector weights currently industrials (35%), tech (22%) and consumer discretionary (18%). 49% US, 11% Japan, 10% UK currently.</p>
Portfolio construction	<p>Relatively concentrated portfolio of around 45 companies. Typical start a new position at 1-2% and build up as their conviction grows. Will usually invest incoming AUM into companies with the highest Matrix scores, and sell those with the lowest scores to meet any redemptions. They like to 'run their winners' rather than take short-term profits, but will trim if any stock grows above a 5% position. Similarly they are quick to cut their losers.</p>
ESG considerations	<p>Believe ESG factors are financially material and help them to make better investment decisions. ESG risk and opportunities defined in every stock note and ESG specialist (Tzoulianna) provides input on companies that are picked.</p>

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	<p>Will soon be adding inhouse ESG scores to quantify the materiality of S and G factors. Each analyst has responsibility to follow up with ESG questions, and will engage with company management. If a company has a low ESG score they'll try to understand why and work with management to improve this.</p> <p>AA (top 20%) MSCI ESG rating.</p>				
Unquoted investments	No				
Risk management	<p>Independent ASI risk team, which assesses how much risk is being taken at a portfolio level. They use different risk tools to produce detailed risk-based models. The Matrix helps them to identify potential risks at a stock level.</p>				
Parent company culture	<p>Openness due to the flat structure. Lots of collaboration with Aberdeen offices in the US for example. Their small team has a collegiate atmosphere and helps them to stay in touch while home-working.</p>				
	1 year	3 years	5 years	10 years	Inception
Net performance	36.9%	50.8%	119.3%	n/a	15.0% (ann)
Benchmark	16.8%	25.8%	75.3%		11.2% (ann)
Peer group quartile	1	1	1		1
Upside capture	99.52	108.4	113.45		107.04
Downside capture	58.46	86.68	96.12		88.19
Any other information	<p>Portfolio turnover (65%) was higher over the last 12 months than usual, partly because of market volatility creating opportunities and risks, but also because Harry and Kirsty changed a lot of stocks following the departure of Alan Rowsell (manager from launch) in February 2020.</p> <p>Harry Nimmo plans to retire in 2023 and will step back from being co-manager of the fund at the end of 2021.</p>				
Conclusion	<p>There are a relatively smaller number of global small cap funds (which I think is a shame given the potential for outperformance vs large cap peers), but this is among the strongest of the bunch. The team is experienced and seem to work well together and complement each other nicely. Their process is robust, time-tested, and delivered excellent long-term performance. Their focus on quality companies has also helped to temper some of the heightened volatility that smaller companies experience. It's a shame that Harry Nimmo is stepping back from the fund at the end of the year, as he has one of the longest and strongest track records in the small cap space, but not a surprise since he's in his mid-60s. While Kirsty hasn't managed that long, she has been heavily involved with the stock picking of this fund for many years, and the process is repeatable and should ensure she doesn't go 'off piste' once Harry sails into the sunset. For me it's a toss up between this fund and Baillie Gifford Global Discovery (which has a much more 'high-octane' growth approach), but seeing as the latter</p>				

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	is soft closed, I'd put forward this as a great way to get 'size factor' exposure within the portfolios.
Manager experience	★★★★★
Team and resources	★★★★
Investment approach	★★★★★
Liquidity, capacity, risk	★★★
Value for money	★★★★
Performance	★★★★★
What could go wrong?	There's always a risk with smaller companies that performance could go through a really tough patch, as they tend to fall furthest during downturns. The fund is fairly large for a smaller companies one, so there's a risk of it soft closing if it attracts too much more new money – something the team said they're constantly keeping an eye on, and something we should too. Despite the strength of the team, the loss of the 'founding father' in Harry soon could unsettle it, and will be the first time Kirsty has managed solo.

ASI Global Small Companies

The fund underperformed over the 12 months to 31 July 2021, gaining 42.5% versus 46.4% for the MSCI ACWI Small Cap index, although I'm sure too many people would be disappointed with an annual return of 42%! It's also within the 10% underperformance threshold so no requirement for a review.



The underperformance is mostly down to the fund's 'growth' style of investing falling behind the 'value' factor of the all-world small cap index, as shown below.

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The fund isn't an all-out-growth style one though, and as it also incorporates quality and momentum factors, it's regained more ground on its benchmark than 'small cap growth' has on 'small cap value'. Also more importantly, it's ahead of benchmark over 3 years.



Performance aside, this fund remains highly-regarded due to its time-tested approach and talented and close-knit team. It will be watched more closely though post-Harry Nimmo's retirement to ensure the handover goes smoothly.

CONCLUSION: RETAIN