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Successful investing in smaller companies



September 2016











Standard Life Investments' Small Cap Capability

- 7 person dedicated Smaller Companies Team
- Oversees £2.7 billion of UK, European and Global Smaller Companies Funds
- **Differentiated investment approach; applied since 1997**
- Bottom up, high conviction, diversified portfolios
- 2012, awarded Morningstar OBSR “Outstanding Investor” for exceptional returns over a ten year period on behalf of investors
- 2014, Quoted Company Awards: Fund Manager of the Decade
- 2015 best performing UK Fund over 10 years – CAGR 14.2%*

* TD Direct, 31 August 2015

Source: Standard Life Investments, 30 June 2016

The Smaller Companies Team / Funds

Smaller Companies Team	Core Funds	Fund sizes*
<p>Harry Nimmo</p> 	<p>Standard Life Investments UK Smaller Companies (OEIC) Launched 06 January 1997 14.7% annualised return since launch</p>	<p>£1,270m</p> <p>£280m</p>
<p>Abby Glennie</p> 	<p>Standard Life Investments UK Smaller Companies Trust Managed since 01 September 2003 Best performing Investment Trust, 10 years to 31 August 2013 +599% (Total Return)</p> <p>Other Smaller Companies Funds</p>	<p>£555m</p>
		
<p>Andrew Paisley</p> <p>Anjli Shah</p>	  <p>Pan European Small Companies (SICAV) 12.0% annualised return, (D share class in EUR), benchmark 5.1%</p> <p>Segregated Fund</p> <p>Standard Life European Smaller Cos OEIC</p>	<p>£340m</p> <p>£165m</p> <p>£45m</p>
		
<p>Harry Nimmo</p> <p>Alan Rowsell</p> <p>Kirsty Desson</p> <p>Laura Odikanekwu</p>	    <p>Standard Life Investments Global Smaller Companies (OEIC) Launched 19 January 2012 16.5% annualised return instl return since launch</p> <p>Small Cap Quant Analyst</p>	<p>£360m</p>

* Fund sizes to 14 September 2016

Sources: Morningstar, Financial Express, Standard Life Investments, returns to 31 August 2016

Smaller companies generate higher returns globally

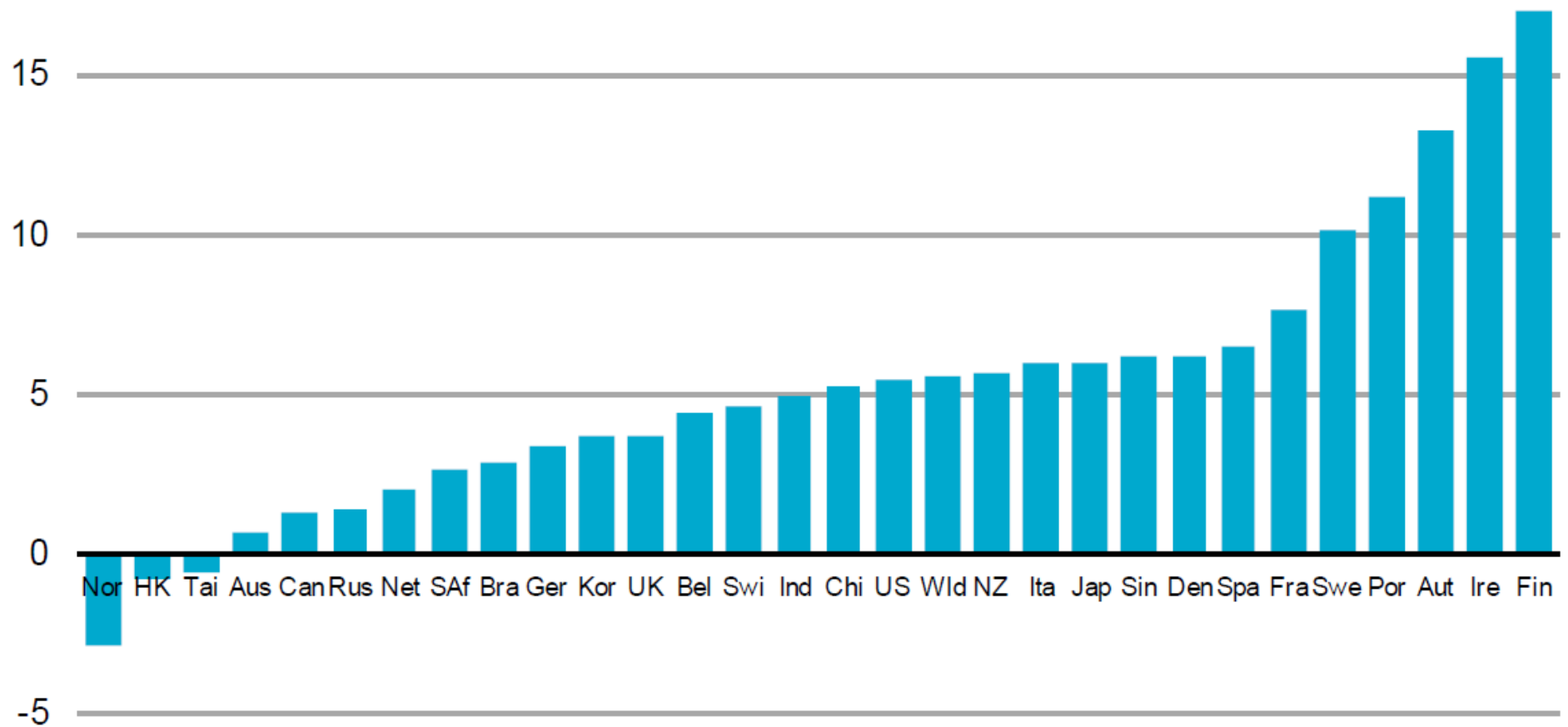


* This refers to the MSCI AC World Small Cap Index ** This refers to the MSCI AC World Index, 31 December 2015
Source: Factset, Thomson Reuters, 01 January 2000 to 01 August 2016

The small cap effect continues to work

Smaller companies outperform globally

Small-cap premium, 2000–2015 (% per annum)

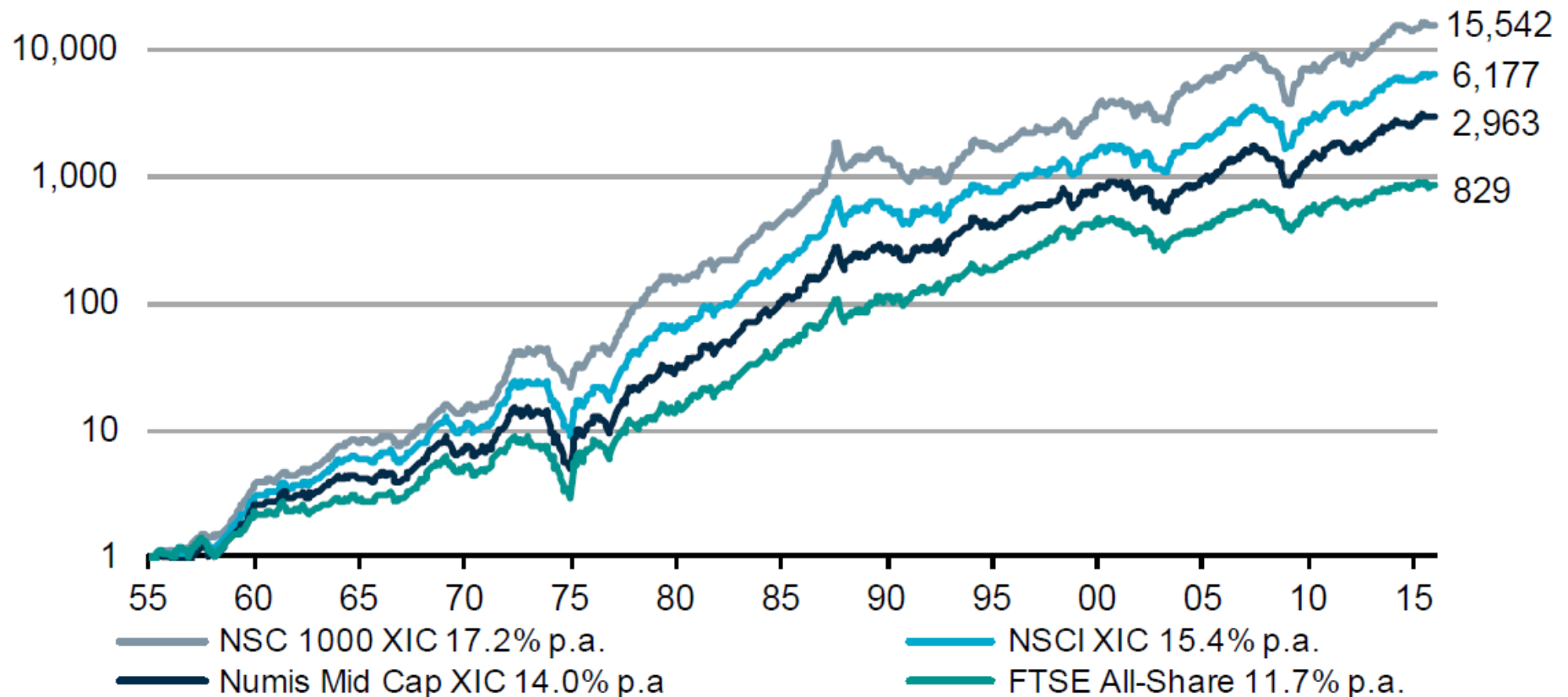


Source: The NSCI 2016 - Professors Elroy Dimson and Paul Marsh - Numis, London and Edinburgh, 14–15 January 2016

Global small cap premium of 5.5% p.a.

Smaller companies in the UK outperform in the long term

Cumulative return, 1955–2015



Source: The NSCI 2016 - Professors Elroy Dimson and Paul Marsh - Numis, London and Edinburgh, 14–15 January 2016

Similar long term studies in US and Japan

Standard Life UK Smaller Companies Trust

Sector	UK Smaller Companies
Total assets	£279m
Yield	1.8%
5 year dividend growth (CAGR)*	+19.1%
Discount	6.5% discount (sector average 14.4%)
Gearing	3% (sector average 8%)

* 5 year dividend growth CAGR does not include specials
Source: Winterflood Securities, Standard Life Investments, 22 September 2016

Investment policy

- To invest in a diversified portfolio consisting mainly of UK quoted Smaller Companies
- Portfolio will normally comprise around 55 equity holdings
- To help manage risk, guidelines include
 - Individual holdings should not normally exceed 5% of total assets
 - Sub £50m market cap <5% of assets
 - Blue Sky companies <5% of assets
- Directors have delegated responsibility for the operation of gearing level to the managers
 - Maximum level of borrowings, 25% of net assets
 - Maximum cash position, 5% of net assets

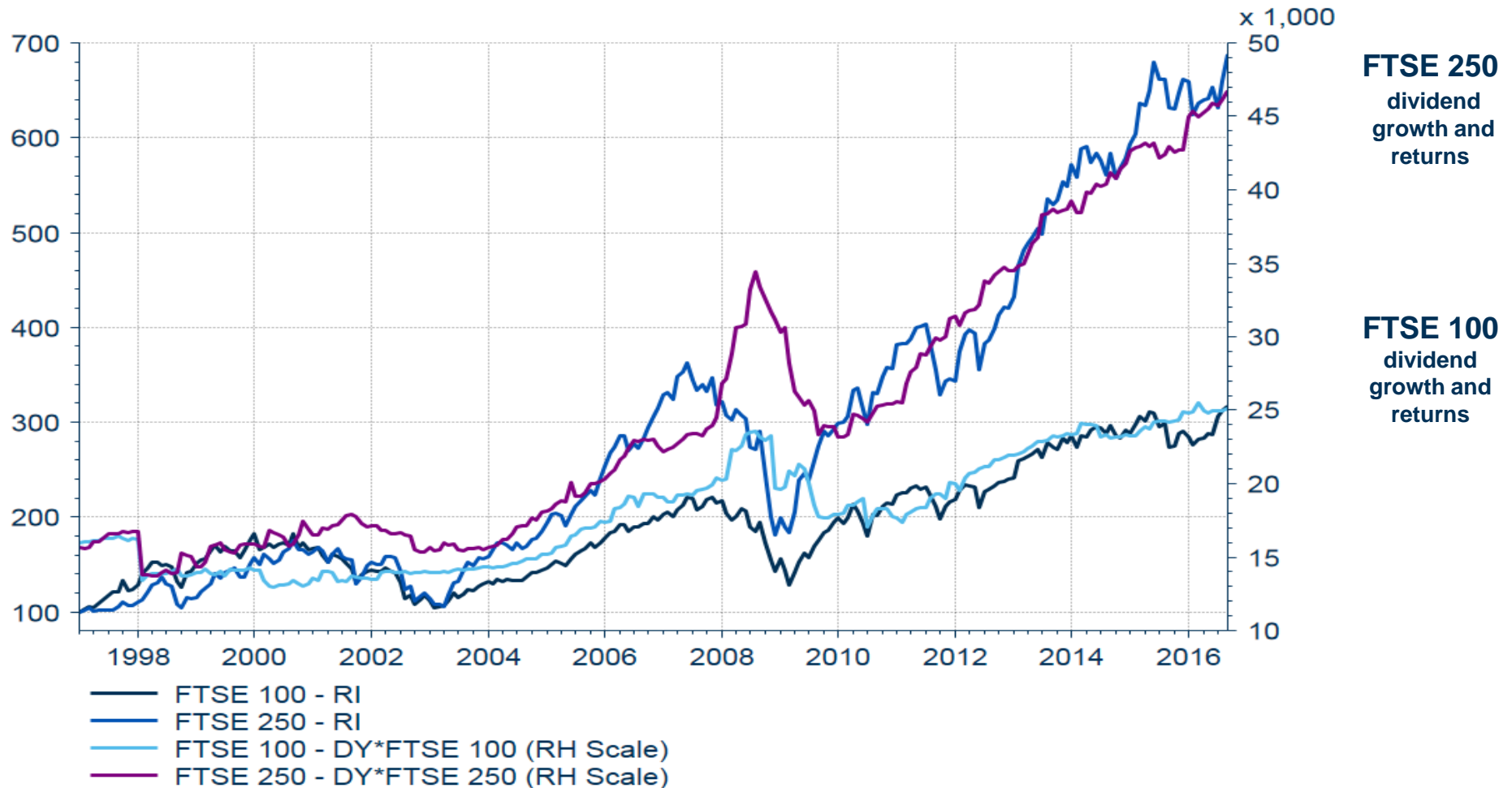
Making money in smaller companies

The rules

1. **Look for sustainable growth**
2. Concentrate your efforts – “The Matrix”
3. Go for quality - lower risk
4. Run your winners – momentum
5. Management longevity
6. Valuation aware

Unchanged investment process proven to outperform through multiple cycles

Returns follow dividend growth

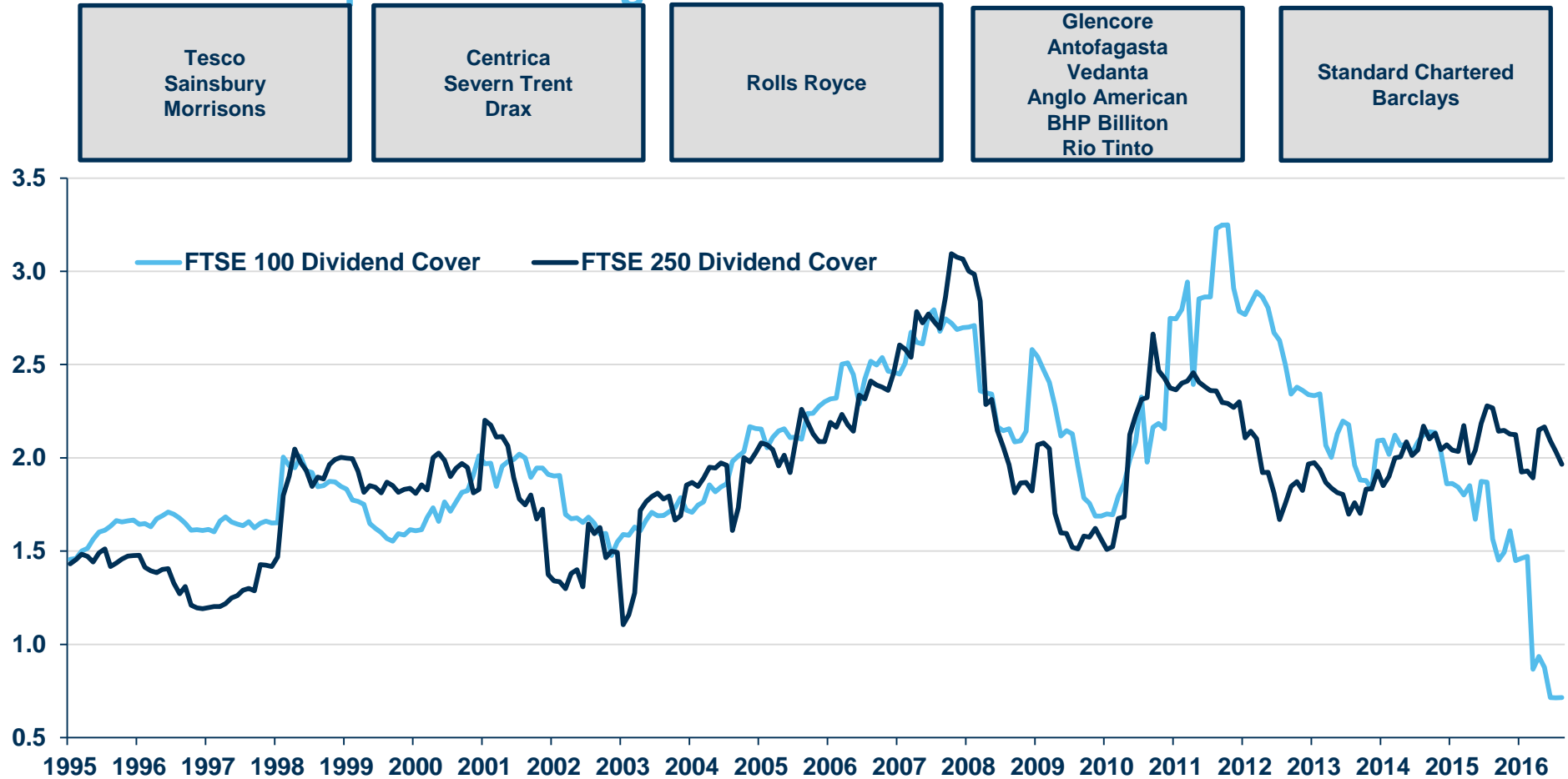


Source: Thomson Reuters, Standard Life Investments, 01 January 1997 to 01 September 2016

Superior dividend growth and performance from Small Mid Caps

Dividend growth falters in the FTSE 100

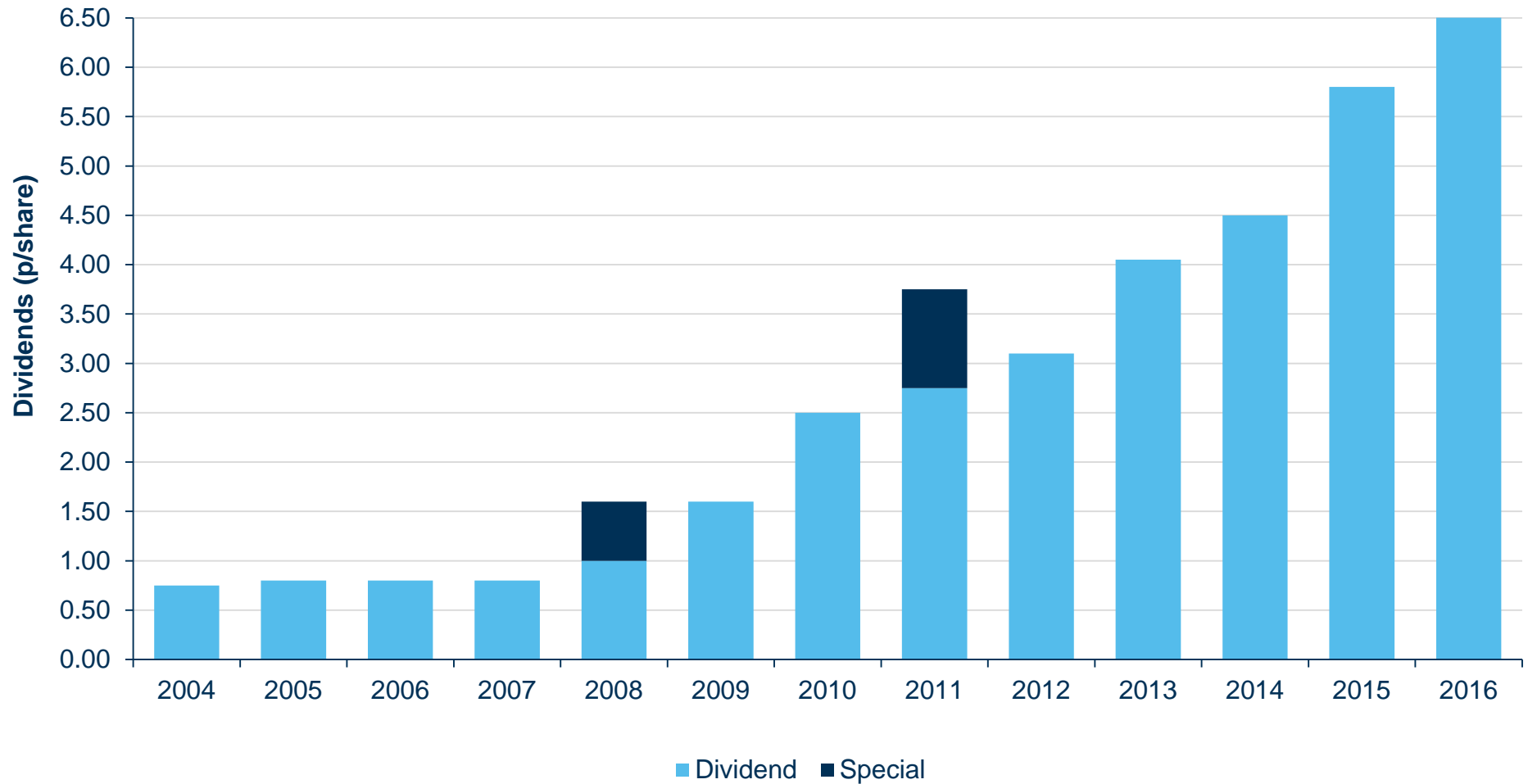
FTSE 100 companies cutting dividends – 2014 to 2016



Source: Thomson Reuters, 30 June 2016

FTSE 100 dividend cover falling as fundamentals weaken

Dividend record and real growth of income



Our top ten holdings – Trust

% of Trust	Top Holdings	Industry	Dividend Yield	Dividend Increase (prev. year)	Prospective PE (Dec 16)
3.5	NMC Health	Hospitals UAE	0.5%	+15%	25
3.2	Ted Baker	Branded clothing	1.8%	+19%	24
3.2	Fever Tree	Drinks producer	0.4%	+25%	55
3.0	Accesso	Visitor attraction software	0.0%	n/a	41
3.0	Dechra	Pet pharmaceuticals	1.4%	+10%	26
2.9	Telecom Plus	Multi-utilities	4.1%	+15%	19
2.9	Abcam	Online antibodies	1.1%	+5%	35
2.9	Cranswick	Food producer	1.6%	+10%	19
2.8	CVS Group	Vet chain	0.3%	+20%	30
2.8	JD Sports	Sports clothing retailer	0.5%	+5%	18

- 6 out of the top 10 are trading ahead of expectations

Source: Standard Life Investments, Bloomberg, 20 September 2016

Strong and *sustainable* dividend growth

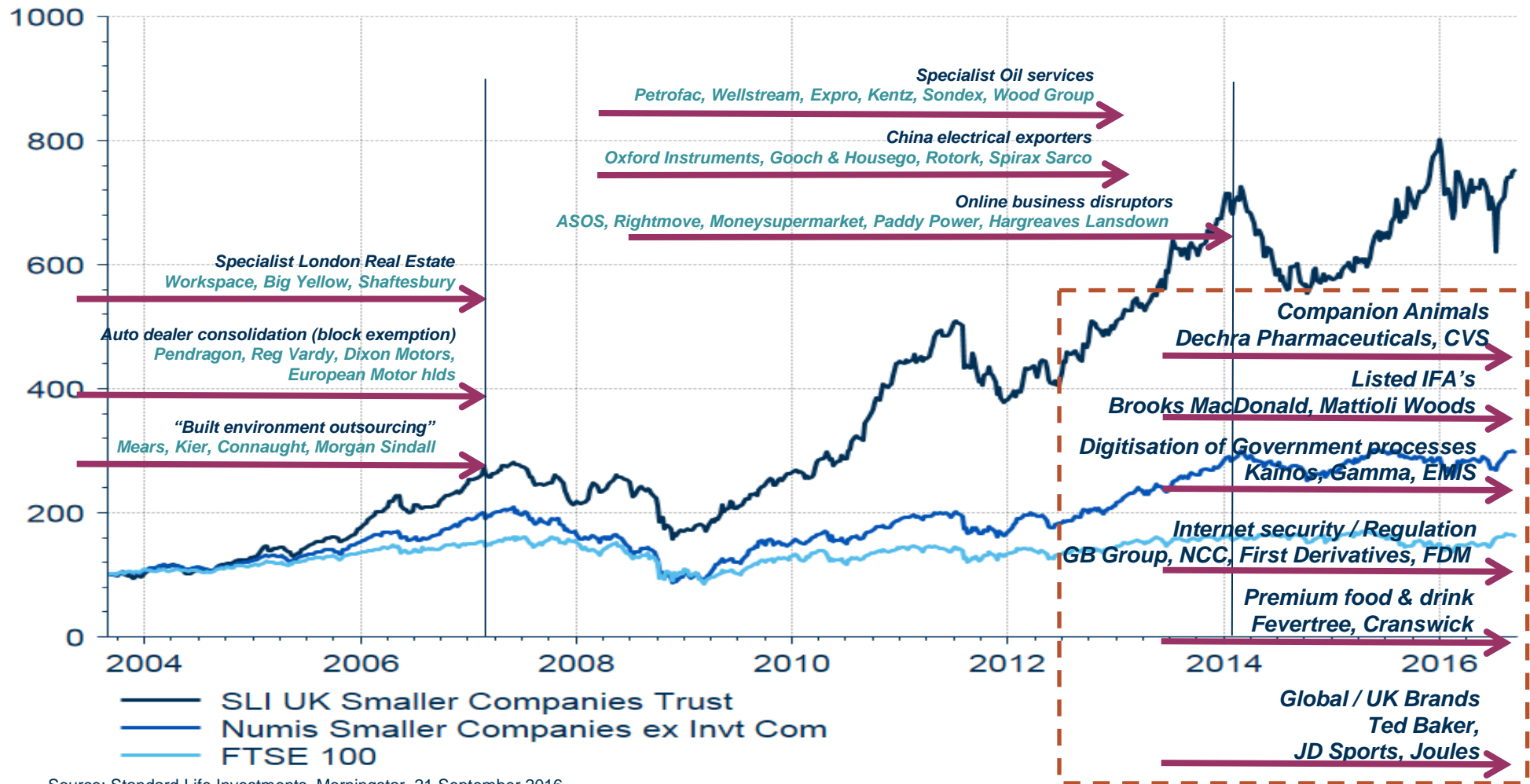
The New Wave

% of Trust	Top Holdings	Industry	Dividend Yield	Dividend Increase (prev. year)
3.2	Accesso	Visitor attraction software	0.0%	n/a
2.9	CVS Group	Vet chain	0.3%	+20%
2.9	GB Group	ID verification software	0.5%	+12%
2.8	First Derivatives	Regulation software	0.9%	+26%
2.8	Gamma Communications	Corporate telecoms	1.3%	+75%
2.5	Mattioli Woods	Wealth Manager	1.7%	+19%
2.4	4imprint	Sales promotion distributor	1.9%	+41%
2.3	Sanne	Funds administrator	1.4%	+128%
1.9	Next 15 Communications	IT PR	0.9%	+20%
1.4	Joules Group	Retail – clothing	1.0%	n/a

Source: Standard Life Investments, Bloomberg, 20 September 2016

Lots of new exciting Smaller Companies coming through

Themes since 2003 and the New Wave



Source: Standard Life Investments, Morningstar, 21 September 2016

Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®). The fund specific data presented above is supplementary information to the Mutual Funds UK Smaller Companies GIPS® composite report, which is enclosed in the Appendix for your reference

Regulation, consolidation, China, disruptive technology, access to capital, growth, globalisation

Our track record within the trust sector

	Share price performance – top 10 Trusts	Total Return	Annualised Return
1.	Lindsell Train	1043.9%	20.5%
2.	The Biotech Growth TST	819.7%	18.5%
3.	Standard Life UK Smaller Companies	803.2%	18.4%
4.	JP Morgan European Smaller Companies	734.1%	17.6%
5.	Acorn Income Fund	720.1%	17.5%
6.	HG Capital Trust	701.0%	17.3%
7.	JP Morgan Indian IT	662.4%	16.8%
8.	Jupiter European Opportunities	661.9%	16.8%
9.	Electra Private Equity	651.8%	16.7%
10.	Aberdeen Asian Smaller Companies	639.2%	16.5%
NAV performance		Total Return	Annualised Return
Standard Life UK Smaller Companies (OEIC)		585.5%	15.9%
Standard Life UK Smaller Companies Fund (OEIC) Instl		560.2%	15.5%

- NAV impact of paying off expensive debt
- Portfolio restructuring
- Sub £200m market cap sector
- Gearing
- Discount NAV
- Investment banking fees

Top 10 best performing UK listed Investment Trusts

Source: Thomson Reuters, Financial Express, from 31 August 2003 to 20 September 2016

Why Smaller Companies at SLI?

- Long-term track record
- Predictable and consistent process
- Award Winning
- Experienced team
- Lower risk
- Diversification
- Resilience in challenging markets

“We will continue to focus on quality, consistency, visibility, growth and momentum”

Appendix

Mutual Funds UK Smaller Companies

Composite Name	Mutual Funds UK Smaller Companies
Inception Date	01-04-1997
Firm	Standard Life Investments
Currency	GBP
Report End Date	31-12-2015
Composite Group	Mutual Funds
Benchmark	IA UK Smaller Companies

	Anlzd Return (Composite)	Anlzd Return (Benchmark)	3 Year Anlzd StdDev (Composite)	3 Year Anlzd StdDev (Benchmark)	Dispersion	Market Value	Total Firm Assets	% of Firm Assets	Number of Portfolios
Dec 2006	42.05	23.45	11.56	10.83	--	258,781,644	127,754,500,000	0.20	1
Dec 2007	-1.65	-6.14	14.05	12.27	--	379,301,976	137,224,600,000	0.28	1
Dec 2008	-31.91	-40.58	19.96	19.02	--	259,016,354	117,976,300,000	0.22	1
Dec 2009	44.89	49.07	19.84	21.68	--	441,096,919	127,011,600,000	0.35	1
Dec 2010	48.57	30.51	19.71	22.33	--	954,198,379	131,730,800,000	0.72	1
Dec 2011	-6.35	-9.17	13.65	16.21	--	964,504,240	123,331,600,000	0.78	1
Dec 2012	26.61	22.65	12.59	13.62	--	1,040,335,959	133,922,900,000	0.78	1
Dec 2013	38.81	37.17	11.13	11.65	--	1,394,057,489	149,971,000,000	0.93	1
Dec 2014	-6.50	-1.68	10.09	9.54	--	1,134,384,963	221,550,800,000	0.51	1
Dec 2015	29.12	14.75	9.71	7.70	--	1,308,771,962	228,654,030,000	0.57	1

Firm Disclosures

A complete list and description of all of the firm's composites are available from Standard Life Investments. There are no minimum asset levels set below which portfolios are not included in a composite. All performance calculations and returns have been calculated gross of management fees. All returns are presented on an all-inclusive basis and as such all capital gains interest income and withholding taxes have been taken into account in market valuations and returns. All indices are on a gross of tax basis apart from FTSE UK indices which are net of Withholding Tax. There are no Non-Fee-Paying portfolios included in any composite. The Daily True Time Weighted Rate of Return methodology has been used from 2001 apart from unithised Cash Property GARS and MyFolio products where NAV performance is used. Prior to this NAV performance was used for all products. Additional information regarding policies for calculating and reporting returns is available upon request. Dispersion is calculated using high/low difference. Where there are less than 36 months of returns, the Composite and Benchmark Standard Deviations have not been calculated. Standard Life Investments 'The Firm' consists of all fee-paying funds managed by Standard Life Investments and its Subsidiaries which include Standard Life Investments (Mutual Funds) Limited SLTM Limited Standard Life Investments (Corporate Funds) Limited Standard Life Investments (USA) Limited and Standard Life Investments (Asia) Limited. Past performance results from Standard Life Investments Limited UK Firm and Standard Life Investments Limited Irish Firm have been linked to form the performance record of the new firm Standard Life Investments. The new firm was created on 01/01/2008. Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Standard Life Investments has been independently verified by PricewaterhouseCoopers LLP for the periods 1996 to 2015. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation

Composite Disclosures

Derivatives may be used for efficient portfolio management purposes

Following analysis of UK dividends a decision was made to exclude withholding tax. Therefore performance was recalculated historically which resulted in a change to the underlying returns from 2001 onwards.

The composite includes funds that invest in UK Smaller Companies equities and is benchmarked against IA UK Smaller Companies.

The standard annual fee applicable to this composite is 0.8%, but individual fees are negotiated on an account basis

The information shown relates to the past. Past performance is not a guide to the future. The value of investment can go down as well as up.

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