

November 2018

InFocus



Standard Life Investments UK Opportunities Fund

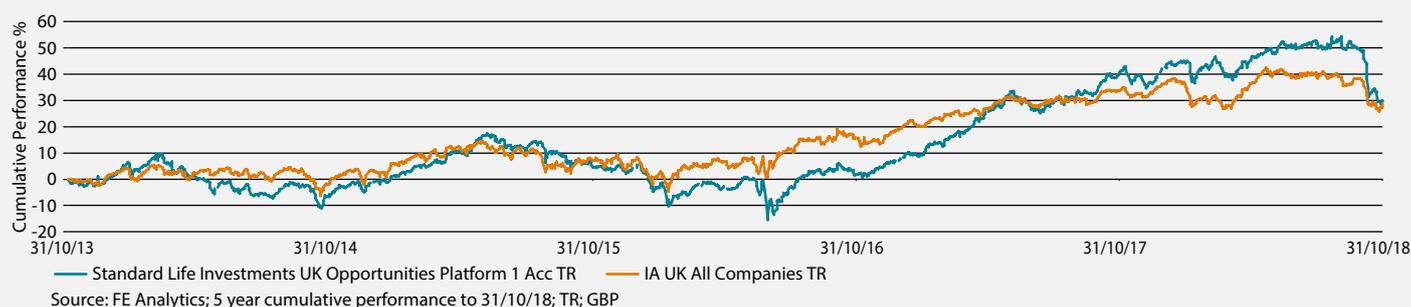
Key features

Primarily invests in small-cap and mid-cap companies that exhibit quality, growth and momentum characteristics

Benefits from the flexibility to 'run winners' and continue to hold smaller companies once they become large-cap stocks

High-conviction portfolio, with a low turnover rate

Performance



| | 31/10/2017 to 31/10/2018 | 31/10/2016 to 31/10/2017 | 31/10/2015 to 31/10/2016 | 31/10/2014 to 31/10/2015 | 31/10/2013 to 31/10/2014 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Standard Life Investments UK Opportunities Platform 1 Acc in GBP | -7.76 | 37.99 | -2.62 | 11.01 | -5.76 |
| Sector IA UK All Companies TR in GBP | -3.65 | 15.64 | 7.85 | 6.86 | 0.37 |

Source: FE Analytics; discrete annual performance to 31/10/18; TR; Net of Charges

The ability to invest across the entire UK equity market

While the UK Opportunities Fund is focused on identifying small and mid-cap stocks with quality, growth and momentum characteristics, it also has the flexibility to maintain positions in larger companies. As such, with the ability to invest across the full spectrum of the UK market, the Fund benefits from the luxury of being able to continue to hold (previously) smaller companies once they graduate to the large-cap index.

As a high conviction Fund that lets its winners run, it typically exhibits a low turnover rate. Following Abby Glennie's appointment as portfolio manager in January 2016, a restructure and realignment of the Fund was completed, applying the successful 'smaller companies' investment process and fully incorporating the use of our proprietary screening tool, the Matrix.

The portfolio's bottom-up investment process has a strong focus on underlying company qualities. This leads to holding companies that have a proven business model; a strong

balance sheet; sustainable earnings and dividend growth; and a durable competitive edge. What emerges is a Fund with an emphasis on quality companies that exhibit leadership in their respective markets.

So, which stocks meet our exacting standards?

With quality, growth and momentum as the portfolio's defining characteristics, stock selection is a rigorous and meticulous process. Some of the companies that have measured up well against our requirements are listed below:

Hilton Food Group is a specialist meat packing company that has become well known to us over recent years. Working closely with food retailers across a number of geographies, the company has developed long term, 'sticky' relationships with their customers, resulting in a range of price pass-through contracts that help to provide good earnings visibility. The combination of a strong Matrix score with a bullish, well-regarded management team that sees scope for continued expansion underlines our confidence in the company going forward.

The Fund owns games developer **Team 17**, a company that recently had its IPO and reflects our favoured characteristics of quality, growth and momentum. The stock has a low-risk, diversified approach, working with independent games developers to commercialise their content. **Team 17** sometimes works with third-party intellectual property (IP), taking a revenue share, or they develop their own IP in-house or IP that has been bought. The ability to launch products across different platforms simultaneously enables **Team 17** to assess quickly a particular game's chances of success. A diversified approach to games development avoids dependence on the popularity of a single product. Meanwhile, balance sheet strength gives the company flexibility to acquire attractive IP. We believe there is an earnings upgrade to come, which bodes well for the share price going forward.

The private healthcare company **NMC Healthcare** is another of the Fund's key holdings. Focused on the United Arab Emirates, it runs hospitals, medical centres and pharmacies. The company has a dominant position in an expanding market, with regulatory support and a strong track record of execution. Indeed, management have demonstrated an ability to find under-served geographies (Saudi, Oman, Egypt) and ways to expand into them, which deliver material growth while minimising risk. We expect more to come with the potential not yet captured in longer term analyst forecasts.

Recent sales

Of course, sell discipline also plays an important part in our investment process. As well as identifying new candidate investment ideas, the Matrix also acts as a monitoring tool for the investment universe and our portfolios, providing another input into our fundamental research process. **Sophos** is a recent example of a change in view that resulted in the decision to sell out of the holding. The company is a successful security software firm that saw its earnings expectations upgraded by analysts over the course of 2017. While this led to share price outperformance as the market's understanding of the company grew, management's forward guidance became too optimistic. Missed guidance numbers indicated a shallower trajectory going forward, which materially altered our conviction in the stock. Additionally, Sophos' Matrix score weakened, resulting in the decision to remove the company from the portfolio in early 2018.

Outlook and positioning

Currently, the Fund has a balance of exposures across sectors, promoting portfolio diversification as market volatility has increased. In response to the uncertainty surrounding Brexit, the Fund increased exposure to companies with overseas earnings. The focus remains on companies with a high level of both earnings growth and earnings visibility, or resilience, which are less sensitive to changing macroeconomics. In line with the investment process, we continue to seek out high quality stocks where we believe the underlying dynamics warrant a premium valuation, particularly in companies where we believe that the earnings forecasts are sufficiently conservative.



Abby Glennie
Fund Manager

“Staying true to our investment process, the portfolio remains focussed on high quality companies with strong matrix scores and good earnings visibility.”

Important Information

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website www.aberdeenstandard.com

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