

November 2018

# InFocus

## Standard Life Investments UK Equity Recovery Fund

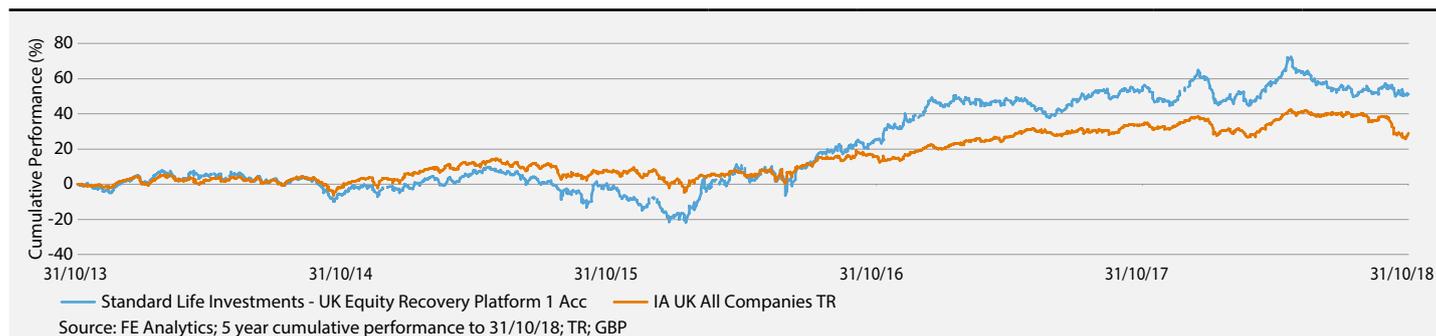
### Key features

Contrarian highly active portfolio of undervalued 'recovery' stocks

Disciplined investment process that targets outperformance and creates diversification benefits

Well-resourced team with full market coverage and excellent corporate access

### 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 Equity Recovery Ret Platform 1 Acc in GBP	-2.38	23.30	29.32	2.65	-5.50
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; GBP Net of Charges

### Performance

The Fund has a strong long-term performance track record, delivering an average annualised return of 8.59% over the past five years versus the peer group average of 5.51%. This has been achieved through consistent application of our rigorous, bottom-up investment process, seeking out undervalued companies that are poised for positive change.

### Stockpicker's banquet

The UK equity market has taken a pounding in recent months, leaving it looking cheap as a whole. However, underneath that, there is a marked polarisation – while some stocks are very richly-valued and widely owned, others are dirt-cheap and universally shunned.

This disparity creates excellent opportunities for fundamental stockpickers undaunted by headlines and market volatility. Inevitably, among the unloved stocks are interesting, undervalued opportunities with substantial long-term return potential.

In a period of political uncertainty and investor nervousness both at home and abroad, our proven *Focus on Change* investment approach is ideally suited to capturing and exploiting non-consensus company insights. With our 16-strong UK equity team, we cover every stock in the FTSE 350 on an ongoing basis. This means we can act swiftly and nimbly to identify and capture opportunities of interest as soon as they occur. Our process is particularly suited to volatile markets as this tends to be when investors behave irrationally and pricing inefficiencies arise.

One crucial consideration for the UK Recovery Fund is that the stocks shortlisted for inclusion in the portfolio must not just be attractively valued but also financially strong, and with evidence of sound capital management. With these foundations in place, the portfolio focus remains on valid recovery opportunities whilst steering away from so-called 'value traps'.

## Back on its feet

One example of our process at work is retirement housing company McCarthy & Stone (MCS). A series of profit warnings had sent its shares sharply lower. At the fore were worries about slowing housing demand and, in particular, the possible abolition of ground rent under the government's forthcoming consultation on leaseholds. While the concerns were valid (the sale of ground rents accounts for over one-third of MCS's profits) our analysis indicated the sell-off had been greatly overdone, more than capturing the bad news. Moreover, we identified several positive catalysts – both near-term and longer-term.

- The new CEO and self-help plans indicated scope for improvement.
- The government's leasehold consultation points to an exemption for retirement properties. If enacted, this would drive material upgrades (circa 20%) to earnings estimates. Additionally, resolution of the issue should remove uncertainty and revive housing demand.
- There is potential for government support (for instance, to encourage older people to downsize).
- Population ageing should benefit MCS over the longer term.

Since June, the market has started taking a more optimistic view of MCS' prospects. As a result, the shares have performed exceptionally well, making a substantial contribution to Fund performance.

## Keeping faith

Of course, not all our ideas bear fruit immediately. Standard Chartered (STAN) is an example of one idea that is taking time to play out. We bought shares in STAN in July 2018. The shares were cheap, reflecting the market's scepticism that management could achieve its 8% return target, given the environment of fierce competition and economic uncertainty. Yet, there were clear signs of progress. The company's core businesses were strong, sales were rising and loan quality was improving. Also, the bar was not high – STAN just needed to get returns in line with regional peers to comfortably beat market expectations.

Importantly, STAN has an unrivalled network in emerging markets, with the opportunity to better utilise its retail banking and wealth management operations to take advantage of growing affluence in core emerging market geographies. Moreover, with its high-quality management team, we were confident STAN could deliver on its targets. After our purchase, the shares drifted lower on concern over the impact of US/China trade tariffs, exposure to Turkey's economic crisis and news of corruption investigations by both the US and UK authorities. More recently, the shares have rebounded, following better-than-expected results and a cautiously optimistic outlook statement from management. Despite the uncertain macroeconomic environment, we remain confident that STAN can exceed the market's low expectations, and we continue to hold the position.



**Andrew Hunt**  
Fund Manager

**“Market volatility creates excellent opportunities for fundamental stockpickers undaunted by headlines”**

## 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](http://www.aberdeenstandard.com)

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