

## Standard Life UK Smaller Companies

Following a well-established investment process

Standard Life UK Smaller Companies (SLS) is managed by experienced UK smaller-cap specialist Harry Nimmo. He is somewhat cautious on the near-term outlook for UK equities, citing ongoing Brexit uncertainty, lower US earnings growth and the US/China trade dispute. The manager continues to follow his tried-and-tested investment process, seeking high-quality firms that can grow their businesses regardless of the stage of the economic cycle. He notes that SLS's portfolio companies are generally trading well, showing good earnings momentum and beating expectations, which he expects will lead to higher dividend payments. The trust currently offers a yield of 1.6%.

12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	Numis Smaller Cos plus AIM ex-ICs (%)	FTSE AIM (%)	FTSE All-Share (%)
28/02/15	(15.7)	(7.5)	(1.8)	(6.2)	(19.0)	5.6
29/02/16	25.5	15.0	(1.8)	(1.6)	(1.7)	(7.3)
28/02/17	14.2	19.8	21.2	23.6	33.1	22.8
28/02/18	26.5	24.2	10.3	11.1	16.0	4.4
28/02/19	(10.9)	(6.5)	(5.7)	(5.7)	(11.3)	1.7

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*Numis Smaller Cos ex-ICs to 31 December 2017 and Numis Smaller Cos plus AIM ex-ICs thereafter.

### The market opportunity

Given macro uncertainties both at home and abroad, investor sentiment towards UK equities remains depressed. In aggregate, UK shares are currently trading on a forward P/E multiple of 12.7x, which is a 13.3% discount to the world market (versus a 4.7% five-year average discount). This valuation backdrop may provide an attractive opportunity for investors willing to look beyond the current macro environment.

### Why consider investing in SLS?

- Average NAV and share price total returns of almost 20% pa over the last decade.
- Medium- and long-term outperformance versus the blended benchmark.
- Highly experienced lead manager with c 35 years' investment experience.
- Clearly defined investment process, using a proprietary screening tool known as the Matrix.
- Consistent record of dividend growth.
- Active discount control mechanism; with a target 8.0% maximum.

### Discount wider than historical averages

SLS is currently trading at an 8.9% discount to cum-income NAV, which is wider than the 5.1% to 6.4% range of average discounts over the last one, three, five and 10 years. The board aims to limit the discount to 8.0% in normal market conditions, primarily via share repurchases, although there are also periodic discretionary tender offers. While SLS aims to generate long-term capital growth, its annual dividends have compounded by 11.6% pa over the last five years and its current yield is 1.6%. Net gearing is permitted up to 25% of NAV (0.8% net cash at end-January 2019, reflecting the manager's relatively cautious near-term outlook).

### Investment trusts

26 March 2019

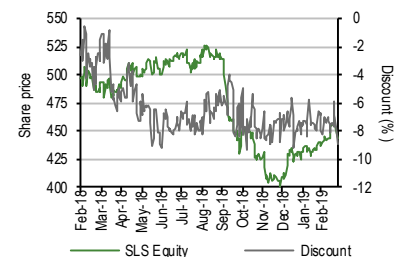
**Price** 444.0p  
**Market cap** £447m  
**AUM** £521m

NAV\* 485.6p  
Discount to NAV 8.6%  
NAV\*\* 487.4p  
Discount to NAV 8.9%

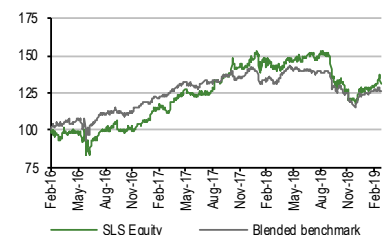
\*Excluding income. \*\*Including income. As at 22 March 2019.

Yield 1.6%  
Ordinary shares in issue 100.6m  
Code SLS  
Primary exchange LSE  
AIC sector UK Smaller Companies  
Benchmark Numis Smaller Cos plus AIM ex-ICs

### Share price/discount performance



### Three-year performance vs index



52-week high/low 526.0p 400.0p  
NAV\* high/low 562.7p 432.3p

\*Including income.

### Gearing

Gross\* 5.3%  
Net cash\* 0.8%

\*As at 31 January 2019.

### Analysts

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**Standard Life UK Smaller Companies Trust is a research client of Edison Investment Research**

## Exhibit 1: Trust at a glance

### Investment objective and fund background

Standard Life UK Smaller Companies Trust (SLS) aims to achieve long-term capital growth through investment in a diversified portfolio mainly consisting of UK-quoted smaller companies. SLS started life as Edinburgh Smaller Companies in 1993 and Standard Life Investments (now Aberdeen Standard Investments) assumed management from 2003. The trust merged with Dunedin Smaller Companies Investment Trust in October 2018.

### Recent developments

- 26 February 2019: Six-month results to 31 December 2018. NAV TR -19.5% versus benchmark -15.5% TR. Share price TR -17.5%.
- 25 October 2018: Retirement of non-executive director Carol Ferguson at AGM.
- 8 October 2018: Completion of merger with Dunedin Smaller Companies Investment Trust.
- 8 October 2018: Appointment of Alexa Henderson as non-executive director.

### Forthcoming

AGM	October 2019
Final results	August 2019
Year end	30 June
Dividend paid	Apr and Oct/Nov
Launch date	August 1993
Continuation vote	N/A

### Capital structure

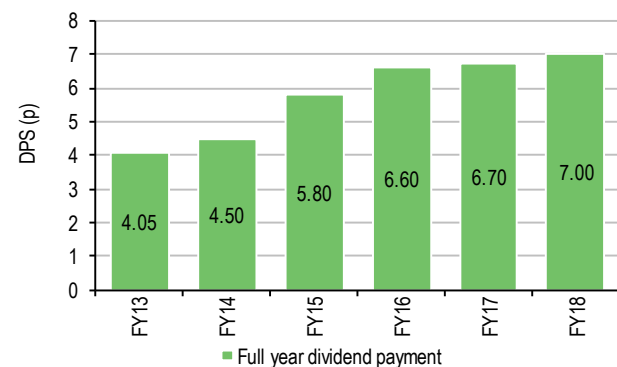
Ongoing charges	0.93% (H119)
Net cash	0.8%
Annual mgmt fee	Tiered (see page 8)
Performance fee	None
Trust life	Indefinite
Loan facilities	£45m

### Fund details

Group	Aberdeen Standard Investments
Manager	Harry Nimmo
Address	1 George Street, Edinburgh, EH2 2LL
Phone	0808 500 0040
Website	<a href="http://www.standardlifeuksmallercompaniestrust.co.uk">www.standardlifeuksmallercompaniestrust.co.uk</a>

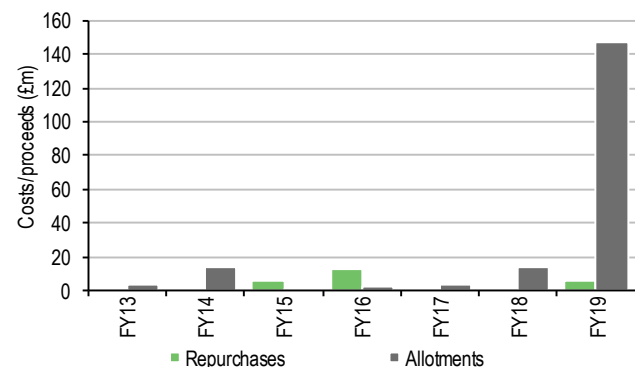
### Dividend policy and history (financial years)

While focused on SLS's long-term capital growth objective, the manager pays close attention to the potential for dividend growth. SLS's ordinary dividends have compounded at an average rate of 21.5% pa over 10 years and 11.6% pa over the last five years.

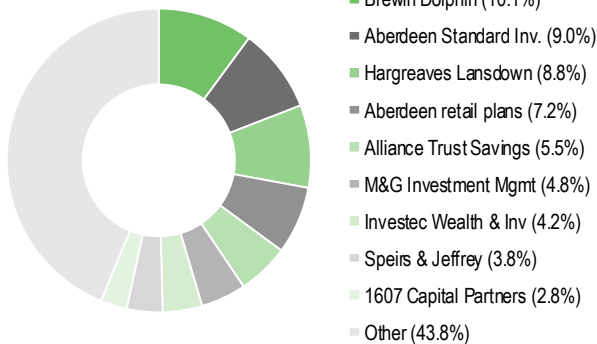


### Share buyback policy and history (financial years)

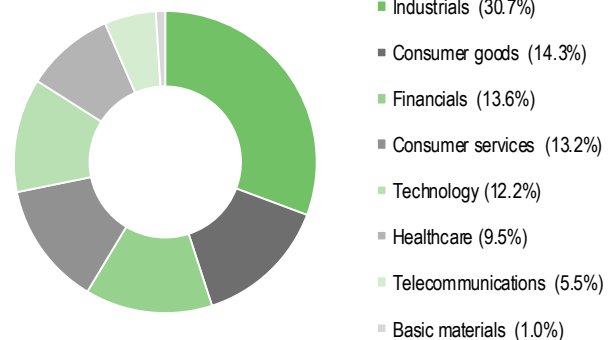
The board is focused on managing the discount such that the share price discount to cum-income NAV remains below 8%. FY19 allotments include 27.9m shares issued as a result of the merger with Dunedin Smaller Companies Investment Trust.



### Shareholder base (as at 31 December 2018)



### Portfolio exposure by sector (as at 31 January 2019)



### Top 10 holdings (as at 31 January 2019)

Company	Sector	Portfolio weight %	
		31 January 2019	31 January 2018*
Dechra Pharmaceuticals	Healthcare	3.8	3.7
Abcam	Healthcare	3.6	3.0
Hilton Food	Consumer goods	3.4	2.9
Cranswick	Consumer goods	3.4	N/A
Fevertree Drinks	Consumer goods	3.3	3.8
RWS Group	Industrials	3.3	N/A
Gamma Communications	Telecommunications	3.2	N/A
Workspace	Financials	3.1	N/A
Marshalls	Industrials	3.1	N/A
Diploma	Industrials	2.8	N/A
<b>Top 10 (% of holdings)</b>		<b>33.0</b>	<b>33.3</b>

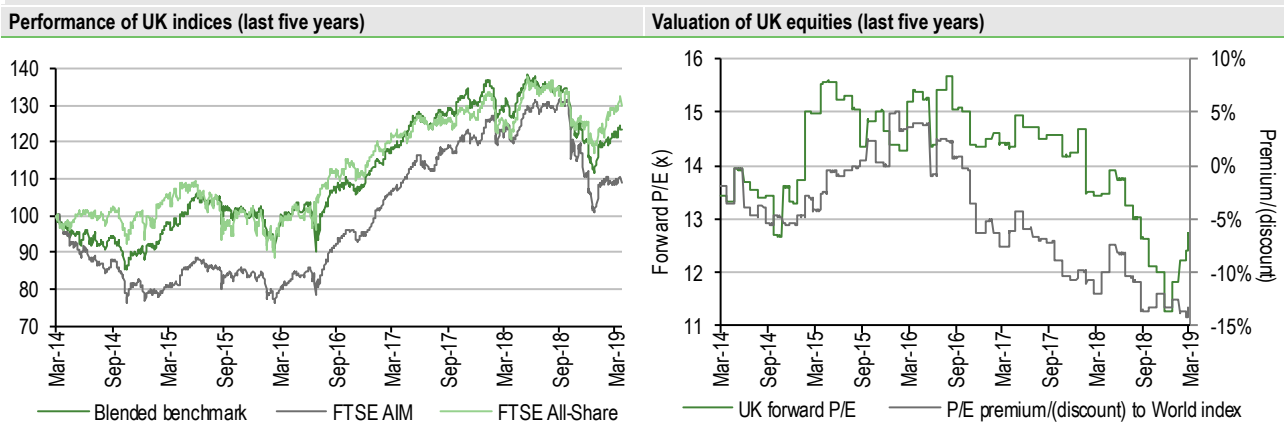
Source: Standard Life UK Smaller Companies, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in end-January 2018 top 10.

## Market outlook: Valuations may present an opportunity

While the UK economy is slowing and Brexit is looming, the valuation of UK equities may present an interesting opportunity for investors with a longer-term perspective. As shown in Exhibit 2 (right-hand chart), based on Datastream UK index data, in aggregate, UK companies are trading on a forward P/E of 12.7x. This multiple is close to its five-year low, and also at a 13.3% discount to global equities, which is meaningfully wider than the 4.7% five-year average discount.

Looking at the UK stock market in more detail shows that while smaller-cap shares have lagged the broader market over the last five years (Exhibit 2, LHS), over the long term, mid- and small-cap equities have delivered superior total returns to investors. In the decade to end-December 2018, data from Bloomberg show the mid-cap FTSE 250 and small-cap FTSE AIM indices generated total returns of +261.4% and +144.9%, respectively, which are ahead of the 10-year total returns of the FTSE All-Share Index (138.6%) and the large-cap FTSE 100 Index (+121.6%).

**Exhibit 2: Market performance and valuation**



Source: Refinitiv, Edison Investment Research. Note: SLS's blended benchmark is the Numis Smaller Companies ex-Investment Companies index to 31 December 2017 and the Numis Smaller Companies plus AIM ex-Investment Companies index thereafter. Data as at 22 March 2019.

## Fund profile: Unconstrained UK small-cap portfolio

SLS was launched in August 1993, and since 1 September 2003 has been managed by Aberdeen Standard Investments (formed by the merger in August 2017 of Standard Life and Aberdeen Asset Management). The trust merged with Dunedin Smaller Companies Investment Trust on 8 October 2018, increasing net assets by c £150m, with Dunedin's shareholders owning 27.6% of the enlarged company. This was the second deal in the last decade, following SLS's merger with Gartmore Smaller Companies Trust in February 2009.

The trust's lead manager is Harry Nimmo, who is head of the smaller companies team at Aberdeen Standard Investments. He follows an unconstrained investment approach, aiming to generate long-term capital growth from a diversified portfolio of c 50 holdings of UK-quoted smaller companies. Performance is measured against the Numis Smaller Companies plus AIM ex-Investment Companies index (the Numis Smaller Companies ex-Investment Companies index prior to 1 January 2018). Gearing between 5% net cash as a percentage of NAV and 25% net gearing (at the time of drawdown) is permitted; at end-January 2018, SLS had a net cash position of 0.8%. No single position, at the time of purchase, should exceed 5% of total assets, nor should the aggregate exposure of companies with a market cap below £50m, or companies involved with 'blue sky' (more speculative) products or services. Up to 50% of the portfolio may be invested in companies that are constituents of the FTSE AIM All-Share Index.

## The fund manager: Harry Nimmo

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### The manager's view: A defensive position is warranted

Nimmo has been somewhat surprised by the strength of the UK equity market so far in 2019, given macro uncertainties, and notes that mid-cap stocks have outperformed the broader market. Commenting on the investment backdrop, he highlights a deterioration in UK economic growth, ongoing Brexit uncertainty, and the fact that the US/China trade dispute is still not resolved; hence he has adopted a more cautious stance in SLS's portfolio. This is evidenced by the fund's lack of gearing; at end-January 2019, the trust's 5.3% gross gearing was more than offset by a 6.1% cash position. However, while equities have rallied in the early stages of 2019, Nimmo suggests that the UK market may actually be in bear territory, having peaked in May 2018 and, along with global stock markets, suffered two sharp sell-offs in Q418.

While the manager notes that UK small- and mid-cap companies are seeing more earnings downgrades in 2019 compared with 2018, such as in the retail sector, he says that a number of SLS's portfolio companies have delivered reasonable trading statements including Fevertree Drinks and First Derivatives, both of which were caught up in the Q418 stock market weakness. If the UK market comes under pressure, Nimmo believes that companies that are able to generate consistent earnings growth should do relatively well and he believes that SLS's portfolio companies will be able to weather a Brexit storm.

The manager highlights some of the measures being undertaken by portfolio companies in anticipation of the UK leaving the European Union, including the fund's largest holding Dechra Pharmaceuticals (veterinary products), which is building a testing lab in Europe. He says that food producers Cranswick and Hilton depend on many Polish butchers and Spanish/Portuguese vets; the companies are experiencing some wage inflation and are having to offer better terms with regards to career development opportunities to ensure staff retention. However, Nimmo notes that many of SLS's portfolio companies already have separate overseas subsidiaries and/or generate a significant proportion of their revenues outside of the UK. In addition, the portfolio has a meaningful exposure to IT software, which does not have export issues, and has relatively low exposure to export-heavy industries such as autos and industrial engineering.

If there is an orderly Brexit, the manager says he would have to reconsider his cautious stance. However, he believes that in the event of a 'hard' Brexit, there may be a hiatus in spending across a range of industries and consumer-facing businesses, which would adversely affect the earnings outlook for many companies. The manager says that over the last six months or so, firms have been reluctant to commit to incremental capex, which could be exacerbated in the event of a 'hard' Brexit, particularly in the retail and housing sectors. However, he believes that in this outcome, the government could boost spending to try to stimulate the UK economy. Nimmo reiterates that he invests in quality companies, which he believes can grow, regardless of the economic environment or the Brexit outcome.

## Asset allocation

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### Investment process: Proprietary Matrix screening tool

Nimmo's investment process adheres to Aberdeen Standard Investments' Focus on Change philosophy, which assumes that over the longer term, a company's share price will be driven by its fundamentals, but over shorter periods, stock markets can be inefficient, leading to mispriced securities, thereby providing attractive investment opportunities. The manager also employs Aberdeen Standard Investments' proprietary screening tool known as the Matrix to screen the investable universe of c 650 stocks. This is a quantitative screening tool based on 13 proven

indicators of financial performance including: earnings per share growth and revisions; earnings valuation multiples and dividend yield; share price momentum; balance sheet strength; and the level of directors' dealing. The Matrix provides a shortlist of potential investments for further in-depth analysis, while helping the manager to monitor the performance of the portfolio and the prospects of existing holdings. Stocks are assigned a Matrix score between +35 and -35. Scores of +10 to +35 are deemed potential buy candidates and scores between -10 and -35 potential sells. Nimmo does not necessarily purchase a stock following a period of weakness; his decision is driven by its overall Matrix score, which is partly affected by share price moves.

SLS's top 10 holdings have the best Matrix scores and the manager's highest level of confidence. Its portfolio weighted average Matrix score is currently +8.4, which is towards the higher end of the +4.5 to +9.5 historical range. The average score has been rising in recent months due to the prior underperformance of some of the trust's larger holdings, even though their businesses have been trading well, which has led to higher Matrix scores from a valuation perspective. Nimmo highlights other improving indicators, such as price momentum, earnings momentum and quality factors.

The manager aims to generate long-term capital growth by 'buying tomorrow's larger companies today'; focusing on companies with proven business models and a high percentage of recurring revenue that can thrive regardless of the stage of the economic cycle. He has six rules for successful investment in smaller companies:

- look for sustainable earnings and dividend growth – a reflection of resilience;
- concentrate your efforts – the small-cap universe is large;
- go for quality – sustainable growth and financial strength;
- run your winners – to compound growth;
- management longevity – a positive indicator; and
- be valuation aware – but this is a secondary consideration.

Stocks may be sold or trimmed if there is deterioration in the Matrix score, the original investment thesis is no longer valid, or if the position size has grown larger than 5% of the portfolio.

## Current portfolio positioning

Exhibit 3 shows SLS's exposure by market cap. Over the 12 months to end-January 2019, holdings in large-cap companies have been sold (-4.2pp) and there is a lower exposure to companies represented in the benchmark (-3.9pp), while the percentage of the fund invested in mid-cap companies has increased (+8.0pp).

	Portfolio end-January 2019	Portfolio end-January 2018	Change (pp)
FTSE 100	0.0	4.2	(4.2)
FTSE 250*	22.8	14.8	8.0
Numis Smaller Companies plus AIM (ex ICs)	70.2	74.1	(3.9)
AIM**	7.0	6.9	0.1
	<b>100.0</b>	<b>100.0</b>	

Source: Standard Life UK Smaller Companies Trust, Edison Investment Research. Note: \*Mid-cap companies that are above the threshold for the Numis Smaller Companies plus AIM (ex-ICs) index. \*\*AIM companies that are not included in the Numis Smaller Companies plus AIM (ex-ICs) index.

In terms of the trust's sector weightings, year-on-year the largest changes are a higher financials exposure (+6.3pp) and a lower weighting to consumer services (-5.4pp).

**Exhibit 4: Portfolio sector exposure (ex-cash and gearing, % unless stated)**

	Portfolio end-January 2019	Portfolio end-January 2018	Change (pp)
Industrials	30.7	27.0	3.7
Consumer goods	14.3	15.8	(1.6)
Financials	13.6	7.3	6.3
Consumer services	13.2	18.6	(5.4)
Technology	12.2	14.5	(2.3)
Healthcare	9.5	12.8	(3.3)
Telecommunications	5.5	3.9	1.6
Basic materials	1.0	0.0	1.0
	<b>100.0</b>	<b>100.0</b>	

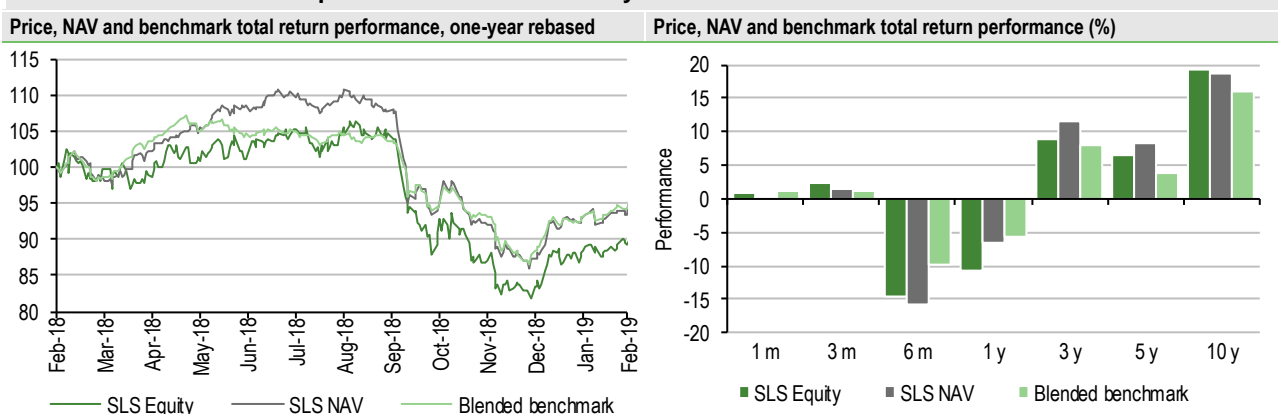
Source: Standard Life UK Smaller Companies Trust, Edison Investment Research

One of SLS's new positions is fund platform AJ Bell. Nimmo participated in the company's December 2018 initial public offering (IPO), and subsequently topped up the trust's holding. AJ Bell's share price has risen strongly from the IPO price of 160p per share (currently c 300p). The manager explains that the company has primarily business-to-business operations and also has a consumer platform similar to Hargreaves Lansdown, but with lower price points. He says that the company has generated annual revenue and profit growth of 20% over the last 10 years and should benefit from increased scale over time as it has undertaken the majority of its required capex spending. Nimmo says he believes that AJ Bell can continue to grow at an attractive rate "for the foreseeable future". He also notes that the company is large enough to be eligible for inclusion in one of the main UK indices, which would boost demand for its shares.

## Performance: Solid absolute/relative long-term returns

In H119, SLS's NAV and share price total returns of -19.5% and -17.5%, respectively, trailed the benchmark's -15.5% total return. Top contributors to performance included block-paving company Marshalls, which is continuing to deliver strong results, and language translator RWS Group, where progress is being made on the integration of Moravia. Detractors included 'big data' company First Derivatives, whose shares came under pressure following the publication of a negative research report, and Fevertree Drinks, which suffered from weather-related, lower-than-expected volumes.

**Exhibit 5: Investment trust performance to 28 February 2019**



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 5 (RHS) shows that over the last 10 years, SLS has generated very robust total returns with average annual appreciation in its NAV and share price of 18.8% and 19.4%, respectively, which is ahead of the blended benchmark's 16.0% pa total return. The trust's relative returns are shown in Exhibit 6. It has outperformed its blended benchmark over the last three, five and 10 years in both NAV and share price terms, while lagging over the last 12 months. It is interesting to note SLS's superior performance compared with both the FTSE AIM and FTSE All-Share indices over the mid (five years) and the longer term (10 years).



**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark*	(0.2)	1.3	(5.2)	(5.4)	2.2	12.2	33.4
NAV relative to blended benchmark*	(0.7)	0.5	(6.5)	(0.8)	10.4	21.8	27.2
Price relative to Numis Smaller Cos plus AIM ex-ICs	(0.2)	1.3	(5.2)	(5.4)	(0.5)	14.1	53.8
NAV relative to Numis Smaller Cos plus AIM ex-ICs	(0.7)	0.5	(6.5)	(0.8)	7.5	23.8	46.7
Price relative to FTSE AIM	2.0	4.5	3.1	0.5	(5.9)	25.2	124.8
NAV relative to FTSE AIM	1.4	3.6	1.7	5.4	1.7	35.9	114.3
Price relative to FTSE All-Share	(1.3)	(0.2)	(11.3)	(12.4)	(1.2)	6.8	103.8
NAV relative to FTSE All-Share	(1.9)	(1.0)	(12.5)	(8.1)	6.7	16.0	94.3

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2019. Geometric calculation. \*Blended benchmark is Numis Smaller Cos ex-ICs to 31 December 2017 and Numis Smaller Cos plus AIM ex-ICs thereafter.

SLS's 10-year relative performance is shown in Exhibit 7. The long-term record of outperformance is primarily due to meaningful above-benchmark returns following the global financial crisis (summer 2009 until the end of Q311) and between late 2016 and Q318.

**Exhibit 7: NAV total return performance relative to blended benchmark over 10 years**


Source: Refinitiv, Edison Investment Research

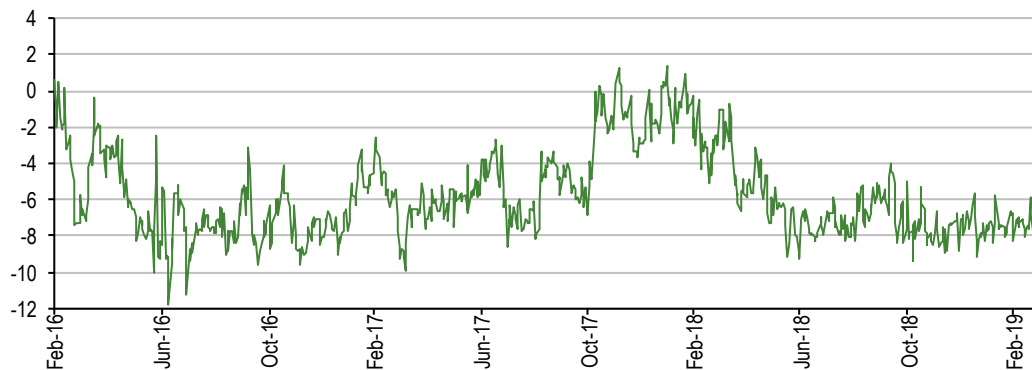
## Discount: Towards the wider end of the historical range

SLS's current 8.9% discount to cum-income NAV is towards the wider end of the three-year historical range of a 1.4% premium to an 11.8% discount, which was reached in mid-2016 following the result of the UK's European referendum. It is also wider than the 5.1% to 6.4% range of averages over the last one, three, five and 10 years. The board suggests two reasons why the discount may be wider than average:

- Since the merger with Dunedin Smaller Companies Investment Trust was announced in mid-June 2018, there have been changes in the share register, which may have put pressure on SLS's share price.
- The UK equity market backdrop is uncertain (despite recent stock market strength); in light of ongoing Brexit uncertainties, companies with domestic operations have seen their share prices come under particular pressure, as reflected in SLS's recent performance.

The board employs an active discount control mechanism, aiming to limit the share price discount to cum-income NAV to 8% (in normal market conditions). Renewed annually, SLS has authority to repurchase up to 14.99% of its share capital. During H119, 1.1m shares (1.1% of the share base) were bought back at a weighted average discount of 8.0%. The board also utilises discretionary tender offers (for up to 10% of shares in issue, at 98% of prevailing NAV per share), when share repurchases are considered to be insufficient to maintain the discount at the desired level; however, there have been no tender offers since 30 June 2015.

**Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)**



Source: Refinitiv, Edison Investment Research

## Capital structure and fees

SLS is a conventional investment trust with one class of share; there are currently 100.6m ordinary shares in issue, with a further 3.6m held in treasury. In March 2018, 4.7m shares were issued as a result of the final conversion of SLS's convertible unsecured loan stock, and in October 2018, 27.9m shares were issued as a result of the merger with Dunedin Smaller Companies Investment Trust. The trust has a £45m unsecured loan agreement with Royal Bank of Scotland International (a five-year, fixed-rate loan of £25m at 2.349%, which is drawn down, and an undrawn five-year revolving credit facility of £20m). In normal market conditions, Nimmo has discretion to move gearing between a net cash position of 5% and net gearing up to a maximum of 25% of NAV, at the time of drawdown. At end-January 2019, SLS had a 0.8% net cash position (5.3% gross gearing offset by 6.1% cash), reflecting the manager's cautious view on the UK stock market.

SLS's fee structure was revised last year. Since 1 July 2018, Aberdeen Standard Investments is paid a fee based on net rather than total assets; 0.85% pa up to £250m, 0.65% pa between £250m and £550m, and a new lower level of 0.55% pa on net assets above £550m. In H119 (ending 31 December 2018), ongoing charges were an annualised 0.93%. This was 13bp lower year-on-year, helped by spreading fixed costs over a larger base following the merger with Dunedin Smaller Companies Investment Trust in October 2018, and the change in the management fee.

## Dividend policy and record

While SLS focuses on long-term capital growth, it also pays dividends twice a year in April and October/November. The total 7.0p per share dividend paid for FY18 was 4.5% higher than the 6.7p FY17 distribution. Over the last 10 years, the total dividend has grown at a compound rate of 21.5% pa, although growth in recent years has been more modest (average annual growth of 11.6% over the last five years), reflecting the increased maturity of portfolio companies. Nimmo is optimistic that SLS's income growth will accelerate, noting that all of the trust's top 10 holdings are growing their dividends at a double-digit rate. The board has recently announced a 1.6p FY19 interim dividend, which is 6.7% higher year-on-year. At end-H119, SLS had revenue reserves of £7.6m, which is equivalent to c 1.5x the FY18 dividend payment. Based on its current share price, the trust currently offers a 1.6% dividend yield.



## Peer group comparison

**Exhibit 9: Selected peer group as at 22 March 2019\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Standard Life UK Smaller Cos	452.6	(1.5)	42.7	60.1	486.2	(8.1)	0.9	No	100	1.6
Aberforth Smaller Companies	1,142.9	(4.5)	24.6	24.5	338.3	(6.7)	0.8	No	101	3.0
BlackRock Smaller Companies	653.6	(2.7)	47.1	60.7	648.9	(4.6)	0.7	No	105	2.1
BlackRock Throgmorton Trust	362.7	(2.5)	46.6	64.9	620.2	(6.2)	0.6	Yes	123	2.0
Henderson Smaller Companies	621.5	(1.1)	35.3	52.7	563.6	(8.6)	0.4	Yes	109	2.6
Invesco Perpetual UK Smaller	162.3	2.7	44.2	64.4	414.7	(3.5)	0.8	Yes	100	2.3
JPMorgan Smaller Companies	161.8	(6.6)	26.5	31.7	417.4	(14.8)	1.0	No	105	2.7
Montanaro UK Smaller Companies	177.1	(1.5)	21.7	21.3	313.3	(17.1)	0.8	No	107	2.5
Rights & Issues Investment Trust	164.4	(5.8)	47.4	81.4	645.3	(5.1)	0.5	No	100	1.5
Strategic Equity Capital	130.4	(8.1)	16.6	38.3	533.5	(16.2)	1.1	Yes	100	0.5
<b>Simple average</b>	<b>402.9</b>	<b>(3.2)</b>	<b>35.3</b>	<b>50.0</b>	<b>498.1</b>	<b>(9.1)</b>	<b>0.8</b>		<b>105</b>	<b>2.1</b>
<b>Rank (out of 10 funds)</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>3</b>		<b>7</b>	<b>8</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance as at 21 March 2019 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Exhibit 9 shows the 10 members of the AIC UK Smaller Companies sector with market caps greater than £100m that have been trading for more than three years. SLS's NAV total returns are above the averages over one, three and five years ranking third, fifth and fifth, respectively, while lagging over 10 years. The trust's discount is lower than average. SLS's ongoing charge is currently modestly above average, but is likely to reduce given its larger size following the merger with Dunedin Smaller Companies Investment Trust and the changes to the management fee noted above. The trust's dividend yield is below average, ranking eighth; however, this is unsurprising given its focus on capital growth, rather than income.

## The board

There are five directors on SLS's board; all are non-executive and independent of the manager. The chairman is Allister Langlands, who joined the board on 1 July 2014 and assumed his current role on 22 August 2017. Timothy Scholefield assumed the role of senior independent director on 25 October 2018 following the resignation of Carol Ferguson, having been appointed as a director on 20 February 2017. The other three directors and their dates of appointment are: Caroline Ramsay (22 August 2016), Ashton Bradbury (2 July 2018) and Alexa Henderson (8 October 2018). Langlands has announced his intention to step down as chairman; a search is underway for a replacement, led by Senior Independent Director Scholefield.

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