

Strategy Guide

Global Absolute Return Strategies Portfolio



March 2018

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Aberdeen Standard Investments

Aberdeen Standard Investments is a leading global asset manager, dedicated to creating long-term value for our clients, as their investment needs are at the centre of all we do. To achieve this, we offer a comprehensive range of investment capabilities, as well as the very highest level of service and support.

We are high-conviction, long-term investors that seek to realise the value of our clients' investments over time. In our view, teamwork and collaboration between investment managers and across asset classes is the key to delivering repeatable, robust investment performance. We are also resolute in our commitment to active asset management.

We recognise that the investment landscape can change rapidly and that our clients' needs are continuously evolving. With our global reach and scale, we have the resources and expertise to transform new investment ideas into practical investment solutions that deliver real value to clients.

Following the global financial crisis, the value of global investment assets comprising 'new active' investment solutions – those that focus on the specific outcomes that investors wish to achieve – has almost doubled. New active solutions now represent almost half of all industry assets managed globally and we are committed to further developing and delivering these solutions for our clients.

Our global presence ensures we are always close to our clients and the markets in which they invest. Complementing this is our joint venture in India, HDFC Asset Management Company, in addition to a number of strategic partnerships across the globe. These play a key role in our global distribution model and are an effective way to support the needs of our institutional, wholesale, pension and retail clients.

The Aberdeen Standard Investments brand was created in connection with the merger of Aberdeen Asset Management PLC and Standard Life Plc on 14 August 2017 to form Standard Life Aberdeen plc. The company's headquarters are in Scotland and it is listed on the London Stock Exchange.

Global reach*

- £654.9 billion invested assets
- Clients across 80 countries
- 50 client relationship offices
- More than 1,000 investment professionals
- Strategic partners in the UK, Japan, India, US, Canada, China and Australia

* as at 31 December 2017

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Standard Life Investments' Global Absolute Return Strategies (GARS)

Standard Life Investments' GARS portfolio is a dynamic multi-asset strategy. It uses traditional and non-traditional sources of return to target a cash plus 5% annualised return (gross of fees) evaluated over rolling three-year periods.

In seeking to deliver this return, we aim to minimise risk but cannot eliminate it altogether. As a result, we expect GARS to exhibit between one-third and one-half of the risk of conventional equity portfolios, or 4%-8% volatility in normal market conditions.

GARS is managed by a team of over 50 investment professionals with an average of 16 years' investment experience. The team's key area of expertise is its ability to source, analyse and exploit a wide range of market return investment opportunities, while also independently harvesting performance from security selection sources.

We developed GARS in 2005, to satisfy the requirements of our own UK defined benefit pension plan. Such was its success, we made it available to investors from June 2006. Since then, GARS has delivered levels of return consistent with long-term equity investment but with significantly lower volatility than equities and low correlation to other asset classes. That is why GARS is today used by both institutional and retail clients worldwide.

GARS summary

- Absolute return investment objective seeking a targeted level of return evaluated over a rolling three-year period
- There will be periods when it delivers more or less than this target, and the fund may even lose money – it is not a capital-protected fund
- Provides global diversification across a range of traditional and non-traditional asset classes
- Strategies are chosen specifically to work well together, in positive and negative markets
- Proven global investment philosophy and process
- Experienced and stable portfolio management team
- Expected volatility of between 4% and 8% in ordinary market conditions
- Transparent portfolio positioning and comprehensive return attribution

What is our investment approach?

We believe significant amounts of investment are based on short-term views. This means markets show significant inefficiency and cyclicalities over longer, three-year plus time-frames. These represent opportunities that may potentially be exploited by patient investors able to cope with short-term instability.

We aim to create positive performance, low-risk portfolios by combining investments in multiple long-term strategies. The short-term behaviour of each individual strategy can vary widely so we strive to hold a resilient combination, such that unusual weakness in one is offset by additional strength in another. As a result, we aim for the portfolio to show both stability and strong return potential. We generate strategy ideas in a wide variety of ways and apply a rigorous investment process. We choose only those high-conviction strategies that we expect to work well together and exhibit desirable liquidity characteristics.

Idea generation

Our multi-asset investing team carries out extensive research and risk analysis using our *Focus on Change* investment philosophy. The team works closely with our asset class teams to identify three-year investment opportunities across global asset classes. These ideas are then developed into strategies.

Through our *Focus on Change* philosophy, we seek to identify the key drivers affecting markets and the dynamics behind them. This is supplemented by analysis of what is priced into an investment. Our aim is to understand what is changing and to determine whether this will lead to revised market expectations and pricing. Recognising that different factors drive markets at different times in the investment cycle, we are not inherently growth or value

biased or necessarily momentum driven. We therefore have an opportunity to outperform throughout the cycle. This consistent approach is applied across all teams, facilitating a common investment dialogue among our asset class specialists.

Selection

The strategies are reviewed and approved by the Strategic Investment Group, which comprises our most experienced long-term strategic thinkers. They base their approval on three key criteria.

Conviction

- expectation of a positive return, with acceptable levels of risk

Diversity

- whether a strategy will enhance the portfolio's risk/reward balance

Liquidity

- the ability to easily implement or remove a materially significant position

Implementation

The multi-asset investing team then implements approved investment strategies efficiently and effectively using a wide range of stocks and bonds as well as derivatives such as index futures and swaps. The team makes active asset allocation decisions and ensures the GARS portfolio meets robust risk management constraints.

	Fundamental economic analysis	Asset Class Team views and strategies	Valuation modelling	Quantitative modelling	Investment Governance & Oversight
Idea generation					
Selection		<ul style="list-style-type: none"> • Review • Debate • Ratify/Reject 	Strategic Investment Group		<ul style="list-style-type: none"> • Conviction • Diversity • Liquidity
Implementation	Pre-trade risk	Multi-Asset Risk Diversification measurement	Scenario Analysis		<ul style="list-style-type: none"> • Counterparty Risk Management
	Strategy implementation	Multi-Asset Management Final position sizing	Execution		<ul style="list-style-type: none"> • Investment governance

How do we invest?

To pursue our investment objectives, we seek diversification in more ways than conventional multi-asset strategies. We dynamically allocate to investment opportunities from traditional and advanced asset classes, with strategies falling into four main categories shown in the diagram below.

Traditional	Market	Security selection
	<ul style="list-style-type: none"> Assets with long-term return potential, such as equities, credit and listed real estate Dynamic allocation Used only when we expect to be rewarded on a three-year view 	<ul style="list-style-type: none"> Active security selection Conventional benchmarks Bottom-up, <i>Focus on Change</i> process
Advanced	Directional	Relative value
	<ul style="list-style-type: none"> Markets where long-term returns are not expected to be materially positive Chosen because of current valuation and economic outlook With attractive return potential on a three-year view 	<ul style="list-style-type: none"> Seek pairs of closely related markets or segments Our view is that their performance will diverge over three years We seek to benefit from the difference in performance irrespective of market direction

Conventional asset management exploits the security selection skills of portfolio managers, while multi-asset portfolios add the dynamic management of market returns from traditional asset classes. GARS goes even further, adopting additional approaches that help it to remain diversified across a wide variety of market conditions.

• Directional

Market opportunities where short and medium-term drivers change markedly but long-term rewards may be unimpressive, e.g. exchange rates, interest rates and inflation. For example, we have benefited from owning positions in Australian interest rates as the economy re-balances after the commodity market disruption.

• Relative value

We seek to add value by taking advantage of differences between highly correlated markets. For example, we initiated a strategy in the belief that US banks were likely to outperform US consumer staples companies.

This was predicated on the large valuation discrepancy between the two sectors, which we expected to narrow. Specifically, the environment of rising US interest rates was likely to be of particular benefit to the banks while being generally negative for consumer stocks. Additionally, we expected President Trump's promise of lighter banking regulation, lower taxes and more government spending would drive banks' earnings higher.

By investing in multiple uncorrelated investment strategies, we expect that, at any given time, many of these strategies will deliver positive returns – although, as with any investment, performance is not guaranteed and GARS' overall value can go down as well as up.

What is our investment expertise?

GARS is managed by our multi-asset investing team, which is led by Guy Stern, Head of Multi-Asset and Macro Investing. The team incorporates three key areas.

Multi-asset management

- headed by Guy Stern, who has over 30 years' industry experience
- responsible for identifying, developing and implementing strategies
- manages the portfolio on a day-to-day basis

Strategic research

- headed by global economist Andrew Milligan, who has over 30 years' industry experience
- responsible for developing theses behind our strategies
- seeks the investment rationale in which a strategy will perform

Risk analysis

- headed by Dr Brian Fleming, a multi-asset risk expert with 16 years' industry experience
- responsible for advising the managers on investment and portfolio risk
- provides quantitative discipline to the portfolio management process

These three areas provide a critical combination of skills and experience, working together to ensure the most suitable strategies are in place. The team is also supported globally by a team of investment specialists, who ensure the portfolio is accurately and comprehensively communicated to all investors. In addition, our governance team ensures portfolio management constraints are maintained and adhered to.

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An investment in any type of strategy is speculative and involves certain risks. Prospective investors should ensure that they: (1) understand the nature of the investment and the extent of their exposure to risk; (2) have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting, and financial evaluation of the merits and risks of participating in an investment in the strategy; and (3) consider the suitability of investing in light of their own circumstances and financial condition. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. Investors may lose all of their investments.

Due to among other things, the volatile nature of the markets and the investment strategies discussed herein, they may only be suitable for certain investors. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment. Further, this information may be amended or revoked at any time without notice.

GARS makes significant use of certain types of investment derivatives, such as options, futures, forwards and swaps. These instruments involve risks different from, and in certain cases, greater than, the risks presented by more traditional investments.

The foregoing factors do not claim to be a complete list or explanation of the risks involved in an investment in the strategy. As the investment markets and strategy develop and change over time, an investment may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. For US investors, risks are also described in the SLI (Corporate Funds) Limited ADV Part II and will vary depending on the type of investment.

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