



Fund Guide

European Smaller Companies Fund



**Standard Life
Investments**

March 2016

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About Standard Life Investments

Standard Life Investments is a leading asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive *Focus on Change* investment philosophy, disciplined risk management, and shared commitment to a culture of investment excellence.

As active managers, we place significant emphasis on rigorous research and a strong collaborative ethos. We constantly think ahead and strive to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

As at 31 December 2015, Standard Life Investments managed €343.5 billion on behalf of clients worldwide. Our investment capabilities span equities, fixed income, real estate, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs more than 1,500 talented individuals. We maintain offices in more than 20 locations around the world across Europe, North America, Asia and Australia. In addition, we have close relationships with leading domestic asset managers in Asia, including HDFC Asset

Management in India and Sumitomo Mitsui Trust Bank in Japan.

Our parent, Standard Life plc, was established in 1825. A leading provider of long-term savings and investments, Standard Life floated on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Standard Life Investments launched as a separate company in 1998 and has quickly established a reputation for innovation in pursuit of our clients' investment objectives.

Our investors rank among some of the world's most sophisticated and high-profile institutions. They include pension plans, banks, mutual funds, insurance companies, fund-of-fund managers, endowments, foundations, charities, official institutions, sovereign wealth funds and government authorities.

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Introducing the European Smaller Companies Fund

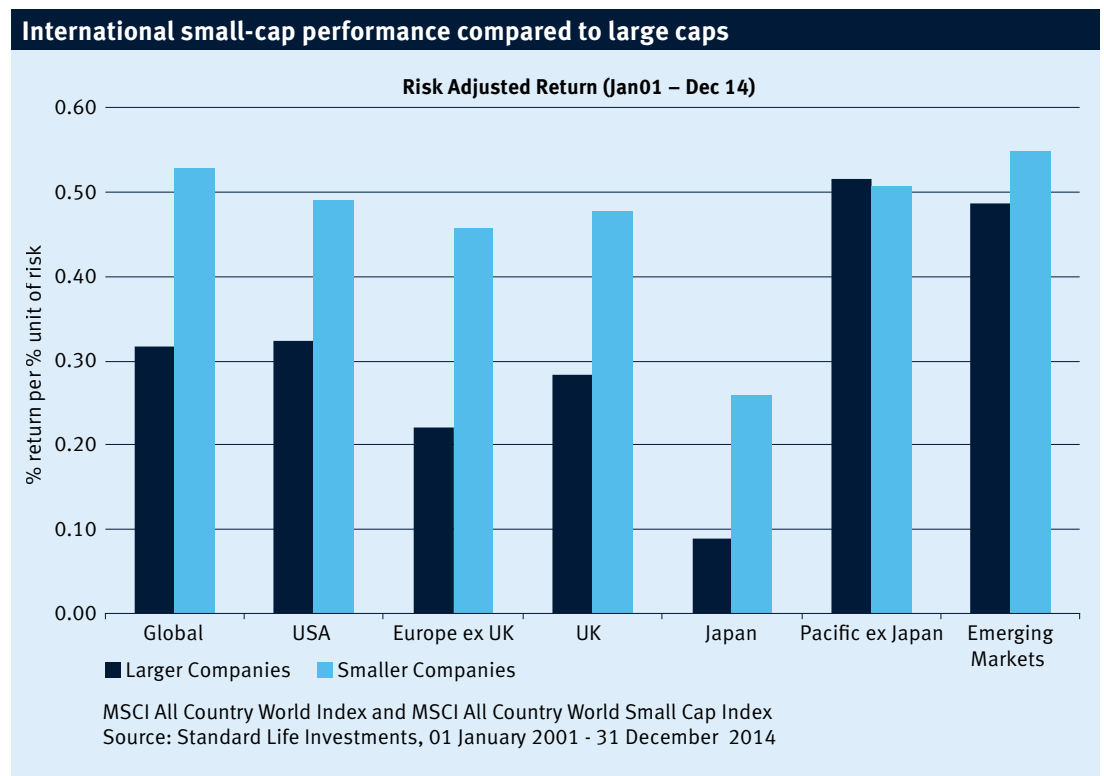
Historically, Europe has produced a number of smaller and medium-sized businesses that have grown, over time, to dominate their specific market. As a result, smaller companies have largely outperformed their large-cap peers since 2001 (see graph below). Our European Smaller Companies Fund provides investors with exposure to this under-researched but dynamic asset class.

Our focus is to find high quality companies that have the ability to grow irrespective of the economic backdrop. Smaller companies often have more scope for growth than their larger counterparts. Smaller capitalised and often undervalued relative to their growth prospects, these stocks can offer the potential for substantial returns that are more difficult to achieve from companies perceived to be fully grown. The key is to identify, at an early stage, those smaller companies that will prove successful enough to grow into the larger companies of the future.

Our award-winning smaller companies team has extensive experience in researching the sector. Andrew Paisley, the Fund's manager, has been

employed in the fund management industry since 1999 and has a proven track record of managing smaller companies mandates.

Investors benefit from our proven capabilities in both European equity and smaller companies investing. The Fund is managed using a robust and repeatable investment process. All our investment decisions are guided by our *Focus on Change* investment philosophy that prioritises stock-specific insights. We believe that stock selection offers our clients the most attractive and repeatable source of investment returns over the longer term.



What is our investment approach?

Our investment philosophy, called *Focus on Change*, aims to identify positive drivers of change within a company that the rest of the market has yet to price in. We then profit as the market comes into alignment with our view. Our focus is to obtain a superior information advantage on key issues affecting companies, analysing, communicating and responding more effectively and more quickly than our competition.

Focus on Change is style agnostic. In other words, it is not driven by growth, value or momentum. Instead, we seek unique insights and interpretation of opportunities across investment cycles with the aim to deliver positive relative performance.

By the very nature of our investment philosophy, our process emphasises intensive research and idea generation to create our non-consensus insight. We believe the best source of alpha comes from stock selection, with the majority of our performance generated at the stock level. Our investment process therefore focuses on finding our highest conviction, stock-specific investment ideas.

We believe that our investment approach is well suited to researching a vast but largely under-researched and under-owned asset class such as European smaller companies. Therefore, we follow a three-stage process in selecting stocks for the European Smaller Companies Fund.

1. Top-level guidelines

Our experience is that companies with upside potential typically exhibit organic expansion and operate in growth sectors. High-quality business models are preferred where high levels of recurring revenues and strong cashflows are exhibited. By focusing on a company's quality, growth and momentum attributes, we seek to identify tomorrow's larger companies today.

2. Stock selection: the Matrix

Standard Life Investments' proprietary stock screening tool, the Matrix, has added value across our equity portfolios for more than 17 years. The Matrix is an integral component of our stock selection process.

The Matrix is maintained and back-tested by our quantitative analysis team. It electronically tracks a group of factors that our back-testing has found can enhance performance.

These may include measures of price and earnings momentum, valuation, earnings growth, cashflow and balance sheet strength. We then assess stocks according to scores and weightings from each of the factors and produce a final stock rating. Based on this information, we can then create a manageable list of companies on which to focus our search for stocks with the potential to outperform.

3. Testing for false positives

At Standard Life Investments, we benefit from our superior access to the companies in which we invest. Company meetings are a critical part of our investment process and help us to achieve a number of goals.

1. They help us to cross-check the veracity of our investment rationale. This may take the form of scrutinising company forecasts or verifying with company management whether individual Matrix factors were providing an appropriate view.
2. They allow us to assess the strength and repeatability of a company's business model. For example, factors such as levels of recurring revenue, barriers to entry, pricing power and market share are all important considerations.

The culmination of our investment process is a portfolio that comprises 40-50 of our highest conviction stock ideas across Europe's core economies.

What is our investment expertise?

Our six-strong smaller companies team focuses on finding high-quality companies that have the ability to grow irrespective of the economic backdrop. To achieve this, we combine the role of analyst and portfolio manager, which we believe adds value in portfolio construction.

Headed by Harry Nimmo, the smaller companies team is responsible for the management of assets worth approximately €3.9 billion*. The team has worked effectively together for a number of years and won numerous awards. For example, Harry was crowned Fund Manager of the Decade at the Grant Thornton Quoted Company Awards.

In the UK, we have built a long track record in managing smaller companies, demonstrated through the UK Smaller Companies OEIC and UK Smaller Companies Investment Trust. Building

on this success, we launched the European Smaller Companies Fund in September 2007. Within the Fund, we deploy the same highly disciplined but pragmatic investment process.

In addition, our pan-European mandate allows manager Andrew Paisley to draw directly on stock ideas generated by his UK-focused, small-cap colleagues. He also benefits from our wider stock-picking expertise, including our pan-European equities team.

*Source: Standard Life Investments, as at 31 December 2015



Andrew Paisley
Fund Manager
European Smaller
Companies Fund

Meet the manager

Andrew Paisley is the manager of the European Smaller Companies Fund. Prior to joining Standard Life Investments in 2014, Andrew gained significant experience managing smaller companies mandates across the UK and Europe.

Having obtained a law degree from Edinburgh University, Andrew went on to qualify as a chartered accountant before joining the fund management industry in 1999.

Fund information

Fund objective

The Fund aims to provide long-term growth by investing predominantly in the shares of smaller companies listed on European stock markets, including the UK. The Fund is actively managed by Andrew Paisley, who selects stocks to try and take advantage of opportunities he has identified.

Fund details	
Fund manager	Andrew Paisley
Launch date	27 September 2007
Performance benchmark	FTSE Developed Europe Small Cap Index
Type of share	Accumulation
Ongoing charge	Retail Series A 1.96% (Institutional Series D 1.01%)
Base currency	Euro
Tracking error range	4-8%
Share classes available	EUR & GBP
Retail clients	
Minimum lump sum	£1,000 or €1,000
Institutional clients	
Minimum lump sum	Please contact your local sales representative

This Fund may be suitable for investors who:

- ▶ want to achieve capital appreciation over the longer term
- ▶ would like to invest in an actively managed portfolio of mainly European equities
- ▶ have an investment time horizon of at least five years.

This Fund may not be suitable for investors who:

- ▶ do not want to take any risk with their capital – equity investment is not a risk-free strategy
- ▶ are not prepared to accept significant temporary losses as a result of the volatile nature of equities and currencies.

Summary of benefits

Through the European Smaller Companies Fund, investors can benefit from a number of attractive features.

- ▶ **Opportunities for stock pickers** – there are a number of European companies that are uncorrelated with macro trends, that have strong balance sheets and good cashflow characteristics.
- ▶ **Wide investment universe** – Europe contains a number of the world's leading companies and the Fund has an investment universe of around 1,000 companies with a market capitalisation of under €4 billion.
- ▶ **Opportunities from an under-researched market** – we have a proven track record of selecting successful companies from the under-researched European smaller companies market.
- ▶ **Exposure to global growth** – around 50% of European companies' revenues come from outside Europe, so many firms are not dependent on growth in Europe to be profitable.

Find out more

To find out more about our European Smaller Companies Fund, visit our website standardlifeinvestments.com. Alternatively, please speak to your usual contact at Standard Life Investments.

Visit us online



standardlifeinvestments.com

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The value of an investment is not guaranteed and can go down as well as up. An investor may not get back what they invested.

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