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### Performance

Fund/peer group mean or benchmark	3 Months	6 Months	1 Year	3 Years	5 Years
<b>Asian Equity Fund</b>	3.28	-15.08	-9.06	3.65	6.21
MSCI Far East Free ex Japan	4.44	-14.33	-9.22	-2.24	2.29
<b>Japanese Equities Fund</b>	10.56	-5.30	9.79	80.70	79.40
MSCI Japan	9.86	-5.05	10.27	85.84	85.54
<b>Global Equities Fund</b>	6.87	-2.83	0.85	31.34	41.17
MSCI World	5.15	-4.67	-1.84	29.74	43.61
<b>Indian Equity Midcap Opportunities Fund*</b>	-0.90	-8.87	-13.99	1.52	-32.40
S&P CNX 500**	0.63	-5.58	-4.24	23.23	-2.46
<b>Global REIT Focus Fund</b>	7.99	5.50	8.34	37.65	61.81
FTSE EPRA NAREIT Developed	7.28	5.56	11.45	46.90	81.12
<b>Global Emerging Markets Equity Unconstrained Fund</b>	6.78	-15.97	-15.50	-5.88	n/a
MSCI Emerging Markets	0.73	-17.18	-14.60	-18.05	n/a

Source: Standard Life Investments, as at 31 December 2015. The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than invested. Past performance is not a guide to future performance.

The performance shown is based on the retail share class. This may or may not reflect the actual charges paid. All performance returns are calculated in US dollar terms, except the Japanese Equities Fund, which is in Japanese yen, and the Global REIT Focus Fund, which is in euros.

\*During the quarter, we repositioned the Fund to its new mid-cap mandate. This process started on 14 December, and by the end of the year the transition was effectively complete.

\*\*MSCI India to 31/03/2014

### Environment

The final quarter of 2015 was dominated by two themes – China and the US rate hike. In the former camp, investors breathed a sigh of relief as it became apparent conditions in the world's second-largest economy were not as dire as feared. This was prompted by signs that the country's services sector remained robust, even as data from the manufacturing sector disappointed. Meanwhile, the US Federal Reserve (Fed) finally raised interest rates in December, which many took as a sign of the economy's strength. By contrast, the central banks of China and Europe eased policy further. In other news, commodity prices continued to slide (especially oil), which stoked concerns about deflation.

### Outlook

As we have already witnessed, 2016 is likely to be characterised by bouts of volatility. There are many factors at work. These include concerns about a China-led slowdown in global growth; divergent monetary policy (with the Fed having raised rates already, while the central banks of Japan, China and Europe look set to ease further); and the ongoing downward pressure of commodity prices. There are additional variables at work, including the US presidential election, Europe's migrant crisis and the Brexit vote in the UK. Geopolitics will also continue to play a part. While we are mindful of these risks, we believe that there remain many excellent stock-specific investments and that strong companies will continue to be rewarded over the long term.

## Fund review

### Asian Equity Fund

The Fund was up over the review period, but underperformed the benchmark. A holding in Thai mobile telecoms firm Total Access Communication disappointed. The recent auctions for 4G licences were more expensive than many had forecast, while there is also the potential for a new player to enter the fray. Staying with telecoms, shares in Hong Kong firm Smartone Telecom fell as investors banked profits after a strong run. By contrast, Malaysian government services outsourcing firm MyEG Services had a good quarter. The company is growing earnings rapidly as it expands its reach into new areas, such as illegal foreign worker registration. The stock is consequently re-rating as the brokerage community starts to take notice. Towards the other end of the market cap spectrum, Chinese internet search giant Baidu had a good three months after it was included in the MSCI Index and delivered better-than-expected third-quarter results.

Turning to activity, we purchased shares in Chinese PC/phone maker Lenovo. Market participants appear to be under-appreciating the earnings recovery from the company's mobile division in the wake of the Motorola integration, while the PC market remains fairly resilient. On the sell side, we exited Vipshop after it delivered disappointing quarter results, missing its target for the first time since its IPO. We also sold Taiwanese tech firm Chipbond as there is little evidence it is benefiting from the industry trend towards higher resolution TVs smartphones.

### Japanese Equities Fund

The Fund finished ahead and beat its benchmark. At the individual stock level, Mitsui Chemical was one of the top performers after it delivered better-than-expected earnings numbers, driven by the falling oil price. Brokers consequently upped their target price for the company. Nifco also had a good review period after delivering solid results, which eased concerns that the slowdown in China was adversely affecting the group. By contrast, Rakuten's shares fell back thanks to a slowdown in its shopping mall business and intensifying competition in the e-commerce sector. Meanwhile, a bout of profit taking hit Hoshizaki Electric, whose shares had climbed after it entered the MSCI Japan Index.

Turning to purchases, we initiated a position in property developer Daiwa House Industries. It looks set to benefit from further domestic demand in a variety of areas, including retail stores, elderly nursing homes and logistics. The market appears to be underestimating this potential. We also added Park24 as we think the car parking business has bottomed out, while its car sharing operations should drive earnings. On the sell side, we exited Fast Retailing after our investment case deteriorated in the wake of falling domestic sales for the company. We also sold Rohm due to slowing demand for its electric parts that are used in car navigation systems and home appliances.

### Global Equities Fund

The Fund finished in positive territory and outperformed its benchmark. A position in gaming software company Activision Blizzard performed well. It continues to deliver strong results, highlighting robust sales and orders for its new games. The company is also expanding its online user base, which is supporting its transition to a more digital revenue model. Strong quarterly numbers also lifted Acuity Brands. LED lighting sales continue to grow, while the company's superior distribution network meant it gained further market share. Additional highlights included Fortune Brands Home & Security and Covestro. By contrast, a holding in hard-disk drive manufacturer Western Digital hurt the Fund's performance after investors reacted negatively to the company's announced takeover of SanDisk. Investors are questioning whether the deal makes strategic sense. We agree and have subsequently sold our holding. Meanwhile, shares in Danske Bank fell on profit taking, married to some investors starting to question the outlook for the bank. However, we continue to hold the stock as we believe there are more cost-cutting benefits to come through and Danske also has good opportunities in Sweden and Norway.

Turning to activity, we initiated a position in US consumer products group Newell Rubbermaid. Its shares have been weak following its announced takeover of Jarden Corp, a similarly sized domestic peer. However, we like the deal given the strength of management at Newell and their ability to roll-out a successful growth strategy across a larger portfolio of brands. We also added German chemicals group Covestro to the portfolio as we think its current share price does not fully reflect the quality of its portfolio. On the sell side, we exited online Chinese flash marketing company Vipshop. While revenues remain strong, we are concerned by a slowdown in revenue growth and its active user base, with the company now trailing its e-commerce rivals in China. We also sold US media group Time Warner as it experienced worse-than-forecast declines in advertising revenues and subscriber numbers. Other sales included Illumina and Samsung Engineering.

### Indian Equity Midcap Opportunities Fund

The Fund trailed its benchmark over the period. Our bank holdings were the main negative contributors, with the likes of State Bank of India, ICICI Bank, Punjab National Bank and Canara Bank all disappointing (we no longer hold these stocks). Our underweight position in healthcare was positive, and stock selection in industrials was strong. However, this was more than offset by positions in a number of financials and energy stocks, as well as our allocation to utilities.

During the quarter, we repositioned the Fund to its new mid-cap mandate. This process started on 14 December, and by the end of the year the transition was effectively complete. The Fund is overweight in financials & industrials, primarily due to our conviction in an imminent economic recovery driven by higher government capital spending and lower interest rates. We are underweight consumer staples and healthcare due to rich valuations and overall risk-aversion in the market.

### Global REIT Focus Fund

The Fund outperformed during the quarter, driven by our off-benchmark positions in Chinese developers, which performed strongly following improved sales and further government stimulus measures. We also benefited from our underweight position in Hong Kong, as concerns about the residential and retail sectors started to weigh on the market. Stock selection in Australia was a further positive, with Mirvac and Goodman Group benefiting from robust fundamentals in the office and industrial sectors. On the downside, our overweight allocation to Japan detracted from performance, with investors focusing on downbeat economic data despite improving real estate fundamentals.

In terms of activity, we reduced our position in the US apartment sector following strong performance. While growth remains at high single-digit levels, this is now factored in and shares could underperform despite robust operating fundamentals. We also changed sector positioning in the UK to reflect the maturing cycle. In doing so, we rotated capital out of Land Securities to invest in later-cycle names such as SEGRO, where capital growth continues to accelerate. In Europe, we sold our holding in Eurocommercial Shopping Centres, as our investment thesis had played out. We invested the proceeds in Gecina, our preferred Paris office company.

### Global Emerging Markets Equity Unconstrained Fund

The Fund was up over the period and comfortably beat its benchmark. The top stock contributor was the Malaysian government services outsourcing firm MyEG Services. The company is growing earnings rapidly as it expands its reach into new areas, such as illegal foreign worker registration. The stock is consequently re-rating as the brokerage community starts to reappraise MyEG. Towards the other end of the market cap spectrum, Chinese internet search giant Baidu had a good quarter after it was included in the MSCI Index and delivered better-than-expected third-quarter results. On the downside, a holding in Thai mobile telecoms firm Total Access Communication disappointed. The recent auctions for 4G licences were more expensive than many had forecast, while there is also the potential for a new player to enter the fray. A holding in Tianhe Chemicals also hurt performance. The company's shares have been suspended for some time and so a decision was consequently made to writedown its value. Nonetheless, our discussions with Tianhe's management team continue to point to a gradual but confirmatory resolution to the outstanding allegations.

Turning to activity, we added China Mengniu Dairy to the portfolio as we expect it to gain market share and improve its profitability. We also purchased Syrah Resources as we think demand for its natural graphite used in electric vehicle battery technology looks set to rise. On the sell side, we sold Taiwanese tech firm Chipbond as there is little evidence it is benefiting from the industry trend towards higher resolution TVs and smartphones.

To find out more about our funds visit our website [standardlifeinvestments.com](http://standardlifeinvestments.com). Alternatively, please speak to your usual contact at Standard Life Investments.

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