August 2018

InFocus

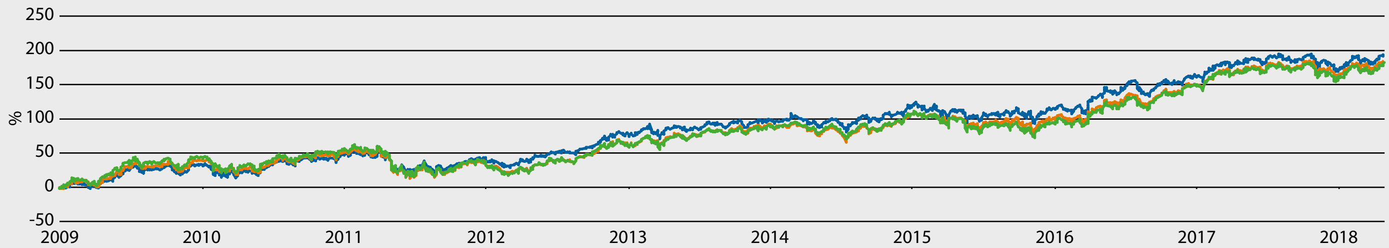
This communication is for investment professionals only and should not be distributed to or relied upon by retail clients.

Standard Life Investments European Equity Income Fund

Key features

- Bottom-up, style-agnostic approach, which seeks to harness the insights generated by our well-resourced European equities team
- Seeking to capture diversified sources of dividend income from companies that pay a premium and sustainable level of income
- Balanced portfolio that aims to deliver a premium, sustainable yield and attractive risk-adjusted returns, through the cycle

Performance



Source: Morningstar; cumulative performance since fund inception 03/04/2009 to 31/07/2018; GBP

	Year-to-date (%)	31/07/2017 – 31/07/2018 (%)	31/07/2016 – 31/07/2017 (%)	31/07/2015 – 31/07/2016 (%)	31/07/2014 – 31/07/2015 (%)	31/07/2013 – 31/07/2014 (%)
Standard Life Investments European Equity Income	3.09	4.93	19.70	11.95	7.77	3.32
Sector : IA Europe Excluding UK	2.94	5.09	23.84	8.05	10.36	3.30

Source: FE Analytics based on Platform 1 Inc share class in GBP. Past performance is not a guide to the future.

Robust relative performance in volatile markets

Equity markets have been volatile for much of 2018, with investors responding to the prospect of a global trade war, political upheaval in Italy and Spain and weaker-than-expected economic data. We are pleased to see the strategy performed well on a relative basis during this period. This is consistent with past experience during volatile market conditions. As a result of our focus on companies with strong cashflows and secure dividend prospects, the Fund tends to demonstrate resilience in the face of reduced investor risk appetite.

Overall, positive performance this year has been primarily driven by dividend growth stocks and, notably, companies and management teams that have demonstrated their ability to allocate capital effectively. Names to highlight include Coloplast (medical devices – Dividend Growth), Kesko (retail – High Dividend) and Umicore (materials technology and recycling – Dividend Growth).

An encouraging outlook

We remain positive on the earnings outlook and, in particular, the absolute level of dividends and dividend growth trajectory for European companies. Despite recent concerns around potential trade wars, our view is that European companies remain well-placed to continue to deliver. The recent market volatility and slight weakening in economic expectations should be seen in the context of PMIs, which have remained persistently better than expected. In other words, any softening should not be taken as a signal that an economic downturn is imminent.

Aberdeen Standard Investments

Yes, there are reasons to perhaps be a bit more cautious about markets, but cashflows and dividends are healthy, demand robust and valuations have become more attractive. It also comes as no surprise that volatility has reared its head again and this should be seen as an opportunity to demonstrate the effectiveness of our active equity income strategy.

In general, we observe that the market is currently in a growth-orientated phase, with investor interest particularly apparent in the small- and mid-cap sectors. By contrast, investors continue to shun traditional income stocks, notably telecoms, where we too remain sceptical of their prospects.

A through-cycle approach

Thanks to our approach to portfolio construction, we believe the Fund is well placed to continue to respond to the changing market dynamics. For a company to merit inclusion in the portfolio, we require a robust standalone investment case that will have a positive impact on the cash generation and return prospects of the company. This steers us away from 'yield for yield's sake' investments and towards opportunities that are likely to offer a superior total return profile over time.

A fine time to invest

In the midst of the volatility created by the Italian election result, we took the opportunity to invest in the Italian financial services firm FinecoBank (High Dividend). In our view, its revenue and cash forecasts look too conservative given various internal initiatives, including improvements to network efficiency and the launch of Fineco Asset Management. The valuation reflects its current attractive position, but arguably not the quality and sustainability of growth. In addition, its strong market position and capital efficiency support an attractive dividend yield and dividend growth trajectory.

The perfect match

Swedish Match (Dividend Growth), the smokeless tobacco company, has been in the portfolio since 2009. Over that time, management has effectively restructured the business, managed competition in its domestic markets and is now reaping the rewards of effective product innovation and investment. The company is starting to enjoy high growth in certain areas, particularly around Zyn (a smoke-free, spit-free, tobacco-derived nicotine pouch), chew bags in the EU and cigars in the US. These factors should support top-line growth, with the potential for numbers to surprise positively should pricing improvement come through in Sweden.

The Moore the better

ASML (Dividend Upgrade) is a dominant supplier of equipment to integrated circuit manufacturers. It provides high-performance lithography, metrology and software solutions that enable its customers to continue the 'feature shrink' that underpins Moore's Law (the 'rule of thumb' that the numbers of transistors per square inch of integrated circuits will double every 18 months) in a cost-effective way. ASML has a unique business model in that it outsources over 90% of its manufacturing. This makes it highly flexible around cost and cash management, given the cyclicality of its end markets. Underlying demand remains robust, as Chinese manufacturers continue to spend aggressively. Earnings numbers have already been strong, with further growth and excess cash returns expected into 2020 and beyond.

These are just a few names that we are finding across the market spectrum, underlining our confidence in the strategy's positioning and the underlying dividend trajectory as we move into the second half of 2018.

Will James
Fund Manager

> "It comes as no surprise that volatility has reared its head again and this should be seen as an opportunity to demonstrate the effectiveness of our active equity income strategy"

Aberdeen Standard Investments