



Investment Capabilities

Global Emerging Market
Equity Solutions



**Standard Life
Investments**

April 2017

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

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 our clients can look to the future with confidence.

As at 31 December 2016, Standard Life Investments managed £277.9 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 1,700 talented individuals. We maintain a presence in around 20 locations across Europe, North America, Asia and Australia. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank (SuMi TRUST) in Japan.

Our parent, Standard Life plc, was established in 1825. One of the UK's foremost financial institutions, 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.

*US\$343.5 billion, €325.5 billion, AUS\$ 474.2 billion, CAD\$460.5 billion. Exchange rates are US dollar - 1.2356, euro - 1.1715, Australian dollar - 1.7065, Canadian dollar - 1.6571, as at 31 December 2016.

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Introducing our global emerging market capabilities

Global emerging markets (GEM) offer an exciting investment opportunity. A combination of supportive demographics, growing economies and a multitude of world-class businesses provide a positive investment backdrop. At Standard Life Investments, we have extensive experience managing GEM equities using our robust and repeatable investment philosophy and process. As a result, we can offer a comprehensive suite of GEM equity strategies that are tailored to meet your specific investment needs and tolerance to risk.

A highly experienced team

Our 11-strong GEM equities team manages our various strategies. We believe the most consistent source of alpha comes from bottom-up stock selection, and so the team focuses all its time, energy and resources at the company level. By doing so, we aim to ensure we use only the highest-conviction investment ideas in our strategies.

A proven investment process

Our investment process is underpinned by our *Focus on Change* philosophy. Through this, we seek to identify non-consensus change at company level and to exploit this before the market view comes into alignment with our own. Due to the size and disparate nature of the GEM investment universe, many companies are often under-researched and consequently mispriced relative to their underlying fundamentals. Our *Focus on Change* investment philosophy is therefore especially suited to unearthing these companies.

Our broad offering of equity solutions

We offer a wide range of GEM equity strategies, including single country and pan-regional portfolios, deploying core, income, unconstrained and enhanced-diversification strategies.

Core equity

An actively managed strategy that aims to provide long-term growth by investing in equities from some of the world's fastest-growing markets, including Asia, Eastern Europe, the Middle East, Africa and Latin America.

GEM unconstrained

The unconstrained strategy means we have the maximum flexibility to invest across all geographies and sectors in the GEM universe, while still adhering to strict risk controls. This approach allows us to construct a portfolio based on companies in which we only have the highest conviction. The aim of this strategy is to deliver excellent risk-adjusted returns by giving our clients access to our strongest stock ideas.

GEM income

Through this strategy we aim to deliver a sustainable, rising income stream for our clients with the possibility of capital growth over the long term. We place a strong emphasis on dividend growth stocks, looking for companies that not only pay an income, but have the potential to increase these payments year after year.

Chinese equities

China offers exciting investment opportunities on a scale that few other countries can match, thanks to its robust economy, burgeoning middle class and a government committed to securing stable, enduring growth. With our Chinese strategy we have constructed a high-conviction portfolio of 25-35 stocks that constitute our strongest ideas in this market, with the aim of delivering long-term growth for investors.

Indian equities

Like China, India is a fast-growing economy that offers numerous investment opportunities. We recently re-launched our strategy here, converting the portfolio to a mid-cap mandate. Our capabilities in India are greatly enhanced by our HDFC Asset Management joint venture, the country's biggest investment firm (by assets under management). The company plays an advisory role for the portfolio, giving us unparalleled access to its industry-leading investment insights and bottom-up research capabilities.

Enhanced-diversification GEM

EDGEEM is a distinctive and truly blended combination of stock-picking expertise and diversified multi-asset strategies, drawing on Standard Life Investments' demonstrable excellence in both these fields. Through this, we aim to deliver GEM equity-like returns with lower volatility – culminating in a superior risk-adjusted performance.

Why choose GEM?

For many investors, GEM equities are viewed as a riskier investment proposition than their developed market peers. The asset class, as a result, can be susceptible to periods of upheaval when markets are stretched. The sell-off during 2015 was a case in point. To help combat this, we build our portfolios based on stock-specific insights, rather than sector or geographical considerations. This means we can construct truly diversified portfolios. We also tend to invest and hold stocks for the longer term. This gives us the opportunity to perform irrespective of the prevailing market conditions.

Sustainable growth

The high growth rates of some emerging market economies have prompted periods of investor caution regarding their sustainability. These worries have been heightened in recent years in light of the low growth and recessionary conditions in many developed markets.

Pockets of turbulence in GEM markets have also emerged in the wake of the US Federal Reserve's decision to increase interest rates. Nonetheless, we believe there are a number of structural drivers in place that will support GEM economies over the longer term, including selected companies domiciled within them.

Supportive demographics

Emerging markets now represent over 80% of the world's population, with about 35% of that population living in China and India. Many emerging markets enjoy supportive demographics, with their growing, young populations resulting in larger workforces. This contrasts the declining workforces and rising dependency rates in the developed world. In India, nearly 50% of the population is under 25.

The emergence of new consumers

Rising GDP per capita and the migration of rural workers to urban centres is giving rise to new generations of consumers who are demanding better goods and modern infrastructure to support their lifestyles. Many new urbanites are fast establishing themselves as an increasingly affluent middle class, with more money to spend on discretionary items.

Companies moving up the value chain

A number of GEM companies have already established themselves as global winners in their respective sectors. Their ability to outcompete their rivals in more developed markets across sophisticated sectors such as telecoms, autos and technology highlights the potential for companies within developing economies to rapidly move up the value chain. It also sets a precedent for other GEM companies to shift towards more value-added products and services. This presents greater investment opportunities for long-term investors.

Healthy balance sheets

While developed markets have been forced into painful bouts of deleveraging, developing markets are able to employ capital more freely to exploit growth trends both within their own economies and in developed markets. Household debt levels have been low and savings rates high. This should prove supportive in terms of levels of domestic demand for a wide range of products and services, including more sophisticated banking facilities.

Against this backdrop, we regard exposure to GEM equities as a core strategy within a truly global equity portfolio given their capacity both to enhance total returns and provide diversification benefits.

What is our investment approach?

For stock-pickers, a *Focus on Change* opportunity can take many different guises. These can be internal developments, such as a company restructuring or exhibiting top-line growth acceleration; alternatively, they can be external factors, like changes to industry competitive dynamics, the regulatory environment or technology. Such change often leads to upside in earnings, but may also involve a valuation re-rating.

Focus on Change in action

Emerging markets can be subject to swings in sentiment which contribute to their volatility. We consciously seek to avoid holding positions that are already market consensus, which goes some way to avoiding participation in such swings. We strive to add alpha through a large number of non-correlated, stock-specific ideas. Our philosophy is style agnostic. This means it is not inherently growth or value biased, nor is it momentum driven. As a result, we have the opportunity to outperform throughout the cycle.

Research and idea generation

As a global investment house, the investable universe of our global equities strategies includes over 5,000 stocks. Using our extensive resources, we filter these down to the best investment opportunities. As such, we have continuous and in-depth coverage of over 2,000 stocks.

In GEM, the majority of our stock-picking insights are generated through information and analysis gained from the more than 1,000 one-on-one company meetings we attend each year. These are supplemented by extensive primary research, consultation with industry experts and other sources.

Our analysis is organised along sector lines rather than country. As bottom-up stock-pickers it is useful to be sector experts in order to understand material changes particular to specific companies or industries. This expertise also gives our portfolio managers the confidence to pick stocks at an early stage in their evolution when they may not be well covered by sell-side analysts.

Supplementary analysis

The Matrix, our proprietary screening tool, supplements the insights gained from these company meetings across the wider equities team. It assists our stock selection process and helps us to identify companies with improving or deteriorating characteristics. The Matrix

focuses on the 5,000 stocks we examine and screens them for a host of factors, such as growth, value or momentum characteristics. It is therefore a useful tool for identifying opportunities in GEM where change within a company is presently under-appreciated.

Common investment language - five question analysis

We use five key questions to frame our investment ideas. This provides a common investment language across the entire company.

Analysis

- 
- ▶ What are the drivers?
 - ▶ What is changing?
 - ▶ What is priced in?

Judgement

- 
- ▶ Why will the market change its mind?
 - ▶ What is the trigger?

Stock selection and portfolio construction

We select stocks based on our strongest non-consensus ideas and take into account conviction levels and upside materiality. Sector and geographical weights are a result of this stock selection process, and are constrained only by the appropriate risk control parameters.

We encourage and incentivise robust debate throughout this procedure. This means only our best investment ideas make it into our portfolios.

What is our investment expertise?

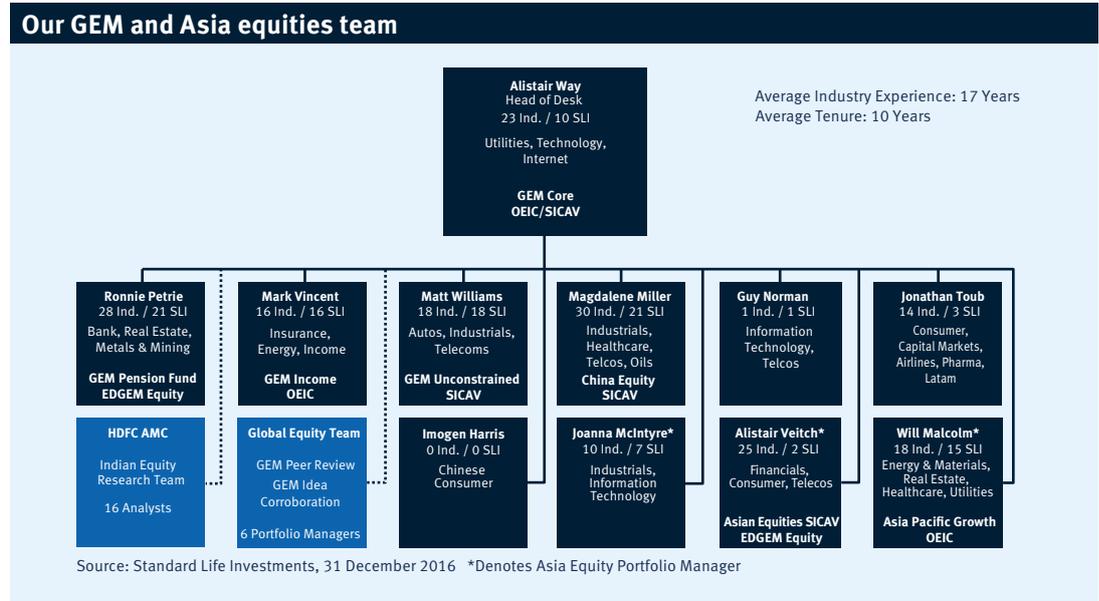
An experienced and high-calibre team of 11 investment professionals manages our GEM equity portfolios.

Our collaborative approach

The team interacts closely with our extensive developed market stock research teams, covering North America, Europe, the UK, Asia, India and Japan (the latter two through our close relationships with leading domestic players HDFC Asset Management in India and SuMi TRUST in Japan). We gain further insights from our in-house fixed income team (whose capabilities span GEM debt), our global real estate team and our global strategy team.

A combined role

At Standard Life Investments, we combine the role of strategy manager and research analyst. This fosters a culture of high-quality investment debate which we believe tangibly enhances the stock research process. The complexity and size of certain sectors within the GEM universe mean that some are covered by more than one research analyst, enabling us to capture important regional economic variables and/or industry dynamics that may drive share prices.



Find out more

For more information on our global emerging market capabilities, visit our website standardlifeinvestments.com.

Visit us online

 standardlifeinvestments.com

Important Information

All information, opinions and estimates in this document are those of Standard Life Investments, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons. The information provided is for informational purposes only and does not constitute an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute investment advice or an endorsement with respect to any investment vehicle. This material serves to provide general information to clients and is not meant to be legal or tax advice for any particular investor, which can only be provided by qualified tax and legal counsel.

Past performance is not a guide to or indicative of future results.

Due to among other things, the volatile nature of the markets and the investment strategies discussed herein, certain investments may only be suitable for certain investors. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment. The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested.

Equity securities are generally subject to varying degrees of market factors, including but not limited to, market sector, market liquidity, issuer and investment style risks. The strategy may at times use 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.

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