

December 2018  
InFocus



# Standard Life Investments UK Equity Income Unconstrained Fund

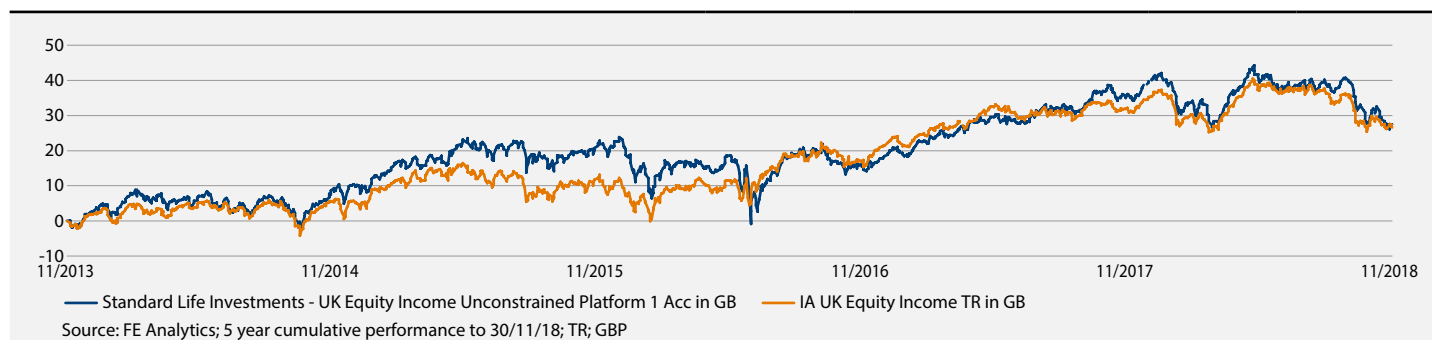
## Key features

A differentiated income fund that offers diversification benefits using a proven, index-agnostic investment approach

Focus on total returns, driven by a combination of dividend growth and yield considerations

Well-resourced team, full market coverage and close corporate access provide deep investment insights

## Performance



	30/11/2017 to 30/11/2018	30/11/2016 to 30/11/2017	30/11/2015 to 30/11/2016	30/11/2014 to 30/11/2015	30/11/2013 to 30/11/2014
Standard Life Investments UK Equity Income Unconstrained Ret Platform 1 Acc in GB	-6.36	17.75	-4.78	11.70	8.66
Sector IA UK Equity Income TR in GB	-4.20	12.58	4.67	6.18	5.55

Source: FE Analytics; 5 year cumulative performance to 30/11/18; Platform 1 Acc net; TR; GBP

## Performance

The Fund has a strong performance track record over the portfolio manager's tenure, delivering an average annualised return of 4.97% over the past five years versus the peer group average of 4.82%. This has been achieved through the consistent application of our rigorous bottom-up investment process, seeking out mis-priced companies with the potential for dividend growth surprise and avoiding those whose dividends we believe to be unsustainable.

## A smaller field?

The Fund's strong performance over the long term stands in contrast to many of its peers, a number of which have been ousted from the Investment Association equity income sector in recent years for failing to meet the requisite yield target. This is despite the yield requirement being eased in March 2017 from 110% to 100% of the FTSE All-Share yield on a three year rolling basis. Indeed, while there were 103 qualifying funds in 2011, this number had fallen to 81 in 2016. Lowering the target to 100% has allowed a few funds to be readmitted, taking the total to 87 in 2018. Throughout this time, we have retained a yield target of 110% for the UK Equity Income

Unconstrained Fund, and have continued to deliver against this goal over the full length of the manager's tenure.

## The fundamentals remain important...

This consistency in meeting our yield target is a consequence of our tried-and-tested, highly active investment process. Focusing on companies' underlying qualities and dividend characteristics, our meticulous research helps us to produce non-consensus insights that drive the portfolio's returns. Cash flows, being one of the most significant influences on both dividends and share prices, are one of our foremost considerations.

Valuations are also important. We aim to gain a thorough understanding of the companies we invest in, spotting those stocks with potential for profits growth, or those at risk of a sharp decline in profitability and acting accordingly, rather than following the crowd. Maintaining this focus and discipline against a market background in which growth stocks have been much more popular than their value counterparts has been one of the Fund's key differentiators in recent years.

## Furnishing opportunities

Dunelm, the homewares and furniture retailer, is one of the Fund's holdings that aptly demonstrates our non-consensus thinking. Earlier this year, Dunelm's share price dropped after it issued a profits warning. The company, in common with many other UK retailers, said that weaker footfall in its stores was the reason behind its lowered guidance. In our view, however, Dunelm has several redeeming features. One of these is its recently expanded online presence, which was secured as a result of its purchase of WS Group. Despite the acquisition, Dunelm's balance sheet looks healthy. And while the company is already benefitting from its strong brand, we think it could extend its lead in terms of market share in the UK homeware sector. Finally, there are management's plans to boost cash flow, primarily by exercising caution with regard to the rate at which it opens new stores. All of this combines to mean that Dunelm has attractive earnings prospects and dividend potential.

## Longer term thinking

Another example of our non-consensus approach to stock selection is the position in energy services and engineering company John Wood Group. While there are concerns about the

outlook for the wider offshore energy sector, our analysis leads us to believe that Wood Group is well-positioned for the coming years, having already won more work this year. In November, it agreed to provide project management services for Abu Dhabi National Oil Company, securing 3 contracts worth a total of \$53 million. Our conviction in the holding is deepened by our belief that there are long-term benefits to be had from last year's £2.2 billion acquisition of Amec Foster Wheeler, a deal aimed at broadening the company's end-market exposure.

## Looking ahead

While share prices are volatile, we are encouraged by the strength of the portfolio's income generation which is one of the key benefits of our index-agnostic approach to UK equity income. Going forward, we expect solid cash flow generation within the portfolio to support continued delivery of dividend growth. In turn, this should result in capital growth as share prices respond to positive company announcements.



**Thomas Moore**  
Fund Manager

**“The portfolio remains focused on stocks that offer the combination of positive dividend growth surprise and dividend yield compression, which we see as a powerful combination that can drive significant total return over time.”**

## Important Information

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website [www.aberdeenstandard.com](http://www.aberdeenstandard.com)

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