Global Focused Strategies

Fusing macro and micro investment opportunities

Standard Life Investments

March 2015

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 of 31 December 2014, Standard Life Investments managed £245.9 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 1,400 talented professionals. We maintain offices in a number of locations around the world including Boston, Hong Kong, London, Beijing, Sydney, Dublin, Paris and Seoul. In addition, we have close relationships with leading domestic players 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 went public 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$383.6 billion, €316.8 billion, AUD$468.4 billion, CAD$444.2 billion. Exchange rates used are US dollar = 1.5592, euro = 1.2885, Australian dollar = 1.9053, Canadian dollar = 1.8060, as at 31 December 2014.

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Introducing Global Focused Strategies (GFS)

GFS is an absolute return portfolio that aims to reliably generate high, positive returns irrespective of market conditions. We target a return of cash* +7.5% per annum over rolling three-year periods and expect to deliver this return with between 6% and 12% volatility.

In seeking these performance targets, we use a discretionary multi-asset approach that integrates macro insights with fundamental security research. This allows GFS to fully exploit our investment views and enhance portfolio efficiency.

We operate with broad investment freedom within rigorous risk constraints. GFS invests actively within and between all major asset classes and across the capital structure of firms. It can also make extensive use of derivatives to implement positions and mitigate risk. This allows us to access an exceptionally diverse array of strategies, so we can seek to generate positive returns irrespective of the economic environment.

GFS is managed by our multi-asset investing team (MAIT), using the established investment platform and risk infrastructure that underpins the Global Absolute Return Strategies (GARS) and Absolute Return Global Bond Strategies portfolios. This infrastructure supports the construction of a diverse portfolio, with the result that GFS can perform well in a wide range of conditions and be resilient to stress scenarios.

GFS draws on the macro thinking of the MAIT, as well as insights from our fundamental security-specific research within asset classes. Thus, it benefits directly from our broad investment resource and from the experience and insights of our equity, fixed income, real estate and money market specialists.

GFS is therefore a fusion of our macro and micro capabilities, underpinned by our collaborative security research platform and multi-asset risk and portfolio management expertise.

Why invest?

- The return is commensurate with long-term expectations from high-alpha equity
- Extensive and durable diversification – built to perform in a wide range of economic outcomes
- Low correlation to conventional asset classes and to other Standard Life Investments multi-asset portfolios
- Built on our proven discretionary fundamental risk-based approach to multi-asset investing
- Leverages the experience and expertise of our established multi-asset investing team
- Daily pricing, daily access and no notice period
- Competitive flat fee structure

Summary of key features	
Targeted return	Cash* +7.5% per annum (gross of fees) over rolling three-year periods
Expected volatility range	6% to 12% or, more broadly, from one-half to two-thirds of equity market risk
Investment universe	Access to all capabilities of the firm, with suitable liquidity and transparency characteristics
Structure	Luxembourg SICAV
Accessibility	Daily pricing, daily access, no notice period and full risk transparency
Fee	1.2% per annum, with no performance-related component

*Cash is defined as: UK, Switzerland: 6-month LIBOR; US, Canada: 6-month US LIBOR; Europe: 6-month EURIBOR; Australia: UBS Bank Bill; New Zealand: 180-Day Bank Bill; Singapore: S$ LIBOR.

Key components driving our success

Our existing multi-asset solutions have proven highly effective in delivering consistent, low risk performance and they continue to grow in popularity. There are several key aspects that drive the success of our multi-asset approach.

Broad investment freedom
Constructed without benchmark index constraints, our multi-asset strategies can access a larger and more diverse pool of opportunities than is available to traditional portfolios. Alongside traditional investments in equities, bonds and real estate, we access more focused strategies. These allow us to profit from our views on interest rate movements, currency exchange rates, volatility and inflation expectations. We also use relative value strategies that allow us to make money irrespective of market direction.

Importantly, our approach leaves our managers free to implement their best investment ideas to the full extent of their conviction, to maximise risk-adjusted returns.

Longer-term investment horizon
GFS is built from multiple investment strategies, each of which we expect to deliver a positive return on a two- to three-year time horizon. This allows us to access market inefficiencies, which, while often quite obvious, are less accessible to managers lacking the scope to diversify short-term market uncertainty.

Collaborative idea generation
We have an integrated and collaborative research ethos that differentiates our analysis and decision making. This allows us to pool our expertise and insights and make fully informed investment decisions. It also means we are resilient to team changes because portfolios are not the product of a single person. This contributes materially to the long-term stability and consistency of our portfolios.

Depth and breadth of investment resource
Our multi-asset solutions benefit from our depth of resource, experience and diversity of talent across all the asset classes. Because we are structured specifically to share information and insights rather than operate in silos, GFS has access to a broad array of strong, value-accretive ideas.

Efficient portfolio management and strategy implementation
We routinely use conventional derivative instruments that can offer efficient implementation while also increasing the range of opportunities to make money, irrespective of market conditions. Through many years of activity on behalf of our largest institutional clients, we have built experienced and dedicated derivatives teams.

Risk-based portfolio management, construction and oversight
Effective risk control is integral to our multi-asset approach. Consistent with our longer investment timeframe is the need to apply rigorous risk control techniques to ensure the stability of portfolios, avoid risk concentration and withstand stress events. Through comprehensive pre-trade risk analysis and ongoing compliance monitoring, we enforce objectivity in portfolio construction, diversity of positions and resilience to stress scenarios.

Investment philosophy and process

We believe that markets are driven by investors with predominantly short time horizons, causing periods of irrational exuberance and pessimism. The resulting market inefficiencies present return opportunities, which longer-term investors can exploit. Additionally, by accessing multiple longer-term strategies, we can diversify their short-term behaviour, enhancing stability as well as performance.

We believe the most effective way to build a durably diversified portfolio is to capture investment ideas generated from a broad range of research methodologies.

We encourage all types of research, including technical, fundamental, behavioural and thematic, as each provides a unique investment perspective.

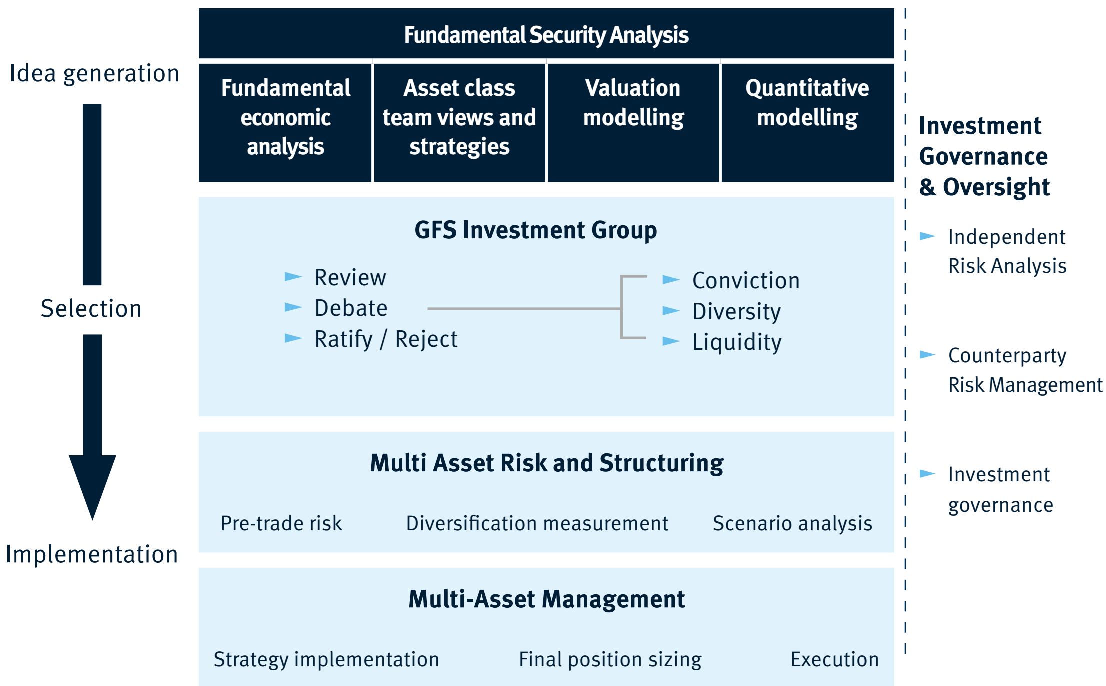
Whatever approach is used, we use our distinctive investment process to identify:

- what drives the valuation
- what is already priced in
- what is changing and what might trigger future change.

This approach is used by all our asset class managers, allowing us to communicate in a common, consistent investment language.

Our investment process

The GFS investment process is closely aligned to that of our other successful multi-asset absolute return portfolios. It is designed to capitalise on an array of research and investment techniques at both a macro and micro level, pooling the two- to three-year investment insights of all our portfolio managers.



Idea generation

Our asset class specialists undertake extensive research and analysis to gain insight into the key performance drivers, the range of return expectations and liquidity/capacity profile of potential investments. From this process, many investment themes emerge. Combined with the macro perspectives of our strategists, they provide an abundant source of opportunities for GFS.

The free flow of ideas generated by our approach means the strategies in GFS can come from a variety of sources. GFS' managers seek to identify those themes with the greatest return potential on a on a two- to three-year view, and judge how best to access them. This is achieved through a series of formal and informal interactions with investment colleagues across the asset classes.

Strategy selection

Proposed strategies must be examined and approved by our senior investment managers and on-desk risk specialists before being included in GFS. Each must fulfil our criteria regarding:

- our conviction in its return potential over a two- to three-year timeframe
- its effectiveness in mitigating risk
- its liquidity and scalability.

We rigorously examine and review new strategy proposals as they arise at formal monthly meetings, and formally requalify those already approved for the portfolio. Our aim is to assemble and maintain a high-conviction array of strategies that will work well together.

Strategies may be drawn from any market – we seek a broad diversity of return drivers to produce a genuinely diversified final portfolio. Positions with low expected returns in our central view may also be considered where these add material diversity and resilience, performing well in economic conditions where other positions are likely to struggle.

Portfolio construction and implementation

Approved strategies are examined by the MAIT to determine:

- size of risk position
- type of instrument to be used
- timing of trade entry and execution strategy.

Benefiting from the skills and expertise of our integrated team of risk specialists, GFS' managers examine the interaction of different strategies from a variety of perspectives. This helps them build the portfolio to deliver positive returns in multiple economic scenarios.

GFS is able to use all conventional derivative instruments to express investment ideas, provided these offer clear, regular pricing and good liquidity.

Investment universe

To achieve GFS' performance objectives, we can access a wide range of investments from across global markets. This means there are multiple opportunities to generate a return, irrespective of market outlook.

We allocate to an extensive range of return-seeking positions in both traditional and advanced asset classes. The number and diversity of the strategies we choose means that total portfolio risk is durably diversified and the portfolio can withstand periods of uncertainty with greater stability than markets as a whole.

Broad investment opportunity set

The GFS opportunity set can be divided into three groups.

Traditional risk premia and active management

We seek returns from traditional investment methods. These are:

- market selection – returns from equity, credit and real estate exposures
- security selection – alpha returns from our fundamental bottom-up security research.

Directional exposure to cyclical investment opportunities

We search for returns from material medium-term movements in markets that over the longer term might be expected to deliver only a marginal return over the risk-free rate. These markets include:

- interest rates
- currencies
- inflation
- volatility.

Relative value opportunities

We exploit the divergence or convergence of relative performance between markets or groups of investments which we believe are mispriced relative to one another. Such opportunities might arise across:

- geography
- sector
- size/capitalisation
- cross-asset.

What makes GFS unique?

In addition to the broad macro views of our multi-asset investing team, as a more focused fund, GFS is able to delve deeper into individual security research. This allows us to maximise the investment potential of the themes and strategies identified by our teams of investors.

This is a critical facet that allows us to target higher levels of return, and results in a portfolio consisting overwhelmingly of unique exposures inaccessible to our other multi-asset capabilities.

There are three broad categories of strategy that are unique to GFS.

1: Enhanced macro strategies

Having identified broad macro strategies, we re-engineer them at security level to fully exploit their return potential. Security-specific implementation reduces spurious index-related factors.

Example

Investment theme: We expect the Japanese yen to weaken against the US dollar.

Macro strategy: Long US dollar versus Japanese yen.

Security-specific strategy: Long a basket of Japanese exporters (hedged); short the Nikkei Index (unhedged).

2: Focused macro strategies

Some of the macro strategies identified by our multi-asset managers present opportunities in liquid but smaller markets, segments and sectors often inaccessible to other portfolios.

Example

Investment theme: Return and risk are unevenly distributed across the capital structure of financial companies.

Focused macro strategy: Long Barclays Bank contingent convertible bonds (CoCos).

3: Granular thematic, security-specific strategies

Our investment process seeks to identify return drivers for individual securities. These return drivers frequently represent shared investment themes. We can set up baskets of securities in order to isolate and fully exploit thematic opportunities.

Example

Investment theme: Global demand for European luxury goods is growing rapidly, fuelled by demand from emerging markets, especially China.

Security-specific strategy: Long a basket of European luxury goods stocks; short the Eurostoxx 600 Index.

The team behind GFS

GFS is managed by our award-winning multi-asset investing team (MAIT). Comprising experienced and dedicated individuals with an average of 16 years' industry experience, the team shares a range of backgrounds and specialisms. These include equities, bonds, quantitative analysis, actuarial insight, investment strategy, risk analysis, investment management and economics.

Guy Stern heads the MAIT. He has over 30 years' investment experience and joined Standard Life Investments in 2008. Previously, Guy was CIO, Multi-Asset Class Solutions, for the UK and US divisions of Credit Suisse Asset Management.

The MAIT covers three key areas.

Strategic research

- responsible for developing the broad economic framework that supports portfolio construction
- articulates strategic threats to the global economy

Risk and structuring

- responsible for strategy and portfolio risk analysis, and portfolio structuring
- provides quantitative discipline to the qualitative portfolio management process

Multi-asset management

- responsible for identifying, developing and implementing strategies
- manages GFS on a day-to-day basis

These groups work closely together to select the best ideas and strategies. Pooling our skills and experience in these three critical areas allows us to make fully informed investment decisions and to put in place what we believe are the best combination of strategies for any given market environment.

The lead managers for GFS are Neil Richardson and David Sol, who have worked together on the portfolio since the start of 2012. They were subsequently joined by Jennifer Catlow in 2013.

Neil Richardson
Investment Director

Neil has 30 years' investment experience, joining Standard Life Investments in 2011 from Ignis, where he was Head of UK Equities. Prior roles include four years as a client manager at Citigroup and Head of pan-European Research at Threadneedle. As well as co-managing GFS, Neil is responsible for equity strategies in the GARS portfolio. In addition, Neil contributes to the asset allocation process of other portfolios that are managed by the MAIT.

David Sol
Investment Director

David has 12 years' investment experience and joined Standard Life Investments in 2010. Alongside his role as co-manager of GFS, he manages a range of corporate credit portfolios. Previously, David was a partner at Ravenscourt Capital Partners, where his primary focus was fundamental credit research. David started his career in Lehman Brothers' structured finance department, working on securitisation deals across Europe.

Jennifer Catlow
Investment Director

Jennifer joined Standard Life Investments in 2011. Prior to her current role as portfolio manager, Jennifer initially worked as a quantitative analyst in the multi-asset strategy team. Jennifer subsequently moved to the multi-asset implementation team, with responsibility for managing traditional balanced and absolute return portfolios. Areas of focus included global tactical asset allocation, as well as developing the implementation framework for GFS and implementing GFS strategies from its launch in December 2013.

Risk management structure

We have an extensive risk management infrastructure to ensure that managers operate within the GFS investment risk framework. We monitor and control risk through a combination of organisational structures and processes. There are four distinct groups engaged in risk management for GFS.

Risk management structure

- The **multi-asset risk and structuring** team is an integral part of the MAIT. It provides GFS' managers with ongoing insight into the risk profile of each investment strategy – both in isolation and with respect to its overall portfolio diversification benefits. The risk specialists undertake pre-trade risk analysis for all proposed portfolio changes and use proprietary as well as industry standard tools to monitor and measure risk.
- Working independently of the MAIT, the **investment risk** team monitors performance and risk for all of the portfolios managed at Standard Life Investments.
- Also working independently of the MAIT, the **investment governance** team ensures the consistency and integrity of our investment process versus each specific portfolio mandate.
- The **risk & exposures committee** authorises all investment instruments and counterparties that may be used, and monitors exposures.

Additionally, we carry out extensive checks daily, to ensure robust pricing of GFS by our independent administrator and custodian.

Risk control

Within GFS, we have considerable investment freedom to adopt a wide range of physical securities and derivative-based exposures. Through our robust risk management infrastructure, we ensure that our managers apply this freedom responsibly and effectively.

Our risk processes allow us to monitor and control the implementation of all investment strategies on a consistent basis, however or wherever they are invested. This approach is both more informative and more adaptable to changing market behaviour than traditional asset allocation limits and reporting.

GFS risk restrictions

We expect the volatility of GFS to be between 6% and 12% or, more broadly, one-half to two-thirds of the risk of global equities generally. We derive these figures from the breadth of investment freedom available to the portfolio managers, coupled with the risk limits set out below which ensure portfolio diversification.

To ensure that no one strategy dominates the risk profile of the portfolio, we set concentration and maximum exposure limits.

- A 40% maximum of the predicted aggregate investment risk is to be allocated to any single market strategy such as equity or interest rates. Aggregate investment risk is the total stand-alone investment risk that we allocate to achieve our return target if we assume strategies are fully positively correlated – a highly conservative assumption. In addition, equity and equity relative value strategies may not together exceed 50% of the predicted aggregate risk.
- A 15% maximum of predicted aggregate risk to be associated with any single market return sub-strategy such as UK equity or yen duration.
- Aggregate investment risk across all strategies is subject to a soft limit, expressed as a ratio to equity market volatility. This limit, set at 180%, is designed to ensure that we can deploy sufficient risk to aim for the return target.
- We apply security-level notional exposure limits across our investment platform, to prevent over-exposure to individual stocks.

These risk limits perform like a strategic benchmark insofar as they prevent concentration of risk. However, by expressing them in this more generalised way, we can apply them to any market. This approach:

- frees the manager to seek positive absolute returns from the widest possible investment universe
- does not constrain the manager to hold asset classes or investment strategies that are expected to underperform
- permits only those investments that are comprehensively understood from a risk perspective to be eligible for inclusion in the portfolio
- ensures that the manager seeks to enhances the enduring diversity of the portfolio, resulting in lower overall levels of risk.

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