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Fund Manager Meeting Notes
– Standard Life Income Options

When asked which fund managers we like, Standard Life Investments has to be one of those managers. In the UK side we use three funds; we also use their global smaller companies fund and GARS.

This update was with two managers Tom Moore who manages their UK Equity Income Unconstrained Fund and Dr Mark Vincent who manages their Emerging Market Income Fund.

The UK Fund we already use and we like Tom as a manager; the Emerging Market Fund is new to us but comes at a time when we are reviewing the options in this sector.

In this review we will provide a brief update on Tom’s fund and a review of the EM Income Fund.

We have no reason to remove Tom’s fund from the portfolios, and therefore we would expect this to remain in the portfolios. With the EM Income Fund there are other funds to consider including Lloyd George and Somerset but it will be one that we add to the watch list.

Overview of the fund

<u>UK Equity Income Unconstrained Fund</u>

This fund has been managed by Tom Moore since 2009. It is a high conviction fund holding 50 stocks. What attracted us to the fund in the first place was not only the performance but also the fact that this is not your normal income fund. A lot of larger funds put yield first whereas this fund seeks yield and growth.

He will hold some of the big names where he has conviction. So for example BT is one of his larger holdings, in September he added BAT as the share price dropped to a level where he thought it was good value and he has also been building a position in HSBC.

He held Centrica until recently and although it has performed well he is uncertain of the future and therefore has sold out.

Stocks he likes are L&G and Easy Jet where he sees both growth in stock price and dividend. Tom is bullish and believes there are still plenty of good value stocks and that we are at the foothills of an economic recovery and these are the stocks which will do well. One stock he has held for a while is Cineworld which he still likes but he feels is now mispriced and he has sold out of.

His belief is that bond proxy income funds will struggle going forward and we agree with this thesis.

This is an all cap stock so will go across the market to find good stocks and is not weighted to the FTSE100. This is where we believe he can drive value.

One concern we have is that when we went into the fund it had around £100 million of assets, this is now getting closer to £300 million. Tom believes he can continue to deliver but he doesn’t want to grow the fund to a size where it compromises existing investors so it will be something he watches carefully.

In summary this is a great fund and shows that when it comes to UK Income investing you don’t have to follow the crowd.

Emerging Market Income Fund

Standard Life Investments (SLI) for us are really about the funds we already have. We were aware that they had brought on board the Emerging Market Debt team from Threadneedle and had launched funds last year. We were not aware they had launched Equity and Equity Income Funds.

The team was set up by Dr Mark Vincent three years ago. Mark has been at SLI for 12 years so is not new to the company. The team has grown to 10 with 8 emerging market specialists and 2 Asian specialists plus the wider the SLI group.

The fund has a bias towards small to mid-cap stocks which is what we like and see value but will also invest in large cap as well. Unlike for example, First State it aims to be a pure EM play. It does for example hold Coca Cola, but this is a Turkish bottling firm for Coca Cola rather than the actual main listed company.

The other part of the investment which I like is that it uses part of the fund to invest in Frontier Stocks and currently holds around 7% in these stocks.

The number of holdings is a slight concern with around 100 stocks but the argument is that this enables the fund to grow and provides diversification so the fund avoids political and macro problems by being too concentrated.

The fund invests around 50% in dividend growth stocks, 35% in sustainable dividend growth stocks and 15% in special situations. The argument is that to play in this market companies that deliver shareholder value via dividends show a more robust business model.

Some of the holdings provide an indication of the diversity of the portfolio.

Juhayna Food in Egypt is a milk packaging company. Currently 80% of milk is not packaged and delivered in a bottle which people then fill a container with. There will be a move to packaged milk and Juhayna have a monopoly on the market. They also produce Yoghurts and Juices.

Supalai is a Thai Property Company. Most property companies are Bangkok focused however this company covers most of the country. The government is looking to expand growth beyond Bangkok and therefore there are many projects outside of Bangkok and in reality Supalai are one of the only companies that can take on these projects. The yield is around 5%.

Another example is China Hongqiao which is a Chinese aluminum producer. This sector is unloved however this company has two unique features it owns its own electricity grid and it is close to its customers which enables it to deliver molten aluminum. The belief is that this is a cash generative business which can sustain its dividends.

Mark is also looking at Nigerian Banks as an option for the fund.

In summary our feeling is that at the time when we need to review the emerging market holdings this may be a good alternative. We like the link to frontier markets and the pure emerging market play. However, there are more established funds via Lloyd George and Somerset to consider.

Conclusion

In summary we will continue to use the SLI UK Equity Income Unconstrained Fund where appropriate. We will add the EM Income Fund to our watch list.

The source of information in this note has been provided by Standard Life and is correct as at November 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.