

SHINING A LIGHT ON..... SLI Smaller Companies Funds

Update....

Standard Life Investments have built a strong reputation in the smaller company arena. Their UK Smaller Companies Fund was launched in January 1997 by Harry Nimmo. Since then the Investment Trust version of the fund was launched in 2003, a European Fund in 2007 and more recently the Global Smaller Companies Fund was launched in 2012.

There are a few things about the funds which investors might like. Firstly the stability of the management is clearly important but as Harry continually highlights much of this is about the process and the system they use (called the Matrix) so although the manager makes the end choice it is the matrix which highlights the opportunities.

Secondly many investors might consider smaller companies a risky asset class. Harry explained that it can be but you don't have to take risk in the asset class. The UK fund can invest up to 25% in AIM companies and the fund is close to that level. But Harry explained that although many businesses are blue sky ideas there are good businesses and it is those that he will select. Fundamentally what the funds are looking to do is buy tomorrow's larger companies today.

Thirdly although the performance over the last five years has been average the long term performance has been consistently strong.

In this update we discussed the process, performance and some of the investment ideas.

The process remains unchanged since 1997. The aim remains about buying companies with proven business models and those that make money. Some of the key factors are market share, barriers to entry and pricing power.

Harry and the team are long term holders of companies and this is really important for investors to understand. As he explained two of the strongest performers for the fund this year, Telecom Plus and Paypoint, have been weak performers in previous periods. But as he explained holding for the long term is important. The fund has held Ted Baker since 1997 when it was first listed at £1.50. Now the price is £3.34 and they believe it still has much more to give.

The holdings do have a high a Price to Earnings Ratio compared to the benchmark but again they are not worried about this because they believe the companies within the funds can deliver. A few new holdings include Greggs, JD Sports and Fevertree. Greggs for example have a new management team and are making significant changes to the business. It is now the largest coffee provider in the UK ahead of Starbucks and has seen its share price double in twelve months.

JD Sports has benefited from their direct rival, JJB Sports, going bust and offers a different proposition to the likes of Sports Direct. It is particularly popular with the Asian Communities and has expanded across the UK and Europe proving it can make its format work abroad. More recently it has taken over Blacks and issued a positive trading statement. Again over twelve months shares have doubled in value.

The third company Harry talked about was Fevertree who make premium mixer drinks. The business has a strong brand and is growing globally. In twelve months the shares have gone up nearly 200%.

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Of course future growth is not guaranteed but it highlights finding good, sustainable long term businesses can deliver strong returns. He has recently sold supergroup where he has concerns about earnings which are weather dependent and brand control. Another company he has sold is Optimal Payments where the fund has made good money but a recent merger has raised concerns about future direction and he has sold out.

The global fund does hold some of the UK holdings so there is a crossover of holdings but obviously it goes beyond the UK. Currently it holds 44% in the US, 11% in the UK, 15% in Europe, 11% in Japan and 12% in Asia. Interestingly on performance the fund has captured 96% on the upside but only 65% of the downside. It again highlights across the strategy the aim to focus on good quality companies rather than blue sky ideas.

The largest holding in the Global fund is Pigeon which is Japanese Baby Product Company which has a strong brand both in Japan but also internationally in places like China and the UK.

Fundamentally the matrix highlights opportunities but the managers pick their best conviction ideas and they believe over the long term this will benefit investors. Harry admits performance over the last five years has been average but he believes this has been the environment we have been in. We have been in five years of economic recovery and there has been no benefit in holding quality stocks. However, he believes we are in the later stages of this recovery and this is when the funds should shine.

In summary these funds offer investors access to companies which have the potential to deliver stronger returns than large cap alternatives. Risk is very much at the top of the agenda for the managers and they believe by focusing on quality companies and not blue sky ideas they can deliver returns without outsize risk. The style may not appeal to all investors but could be used as a blend with larger cap funds or as stand-alone investments whether in the UK, Europe or globally or a mix of the three.

Fund performance

UK Smaller Companies Performance:

	2010	2011	2012	2013	2014	2015
SLI UK Smaller Companies Fund	47.30%	-9.63%	23.06%	37.82%	-8.51%	17.91%
FTSE AllSh TR	14.51%	-3.46%	12.30%	20.81%	1.18%	5.49%

	1 year	3 Years	5 Years	10 Years	Since Launch
SLI UK Smaller Companies Fund	19.90%	61.09%	104.35%	272.60%	975.79%
FTSE AllSh TR	5.38%	38.31%	59.56%	95.77%	230.56%

Global Smaller Companies Performance:

	2012	2013	2014	2015
SLI Global Smaller Companies Fund	8.64%	37.67%	-2.51%	7.38%
FTSE World TR	6.87%	22.36%	11.29%	4.03%

	1 Year	3 Years	Since Launch
SLI Global Smaller Companies Fund	18.18%	46.79%	56.57%
FTSE World TR	12.27%	48.38%	51.38%

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European Smaller Companies Performance:

	2011	2012	2013	2014	2015
SLI European Smaller Companies Fund	-23.00%	20.52%	44.35%	-3.30%	16.41%
FTSE Eurotop 100 TR	-14.42%	11.99%	22.23%	-0.18%	6.76%

	1 Year	3 Years	Since Launch
SLI European Smaller Companies Fund	18.50%	81.25%	50.80%
FTSE Eurotop 100 TR	6.32%	43.24%	24.83%

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. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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