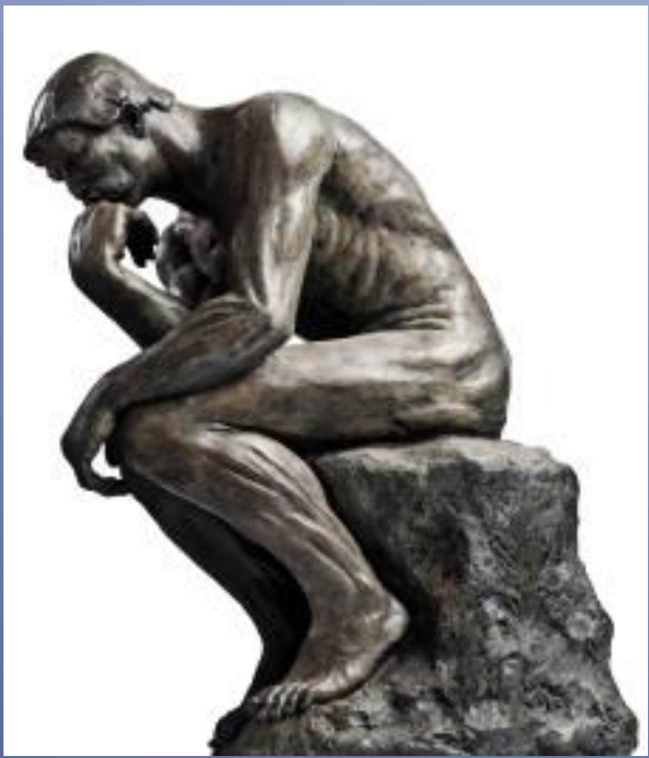

Fund Bites

Standard Life UK Equity Income Unconstrained Fund update

The Standard Life UK equity Income Unconstrained Fund is a fairly new addition to the portfolios. This “fund bites” is a summary of the recent telephone update we had with the fund manager, Thomas Moore.

Introduction

We don't use many UK income funds within the portfolios, the Schroder Income Maximiser is one fund we use and the other is the Standard Life UK Equity Income Unconstrained Fund.

The Standard Life Fund is a fairly new fund to the portfolios but one where we like both the manager and the style of management.

Most income funds in the UK fish in the same water; this fund doesn't and can achieve good returns by doing this. So for example the index holds around 83% in FTSE 100 companies, this fund holds less than 40%. The focus is around the FTSE 250 where the fund holds around 45.98%, most income funds hold 14.2%.

In this update with the manager, the manager explained in more detail how the fund is positioned and some of the stocks he likes.

The Fund

The fund has been managed by Thomas Moore (see picture) since January 2009. Although the fund is stated as unconstrained this more reflects his conviction style of management. The number of holdings is between 40 and 60.

Half of the UK dividends come from the top 10 dividend players. 41% of the UK Equity Income funds have a cross over in holdings. This fund has around 26% crossover of holdings and of the top ten dividend players the fund only holds BT, HSBC and Centrica.

Effectively Thomas sees his style as benchmark agnostic. He feels with many of these large dividend companies you are buying a bond proxy stock where the dividend remains fairly static with little scope for growth. History indicates these types of stocks tend to disappoint.

This point was something we didn't challenge the manager on. Glaxo and AstraZeneca are two stocks where some managers see potential opportunities going forward, and they feel that the market is not reflecting the opportunities these shares offer within the share price. If we take Thomas' view he feels that there is little growth within these stocks so it will be interesting to see if he takes a position in these in the future.

What Thomas is searching for are those companies that can be the dividend yielders of the future. Effectively these are growing companies and history indicates that these companies are the ones that will deliver the better returns over a ten year period.

An example stock is Easy Jet where the yield has been 15% p.a. (including a special dividend) and growth 140% since the stock was purchased in January 2012. As an alternative if the fund had purchased AstraZenica over the same period the yield has been 5.5% p.a. but the share price has hardly moved.

Other examples are L&G and Inchcape which have seen growth in both shares prices and yield since adding to the fund.

For Thomas the the key is finding good stocks who grow whatever is happening around. The macro picture does play a part but good companies should ride out the macro storm. Sometimes it delivers opportunities. Ashmore is an investment company specialising in emerging markets. The recent hero to villain in emerging markets means the price of the shares have fallen and therefore opened up opportunities.

So the fund is about searching out opportunities where others don't normally fish.

The performance has been strong and as other income players struggle with mammoth funds he can still nimbly move across the spectrum of income stocks.

In summary the style of management has not changed, and we continue to believe this is a good fund to hold in the lower risk portfolios.

Conclusion

In a crowded place for income funds with similar holdings this is a good conviction based fund and we continue to believe that this remains a good holding for the portfolios.

The source of information in this note has been provided by SLI and is correct as at 26 September 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. 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.