Enhanced Diversification Multi-Asset Fund

Standard Life Investments

April 2016

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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 at 31 December 2016, Standard Life Investments managed €343.5 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.

Our headquarters are in Edinburgh and we employ 1,500 talented individuals. 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 floated 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.

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Introducing the Enhanced Diversification Multi-Asset Fund (EDMA)

Extensive market volatility in recent years has prompted investors to reassess how best to achieve their investment objectives while managing downside risk. In response to these concerns, Standard Life Investments has devoted extensive resource on developing alternative solutions, particularly diversified multi-asset strategies. We believe our diversified multi-asset approach has clear and demonstrable merits in navigating market uncertainty and lowering volatility.

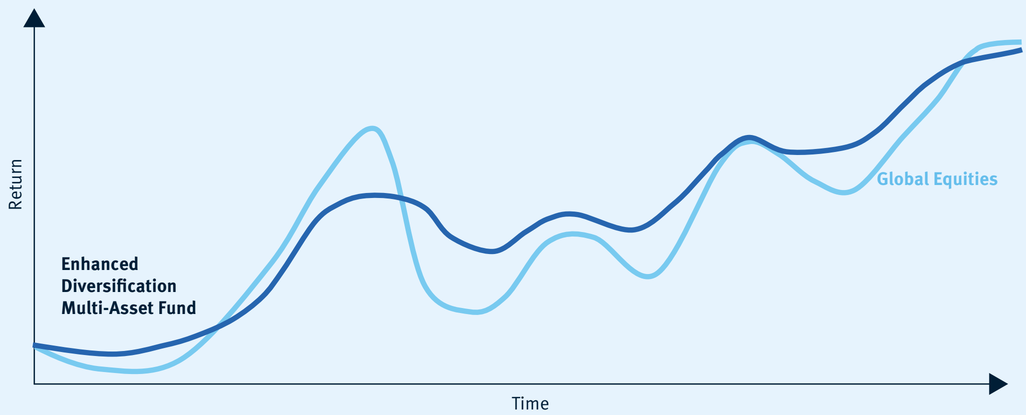
EDMA is part of our multi-asset range. We have designed it to be of particular advantage to investors who want to balance the desire for capital appreciation against persistent volatility in financial markets. With EDMA, we aim to generate equity-like returns over the medium term with less volatility than equity-only investing.

The Fund differs from many traditional diversified growth approaches in that we are not wholly reliant on different growth assets to provide return and diversification benefits. While we hold a range of market return investments (such as equities, bonds and listed real estate across the globe), we also use enhanced-diversification strategies to provide both additional sources of return and high levels of portfolio diversification.

EDMA benefits from the expertise of our established and award-winning multi-asset investing team. By exploiting the diversification strategies and investment resource of our multi-asset specialists, we can offer enhanced, lower-risk performance in a cost- effective manner.

Overall, we have constructed EDMA to target equity-type returns over the market cycle (typically five to seven years in duration), but with only two-thirds of equity market risk (Chart 1).

Chart 1: EDMA performance objective: equity-type returns with two-thirds of equity volatility



Source: Standard Life Investments

This chart is a forecast and is therefore for illustrative purposes only and is not based on actual fund performance. As a result, it cannot be relied upon as an indicator of future performance.

How does EDMA work?

EDMA: summary of key features	
Return profile target	Global equity-like returns over a market cycle
Expected volatility range	Two-thirds of the volatility of global equities
Portfolio structure	Dynamic asset allocation to equities, bonds and listed real estate, coupled with a blend of enhanced-diversification strategies

A brief overview of diversified growth funds

Diversified growth funds (DGFs) are an extension of traditional equity and fixed income balanced portfolios. They were introduced in response to the equity bear market at the turn of the 21st century. At that time, large falls in equity markets exposed the hazards of overdependence on equities as the prime source of return. DGFs sought to address this by diversifying the growth assets to include, for example, real estate, private equity and commodities.

However, during the subsequent financial crisis in 2008, such diversified growth approaches suffered more than anticipated. Many of these 'different' assets behaved in a similar manner under stressed market conditions, losing significant value for investors.

In short, many DGFs offer broad exposure to conventional market assets likely to add value in the longer term. However, their high dependency on growth or market risk premia alone can produce a volatile path, dependent upon the investment environment.

How EDMA differs from traditional diversified growth approaches

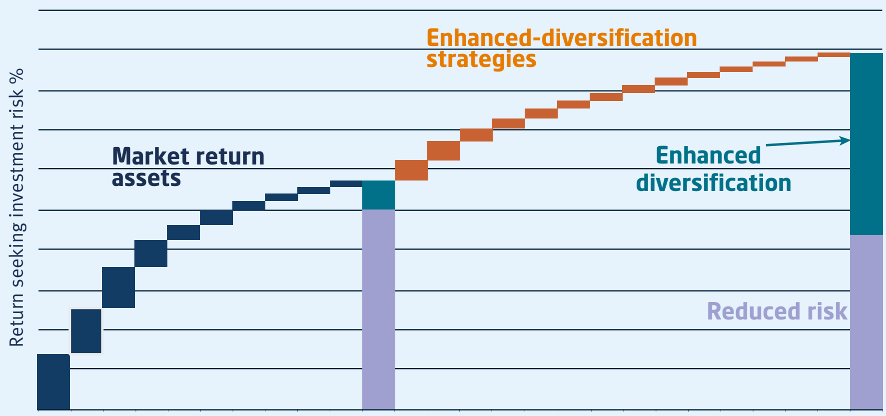
EDMA is:

- not reliant only on growth assets to provide diversification
- able to utilise return-seeking, enhanced-diversification strategies, to provide greater resilience in times of market stress
- constructed around our established process for:
  - generating strategies
  - combining strategies with conventional assets to mitigate risk
  - risk-based portfolio management and control.

We are not restricted to growth assets alone to provide risk dispersion. In addition to traditional growth asset classes, we allocate to return-seeking enhanced-diversification strategies. The primary aim is to have a portfolio of well-diversified investment risks (Chart 2).

Chart 2: EDMA – a risk-based portfolio perspective

Illustration

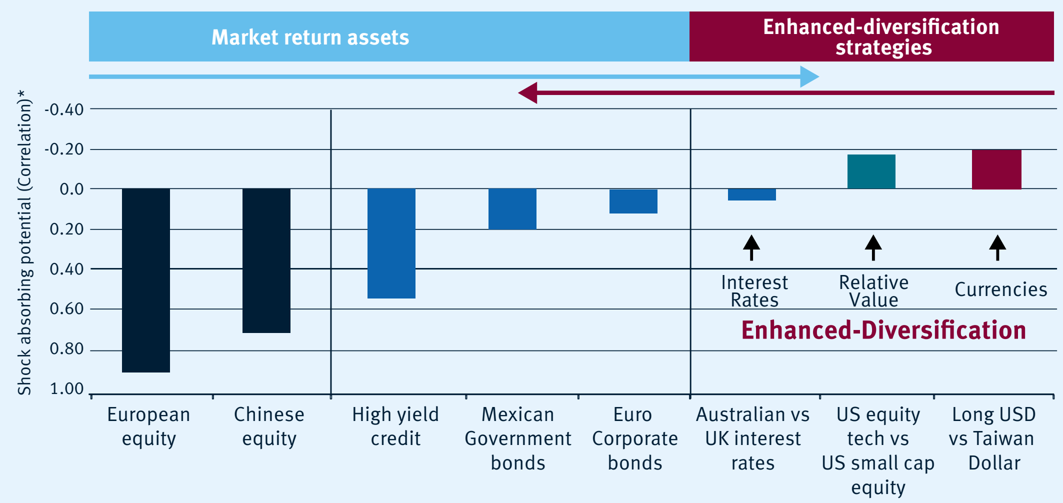


Source: Standard Life Investments

Investments and diversification

To more clearly demonstrate the diversification benefits, the chart below shows a range of investment strategies and their potential to absorb shocks in falling equity markets.

Chart 3: Greater diversification



* Correlation to MSCI World (Hedged to GBP)
Source: Standard Life Investments, APT, 31 December 2015

The first two strategies are European and Chinese equity. These strategies should provide good investment returns in the longer term. However, their high correlation with global equities (denoted by a correlation value close to +1) tells us that if global equity markets are falling, then these strategies are also likely to lose money. They therefore offer little diversification potential.

The next three strategies are from the fixed income universe. Bonds have traditionally been both good investments in their own right and good diversifiers for balanced portfolios. This is reflected in their lower correlation with equities, with the exception of high yield credit which has historically shown far greater correlation with equities in comparison to other bond markets. However, history shows us that during times of market stress, not all bond investments are effective diversifiers.

On the far right hand side, we have enhanced diversification strategies. These diversifying strategies may be based on, for example:

- mispricing of government bonds of different maturities, or one bond market versus another
- the relative value opportunity between two highly correlated equity markets
- a particular currency with potential for long-term appreciation.

We would expect these types of investments to be able to make money in down equity markets.

These types of return-seeking strategy are therefore invaluable in constructing a diversified multi-asset portfolio.

Implementing these enhanced-diversification strategies typically requires the use of highly liquid conventional derivative instruments that are widely used in the fund management industry.

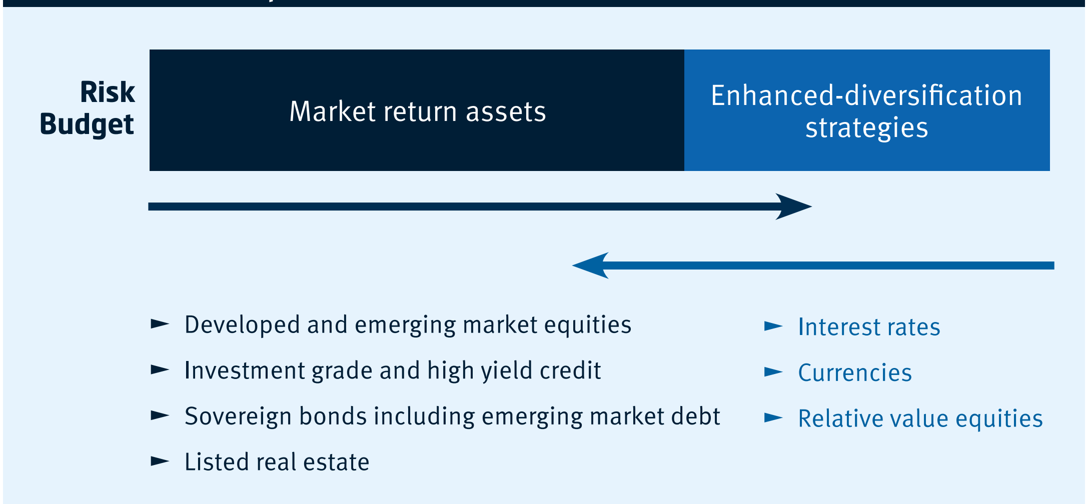
Importantly, we pursue only diversifying strategies that we believe will make money on a three-year time horizon.

In summary, EDMA looks beyond traditional strategies and seeks to capture genuine diversification by:

- taking a global perspective including emerging and developed markets
- pursuing only diversifying strategies which we expect to be profitable across interest rates, currencies and relative value
- using an unconstrained asset allocation approach, which gives us the best prospect for diversification potential.

We allocate the risk budget between more conventional market return strategies and our range of return-seeking enhanced-diversification strategies to construct a well-balanced portfolio.

EDGF: Asset allocation parameters



What is our investment expertise?

Our award-winning multi-asset investing team (MAIT) manages EDMA. Comprising over 50 skilled and talented individuals with an average of 16 years' industry experience, the team shares a range of backgrounds and specialisms. These include equities, bonds, quantitative analysis, investment strategy, risk and economics.

The MAIT covers three key areas.

Multi-asset management

- headed by Guy Stern, who has over 30 years' industry experience
- responsible for identifying, developing and implementing strategies
- manages the portfolio on a day-to-day basis

Strategic research

- headed by global economist Andrew Milligan, who has over 35 years' industry experience
- responsible for developing theses behind our strategies
- develops longer-term growth forecasts for market return assets
- seeks the investment rationale in which a strategy will perform

Risk analysis

- headed by Dr Brian Fleming, a multi-asset risk expert with 13 years' industry experience
- responsible for risk and structuring within multi-asset investing
- provides quantitative discipline to the portfolio management process

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 is the best combination of strategies for any given market environment.

What is our investment approach?

Our investment process is underpinned by our Focus on Change investment philosophy. This seeks to identify and understand key market drivers and the dynamics behind them.

We supplement this information with analysis of what is already priced into an investment. We then focus on what is changing and whether those changes might lead to revised market expectations or price. Clearly, the factors that drive markets will vary, depending on where we are in the economic cycle. Therefore, our investment approach is not inherently growth or value biased or momentum driven.

The same rigorous investment process is applied consistently by all our teams, allowing us to communicate in a common investment language across asset classes.

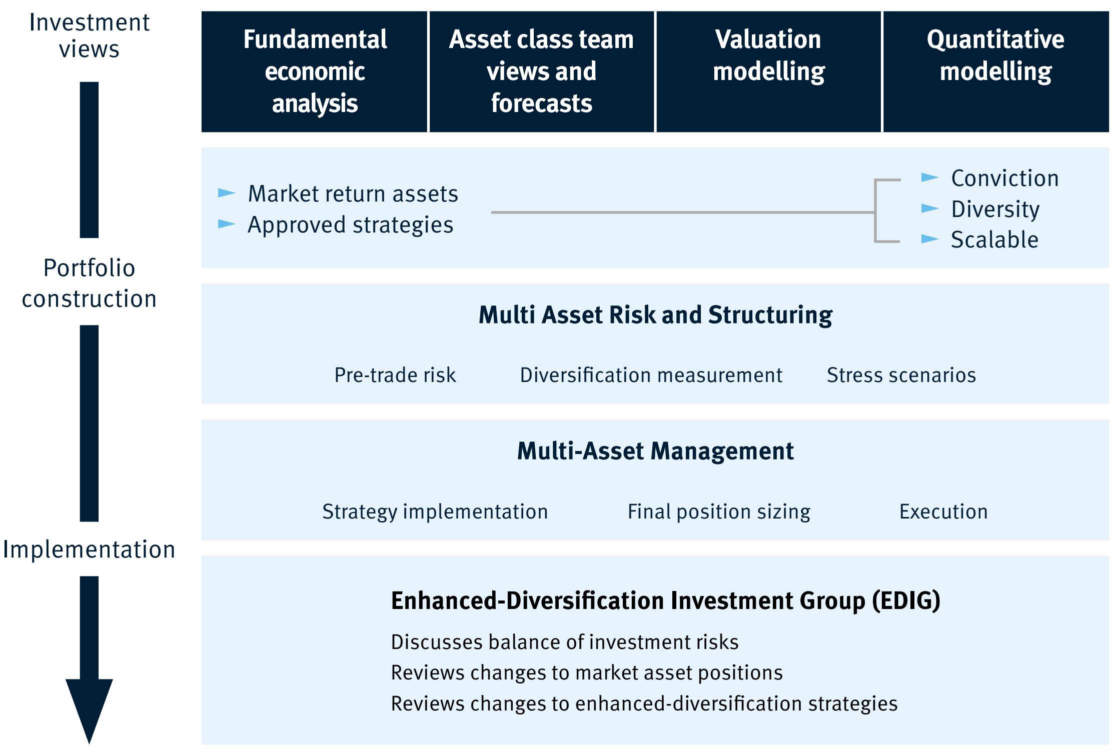
Investment process

In constructing EDMA, we apply our rigorous investment process, which draws on expertise from across the company. This collaborative approach ensures we make well-informed decisions and fully exploit our best investment ideas.

1. Investment views

The MAIT carries out extensive research and risk analysis. Using our *Focus on Change* investment philosophy, it liaises closely with our asset class teams to gain insight into key market drivers. This helps identify investment opportunities across global asset classes so that we can allocate appropriately.

EDGF investment process



2. Portfolio construction

Working as part of the MAIT, EDMA's managers are responsible for the overall blending of market return assets and enhanced-diversification strategies. In addition, they agree on the individual weightings for the selected strategies.

The EDMA portfolio is subject to regular review and discussion between the fund managers and our on-desk risk specialists. The portfolio must at all times meet our criteria regarding:

- our conviction in its return potential
- its effectiveness in mitigating risk
- its liquidity and scalability.

3. Implementation

The portfolio management team implements the selected investment strategies effectively and efficiently, using an array of market tools and instruments. These include direct investment, index futures, currency forwards and swaps. Once a strategy has been implemented, the team regularly monitors it and tests our conviction in its return potential.

4. Effective risk management

Understanding risk is a core part of the EDMA investment approach. Through our rigorous risk procedures and infrastructure we monitor risk at every level, from individual security risk to corporate risk. Four distinct risk management groups operate within the company.

- The multi-asset risk and structuring team is an integral part of the MAIT. It provides EDMA's managers with ongoing insight into the risk profile of each investment strategy, both in isolation and with respect to its portfolio diversification benefits.
- Working independently of the MAIT, the investment risk team monitors performance and risk of all of the portfolios managed by Standard Life Investments.
- Also working independently of the multi-asset specialists, the investment governance team ensures the consistency and integrity of our investment process versus each specific fund mandate.
- The risk & exposures committee authorises all investment instruments and counterparties that may be used, and monitors exposures.

Additionally, we use an independent administrator and custodian to ensure robust daily pricing for EDMA.

Summary of benefits

At a glance – reasons to invest
► For investors looking to balance the need for capital growth against market volatility, we target equity-level returns but with lower risk than equities.
► By exploiting the diversification strategies and expertise of our award-winning multi-asset investing team, we can offer enhanced, reduced-risk performance in a cost-effective manner.
► We make use of our reliable and well-proven risk management processes to offer genuinely diverse strategies.
► Investors benefit from our depth of resource, experience and diversity of talent across asset classes and geographies. Our capabilities include equities, government and corporate bonds, listed real estate, money markets and private equity.

Find out more

To find out more about our Enhanced Diversification Multi-Asset Fund, visit our website www.standardlifeinvestments.com.
Alternatively, please speak to your usual contact at Standard Life Investments.

Visit us online

standardlifeinvestments.com

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The opinions expressed are those of Standard Life Investments and are subject to change at any time due to changes in market or economic conditions.

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested. The fund makes extensive use of derivatives to seek its return objective.

Standard Life Investments Global SICAV is an umbrella type investment company with variable capital registered in Luxembourg (no. B78797) at 2-4, rue Eugéne Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg.
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