



LWM Consultants Ltd

Meeting the Fund Manager

Standard Life Global Funds

Last week we attended the Standard Life Investment Conference. Much of the event focused on the economic outlook but there were breakout sessions where we were fortunate to meet Harry Nimmo who manages the UK Smaller Companies and co-manages the Global Smaller Companies Fund both of which we hold in some of our portfolios.

Below are some key messages that came out of the discussion.

Overview

As you would expect Harry was very bullish about smaller cap investing. His belief is that the rewards associated with small cap are achieved without much difference in risk when compared to large cap investing; especially if you adopt an approach which looks to reduce small cap risk investing.

To expand further on this point he looked at the performance of large cap investments which over the last 12 years have returned 23%. This has been attributed to the unwinding of the mess caused by the tech bubble and also the banking crisis. When you compare this over the same period small cap investments has returned 118%. *(Source: Gross performance. Thomson Datastream 01/02/2011- 31/07/2012 in GBP. MSCI AC World Small Cap Index vs MSCI AC World Large Cap Index. **Please read special note at end of briefing on gross performance and returns**).*

We questioned whether there was much life left in small caps and Harry went onto explain that much of the growth in small cap can be attributed to the rapid growth in technology and that is unlikely to change. The tablet market is still growing as is our thirst for smartphones.

In the UK fund Harry adopts a long term view which reflects his belief in these companies and therefore turnover is low with an average holding period of 6 to 7 years.

Harry went onto to expand on the growth in small caps. In 2000, 2001, and 2002 although small caps did fall their fall was not as great as large caps. The reason why large caps struggle to pull out of a downturn is their size. They are easily sucked into the global economic market and therefore it is difficult to pull out of this cycle. Whereas small caps can escape from the restrictions of global economic growth – some examples of this were the likes of Paddy Power which is a fairly new betting “shop” against the traditional long established Ladbrokes, and Hargreaves Lansdown against the likes of say Aviva. Both Paddy Power and Hargreaves can adopt new methodologies more easily than larger more established businesses which take time to adjust to change.

So with success in the UK can this translate globally, Harry is confident that it can and that there are opportunities to be found. There are those firms that have benefited from austerity – the likes of Cosmo Pharmaceuticals and dollarama (a Canadian discount store similar to Poundland in the UK).

There are also successful UK retail businesses like ASOS which focuses purely on their online business. Established in 2001 70% of its sales now came from outside of the UK.

We have heard about the desire of the urban middle class in emerging markets, they have money and they are looking to buy western brands. The use of the internet opens up these brands to the global market without necessarily having to open expensive stores.

Many of the South East Asian countries have already gone through what we are going through (back in 1998). The likes of Thailand, Indonesia and the Philippines are seeing sovereign debt being upgraded; they have limited debt and strong banking systems. This prosperity is starting to come through.

Although the Global Smaller Companies Fund is untested the process is the same as the UK fund but looking at global opportunities. Harry also has a co-manager Alan Roswell who has a great deal of experience especially in the US markets. We talked about succession planning and Harry certainly has no plans to leave in the next ten years and during this time he is looking to ensure that the process for the funds is passed down and continued whether or not he is charge.

When asked about how he saw the potential performance for the Global Smaller Companies Fund Harry would not be drawn on his targets but he did hint that if he could achieve what he has achieved for the UL fund then he would be pleased.

Since launch in 1997 the UK fund has returned 581%, the Numis smaller companies index 248% and FTSE 100 128%. Table below shows the previous five years performance.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---------|--------|--------|---------|---------|
| Standard Life Investments UK Smaller Companies Fund | -12.40% | 70.48% | 58.15% | -20.89% | -11.05% |

*(Source Lipper Hindsight from 07/01/1997 – 31/07/2012. Performance is based on Gross Performance. **Please read special note at end of briefing on gross performance and returns.**)*

Conclusion

We continue to be a supporter of Harry through the UK Smaller Companies Fund, and we think the Global Fund has the potential to offer good long term returns. It is very much early days on this fund and therefore currently we have only small holdings in the Global Fund however if it starts to show signs of delivering then we could see these percentage holdings increase over time.

Special note

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.

The source of information in this note has been provided by Standard Life Investments and is correct to the end of August 2012. These are notes from meeting the fund manager 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.