

House View Process

**Standard Life
Investments**

March 2017

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The House View process

At Standard Life Investments, our House View is the culmination of a detailed investment process that provides a coherent and consistent framework by which to assess global financial markets.

It summarises the key views of senior investment professionals based on rigorous analysis of broad economic, market and political cycles as well as specific drivers of financial assets.

The House View also provides a clear, forward-looking strategic direction for all of our investment decisions, particularly asset allocation decisions between each of the major asset classes. This includes equities, fixed income, real estate, currency and cash, as well as all the major regions and countries, on a tactical basis.

A co-ordinated approach

The House View is formed through the meticulous analysis and astute judgement of two key forums, the Global Investment Group (GIG) and the Multi-Asset Investing Global Investment Group (MAI GIG). In turn, these forums draw upon insights from across the full breadth of Standard Life Investments' extensive investment analysis capabilities. Our global strategy team acts as the central focus point for this analysis.

The GIG

The GIG consists of executives and senior investment managers who provide overall strategic clarity to the investment process at a mix of weekly and quarterly meetings. In addition, the GIG decides on broad asset allocation issues based on the prevailing market drivers and on forecasts of future economic indicators. The GIG is composed of Keith Skeoch (Chief Executive Officer), Rod Paris (Chief Investment Officer), Guy Stern (Head of Multi-Asset and Macro Investing),

Andrew Milligan (Head of Global Strategy), Neil Matheson (Market Strategist), Jeremy Lawson (Chief Economist), Brian Fleming (Head of Multi-Asset Risk and Structuring) and Craig MacDonald (Head of Credit). Other members of the investment teams attend as required and all the asset class teams provide detailed papers to the quarterly GIG meetings, analysing their specific markets.

The MAI GIG

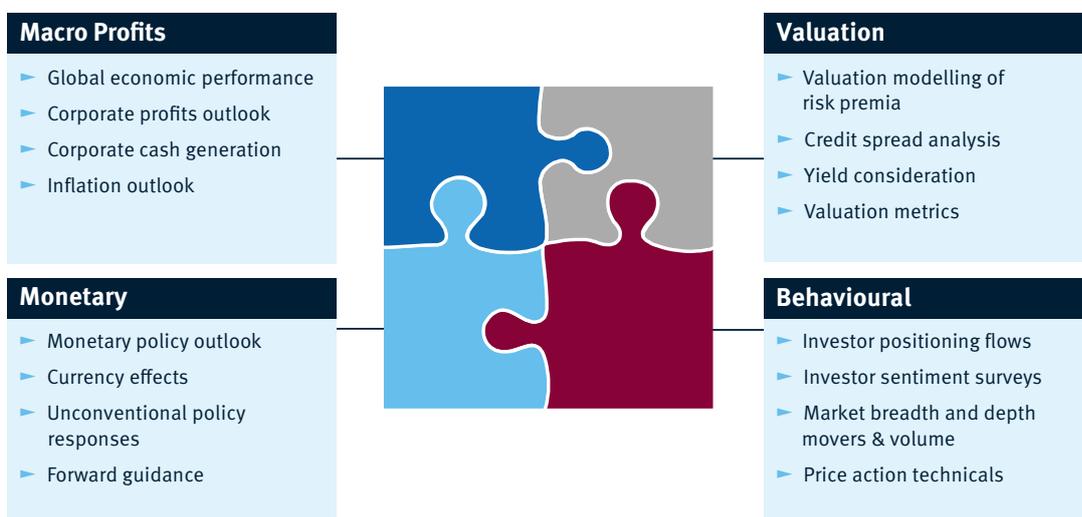
In addition to the main GIG, the MAI GIG is a separate but co-ordinated sub-committee responsible for global tactical asset allocation decisions. The committee meets on a weekly basis and consists of selected members of the multi-asset investing team. It is chaired by either Neil Matheson or Andrew Milligan to ensure liaison with the main GIG. Portfolio managers from across the equities, fixed income, currency and real estate teams may also attend by invitation.

A consistent framework

The MAI GIG uses a consistent and disciplined process to guide asset allocation decisions based on the following key considerations.

Macro-factor scoring

The MAI GIG uses our *Focus on Change* philosophy to analyse a total of 29 asset sub-sectors, which are defined by both region and asset class. Each of these sub-sectors is assessed using the following macro factors: macro profits, valuation, monetary policy and behavioural. An individual score is assigned to each of the four macro indicators across all sub-sectors based on an assessment of the key measures outlined below. These scores allow the MAI GIG to build up a coherent and consistent view of all investible assets.



Asset weightings

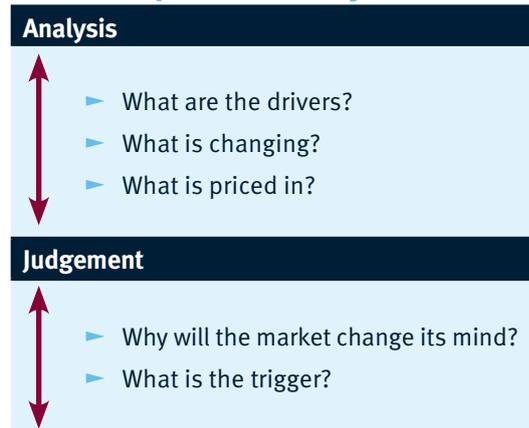
The asset selection decisions of the MAI GIG are made within the strict confines of a global tactical asset allocation portfolio which is measured against a benchmark of cash returns plus 1%. The asset class weightings in this portfolio are guided by the macro-factor scores, although the ultimate decision regarding the desired level of exposure to each subsector is left to the discretion of the members. The MAI GIG may also adjust asset class weightings to ensure that the portfolio's tracking error does not excessively deviate away from its desired target.

A unified philosophy

The discussion at both the main GIG and MAI GIG is guided by our *Focus on Change* philosophy. Its application helps us to analyse the key factors driving asset prices and to identify the drivers that the wider market may have missed.

All investment decisions and research analysis across Standard Life Investments, from analysts to senior investment managers, are communicated through answers to our 'five questions' analysis. This helps to ensure that the GIG and MAI GIG can quickly and easily interpret developments across a wide range of asset classes.

Focus on Change - The 'five question' analysis



The objective of such analysis is to:

- ▶ understand the deep drivers behind the investment and economic cycles in each of the major economies
- ▶ monitor what is changing
- ▶ analyse what expectations are priced into bond, commodity, equity, foreign exchange, money and commercial property markets
- ▶ examine why investors will change their expectations
- ▶ produce detailed triggers for the GIG and asset class managers to decide whether or not changes should be made to portfolios.

At the quarterly GIG meetings, the discussion also benefits from detailed *Focus on Change* papers written by the individual asset class desks on each key market. An economic and market framework is also provided to the quarterly meetings, drawing on inputs from the multi-asset investing team, bond, equity, currency and property teams.

Our approach is to carry out high quality internal analysis accompanied with analysis of the best external research provided by stockbrokers, independent boutiques and consultancies. For example, this involves producing in-house economic forecasts and comparing them with the market consensus. The global strategy team receives a wide variety of research publications, covering all the major economies as well as geopolitical issues, and distributes them around the company.

House View in action

The House View informs and directs more than 30 balanced portfolios, more than 20 Standard Life Group Funds and the MyFolio range managed by our multi-asset investing team. These include our global absolute return strategies, absolute return global bond strategies, global focused strategies and enhanced-diversification suites. In addition, the House View is a key reference framework for managers of our fixed income, equity and real estate portfolios.

House View publication

The communication of the House View is central to its effectiveness and a rapid distribution system ensures that it is disseminated to both clients and colleagues in a timely and consistent manner.

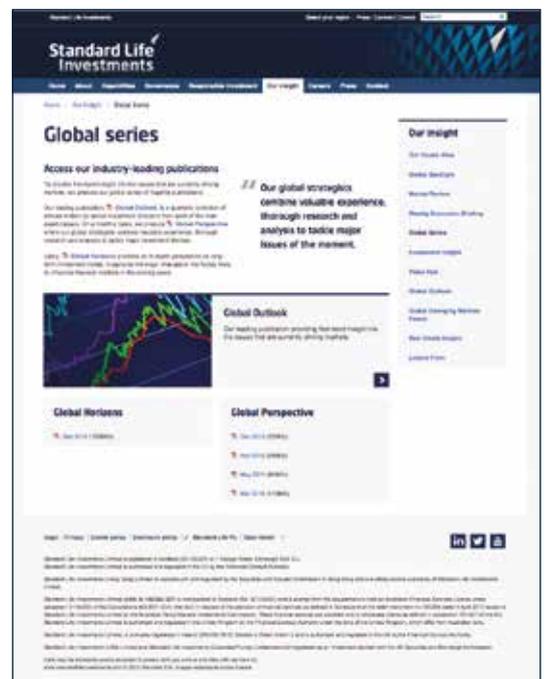
Internal publication

Internal communication mechanisms include daily morning meetings, monthly briefings and conference calls, as well as rapid notifications of House View changes via specific reports. In this way, the GIG can signal broad views about the risk climate to teams across the company. Research is stored on internal web sites.

External publication

The external communication of the House View is primarily achieved through our Global Series publications, especially Global Outlook and Global Horizons, with its House View asset allocation page. In addition, the global strategy team carry out a wide range of client-specific briefings and presentations to update, inform and explain.

http://www.standardlifeinvestments.com/market_views/global_series/index.html



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