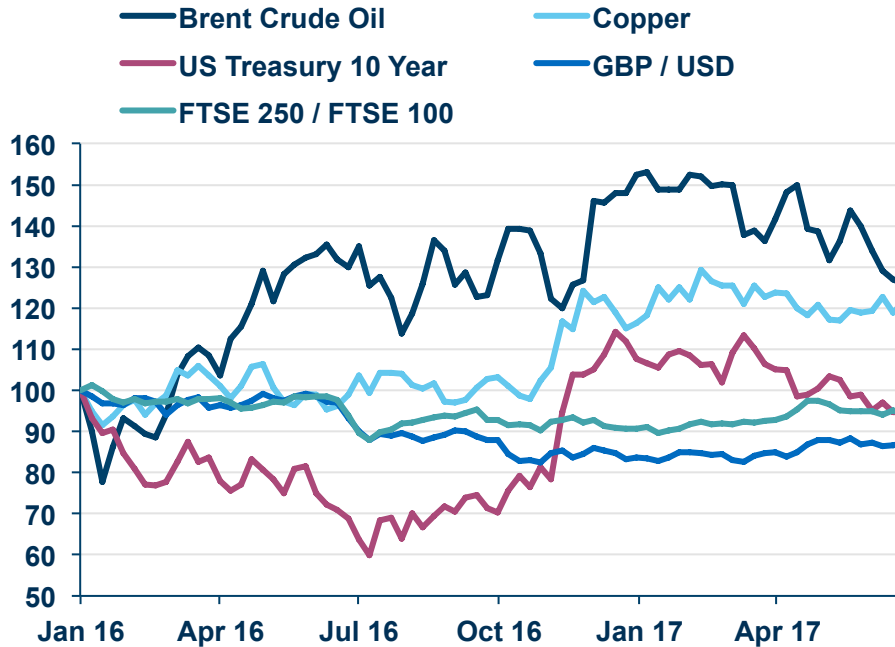


This communication is intended for investment professionals only and must not be relied on by anyone else.

Identifying income opportunities that emerge in macro turbulence

Pronounced impact of macro drivers on UK equity market



- ▶ Unexpected result of the recent UK general election is the latest in a series of recent political shocks
- ▶ Investors face the challenge of anticipating: (1) the outcome of political events, (2) the market reaction to these outcomes
- ▶ Investors are learning to look beyond political sentiment and instead shift their focus back to the individual company-specific opportunities that this political sentiment helps to create

Macro drivers have caused stock and sector divergence

Currency has been a key driver of UK equity market

Sterling / Dollar depreciation

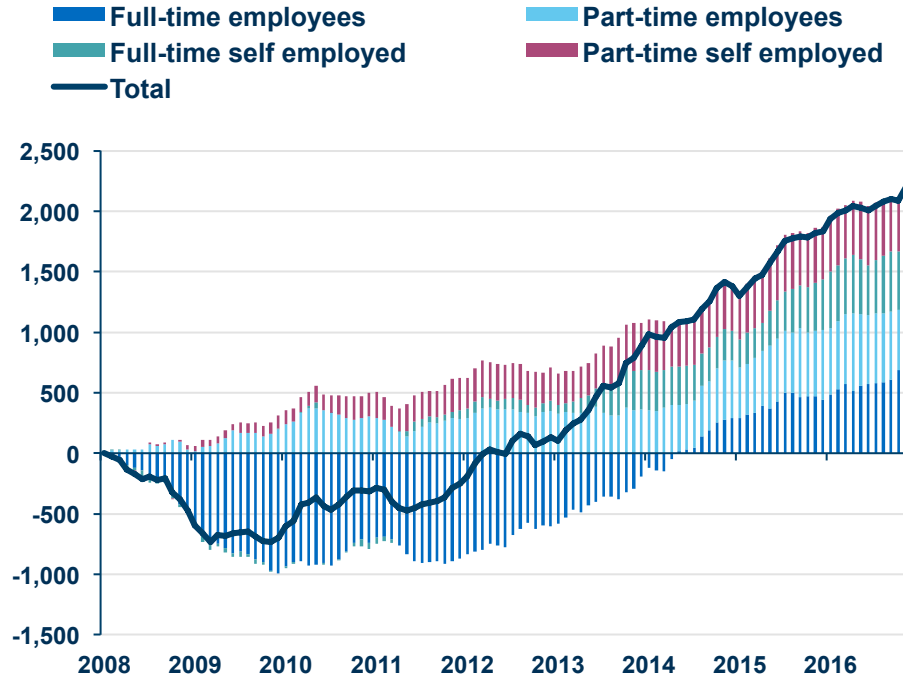
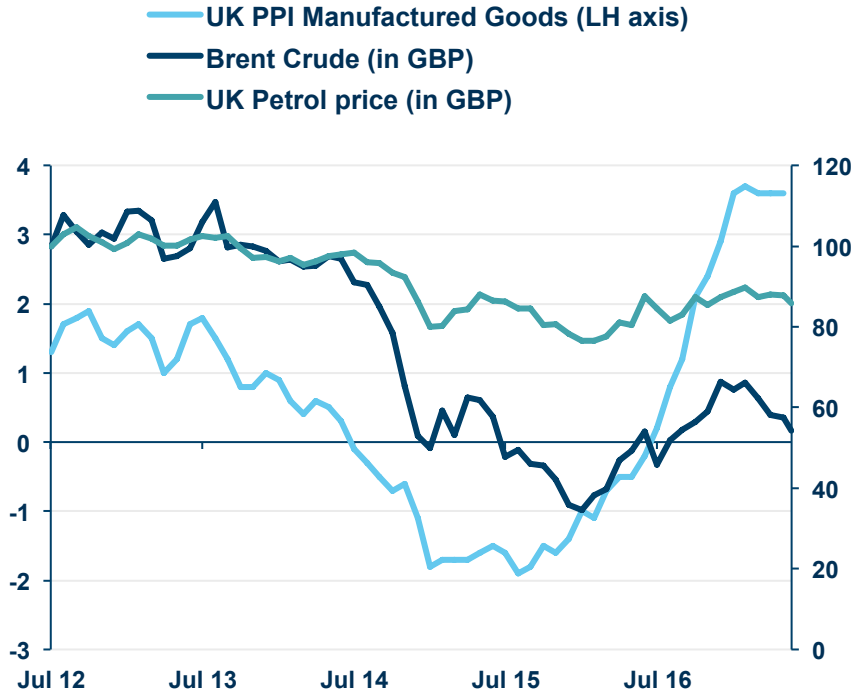


FTSE 250 has lagged FTSE 100



Shift from macro to micro set to drive rebound in FTSE 250

Inflationary pressures peaking

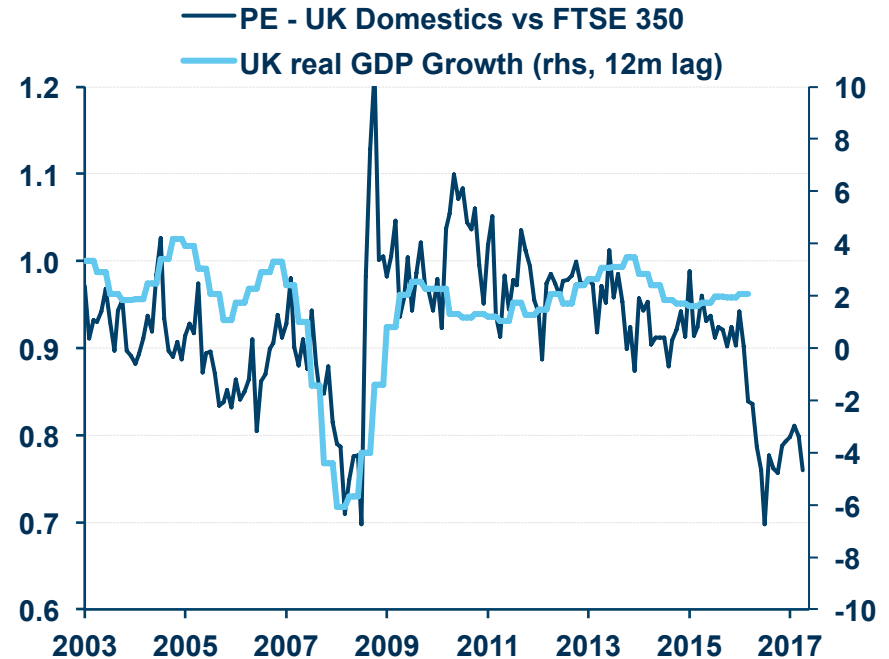


More benign backdrop for consumer facing stocks

Potential sector implications of a hung parliament

- ▶ **Sterling remains a key driver –**
 - Impact on consumer disposable income
 - Sector rotation
- ▶ **Potential for more conciliatory policies –**
 - Brexit may become softer
 - Fiscal purse-strings may open
- ▶ **Government policy –**
 - Minority government should be relatively benign for UK corporates
 - Markets to remain lightly regulated
 - Tail risks of extreme policies have receded

Domestic valuations – what's priced in?



Periods of heightened nervousness produce extremes in valuation

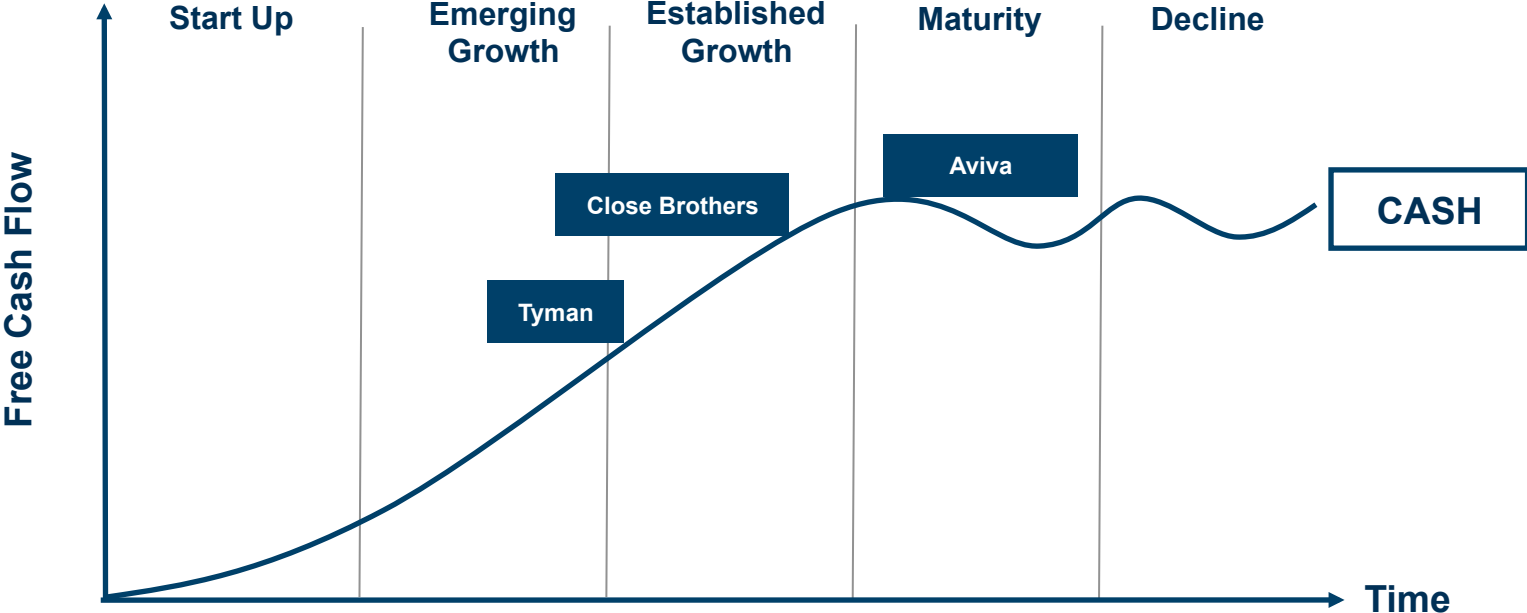
Trade-off between high yield and sustainable yield

| | Mega caps |
|-----------------|---|
| Examples | GlaxoSmithKline, AstraZeneca, Centrica |
| Dividend Yield | 5.0% |
| Dividend Cover | 1.4x |
| Dividend Growth | +0.8% |
| P/E | 15.1x |
| FCF yield | 5.6% |

Process identifies stocks with sustainable income growth potential

Capturing dividend opportunities over the company life cycle

Company life cycle



Process identifies stocks with sustainable income growth potential

Macro noise provides buying opportunity

Close Brothers - UK specialist financial services group

Business change

- ▶ Ability to identify niche local direct lending opportunities underpins confidence in sustainability of 17% ROE
- ▶ Counter-cyclical risk appetite provides protection

Cashflow change

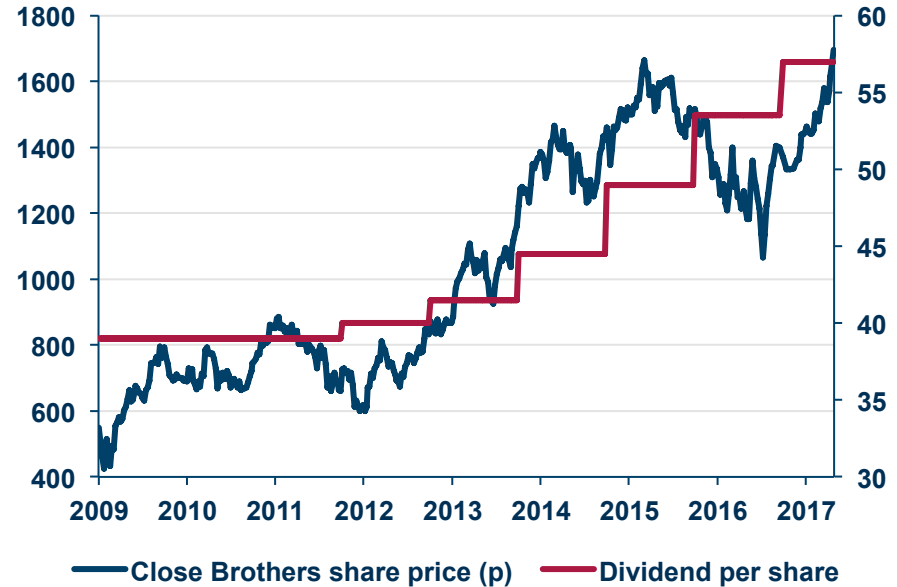
- ▶ Slowdown in banking loan growth allows excess capital build
- ▶ Increased Winterflood and Asset Management cashflow

Balance sheet change

- ▶ Strong balance sheet with high levels of capital

Valuation

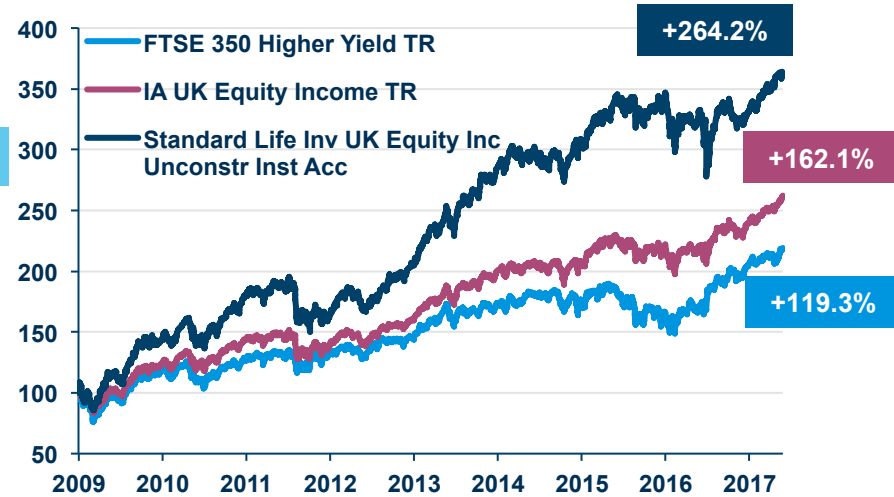
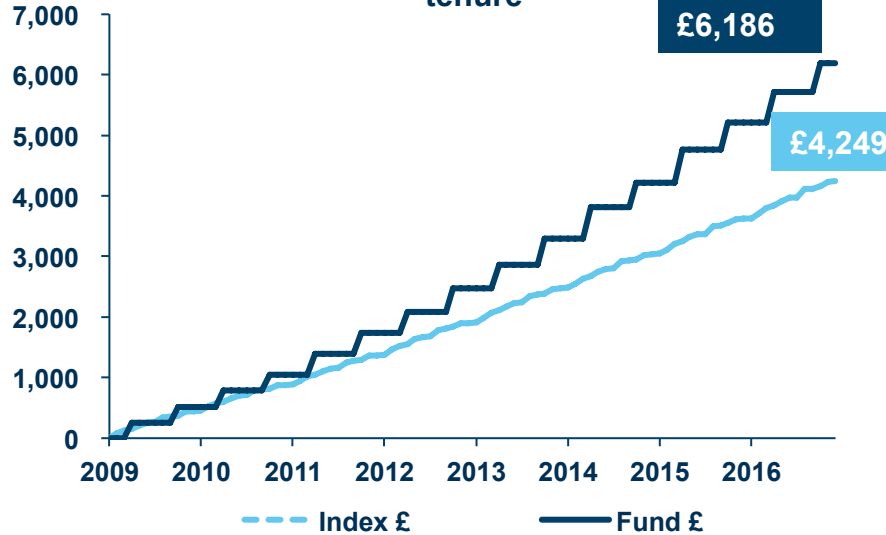
- ▶ 1.8x P/BV attractive given persistently high ROE and lower than average COE
- ▶ Dividend yield of 4.0%, 2.1x covered. Dividend sustainable through the cycle



Remain focused on stock specific drivers during moments of market stress

Differentiated approach delivering over time

Dividend income received (no reinvestment) assuming £10000 investment over manager tenure



Delivering income and capital growth over time

LHS: Source: Standard Life Investments, Trustnet, Bloomberg, net dividends, 31 December 2016

RHS: Yield rate of retail income units; IA uses retail income units in calculation of yield. Source: Standard Life Investments, Lipper, 31 May 2017. Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®). The fund specific data presented above is supplementary information to the Mutual Funds UK Equity Income Unconstrained GIPS® composite report, which is enclosed in the Appendix for your reference

Appendix



Mutual Funds UK Equity Income Unconstrained

| | |
|------------------------|---|
| Composite Name | Mutual Funds UK Equity Income Unconstrained |
| Inception Date | 01-03-2007 |
| Firm | Standard Life Investments |
| Currency | GBP |
| Report End Date | 31-12-2015 |
| Composite Group | Mutual Funds |
| Benchmark | IA UK Equity Income. |

| | Anzld Return (Composite) | Anzld Return (Benchmark) | 3 Year Anzld StdDev (Composite) | 3 Year Anzld StdDev (Benchmark) | Dispersion | Market Value | Total Firm Assets | % of Firm Assets | Number of Portfolios |
|----------|--------------------------|--------------------------|---------------------------------|---------------------------------|------------|---------------|-------------------|------------------|----------------------|
| Dec 2006 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Dec 2007 | -11.52 | -2.20 | -- | -- | -- | 38,694,783 | 137,224,600,000 | 0.03 | 1 |
| Dec 2008 | -43.27 | -29.77 | -- | -- | -- | 13,092,899 | 117,976,300,000 | 0.01 | 1 |
| Dec 2009 | 44.16 | 23.41 | -- | -- | -- | 19,599,658 | 127,011,600,000 | 0.02 | 1 |
| Dec 2010 | 25.83 | 13.94 | 26.63 | 19.10 | -- | 26,094,543 | 131,730,800,000 | 0.02 | 1 |
| Dec 2011 | -9.44 | -3.04 | 19.49 | 14.92 | -- | 71,829,227 | 123,331,600,000 | 0.06 | 1 |
| Dec 2012 | 25.10 | 14.15 | 15.54 | 11.89 | -- | 105,171,530 | 133,922,900,000 | 0.08 | 1 |
| Dec 2013 | 40.37 | 25.21 | 13.35 | 10.47 | -- | 349,137,533 | 149,971,000,000 | 0.23 | 1 |
| Dec 2014 | 7.86 | 3.08 | 10.63 | 8.65 | -- | 781,758,954 | 221,550,800,000 | 0.35 | 1 |
| Dec 2015 | 12.85 | 5.99 | 10.32 | 9.19 | -- | 1,155,609,329 | 228,654,030,000 | 0.51 | 1 |

Firm Disclosures

A complete list and description of all of the firm's composites are available from Standard Life Investments. There are no minimum asset levels set below which portfolios are not included in a composite. All performance calculations and returns have been calculated gross of management fees. All returns are presented on an all-inclusive basis and as such all capital gains interest income and withholding taxes have been taken into account in market valuations and returns. All indices are on a gross of tax basis apart from FTSE UK indices which are net of Withholding Tax. There are no Non-Fee-Paying portfolios included in any composite. The Daily True Time Weighted Rate of Return methodology has been used from 2001 apart from unithised Cash Property GARS and MyFolio products where NAV performance is used. Prior to this NAV performance was used for all products.

Additional information regarding policies for calculating and reporting returns is available upon request. Dispersion is calculated using high/low difference. Where there are less than 36 months of returns, the Composite and Benchmark Standard Deviations have not been calculated. Standard Life Investments 'The Firm' consists of all fee-paying funds managed by Standard Life Investments and its Subsidiaries which include Standard Life Investments (Mutual Funds) Limited SLTM Limited Standard Life Investments (Corporate Funds) Limited Standard Life Investments (USA) Limited and Standard Life Investments (Asia) Limited. Past performance results from Standard Life Investments Limited UK Firm and Standard Life Investments Limited Irish Firm have been linked to form the performance record of the new firm Standard Life Investments. The new firm was created on 01/01/2008. Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Standard Life Investments has been independently verified by PricewaterhouseCoopers LLP for the periods 1996 to 2015. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation

Composite Disclosures

Derivatives may be used for efficient portfolio management purposes

Includes part period return for 2007 from 01 March

The composite includes funds that invest in UK high yielding equities or equity type investments with no restrictions regarding index weightings, sector constraints or company size. The benchmark is IA UK Equity Income.

The standard annual fee applicable to this composite is 0.80%, but individual fees are negotiated on an account basis

The information shown relates to the past. Past performance is not a guide to the future. The value of an investment can go down as well as up.

For full details of the fund's objective, policy, investment and borrowing powers and details of the risks investors need to be aware of please refer to the full prospectus which can be found on www.standardlifeinvestments.com

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life**. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life** or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Past performance is no guarantee of future results. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

**Standard Life means the relevant member of the Standard Life group, being Standard Life plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time."

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL.

Standard Life Investments Limited is authorised and regulated by the Financial Conduct Authority.

Calls may be monitored and/or recorded to protect both you and us and help with our training.

www.standardlifeinvestments.com

© 2017 Standard Life, images reproduced under licence