

# ScotGems

Focused portfolio with initial Asia ex-Japan/EM tilt

First day of dealings

Investment trusts

ScotGems (SGEM) has commenced dealing on the London Stock Exchange today, having raised £50.3m via an initial placing and offer for subscription. A new global smaller companies investment trust, managed by Ashish Swarup and Tom Allen at Stewart Investors, SGEM will seek capital growth from a concentrated portfolio of 20-30 stocks with market capitalisations below \$2.5bn, initially at least with a bias towards Asia-Pacific and emerging markets. Stewart Investors focuses on stewardship and seeks to invest in small-cap companies with strong franchises and balance sheets. The investment manager is known for closely managing capacity in its investment strategies, with many of its popular funds closed to new investment. A placing programme will allow SGEM to issue up to a further 49.7m shares at a premium to NAV, giving maximum total assets of c £100m at the IPO price.

26 June 2017

Issue price	100p
Initial issue proceeds	£50.3m
Initial NAV	99.0p

## Company website

[www.scotgems.com](http://www.scotgems.com)

## Investment strategy

Stewart Investors' bottom-up investment approach focuses on finding quality companies with potential for sustainable and predictable long-term growth. This approach seeks out alignment of interests between company management and minority shareholders, and there is a focus on finding management teams and owners that are good long-term custodians of their companies. By combining an absolute return mindset and a strong valuation discipline, Stewart Investors' funds have historically tended to outperform indices, particularly in falling markets.

## Timescale for building the portfolio

The managers state that, in order to build positions in the stocks they would like to own, it will take six to 12 months for the portfolio to be fully invested. In the interim, uninvested cash will be split equally between pound sterling, Singapore dollars and US dollars, with the option to be held in short-term money market instruments to avoid capital loss from negative interest rates and limit excessive exposure to sterling.

## Availability of information

SGEM's initial reporting period will run until its 31 December year-end, with results to be released in Q118. Regular reporting will begin in October, with a quarterly report and factsheet containing commentary and portfolio positioning. Webcasts with the portfolio managers will take place for investors who register for updates via the website, [www.scotgems.com](http://www.scotgems.com).

## Placing programme

SGEM may issue further shares up to a maximum of 100m in total (balance of 49.7m following the initial offer). These can only be issued at a premium to NAV on the open market via market makers.

## Initial share register

The initial share register is well diversified (see charts on page 2), with discretionary wealth managers (45.8%) and retail platforms (29.4%) the largest holders. In addition, 18.2% of the shares are owned or controlled by employees of the management company and SGEM directors, ensuring alignment of interest with investors.

## Analysts

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**ScotGems is a research client  
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## Exhibit 1: Trust at a glance

### Investment objective and fund background

ScotGems is a new closed-ended investment company that aims to provide shareholders with long-term capital growth by investing in a focused yet diversified portfolio of c 20-30 small-capitalisation companies listed on global stock markets across a range of sectors. It is expected that, at least initially, the portfolio will be weighted towards small-cap companies (those with a market cap below \$2.5bn at the time of investment) in the Asia-Pacific ex-Japan and global emerging markets universes. Investments will not be selected with reference to any benchmark, nor will the portfolio be managed by reference to any index or peer group performance. The managers will build the portfolio gradually over the next six to 12 months as attractive opportunities become available, and as such may hold a relatively high level of cash in this initial period. It has been proposed that cash balances be split equally between pound sterling, US dollar and Singapore dollar, with the option to be held in short-term money market instruments to avoid capital loss from negative interest rates and limit excessive exposure to sterling.

Forthcoming announcements/catalysts		Capital structure & fees		Trust details	
Year end	31 December	Gearing	Up to 20% of NAV	Group	Stewart Investors
Dividends paid	No	Annual mgmt fee	1.0% of NAV	Portfolio managers	Ashish Swarup, Tom Allen
Launch date	26 June 2017	Performance fee	None	Address	10 St Colme Street Edinburgh, EH3 6AA
Continuation vote	Seven-yearly	Cap on launch fees	1.0% of gross issue proceeds		
		Ongoing charge ratio cap	1.5%		

### Dividend policy

It is not anticipated that ScotGems will pay a dividend, at least in the early years of its life.

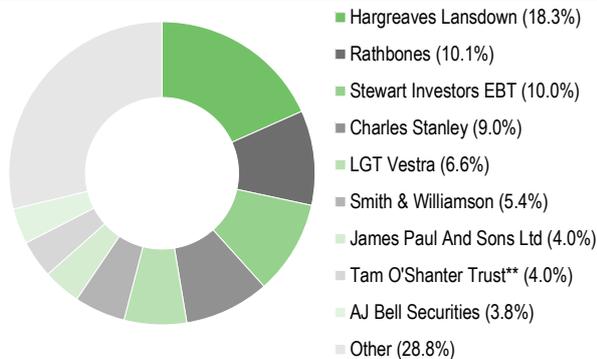
### Discount/premium control policy

There is no formal discount or premium control policy. ScotGems' board will have the authority to buy back or allot shares (on a non-pre-emptive basis). There is no target or maximum level of discount or premium at which action would be taken. The board anticipates that any buyback activity would be exceptional rather than routine. The board will only authorise buybacks and share allotments if they deem that there is a strong case that such action is in the long-term interests of shareholders.

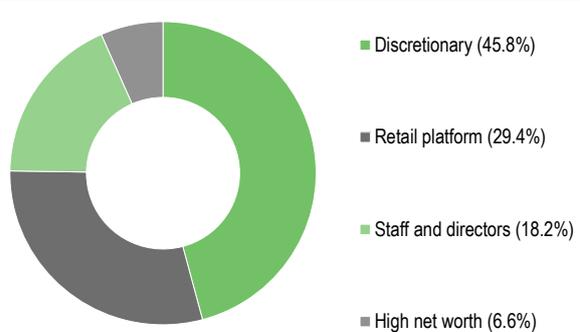
### Indicative portfolio characteristics

Number of holdings	Typically 20-30
Dividend yield	N/A
Comparator index*	MSCI AC World index

### Shareholder base (as at 26 June 2017)



### Shareholder base by investor type (as at 26 June 2017)



Source: Stewart Investors. Note: \*This index will not be used as a benchmark for portfolio construction or risk management. \*\*Tam O'Shanter Trust is a Tulloch family charitable trust of which Angus Tulloch is chairman.

## Fund profile and summary

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### **Company description: Focused portfolio with initial Asia ex-Japan and emerging markets slant**

ScotGems (SGEM) is a new investment trust, incorporated in England, listed on the premium segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange as of 26 June 2017, with an initial market capitalisation of £50.3m. The trust aims to achieve long-term capital growth by investing worldwide in smaller companies (broadly those with a market capitalisation below \$2.5bn at the time of investment). Managed by Stewart Investors (see page 5), ScotGems will follow a similar investment approach to the firm's other funds, seeking to invest in well-run companies that exhibit quality characteristics in terms of franchise and financials, with management and owners who operate as long-term stewards of their companies.

While ScotGems has the ability to invest globally, it is anticipated that its concentrated, 20-30 stock portfolio will at least initially be tilted towards smaller companies in the Asia-Pacific (including India and Australia but excluding Japan) and non-Asian Global Emerging Markets universes. The lead manager, Ashish Swarup, and co-manager, Tom Allen, also run emerging markets and Asia Pacific all-cap funds, and the ScotGems portfolio may include companies that already feature in these funds. The managers will build the portfolio gradually over the next six to 12 months as attractive opportunities become available, and as such may hold a relatively high level of cash in this initial period. Cash balances will be split equally between pound sterling, US dollar and the Singapore dollar, with the option to be held in short-term money market instruments to avoid capital loss from negative interest rates and limit excessive exposure to sterling.

The trust has the ability to borrow up to 20% of net assets for the purpose of investment, although there is no intention to employ gearing at present. The manager also does not envisage dividends being paid in the early years, given the capital growth objective and the focus on smaller companies that may not themselves pay dividends.

Non-executive director Angus Tulloch states that ScotGems is seeking investors "who are prepared to take a long-term view of their investment, who recognise that short-term returns from small company investment can be particularly volatile, and who share our view that companies with a strong sustainability focus are more likely to prove successful investments in the long run".

### **Stewart Investors' history**

Stewart Ivory & Company was formed in 1985 by a merger of Stewart Fund Managers and Ivory & Co. In 1988, fund manager Angus Tulloch joined Edinburgh-based Stewart Ivory & Company to set up its Asia-Pacific desk, which was shortly afterwards expanded to include emerging markets. This led to the launch of what is now the Stewart Investors Asia Pacific fund in 1988, followed by what is now the Stewart Investors Global Emerging Markets fund in 1992. Both funds invest across the market cap spectrum with the aim of providing long-term capital growth. In 1995 the firm set up the Scottish Oriental Smaller Companies Trust, an investment trust focusing on smaller companies in Asia.

Stewart Ivory & Company was bought in 2000 by Colonial First State Investments, subsequently to become the fund management arm of the Commonwealth Bank of Australia, and the UK business was rebranded as First State Investments in 2001. Its open-ended Asian and emerging markets funds proved popular with investors, leading to significant inflows and causing capacity constraints given the relatively focused all-cap investment approach. The funds were closed to new investment in 2004 and the firm launched Asia Pacific Leaders and Global Emerging Markets Leaders funds, which excluded stocks below \$1bn, allowing new investors to access the team's risk-aware, stewardship-focused investment approach (see below). Over the following years, more global,

emerging market and sustainability strategies were added to the stable, including Pacific Assets Trust (formerly managed by F&C) in 2010. The First State Stewart team began managing global equity funds in 2011. The team was rebranded as First State Stewart in 2012.

In July 2015, the First State Stewart investment team formally divided into two separate entities: First State Stewart Asia (based mainly in Hong Kong) and Stewart Investors (based mainly in Edinburgh, but with team members in London, Singapore and Sydney). The split was designed to overcome the challenges of increasing scale, allowing both teams to operate as small, dynamic investment groups with their own identity and autonomy. As a result of the division, three Asian regional funds, single-country Asian funds and the Scottish Oriental Smaller Companies Trust are now managed by First State Stewart Asia, while Asia-Pacific, worldwide, global emerging and frontier markets, Latin America and sustainability funds, including Pacific Assets Trust, reside with Stewart Investors. Tulloch has recently announced his intention to retire from the firm in September 2017 after nearly 30 years.

## **The Stewart Investors investment philosophy**

Stewart Investors' investment philosophy is based on the principle of responsible stewardship. At the heart of this is a belief that companies that do not look after their shareholders, suppliers, staff and the environment are unlikely to make good long-term investments. In addition, the best long-term investments are likely to be in those companies that can identify and respond to social, environmental and business challenges more quickly than their competitors.

The team sees any equity investment as a part-share in a business, so alignment of interests between company management and shareholders is essential. Stewart Investors will only invest where it perceives that a company is governed effectively and in the interests of all stakeholders, which includes by extension the investors in Stewart Investors' own funds. This has led to a preference for family-owned businesses, where the management is driven by a desire to preserve intergenerational wealth rather than chasing short-term performance targets.

One of the principal aims of Stewart Investors' investment strategy is to determine whether the management of the investee company pays sufficient attention to the preservation of its shareholders' capital, and is not excessively focused on growth without due consideration of risk. Over the long term, Stewart Investors' funds have tended to perform better than indices in periods of falling markets, while still participating in rising markets.<sup>1</sup> However, funds are not managed with reference to either the composition or performance of a benchmark or peer group.

Stewart Investors' funds invest for the long term, with some investee companies having been owned for more than 20 years. As long-term co-owners of these businesses on behalf of clients, the fund managers recognise that they have responsibilities as well as rights, and have a history of extensive and effective engagement with companies on governance issues such as environmental protection and labour conditions.

## **ScotGems' management team**

Stewart Investors operates a collegiate approach (see Investment process, below), with research shared across the entire investment team. However, each fund has a lead manager who is ultimately responsible for the style and construction of the portfolio. ScotGems is managed by

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<sup>1</sup> Data from Stewart Investors (from launch, 30 June 1988 to end-December 2016) show that Stewart Investors Asia Pacific Fund outperformed the MSCI AC Asia Pacific ex-Japan index in 75.0% of months in down markets compared with 45.5% of months in up markets. The overall average was outperformance in 57.6% of the 342 months in this period. From launch, 30 December 1992 to end-December 2016, Stewart Investors Global Emerging Markets Fund outperformed the MSCI Emerging Markets index in 73.0% of months in down markets compared with 36.7% of months in up markets. The overall average was outperformance in 52.1% of the 288 months in this period.

Ashish Swarup and Tom Allen, who work together on the all-cap Stewart Investors Asia Pacific and Global Emerging Markets funds.

Swarup manages the Stewart Investors Asia Pacific and Global Emerging Markets all-cap funds, as well as a large-cap global emerging markets fund. He has over a decade's experience in managing equity investments. Before joining Stewart Investors, Swarup was a global emerging markets portfolio manager at Fidelity Management & Research and Fidelity Investments. Prior to becoming a fund manager, he worked in the technology industry, particularly in the area of supply chain management. Swarup has a degree in electronics and communication engineering from the Indian Institute of Technology, a postgraduate diploma in management from the Indian Institute of Management, and holds an MBA from INSEAD in France.

Allen joined the team in January 2013 and has spent the last four years looking at smaller companies in the Asia Pacific region. Allen also worked closely with Angus Tulloch on the Scottish Oriental Smaller Companies Trust. He is responsible for providing research support for the portfolio managers, covering primarily the Asia-Pacific ex-Japan region and all industry sectors. Allen holds a BA (Hons) in history from University College London (2011).

Reflecting their expectation that the families and management of investee companies will invest alongside minority shareholders, employees of the manager are invested in SGEM, in order to align interests with shareholders.

## Investment process

Like Stewart Investors' other funds, ScotGems will be managed on a bottom-up basis, without reference to benchmarks. The managers seek to make long-term investments in typically 20-30 quality companies offering sustainable and predictable growth.

There are c 30 investment professionals in the Stewart Investors team. All the members of the investment team are considered analysts, and all are generalists, with no specific country or sector responsibilities. Team members travel often in order to meet companies on the ground, with a typical trip involving meetings with c 25 companies, a minority of which will already be owned in Stewart Investors' portfolios. Meeting notes are written up and debated among the whole team, with longer research reports written on the most promising stocks. These are again subjected to challenge and debate by the team, although the named fund manager for each strategy has the final say on whether a company is included in or removed from a portfolio. Many new investment ideas are generated from the networks and links the team has built up with existing investments over many years.

Fundamental to the investment approach is the assessment of quality; ScotGems' co-manager Allen says c 90% of the available investment universe is ruled out immediately on this basis. The team assesses the quality of management, the franchise of the business and the strength of the financial position. Quality of management is assessed on the basis of track record, integrity, a proven lack of corruption (business owners who are too close to politicians would be a 'red flag', Allen says), an appropriate balance of risk awareness and focus on growth, and alignment of interests with shareholders, for example through remuneration structures that do not encourage short-termism. In terms of franchise, the team looks at what has driven the success of the business, the competitive environment, and any headwinds or tailwinds that could hinder or assist the business over the medium to longer term. From a financial perspective, the managers look for companies that are generating high levels of free cash flow, and prefer those with little or no debt; where there is borrowing at the investee company level, it is likely to be entirely or largely in a company's home currency, in order to avoid added exchange rate risk. The history of potential investments is examined to ensure that their best years are not behind them, and the team typically takes a very long-term view in analysing companies' potential future growth.

Valuation is an important part of stock selection. The team regularly undertakes a fair market valuation exercise, covering all companies that are already owned or are on managers' watch lists. Company valuations are also assessed in historical context, with the aim of ensuring that managers do not overpay for stocks.

Allen says every investment decision implicitly includes a macro assessment, such as steering clear of domestic Australian stocks during the commodity boom when the Australian dollar was overvalued, or avoiding companies in countries where the rule of law is questionable. All company research includes an assessment of environmental, social and governance (ESG) matters.

Although the process of challenge and debate within the team is ongoing, portfolio construction is ultimately the responsibility of the lead manager, who will decide which stocks to buy and how positions are sized. The robustness of the initial research process aims to overcome unpleasant surprises in terms of changing business strategy or governance issues. The fact that all stocks are regularly reviewed by different team members means that any problems that do emerge should be identified early. Allen says the most common reason for selling a stock is if its valuation becomes unjustifiably high, but any sign of poor governance or a significant deterioration of the original business case, would be grounds for disposal.

## **ScotGems portfolio construction parameters**

While the portfolio will be a largely unconstrained selection of high-conviction ideas, ScotGems' managers will operate within the following parameters:

- Small companies are currently defined as those with a market cap of less than \$2.5bn at the time of purchase. The managers are unlikely to add to existing holdings that have exceeded this size.
- The portfolio will be concentrated, with typically 20-30 holdings in normal market circumstances.
- There are no set limits on individual sector or geographical exposures. No single investment will exceed 15% of net assets at the time of investment.
- The company may borrow money for investment purposes if the board considers it appropriate. Net borrowings are limited to a maximum of 20% of the value of net assets. There is currently no intention to adopt borrowing.
- There is no prescribed cash limit, but ScotGems will aim to be fully invested, so long as sufficiently attractive investment opportunities are available. The company is permitted to invest cash held for working capital purposes and awaiting investment, in cash deposits, gilts and money market securities, fixed interest securities and money market funds. However, the managers will build the portfolio gradually over the next six to 12 months as attractive opportunities become available, and as such may hold a relatively high level of cash in this initial period. It has been proposed that cash balances be split equally between sterling, US dollar and Singapore dollar.

## **Indicative portfolio positioning**

ScotGems' portfolio will typically include c 20-30 stocks. While the trust's mandate allows it to invest anywhere in the world, its initial focus is on the Asia-Pacific region (excluding Japan but including Australasia) and global emerging markets elsewhere. In the course of selecting stocks for the Stewart Investors Asia Pacific and Global Emerging Markets all-cap funds, lead manager Swarup and co-manager Allen often come across promising companies that are too small to be included at a meaningful level in these funds. The short stock list of ScotGems will allow them to back these ideas and reflect their high degree of conviction.

Because of this, there may be a degree of overlap between the new trust and the established funds. Non-executive director Tulloch comments that some of the companies in the ScotGems portfolio will be stocks that the managers already know extremely well and that have been held for a long time in

other funds. Others will be companies whose market capitalisation is deemed to be too small to hold in other portfolios. However, Tulloch adds that the ScotGems portfolio will have little in common with the widely owned Stewart Investors Asia Pacific Leaders and Global Emerging Markets Leaders funds, as these concentrate on larger companies.

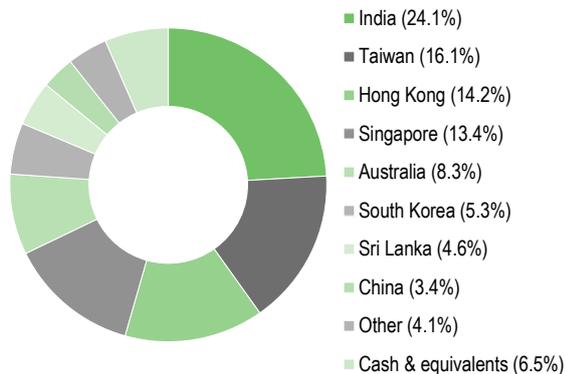
In Exhibits 3, 4 and 5 below we have set out the sector and geographical exposures of the Stewart Investors Asia Pacific and Global Emerging Markets (GEM) funds at the end of May 2017. These are purely for illustrative purposes, but they do show that the managers' bottom-up stock selection process has led them to have large weightings in consumer staples stocks and in India (which represents less than 10% of both the MSCI AC Asia Pacific ex-Japan index and the MSCI Emerging Markets index). Allen comments that in time, ScotGems is also likely to have a reasonably high weighting to India, where the managers currently find many attractive family-run or entrepreneur-led companies; however, it will take some months from the date of incorporation for the trust to obtain all the relevant regulatory permissions to invest, so the initial Indian allocation is unlikely to be in place until late 2017. Meanwhile, China (which is the largest geographical constituent of both the small-cap and large/mid-cap MSCI AC Asia Pacific ex-Japan and Emerging Markets indices) is likely to be largely absent from the portfolio.

Sector	Stewart Investors Asia Pacific Fund weight	MSCI AC Asia Pacific ex-Japan index weight	Stewart Investors Global Emerging Markets Fund weight	MSCI Emerging Markets index weight
Consumer staples	22.4	5.3	29.7	7.0
Information technology	17.2	23.8	7.3	25.6
Financials	12.9	26.8	15.8	23.7
Industrials	10.9	7.5	10.3	5.8
Healthcare	9.9	3.1	4.1	2.3
Consumer discretionary	7.7	8.5	3.4	10.9
Materials	6.3	6.6	9.7	7.1
Utilities	2.1	3.2	6.7	2.6
Real estate	2.0	6.5	0.7	2.6
Telecom services	1.2	4.5	1.5	5.5
Energy	0.9	4.3	2.6	6.8
Cash & equivalents	6.5	0.0	8.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Stewart Investors, MSCI, as at 31 May 2017. For illustrative purposes only. Composition of indices has no influence on stock selection.

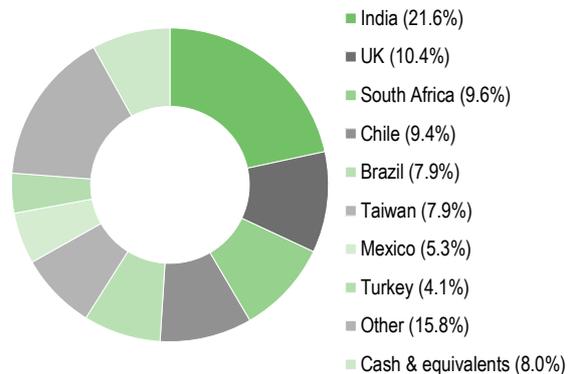
Initial position sizing is at the managers' discretion; the managers do not anticipate liquidity in investee companies being a major problem in building the portfolio, although the availability of stock may influence whether a position is initially bought only for ScotGems or included more widely in the team's all-cap mandates. Valuation will be a key focus, and where companies are trading on ratings towards the top of the acceptable range, they are likely to be included as smaller positions, which could then be added to on any dips.

**Exhibit 4: Stewart Investors Asia Pacific Fund geographical breakdown**



Source: Stewart Investors, Edison Investment Research. For illustrative purposes only. Note: As at 31 May 2017.

**Exhibit 5: Stewart Investors Global Emerging Markets Fund geographical breakdown**



Source: Stewart Investors, Edison Investment Research. For illustrative purposes only. Note: As at 31 May 2017.

The managers aim to be fully invested; however, during the initial construction phase the cash level in the portfolio may remain higher for longer, as the managers seek favourable entry points to the selected stocks.

## Indicative stock examples

While no holdings have yet been confirmed for the ScotGems portfolio, the managers have provided two illustrative examples to show the type of companies they favour.

### Example 1: Indian engineering outsourcing business

With a market capitalisation below \$1bn, this is a family business, with strong governance and operational values from the founder, and is now becoming more professional under a second-generation family CEO. The company has a history of partnering and growing with customers. From a financial perspective, the business model is cash-generative and the company has a strong balance sheet. Potential risks to the investment case include problems hiring and retaining quality staff, or difficulty in integrating acquisitions.

### Example 2: Taiwanese manufacturer of uninterruptible power supplies

A slightly larger company with a market cap around \$1bn, the business was founded by a focused entrepreneur who remains heavily involved. The company designs and manufactures uninterruptible power supplies. ScotGems' managers say the firm has a strong franchise, built around engineers and the trust of customers, in an industry with attractive dynamics, as well as attractive financials. Risks to the investment case include the potential emergence of credible competitors from China, as well as possible difficulty attracting and retaining good engineers.

## Differentiation of ScotGems

In our opinion, there is no UK investment trust that currently offers a similar investment strategy to ScotGems (see Existing funds investing in global smaller companies, below). The trust is differentiated by its concentrated portfolio, its initial focus on Asia-Pacific ex-Japan and emerging markets (other trusts that invest globally in smaller companies are heavily weighted to the US and UK; Asian small-cap funds do not invest in non-Asian emerging markets), and by Stewart Investors' stewardship-focused investment process. It will also be differentiated within Stewart Investors' stable of largely open-ended funds, as the only specifically small-cap strategy. However, its managers have significant experience in analysing and investing in smaller companies, both as part of their all-cap strategies and from prior involvement with the Scottish Oriental Smaller Companies Trust (now in the First State Stewart Asia stable).

## Existing funds investing in global smaller companies

The peer group in Exhibit 6 below highlights the lack of similar strategies to ScotGems, with no other closed-ended smaller companies funds investing mainly across Asia Pacific and emerging markets. While the Association of Investment Companies does have a Global Smaller Companies sector, its two constituents are not comparable, as one (Marwyn Value Investors) takes a private equity-style approach with a focus on developed Western markets, while the other (Oryx International Growth) invests only in the UK and US, areas where ScotGems is likely to have limited exposure. ScotGems is likely to be included in this sector, providing a differentiated choice for investors.

Instead we have drawn together closed-ended funds from the Asia Pacific ex-Japan and Global sectors that concentrate mainly or to a reasonable extent on medium-sized and smaller companies. The Establishment Investment Trust has an all-cap approach with a tilt towards Asia, and has been included on this basis, although it is a member of the AIC's Flexible Investment sector. While markets in the Asia-Pacific region make up the majority of the global emerging markets universe, ScotGems' ability to allocate to non-Asian emerging markets without constraints (trusts in the Asia Pacific ex-Japan sector must have at least 80% of their investments in this region), as well as to developed markets, should prove a source of differentiation from the Asia-focused funds. Of the two global funds, F&C Global Smaller Companies is a small and mid-cap fund and on average tends to hold bigger stocks than those ScotGems is targeting, while Edinburgh Worldwide has only been focusing on earlier-stage companies since 2014. We have also included the two open-ended funds run by ScotGems' management team; while these funds also invest in larger companies, at the smaller end there may be some overlap with the ScotGems portfolio.

While the group includes a diverse set of strategies, total return performance over the 12 months to 22 June 2017 has been broadly similar, with all the funds returning between 26.8% and 38.3%. As all the returns are in sterling terms, this will in part be a result of the weakening of the pound sterling since the UK's vote to leave the European Union. Sterling is down by 17.8% versus the US dollar (to which the exchange rates of many Asian and emerging markets countries are linked) over 12 months to 22 June. Over longer periods, the impact of individual investment performance is more evident. The 10-year numbers show marked outperformance for the trusts following an overtly smaller companies approach, with both Aberdeen Asian Smaller Companies and Scottish Oriental Smaller Companies (now managed by First State Stewart Asia, Stewart Investors' sister firm) outperforming most of the other funds shown by more than 100 percentage points.

**Exhibit 6: Selected peer group as at 22 June 2017**

% unless stated	Sector	Market cap/fund size £m	TR 1 Year	TR 3 Year	TR 5 Year	TR 10 Year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
<b>Closed-ended funds</b>											
Aberdeen Asian Smaller	Asia Pac ex-Jap	379.6	37.7	41.3	84.7	290.1	1.8	No	(11.1)	108	1.0
Edinburgh Worldwide	Global	45.4	33.6	43.0	52.4	91.3	1.2	No	(17.2)	100	2.5
Establishment Investment Trust	Flexible Invt	265.2	26.8	41.4	81.3	149.4	0.9	No	(10.2)	109.0	0.0
F&C Global Smaller Companies	Global	720.6	27.4	51.2	114.5	176.7	0.5	No	1.1	104.0	0.9
Pacific Assets Trust	Asia Pac ex-Jap	310.0	31.1	58.5	107.7	114.9	1.3	No	0.1	100	1.0
Scottish Oriental Smaller Cos	Asia Pac ex-Jap	329.6	38.3	47.5	100.4	287.6	1.0	Yes	(11.7)	91	1.1
<b>Weighted average</b>			<b>31.7</b>	<b>48.4</b>	<b>100.0</b>	<b>200.8</b>	<b>1.0</b>		<b>(5.2)</b>	<b>103</b>	<b>1.0</b>
<b>Open-ended funds</b>											
Stewart Investors Gbl Em Mkts A	Specialist	683.1	29.9	32.6	57.1	161.5	1.9	No			0.0
Stewart Investors Asia Pacific A	Asia Pac ex-Jap	856.7	30.5	54.4	96.8	210.6	1.9	No			0.3
<b>Weighted average</b>			<b>30.3</b>	<b>44.7</b>	<b>79.2</b>	<b>188.8</b>	<b>1.9</b>				<b>0.2</b>

Source: Morningstar, Edison Investment Research. Note: TR=NAV total return. Past performance is not a reliable indicator of future results. Net gearing is total assets less cash and equivalents as a percentage of net assets (100=ungeared). Uses AIC sectors for closed-ended and IA sectors for open-ended funds. GEM = Global Emerging Markets. Shaded funds are managed by Stewart Investors or First State Stewart Asia.

## Capital structure, fees and other items

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ScotGems has achieved its minimum issue size of at least £50m, and is permitted to run a placing programme over the next 12 months (until 4 June 2018), using market makers to issue further shares on the open market at a premium to NAV in response to demand, up to a total maximum of 100m shares (this is the balance of the initial issue and total permissions). SGEM has a single class of share (ordinary) with a launch price of 100p. The opening NAV per share of 99.0p is the opening value less costs. Launch costs charged to the trust were capped at 1.0% of gross proceeds; the manager says this is a low percentage in the context of most investment trust launches.

The trust will have the ability to gear up to 20% of net asset value at the time of borrowing. However, no borrowing facility is in place at the time of launch.

There is no formal discount or premium control policy. ScotGems' board has the authority to buy back or allot shares (on a non-pre-emptive basis). There is no target or maximum level of discount or premium at which action will be taken. The board anticipates that any buyback activity will be exceptional rather than routine. The board will only authorise buybacks and share allotments if they deem that there is a strong case that such action is in the long-term interests of shareholders.

Stewart Investors will receive an annual management fee of 1.0% of ScotGems' net assets, payable in arrears. There is no performance fee. Ongoing charges are capped at 1.5% of net assets.

## Dividend policy

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Given its focus on companies at an earlier stage of development, which are more likely to invest for future growth than to pay dividends to shareholders, it is not envisaged that ScotGems itself will pay dividends, at least in its early years. The rules governing investment trusts state that no more than 15% of gross investment income can be retained by the company, with the rest needing to be paid as dividends. However, with management and other fees being charged to the revenue account, it is anticipated that any residual income in the early years of the trust will be below the level at which the requirement to pay out a dividend would be triggered. Over the long term, should ScotGems start receiving dividends from investee companies to an extent that exceeded annual expenses, it is anticipated that the trust will start paying dividends.

## Director biographies

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### Company directors

In line with UK corporate governance practice, ScotGems has a majority independent board with five directors including an independent chairman. Angus Tulloch, one of the principal architects of the Stewart Investors investment approach, will be on the board. Tulloch has indicated that he is retiring from Stewart Investors in September 2017. Due to his position at Stewart Investors, he is currently deemed to be a non-independent director. Anne West is also deemed to be non-independent because she is a director of the Scottish Oriental Smaller Companies Trust, which is managed by an affiliate of SGEM's management company.

Tulloch says that he and the rest of the board will engage with the investment manager regarding the company's investments, although he stresses that the managers have ultimate responsibility for and ownership of all investment decisions, within the trust's investment policy and the parameters set by the board from time to time.

**William Salomon (chairman)** is the senior partner of Hansa Capital Partners, deputy chairman of Ocean Wilsons Holdings Limited and its listed subsidiary Wilsons Sons Limited, and a director of

Hansa Trust. He has worked within the investment fund business for many years and was responsible for developing Finsbury Asset Management and the Finsbury range of funds, based on the concept of early recognition of key investment trends, such as life sciences and technology.

**James Findlay** is a fund manager and co-founder and co-chief investment officer of asset management group Findlay Park, which he set up in 1997 after 14 years at Foreign & Colonial Management, mainly focusing on US equities. Prior to this he worked at John Govett, having started his career at Hoare Govett in 1978 as a trainee.

**James Maclaurin** has a background in the telecoms and technology sectors and is currently the deputy CEO and CFO of M-Kopa Solar, an innovative off-grid electric technology business based in the UK and Africa. Prior to this he was the founding CEO of edotco, the spinout of Axiata's infrastructure in five Asian markets, and from April 2011 to April 2014 he was group CFO of its parent, Axiata, one of Asia's largest telecommunications groups. In the previous decade Maclaurin held a number of CFO positions in technology and telecoms companies. He is a member of the Institute of Chartered Accountants of Scotland.

**Angus Tulloch** (non-independent) is a former joint managing partner of Stewart Investors, where he is now employed as a portfolio manager. Joining Stewart Ivory & Company in 1988, he established that firm's Asia Pacific (ex Japan) desk, founding and managing various regional investment mandates over the following 28 years; these included Asia Pacific, GEM and Asian small-cap strategies. Prior to joining Stewart Ivory, Tulloch was employed by Whinney Murray (now E&Y), the National Bus Company, Elba Growers and Cazenove. He has a BA (Hons) in economics, politics and history from Cambridge University.

**Anne West** (non-independent) is also a former fund manager. She worked at Cazenove Capital Management from 1989 until her retirement in 2012, initially responsible for Asian and Japanese portfolios. From 2001 to 2008 she was also Cazenove's chief investment officer. Earlier in her career she was based in Hong Kong with Standard Chartered Bank and Hambro Pacific. West is a non-executive director of private equity fund HgCapital as well as of the Scottish Oriental Smaller Companies Trust.

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