

# Standard Life UK Smaller Companies

## Outperforming in a weak market

Investment trusts

**Standard Life UK Smaller Companies (SLS) is an actively managed UK small- and mid-cap focused trust with a quality-biased portfolio. Manager Harry Nimmo has followed a consistent approach to stock selection since taking responsibility for the portfolio in 2003, seeking companies with resilient business models and the potential to deliver sustainable growth. SLS's NAV total return has been ahead of its benchmark over one, three and 10 years, with notably strong outperformance over the last 12 months against the background of a decline in the broader UK market. Recent market volatility has pushed the discount towards the recently introduced 8% target level for the share buyback policy.**

12 months ending	Total share price return (%)	Total NAV return (%)	Numis Smaller Cos ex-ICs (%)	FTSE AIM (%)	FTSE All-Share (%)	FTSE 250 (%)
30/06/12	(12.8)	(8.6)	(4.1)	(20.7)	(3.1)	(5.6)
30/06/13	40.1	32.3	31.8	3.2	17.9	29.9
30/06/14	1.6	7.6	20.3	14.6	13.1	16.8
30/06/15	8.5	14.2	10.4	(2.5)	2.6	14.5
30/06/16	7.2	4.1	(6.6)	(5.0)	2.2	(4.6)

Source: Thomson Datastream. Note: Total returns in sterling terms.

## Investment strategy: Selecting for quality

The manager employs Standard Life Investments' proprietary stock selection matrix, which comprises a range of momentum-, change- and quality-related metrics, to filter the universe of about 800 smaller companies. The resulting list of c 120 candidate investments is subject to detailed analysis including company meetings, testing their potential for sustainable long-term growth in earnings and dividends. Selecting from this list, the manager constructs a portfolio of 50-60 companies with above-benchmark returns on equity and forecast dividend growth, aiming to deliver long-term capital growth. Active share stands at c 90%.

## Market outlook: Opportunities for stock pickers

The Numis Smaller Companies ex-investment companies (NSCI XIC) index has substantially outperformed the FTSE All-Share and FTSE AIM indices over 10 years. While it has outperformed the FTSE All-Share index by more than 20%, delivering a compound return of 9.4% pa over the last five years, the NSCI XIC index still appears attractively valued relative to other UK market indices across metrics including EV/EBITDA and price/book. This suggests that the NSCI XIC index could represent an appealing area of the market for investors, with the potential to provide an attractive source of investment opportunities for stock pickers. A closed-ended fund such as SLS may appeal as the trust is not affected by inflows and outflows of capital driven by fluctuating market sentiment.

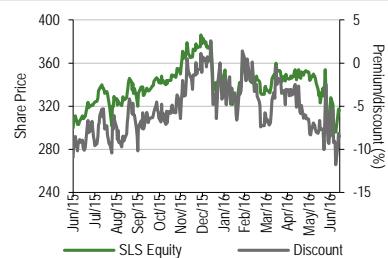
## Valuation: Scope for discount to narrow

SLS's share price discount to NAV has widened in 2016 and seen increased volatility following the UK's EU referendum. The current discount is wider than its three-year average, suggesting scope for narrowing as favourable performance is re-established, and is supported by the recently tightened share buyback policy.

14 July 2016

Price	316.0p
Market cap	£213.1m
AUM	£249.1m
NAV*	340.4p
Discount to NAV	7.2%
NAV**	345.6p
Discount to NAV	8.6%
Yield	1.8%
Ordinary shares in issue	67.4m
Code	SLS
Primary exchange	LSE
AIC sector	UK Smaller Companies

## Share price/discount performance



## Three-year cumulative perf. graph



52-week high/low 386.0p 294.5p

NAV\*\* high/low 382.1p 324.1p

\*\*Including income.

## Gearing

Gross\* N/A

Net\* 3.5%

\*As at 30 June 2016.

## Analysts

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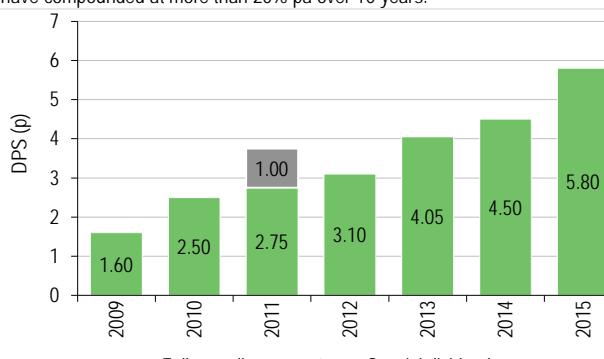
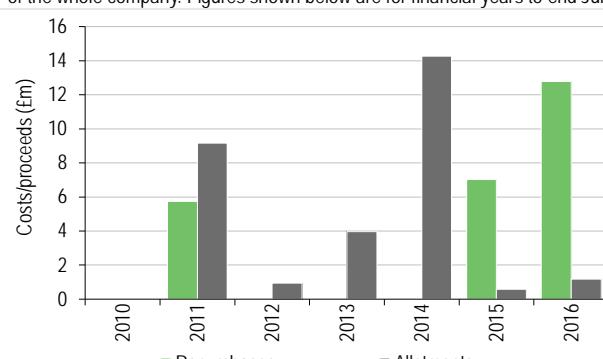
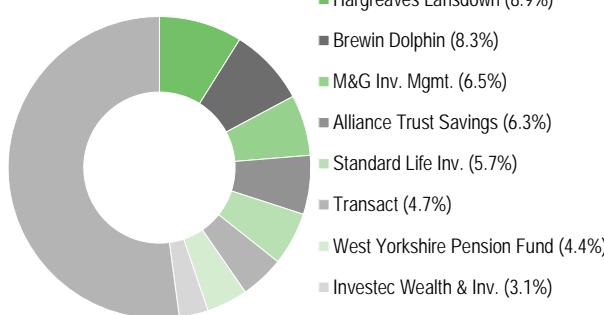
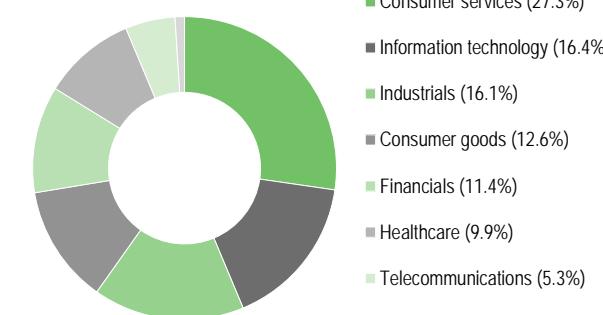
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**Standard Life UK Smaller Companies Trust is a research client of Edison Investment Research Limited**

**Exhibit 1: Trust at a glance**

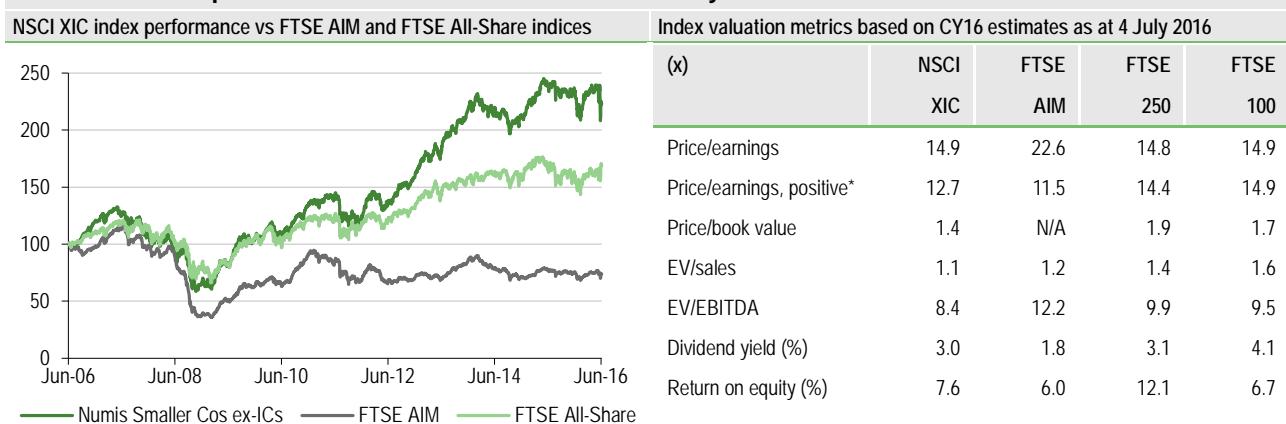
Investment objective and fund background		Recent developments																																										
Standard Life UK Smaller Companies Trust (SLS) aims to achieve long-term capital growth through investment in a diversified portfolio mainly consisting of UK-quoted smaller companies. SLS started life as Edinburgh Smaller Companies in 1993 and Standard Life Investments assumed management from 2003.		<ul style="list-style-type: none"> <li>14 April 2016: 0.8m shares issued from treasury following conversion of £1.9m nominal CULS.</li> <li>22 February 2016: Results for six months to 31 December 2015 – NAV total return +15.2% versus benchmark -1.0%.</li> <li>1 January 2016: Tiered management fee introduced – 0.85% of total assets up to £250m; 0.65% above £250m.</li> <li>1 December 2015: Discount control mechanism target level reduced from 10% to 8% of NAV.</li> </ul>																																										
<b>Forthcoming</b>		<b>Capital structure</b>																																										
AGM	October 2016	Ongoing charges	1.19% for FY15 (H116: 1.14%)	Group Standard Life Investments																																								
Final results	September	Net gearing	3.5%	Manager Harry Nimmo																																								
Year end	30 June	Annual mgmt fee	Tiered: 0.85% to £250m, then 0.65%	Address 1 George Street, Edinburgh, EH2 2LL																																								
Dividend paid	April, October	Performance fee	None	Phone +44 845 60 24 247																																								
Launch date	1993	Trust life	Indefinite	Website <a href="http://www.standardlifeinvestments.com">www.standardlifeinvestments.com</a>																																								
Continuation vote	N/A	Convertible loan stock	£16.3m nominal																																									
<b>Dividend policy and history</b>		<b>Share buyback policy and history</b>																																										
While focused on SLS's long-term capital growth objective, the manager pays close attention to the potential for dividend growth and SLS ordinary dividends have compounded at more than 20% pa over 10 years.		Board policy is to hold tender offers on a discretionary six-monthly basis and buy back shares in the market at discounts of above 8%, where this is in the interests of the whole company. Figures shown below are for financial years to end June.																																										
 <table border="1"> <caption>DPS (p)</caption> <thead> <tr> <th>Year</th> <th>DPS (p)</th> </tr> </thead> <tbody> <tr><td>2009</td><td>1.60</td></tr> <tr><td>2010</td><td>2.50</td></tr> <tr><td>2011</td><td>2.75</td></tr> <tr><td>2012</td><td>3.10</td></tr> <tr><td>2013</td><td>4.05</td></tr> <tr><td>2014</td><td>4.50</td></tr> <tr><td>2015</td><td>5.80</td></tr> </tbody> </table>		Year	DPS (p)	2009	1.60	2010	2.50	2011	2.75	2012	3.10	2013	4.05	2014	4.50	2015	5.80	 <table border="1"> <caption>Costs/proceeds (£m)</caption> <thead> <tr> <th>Year</th> <th>Repurchases (£m)</th> <th>Allotments (£m)</th> </tr> </thead> <tbody> <tr><td>2010</td><td>~5.5</td><td>0</td></tr> <tr><td>2011</td><td>~8.8</td><td>~9.0</td></tr> <tr><td>2012</td><td>~1.0</td><td>~1.0</td></tr> <tr><td>2013</td><td>~3.8</td><td>~3.8</td></tr> <tr><td>2014</td><td>~14.0</td><td>~14.0</td></tr> <tr><td>2015</td><td>~7.0</td><td>~0.5</td></tr> <tr><td>2016</td><td>~12.5</td><td>~1.0</td></tr> </tbody> </table>			Year	Repurchases (£m)	Allotments (£m)	2010	~5.5	0	2011	~8.8	~9.0	2012	~1.0	~1.0	2013	~3.8	~3.8	2014	~14.0	~14.0	2015	~7.0	~0.5	2016	~12.5	~1.0
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<b>Top 10 holdings (as at 30 June 2016)</b>		<b>Portfolio weight %</b>																																										
Company	Sector	30 June 2016	30 June 2015																																									
NMC Health	Healthcare	3.9	1.8																																									
Ted Baker	Consumer goods	3.4	4.4																																									
JD Sports	Consumer goods	3.3	0.7																																									
Moneysupermarket.com	Consumer services	3.2	3.4																																									
Telecom Plus	Telecommunications	3.1	2.9																																									
Abcam	Healthcare	3.1	2.6																																									
Cranswick	Consumer goods	3.0	2.1																																									
Dechra Pharmaceuticals	Healthcare	2.9	2.4																																									
Emis	Technology	2.9	2.9																																									
Workspace	Financials	2.9	3.7																																									
<b>Top 10</b>		<b>31.7</b>	<b>30.5</b>																																									

Source: Standard Life UK Smaller Companies Trust, Edison Investment Research, Morningstar, Bloomberg.

## Market outlook: Small- and mid-cap opportunities

As illustrated in Exhibit 2, the small- and mid-cap NSCI XIC index has substantially outperformed the FTSE All-Share and FTSE AIM indices over 10 years, with the FTSE AIM index yet to see any meaningful recovery post the 2008 global financial crisis. While the NSCI XIC index has seen periods of underperformance relative to the FTSE All-Share index, February to October 2014 being an example, over the five years to end-June 2016 the NSCI XIC index has outperformed the FTSE All-Share index by more than 20%, delivering a compound return of 9.4% pa.

**Exhibit 2: Market performance and valuation metrics over 10 years**



Source: Thomson Datastream, Bloomberg, Edison Investment Research. Note: \*Excludes loss-making index constituents.

While it has outperformed the broader UK market over five years, the NSCI XIC index still appears attractively valued relative to other indices on a range of metrics (Exhibit 2 right-hand chart). These metrics suggest that the NSCI XIC index could represent an appealing area of the market for investors, potentially providing an attractive source of investment opportunities for stock pickers.

## Fund profile: Quality UK smaller companies portfolio

SLS was launched in 1993 as Edinburgh Smaller Companies Trust, managed by Edinburgh Fund Managers. After a period of sustained weak performance driven in part by overweight exposures to TMT and financials, Standard Life Investments was appointed as manager on 1 September 2003 with Harry Nimmo taking responsibility for the portfolio. The trust was renamed Standard Life UK Smaller Companies Trust in August 2007. Nimmo has followed a consistent approach throughout his tenure, combining Standard Life Investments' screening matrix and fundamental analysis to identify companies with the potential for sustainable growth, with an emphasis on quality rather than value. Performance is benchmarked against the NSCI XIC index. Since Standard Life Investments' appointment as manager, SLS's total NAV return has compounded at an annual rate of 15.0%, which compares to 11.1% for the benchmark (data to end-June 2016).

## The fund manager: Harry Nimmo

### The manager's view: New opportunities still arising

Nimmo comments that uncertainty over the outcome of the UK's EU referendum has held back the UK stock market in 2016, observing that there has been a market rotation away from domestically oriented stocks, as well as some rotation towards value stocks. He notes that two of the largest holdings, Workspace and Ted Baker, both leading performers in 2015, have been weak in 2016.

Recent additions to the portfolio include Jet2.com airline operator Dart Group, UK carpet distributor Headlam Group, US-oriented public relations company Next Fifteen Communications, global online portal for hostel booking Hostelworld Group, infrastructure products and galvanising services firm Hill & Smith and regulatory software and services provider First Derivatives. Dart Group scored very highly on the stock selection matrix and is seen as a beneficiary of both an improving UK economy and lower oil prices. The renewal of its aircraft fleet is underway, which is improving efficiency, and it also has a growing holiday business through acting as a hotel and airline seat consolidator.

Among recent weak performers, Nimmo draws attention to smoke and carbon monoxide detector firm Sprue Aegis, whose shares fell sharply following issues with its battery supplier, and ruggedized electronic equipment supplier Solid State, which saw a contract cancelled by the Ministry of Justice. Recent portfolio exits include Restaurant Group, which was sold after a period of disappointing trading, having previously been very successful. Paddy Power was sold as its market cap moved substantially above the NSCI index ceiling following its merger with Betfair. Other sales include former top 10 holdings Abcam and Computacenter, as well as Clarksons and AG Barr.

A notable portfolio exit in the last year was Gulf Marine Services, an Abu Dhabi-based fabricator serving the oil and gas industry, which had been purchased at its IPO in March 2014 at a share price of 135p. The falling oil price weakened the outlook for the business and SLS sold its shares between December 2014 and August 2015 at prices ranging between 100p and 125p. While a loss was realised on this holding, Nimmo points to the investment discipline that it demonstrates and highlights that the shares are currently trading at c 40p.

## Asset allocation

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### Investment process: Screening and fundamental analysis

Harry Nimmo heads the Standard Life Investments Smaller Companies team, comprising seven managers and analysts, and can also call on the broader resources of Standard Life Investments. Abby Glennie joined the team in 2016 to assist in managing SLS, replacing Caspar Trenchard, in addition to managing the SLI UK Opportunities Fund and other smaller companies' funds. She has over 10 years' experience with a particular focus on healthcare and technology sectors.

Nimmo has followed a consistent approach dating back to the inception of the Standard Life Investments UK Smaller Companies OEIC in January 1997. In summary, he is looking to buy tomorrow's larger companies, selecting those with growth potential, proven business models, recurring revenues and predominantly those that are already earning profits.

To sift the large universe of c 800 potential investments, Nimmo uses Standard Life Investments' proprietary stock selection matrix. This looks at a range of measures including the following:

- earnings per share and EBITDA revisions;
- StarMine estimates (indication of estimate stability and dispersion);
- director dealing (used with reference to price momentum);
- share price momentum;
- earnings per share growth;
- P/E ratio and yield; and
- Altman Z-scores (financial strength/quality indicator).<sup>1</sup>

The screening matrix helps to flag potential investment ideas and prompts a re-examination of the investment case if the score deteriorates for existing holdings. Scores for the investment universe

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<sup>1</sup> The original Altman Z-Score is a weighted combination of five ratios: working capital/total assets, retained earnings/total assets, earnings before interest and tax/total assets, market value of equity/total liabilities and sales/total assets. A score of below 1.8 is seen as a warning sign, while 3.0 and above is a positive indicator.

tend to follow a normal distribution, ranging from -35 to +35. Around 45% of portfolio holdings score over 10, which is the lower end of the buy range, and c 5% are in sell territory, scoring below -10. The manager looks to rotate the portfolio progressively from lower to higher scoring stocks, but underlines that the matrix is an aid rather than a final selection tool. Ideas generated by the matrix are subject to fundamental analysis to check the validity of numbers and eliminate any 'false positives'. Nimmo monitors a list of c 120 stocks from which the portfolio of c 60 stocks is selected, focusing on companies with growth potential including the ability to grow dividends on a sustainable basis. Such companies typically have resilient business models supported by strong market share, barriers to entry or long-term contracts/customer relationships that confer pricing power. Company meetings are an important part of the final selection process from the list of monitored stocks.

Attention is paid to valuation, but this is a secondary consideration. The manager avoids deep value or unproven investments, regarding the risk/reward from these situations as generally unappealing; the risk guidelines include a limit of 5% exposure to 'blue sky' companies. There is also a 5% limit on sub-£50m companies and in normal circumstances on any individual holding. Portfolio holdings are not confined to the benchmark index, but the majority fall within the market cap band of the NSCI XIC, which is formed from the bottom 10% of the UK market by size.

## Current portfolio positioning

At end-June 2016, NSCI XIC index stocks represented 39.4% of SLS's portfolio, FTSE AIM stocks 33.6%, FTSE 250 stocks 23.0% and other stocks 4.0%. Portfolio concentration was similar to a year earlier, with the top 10 holdings accounting for 31.7% of the portfolio (see Exhibit 1). As shown in Exhibit 3, SLS's portfolio is well spread across sectors, with the overall sector profile at end-June 2016 broadly similar to end-June 2015. The largest changes in sector exposure over the year were 3.9pp and 3.4pp increases in consumer goods and information technology, offsetting 3.4pp and 2.7pp reductions in industrials and financials. These changes are a result of the bottom-up stock selection process rather than reflecting a change in top-down view towards individual sectors.

**Exhibit 3: Portfolio sector exposure (%)**

	30 June 2016	30 June 2015	Change (% pts)
Consumer services	27.3	27.0	0.3
Information technology	16.4	13.0	3.4
Industrials	16.1	19.5	(3.4)
Consumer goods	12.6	8.7	3.9
Financials	11.4	14.1	(2.7)
Healthcare	9.9	10.1	(0.2)
Telecommunications	5.3	4.2	1.1
Basic materials	1.0	2.6	(1.6)
Oil & gas	0.0	0.8	(0.8)
	100.0	100.0	

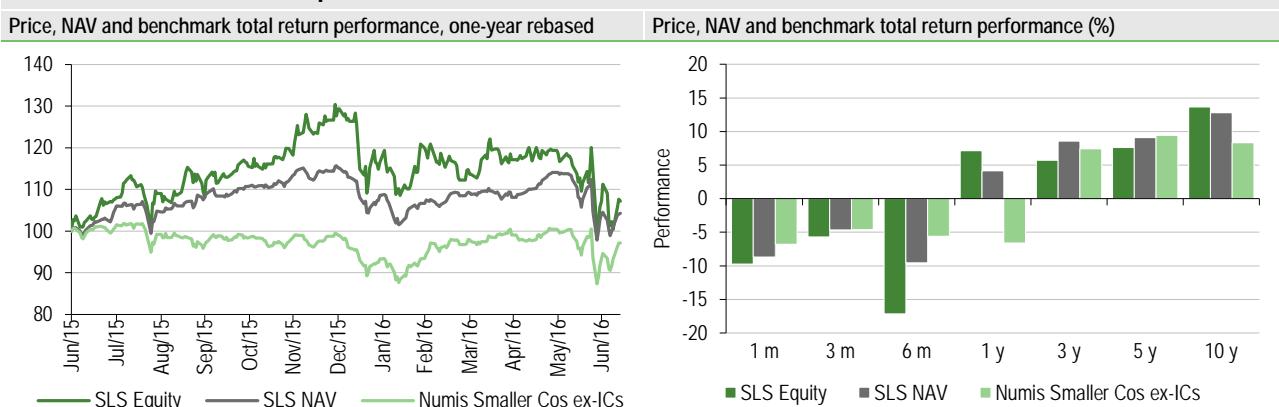
Source: Standard Life UK Smaller Companies, Edison Investment Research

Although four of the top 10 holdings changed over the year to end-June 2016, the manager's preference for running winners is evident in a consistency among the larger holdings over time and relatively low portfolio turnover, which has averaged c 25% over the last five financial years.

## Performance: Ahead of benchmark over one to 10 years

SLS's NAV total return has outperformed the benchmark NSCI XIC index over one, three and 10 years, while modestly underperforming over five years (Exhibit 5). Exhibit 4 illustrates the strength of SLS's performance in both absolute and relative terms between June and December 2015, a period during which the NSCI XIC index declined. This was one of three periods during which SLS has materially outperformed its benchmark over the last 10 years (see Exhibit 6). The manager notes that SLS's relative performance in 2015 was helped by the absence of oil & gas and mining stocks from the portfolio, with the rally in these sectors contributing towards the relative weakness

in early 2016. From February 2009, relative performance dipped sharply as portfolio companies with resilient business models and strong balance sheets lagged in the early phase of market recovery. A further period of moderate relative weakness started in late 2011 when ECB support for the banking system prompted a risk-on rally that again left the quality-biased portfolio lagging the index. Taking a wider perspective, SLS's NAV total return has outperformed both the FTSE AIM and FTSE All-Share indices over one, three, five and 10 years, reflecting the longer-term strength of the small- and mid-cap focused NSCI XIC index relative to these indices.

**Exhibit 4: Investment trust performance to 30 June 2016**


Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

**Exhibit 5: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Numis Smaller Cos ex-ICs	(3.2)	(1.1)	(12.2)	14.7	(4.7)	(7.9)	61.8
NAV relative to Numis Smaller Cos ex-ICs	(2.1)	(0.0)	(4.2)	11.5	3.2	(1.3)	49.9
Price relative to FTSE AIM	(5.8)	(5.7)	(14.2)	12.8	11.2	66.0	391.9
NAV relative to FTSE AIM	(4.8)	(4.7)	(6.3)	9.6	20.5	77.8	355.7
Price relative to FTSE All-Share	(12.2)	(9.9)	(20.5)	4.9	(0.4)	6.5	113.3
NAV relative to FTSE All-Share	(11.2)	(8.9)	(13.3)	1.9	7.9	14.1	97.6

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2016. Geometric calculation.

**Exhibit 6: NAV performance relative to Numis Smaller Companies ex-ICs index over 10 years**


Source: Thomson Datastream, Edison Investment Research

## Discount: Recent widening

The board's discount control policy is to offer periodic tenders at six-monthly intervals, but on a discretionary basis, for up to 5% of the shares in issue. Tenders were held in June and December 2010 and June 2015, the latest at a 4.2% discount to NAV to allow for costs incurred. There is also an intention to buy back shares when the discount is wider than 8% (10% up to November 2015), where this is in the best interests of the company as a whole. Since end-June 2014, SLS has

bought back 8.4% of its issued shares through tender offer and open market purchases. Over the last three years SLS shares have traded at a 4.5% average discount to NAV including income, ranging between a 5.0% premium and an 11.8% discount (Exhibit 7). Having started the year at par, SLS's discount has widened in 2016 with its volatility increased by market moves following the UK's EU referendum. The cum-income discount currently stands at 8.6%, suggesting scope for narrowing when market sentiment improves and favourable performance is re-established.

**Exhibit 7: Share price discount/premium to NAV (including income) over three years (%)**



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount.

## Capital structure and fees

SLS has 67.4m ordinary shares in issue, with a further 4.2m shares held in treasury. The trust has structural debt in the form of £16.3m nominal value convertible unsecured loan stock (CULS) with a 3.5% coupon, maturing in March 2018. A 237.2542p conversion price makes the CULS comfortably in the money, but holders are unlikely to convert in the near term given the CULS higher yield, unless they plan to realise their shares. Since 31 March 2016, the criteria have been met for SLS to require holders to redeem the CULS at par. In this event, CULS holders would be given a final opportunity to convert prior to redemption. The board permits the manager to adjust gearing between 5% net cash and 25% net debt by varying the level of cash held, which enables positions to be taken when opportunities arise. Over the last five financial years, year-end gearing has ranged from 4.6% net cash to 8.8% net debt; net gearing at end-June 2016 was 3.5%.

A tiered management fee structure was introduced in December 2015 with a rate of 0.85% of gross assets charged up to £250m and 0.65% above £250m. There continues to be no performance fee payable. The ongoing charge for FY15 was 1.19% and this declined to 1.14% in H116.

## Dividend policy and record

SLS's objective is to generate long-term capital growth so the manager is required to strike a balance more in favour of capital growth than revenue return. Nevertheless, the ability of investee companies to provide sustainable dividend growth is one of the manager's six rules for successful investment in smaller companies. This feeds through into SLS's revenue account and the board maintains the intention to pay dividends commensurate with income. Over the last 10 financial years, SLS has increased its ordinary dividend at a compound rate of close to 22%, with the payment doubling in FY08, and increasing by 56% and 31% in FY10 and FY13 respectively. FY15 revenue earnings rose 33.9% to 6.76p, benefiting from the high level of special dividends received (2.05p) and SLS's dividend payout was increased by 28.9% to 5.80p. While the interim dividend for FY16 (paid in April) was held at 1.40p, revenue earnings for the half year increased 20% to 2.28p, and the manager sees scope for an increase in the full-year payout.

## Peer group comparison

Exhibit 8 shows a comparison of SLS with AIC UK smaller companies sector trusts larger than £100m. SLS's NAV total return is significantly higher than the peer group averages over one and 10 years, ranking second and first out of the 10 companies over these periods, while three- and five-year performance is below the peer average. Looking at risk-adjusted returns, SLS's Sharpe ratio is noticeably ahead of the peer group average over one year and modestly lower over three years. At 4 July, SLS was trading on the narrowest discount in the peer group. The trust's gearing is broadly average, while its ongoing charge is towards the higher end of the range. SLS's dividend yield is lower than the peer group average, but we note that dividend growth has been strong (see above).

**Exhibit 8: UK Smaller Companies peer group comparison as at 4 July 2016**

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Standard Life UK Smaller Co.	221.1	1.7	22.9	50.1	224.1	(0.6)	0.2	(4.1)	1.19	No	104	1.8
Aberforth Smaller Co.	864.2	(15.6)	23.1	53.3	98.1	(1.5)	0.2	(16.2)	0.82	Yes	102	2.9
BlackRock Smaller Co.	385.0	(7.3)	30.7	58.8	200.7	(1.1)	0.4	(16.9)	0.71	Yes	111	2.3
BlackRock Throgmorton	216.5	(5.7)	27.9	59.3	124.0	(1.0)	0.3	(15.8)	1.13	Yes	126	2.3
Henderson Smaller Co.	422.8	(9.8)	25.2	74.3	157.9	(1.0)	0.3	(13.6)	0.47	Yes	104	2.4
Invesco Perpetual UK Smaller Co.	184.6	(5.8)	26.9	62.8	142.7	(1.0)	0.3	(6.4)	0.83	Yes	96	4.2
JPMorgan Smaller Companies	122.0	(12.6)	10.7	38.7	92.6	(1.4)	(0.0)	(16.3)	1.19	No	111	1.5
Montanaro UK Smaller Co.	142.3	(10.9)	5.9	24.0	110.5	(1.0)	(0.1)	(20.4)	1.24	No	111	2.4
Rights & Issues	121.8	13.0	69.5	114.6	203.6	(0.3)	1.1	(18.2)	0.48	No	100	2.7
Strategic Equity Capital	124.2	(9.3)	59.1	97.7	102.0	(1.4)	0.9	(11.0)	1.44	Yes	100	0.4
Average	280.4	(6.2)	30.2	63.4	145.6	(1.0)	0.4	(13.9)	0.95		107	2.3

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

Following the retirement of Donald MacDonald in February 2016 after 23 years' service, including 21 years as chairman, the board comprises four non-executive directors, all of whom are independent. Lynn Ruddick (appointed February 2009) will also retire following the October 2016 AGM and a search for new directors is currently underway. The continuing directors are David Woods (appointed director May 2005, chairman February 2014), senior independent director Carol Ferguson (appointed February 2009) and Allister Langlands (appointed July 2014). The board members have a range of asset management, financial market and industrial experience.

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