

Standard Life UK Smaller Companies

Matrix driving continued outperformance

Standard Life UK Smaller Companies (SLS) manager Harry Nimmo is very bullish on the outlook for UK small-cap stocks, with the proviso that Brexit presents a near-term risk. He notes that despite current challenges due to the coronavirus, many companies are trading above expectations and there are now only a handful of SLS's portfolio companies that are not paying dividends. The manager is comfortable with the trust's ability to maintain its own dividend payments and is hopeful its valuation will improve given its very strong performance record. SLS's NAV has outperformed its benchmark over the last one, three, five and 10 years; however, Nimmo cautions that given the trust's focus on quality businesses, if there is a cyclical recovery in the UK market with a 'dash for trash', SLS is likely to underperform during this period.

Significant long-term NAV outperformance versus the benchmark



Source: Refinitiv, Edison Investment Research

The market opportunity

UK small-cap stocks have outperformed the broader UK market over both the short and long term. Brexit uncertainty has weighed on domestic shares since mid-2016, so greater clarity in coming weeks should be welcome. Meanwhile, UK stocks are trading at a much wider discount to the world market than historical averages, suggesting the possibility of a rerating if sentiment towards the UK improves.

Why consider investing in SLS?

- Despite market weakness in 2020, the trust has delivered NAV total returns of 13.4% pa over the last decade, compared with 8.4% pa for its benchmark.
- Proven, disciplined investment process driven by the proprietary Matrix screening tool, backed up by a well-resourced investment team.
- Progressive dividend policy – compound annual growth rate of 5.8% over the last five years.

Scope for a narrower discount

SLS is currently trading at a 5.0% discount to cum-income NAV, which compares with the 4.5% to 5.8% range of average discounts over the last one, three, five and 10 years. There is scope for a narrower discount given the trust's strong performance track record, while Brexit uncertainty should be alleviated in a matter of weeks, which could lead to greater investor appetite for UK shares.

Investment trusts UK smaller companies

23 November 2020

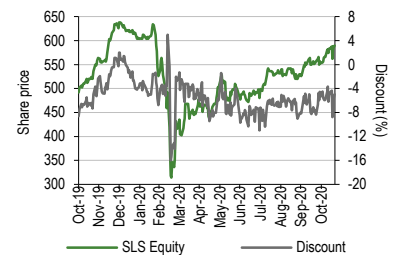
Price 590.0p
Market cap £586m
AUM £647m

NAV* 620.3p
Discount to NAV 4.9%
NAV** 620.9p
Discount to NAV 5.0%

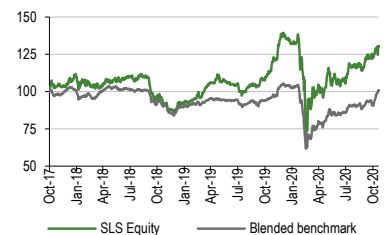
*Excluding income. **Including income. At 19 November 2020.

Yield 1.3%
Ordinary shares in issue 99.4m
Code SLS
Primary exchange LSE
AIC sector UK Smaller Companies
Benchmark Numis Smaller Cos plus AIM ex-ICs

Share price/discount performance



Three-year performance vs index



52-week high/low 638.0p 314.0p
NAV** high/low 646.9p 371.4p

**Including income.

Gearing

Net* 0.5%

*As at 13 November 2020.

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**Standard Life UK Smaller Companies
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Exhibit 1: Trust at a glance

Investment objective and fund background

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, with Standard Life Investments (now Aberdeen Standard Investments) assuming management from 2003. The trust merged with Dunedin Smaller Companies Investment Trust in October 2018 and with Gartmore Smaller Companies Trust in 2009.

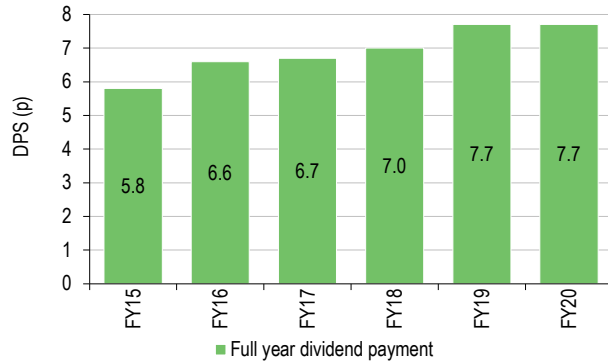
Recent developments

- 9 September 2020: annual results to 30 June 2020. NAV TR -0.5% versus benchmark TR -10.7%. Share price TR -0.1%.
- 1 April 2020: Liz Airey succeeded Allister Langlands as chairman of the board.
- 27 February 2020: six-month results to 31 December 2019. NAV TR +17.5% versus benchmark TR +11.3%. Share price TR +31.5%.
- 29 August 2019: annual results to 30 June 2019. NAV TR -1.1% versus benchmark TR -7.2%. Share price TR -0.3%.

Forthcoming		Capital structure		Fund details	
AGM	October 2021	Ongoing charges	0.88% (FY20)	Group	Aberdeen Standard Investments
Interim results	February 2021	Net gearing	0.5%	Manager	Harry Nimmo
Year end	30 June	Annual mgmt fee	Tiered (see page 9)	Address	1 George Street, Edinburgh, EH2 2LL
Dividend paid	Apr and Oct/Nov	Performance fee	None	Phone	0808 500 0040
Launch date	August 1993	Trust life	Indefinite	Website	standardlifeuksmallercompaniestrust.co.uk
Continuation vote	N/A	Loan facilities	£45m		

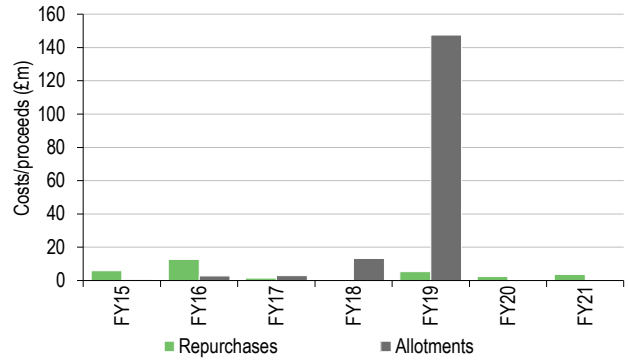
Dividend policy and history (financial years)

While focused on SLS's long-term capital growth objective, the manager pays close attention to the potential for dividend growth. SLS's ordinary dividends have compounded at an average rate of 11.9% pa over 10 years and 5.8% pa over the last five years.

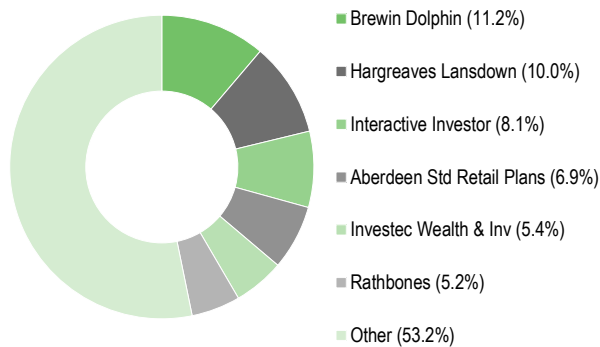


Share buyback policy and history (financial years)

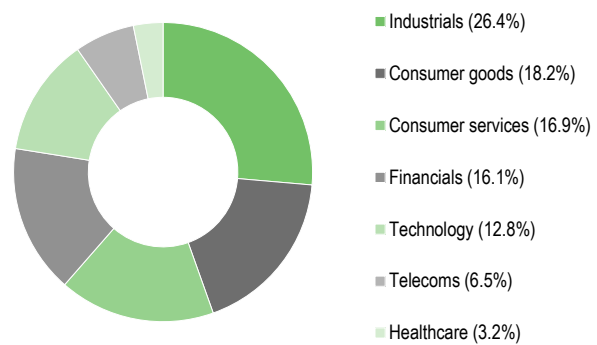
The board is focused on managing the discount such that the share price discount to cum-income NAV remains below 8%. FY19 allotments include 27.9m shares issued as a result of the merger with Dunedin Smaller Companies Investment Trust.



Shareholder base (at 31 October 2020)



Portfolio exposure by sector (ex-cash and gearing at 31 October 2020)



Top 10 holdings (at 31 October 2020)

Company	Sector	Portfolio weight %	
		31 October 2020	31 October 2019*
Kainos Group	Technology	5.1	N/A
Gamma Communications	Telecommunications	4.8	3.9
Future	Consumer services	4.7	4.1
Games Workshop	Consumer goods	4.7	N/A
Diploma	Industrials	3.9	3.0
Hilton Food Group	Consumer goods	3.4	3.2
XP Power	Industrials	3.2	N/A
GB Group	Technology	3.0	N/A
Team17 Group	Consumer services	2.9	N/A
Safestore	Financials	2.8	N/A
Top 10 (% of portfolio)		38.5	34.1

Source: SLS, Edison Investment Research, Morningstar. Note: *N/A where not in end-October 2019 top 10.

Market outlook: Looking towards a brighter future

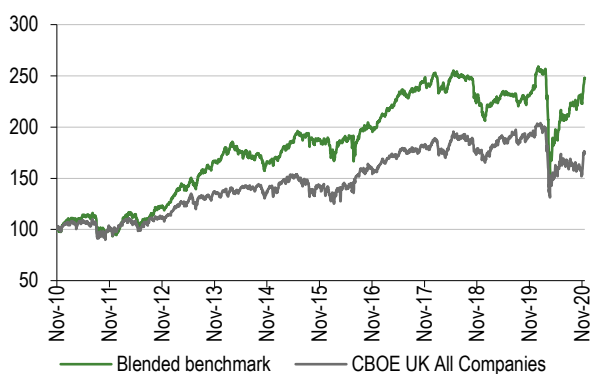
As shown in Exhibit 2 (LHS), UK stocks have recovered somewhat from the coronavirus-led market sell-off earlier this year. Small-cap stocks have performed relatively better than the broad market over both the short and longer term, but in aggregate the UK has lagged the recovery seen in some other global markets due to the continued uncertainty over Brexit.

As measured by the Datastream UK index, the domestic market is trading on a 15.0x forward P/E multiple, which is a 22.5% discount to the world market, considerably wider than the 8.8% average discount over the last decade.

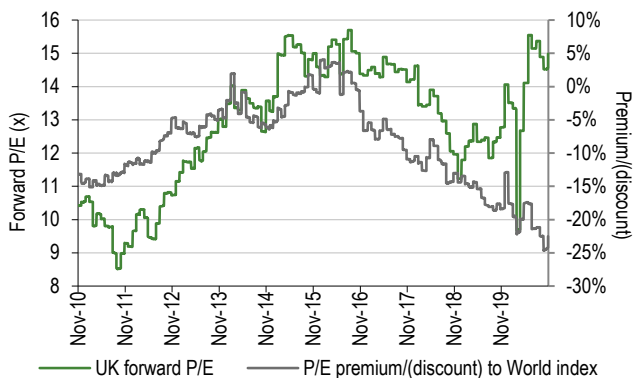
There is potential for UK shares to trade on a narrower discount once the Brexit uncertainty clears at the beginning of 2021. In addition, we all hope for a brighter future once lockdowns become a thing of the past and the economy can get back on track. With this in mind, the UK market may offer an attractive opportunity for global investors with a longer-term perspective.

Exhibit 2: Market performance and valuation

Performance of UK indices (last 10 years)



Valuation of UK equities (Datastream indices, last 10 years)



Source: Refinitiv, Edison Investment Research. Note: SLS's blended benchmark is the Numis Smaller Companies plus AIM ex-Investment Companies index (Numis Smaller Companies ex-Investment Companies index to 31 December 2017). Data as at 5 November 2020.

Fund profile: High-conviction UK small-cap equities

Launched in August 1993, SLS is quoted on the Main Market of the London Stock Exchange. Since 1 September 2003 the trust has been managed by Harry Nimmo at Aberdeen Standard Investments (ASI). He aims to generate long-term capital growth from a diversified portfolio of UK smaller companies. On 17 November, it was announced that Nimmo's colleague Abby Glennie was appointed as SLS's co-manager with immediate effect.

The fund is comprised of c 50 of the manager's highest-conviction investment ideas. SLS's performance is benchmarked against the Numis Smaller Companies plus AIM ex-Investment Companies index (the Numis Smaller Companies ex-Investment Companies Index prior to 1 January 2018).

To mitigate risk, at the time of purchase, SLS may hold a maximum 5% of total assets in a single position, no more than 5% in companies with a market cap below £50m, and Nimmo tends not to invest in 'blue sky' (not-yet profitable) companies, although up to 5% is permitted. Up to 50% of the portfolio may be invested in companies that are constituents of the broad AIM index. The manager may vary the trust's level of gearing between a net cash position of 5% and net gearing of 25% of NAV (at the time of drawdown). At 13 November 2020, net gearing was 0.5%.

SLS merged with Dunedin Smaller Companies Investment Trust (DNLD) on 8 October 2018, increasing its net assets by c 38% and thereby spreading its fixed costs over a larger base.

The fund managers: Harry Nimmo and Abby Glennie

The manager's view: Unwavering focus on quality

Nimmo has an unwavering focus on quality businesses. Given the current economic uncertainty due to the coronavirus pandemic, he highlights one of the important metrics in his proprietary screening tool, the Matrix (for more information see the following Investment process section). The Altman Z-score highlights a company's balance sheet and cashflow strength; its formula may be used to predict the probability that a firm will go bankrupt within two years.

Having carefully reassessed all SLS's investee companies, the manager comments that many businesses are thriving during the lockdown. 'COVID-19 beneficiaries are still benefiting handsomely in a very difficult market', he says, while those that are struggling, such as bakery chain Greggs, airline Jet2 (formerly Dart Group) and online ticketing company Trainline, have the balance sheet strength to 'come out the other side'.

According to Nimmo, current market conditions favour SLS's investment process based on quality, growth and momentum and he expects these benefits to continue. He is positive on the outlook for small-cap stocks, believing that 'we are past the worst', as the UK stock market bottomed on 19 March 2020. The manager says that 'sooner or later the lockdowns will be over, and the market will look forward to a cyclical recovery. We have seen unprecedented fiscal and monetary stimulus including ultra-low interest rates. This environment is supportive for small companies.' However, Nimmo highlights a caveat to SLS's performance, in that when there is a cyclical recovery, what he considers to be lower-quality stocks are likely to lead the market and the trust will probably underperform during 'a dash for trash', as it did between April and August 2009 in the aftermath of the banking crisis.

In the meantime, the manager says that overall, lockdowns are beneficial for SLS as it is exposed to growth areas and those where there are behavioural changes. As an example, he believes the changes in the way we shop will endure, with more online and fewer physical store transactions. Nimmo notes that 'all except seven companies in the portfolio are experiencing a trading recovery, some of which are very substantial,' and he argues that companies are now much more optimistic than they were in April and May. 'There is optimism all over the place despite lockdowns feeling painful,' the manager observes.

Digitisation company Kainos Group recently issued an unscheduled trading statement saying its business is progressing well ahead of expectations. Its stock rallied by more than 30%, which prompted Nimmo to trim the position as it had reached 6% of the portfolio. The manager says Games Workshop has been a spectacular story even though the business was closed for six weeks earlier this year due to the first COVID-19 lockdown. During the summer, the company announced its 2020 earnings would exceed those in 2019 and will be ahead of forecast numbers; its stock has practically trebled from its March 2020 low. Diploma is a specialist distributor of industrial and healthcare components. Nimmo explains that the firm has an interesting acquisition-led business model, operating from a small headquarters with a series of subsidiaries. Diploma recently announced the acquisition of Windy City Wire Cable & Technology Products, which saw its share price appreciate by c 25%. The manager suggests the deal is 'double-digit earnings enhancing'.

Nimmo says that a number of portfolio companies have reinstated their dividends, having cut or suspended them earlier this year due to economic uncertainty in the wake of the COVID-19 outbreak. These include Diploma, Future, Games Workshop, Kainos Group, Marshalls and XP Power. Nimmo says that 'virtually all portfolio companies are paying dividends'. While SLS's FY20

dividend was uncovered, the manager is now more confident that it will be covered in future. 'I am hopeful about the dividend progress', he concludes.

Asset allocation

Investment process: Adherence to six principles

The manager follows his six principles for successful small-cap investing:

- **Sustainable growth** – portfolio companies often provide niche products or services.
- **Quality** – factors include the strength of a company's relationship with its customers, the existence of long-term contracts and an element of pricing power. Firms with high or unsustainable levels of debt are generally avoided.
- **Buy for the long term** – identify the great companies of tomorrow and hold them for the long term, which helps to maximise returns and reduces trading costs.
- **Concentrate your efforts** – use of the proprietary screening tool known as the Matrix helps identify suitable candidates for inclusion in the portfolio and reduces the risk that time is spent on stocks that do not meet the required criteria.
- **Management longevity** – high ownership and involvement by founders and CEOs with long tenures are viewed positively. At end-FY20, four of SLS's top 10 holdings had CEOs that had been with their firms for more than 20 years.
- **Valuation** is a secondary consideration, greater importance is placed on companies with positive earnings momentum as this is deemed to be a reliable predictor of future performance.

Nimmo aims to generate long-term capital growth from a diversified portfolio of smaller-cap UK equities. He uses the Matrix, which is based on a series of 13 quality, growth and momentum factors including forecast earnings and dividend growth, earnings revisions, valuation, share price momentum, balance sheet strength and the level of directors' dealing, to whittle down the investible universe of around 500 stocks to around 100 that are deemed worthy of further consideration. The most important factor, at 35% of the Matrix weighting, is earnings revision momentum because back-testing shows this is the most predictive measure of future share price performance. Stocks are assigned a Matrix score between +40 and -40, with those between +10 and +40 deemed potential buy candidates and those between -10 and -40 potential sells. Companies considered for inclusion in SLS's portfolio are subject to further in-depth analysis and meeting company managements is an integral part of the research process. In keeping with other ASI investment teams, Nimmo and his small-cap colleagues have a strong focus on a company's environmental, social and governance (ESG) credentials; firms with a positive ESG rating are considered to be lower-risk investments.

Given the manager's long-term perspective, the average holding period for SLS's investments is around six years, although a number of names have been in the fund for more than a decade. Positions may be trimmed or sold if there is a deterioration in the Matrix score, the original investment thesis no longer holds true, they have grown to more than 5% of the portfolio, or there is a higher-conviction name identified. The disciplined investment process has been employed since ASI took over management of the fund in 2003 and has delivered creditable performance through economic and market cycles.

Current portfolio positioning

As shown in Exhibit 1, at end-September 2020, SLS's top 10 holdings made up 38.7% of the portfolio, which was a higher concentration compared with 33.5% a year earlier; five positions were common to both periods. Looking at the fund's market cap breakdown in Exhibit 3, over the last year the weighting to mid-cap stocks has gone up (+7.7pp), while there is a lower exposure to

companies in the Numis Smaller Companies plus AIM index (-6.3pp). SLS retains a modest weight in large-cap stocks (3.6% of the portfolio), which used to be small/mid-caps.

Exhibit 3: Portfolio market cap exposure (ex-cash and gearing, % unless stated)

	Portfolio end-Oct 2020	Portfolio end-Oct 2019	Change (pp)
Large cap	3.6	5.7	(2.1)
Mid cap	25.3	17.6	7.7
Numis Smaller Companies plus AIM	66.9	73.2	(6.3)
Other	4.1	3.6	0.5
	100.0	100.0	

Source: SLS, Edison Investment Research. Note: Numbers subject to rounding.

Over the 12 months to the end of October, the trust's weights in consumer goods (+6.6pp) and technology (+2.2pp) have risen, while there are lower exposures to industrial (-3.8pp), consumer services (3.1pp) and healthcare (-2.6pp) companies. The unconstrained approach of the manager means there are generally some sectors unrepresented in SLS's portfolio (currently basic materials, oil & gas and utilities).

Exhibit 4: Portfolio sector exposure (ex-cash and gearing, % unless stated)

	Portfolio end-Sept 2020	Portfolio end-Sept 2019	Change (pp)
Industrials	26.4	30.3	(3.8)
Consumer goods	18.2	11.6	6.6
Consumer services	16.9	19.9	(3.1)
Financials	16.1	16.3	(0.3)
Technology	12.8	10.6	2.2
Telecoms	6.5	5.5	0.9
Healthcare	3.2	5.7	(2.6)
	100.0	100.0	

Source: SLS, Edison Investment Research. Note: Numbers subject to rounding.

Discussing some new holdings in the portfolio, Nimmo suggests that **Liontrust Asset Management** 'is doing a good job' and he likes the company's acquisition strategy. It is diversifying its business and has recently acquired Architas, a multi-asset fund-of-fund business, from AXA. The manager says Liontrust has c £18bn of assets under management and good business momentum; he favours the company's 'business within a business' rather than a 'one-size-fits-all' model, and notes the compensation structure within the firm means the investment managers are 'incentivised to do well'. **Impax Asset Management** is another boutique wealth manager that according to Nimmo has 'undertaken ESG research for around 25 years'. He believes ESG is not just 'flavour of the month' and is likely to be an important investment theme for many years. The manager suggests Impax has a real competitive advantage over those firms that are 'Johnny-come-lately' in terms of ESG, and adds that it 'has performed well, making money for clients'. Within SLS's portfolio, the leisure goods sector is a large overweight versus the index. There is a new holding in **Sumo Group**, whose operating businesses include Sumo Digital and Atomhawk. Sumo Digital is one of the UK's largest independent developers of AAA-rated video games, providing both turnkey and co-development solutions. Atomhawk, acquired in June 2017, is a visual design company, servicing the games, film and visual effects industries. Sumo's international client base includes Apple and Sony. In the healthcare sector, Nimmo explains that SLS's exposure has fallen due to exiting the position in Abcam (a producer, distributor and seller of protein research tools), which had been in the portfolio since 2007. A new addition is **Ergomed**, a specialist at managing drug trials, which are increasingly being outsourced by pharma companies. The manager says the firm is in a 'sweet spot' with a lot of business momentum, as it is a COVID-19 beneficiary due to the number of vaccine trials being undertaken.

Performance: Adding to long-term positive record

As shown in Exhibit 5, SLS has outpaced the performance of its benchmark in the last four discrete financial years to the end of October in both NAV and share price terms.

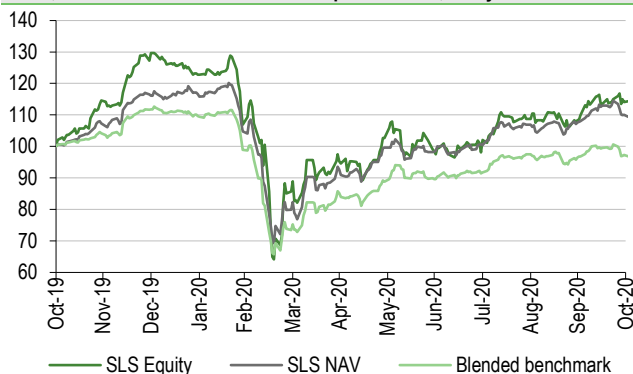
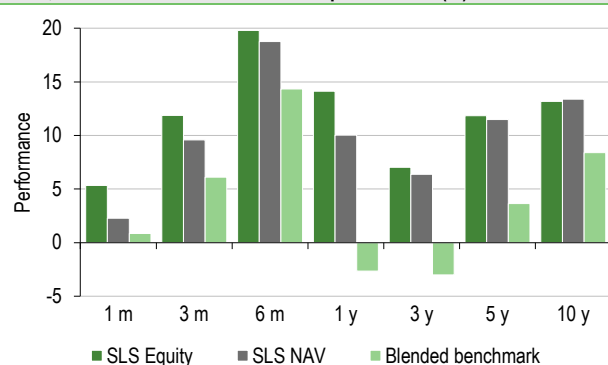
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	Numis Smaller Cos plus AIM ex-ICs (%)	CBOE UK Smaller Cos (%)	CBOE UK All Companies (%)
31/10/16	3.8	3.6	5.3	7.2	0.1	12.8
31/10/17	37.5	38.1	24.4	26.1	29.5	13.6
31/10/18	(2.5)	(4.4)	(7.9)	(8.2)	(6.0)	(1.6)
31/10/19	10.2	14.4	1.7	1.7	0.5	6.9
31/10/20	14.1	10.0	(2.6)	(2.6)	(13.4)	(20.2)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Benchmark is Numis Smaller Cos plus AIM ex-Investment Companies (Numis Smaller Cos ex-Investment Companies to 31 December 2017).

In FY20, the trust's NAV and share price total returns of -0.5% and -0.1% respectively were ahead of the benchmark's -10.7% total return. The largest positive contributors to SLS's performance over the period were Games Workshop (strong trading following the COVID-19 lockdown, high margins and growing market share); Hilton Food Group (surging demand from supermarkets due to the coronavirus-led lockdowns); Future (continuing to make good progress under its highly regarded CEO); Cranswick (strong demand as restaurants remained closed, and robust pork prices due to swine flu); and XP Power, which benefited from an upturn in the semiconductor industry.

Positions that detracted from SLS's returns included: Fevertree Drinks, which struggled to make progress in the US; Next Fifteen Communications (exposed to the depressed advertising cycle); Robert Walters, whose recruitment operations lost momentum in a weak economy; and audio-visual distributor Midwich, which suffered from lower capex among its customer base.

Exhibit 6: Investment trust performance to 31 October 2020
Price, NAV and benchmark total return performance, one-year rebased

Price, NAV and benchmark total return performance (%)


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

Exhibit 7: 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 benchmark*	4.4	5.4	4.8	17.2	34.4	46.4	53.9
NAV relative to benchmark*	1.4	3.3	3.9	13.0	31.9	44.1	56.6
Price relative to Numis Smaller Cos plus AIM ex-ICs	4.4	5.4	4.8	17.2	34.9	42.4	79.2
NAV relative to Numis Smaller Cos plus AIM ex-ICs	1.4	3.3	3.9	13.0	32.4	40.2	82.4
Price relative to CBOE UK Smaller Companies	1.9	7.2	13.8	31.8	49.9	65.0	176.0
NAV relative to CBOE UK Smaller Companies	(1.0)	5.0	12.8	27.1	47.2	62.5	180.9
Price relative to CBOE UK All Companies	9.9	16.6	23.5	43.1	46.1	62.7	126.2
NAV relative to CBOE UK All Companies	6.7	14.3	22.5	37.9	43.4	60.1	130.2

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Geometric calculation. *Benchmark is Numis Smaller Cos plus AIM ex-Investment Companies (Numis Smaller Cos ex-Investment Companies to 31 December 2017).

SLS has an enviable performance track record, having delivered absolute NAV and share price total returns of 13.4% pa and 13.2% pa over the last decade, which is well ahead of the blended benchmark's total return of 8.4% pa (Exhibit 6, RHS). As illustrated above in Exhibit 7, SLS has outpaced the performance of its blended benchmark over all periods shown in both NAV and share price terms. When asked about recent performance attribution, Nimmo comments that SLS's software names GB Group and Kainos Group have done well, along with leisure goods companies Games Workshop and Team17. Less successful positions have been food manufacturers Cranswick

and Hilton Foods, where investors have been taking profits, although the manager reports 'there have been no disasters in terms of performance'. Of note, the trust has performed better than the broad UK and the small-cap UK markets over almost all periods shown in Exhibit 7.

Exhibit 8: NAV total return performance relative to blended benchmark over three years



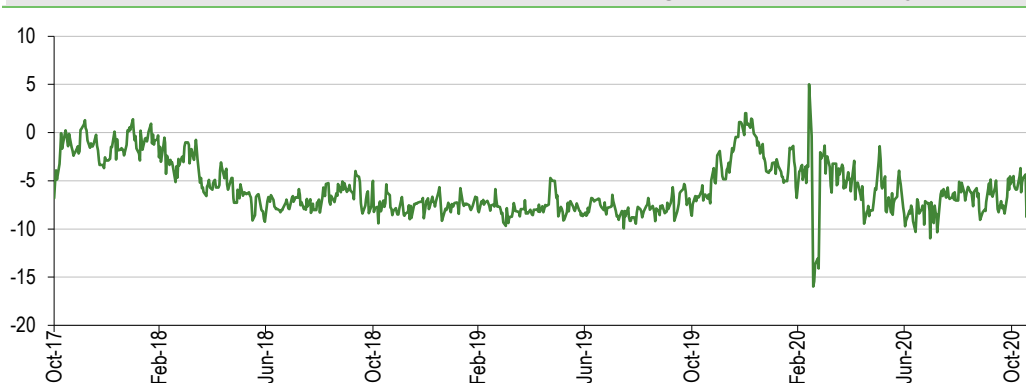
Source: Refinitiv, Edison Investment Research

Discount: Wider than historical averages

SLS's current 5.0% discount to cum-income NAV compares with the range of a 5.0% premium to a decade-wide 16.0% discount over the last 12 months. It compares with the 5.4%, 5.8%, 5.7% and 4.5% average discounts over the last one, three, five and 10 years respectively.

The board aims to limit the trust's share price discount to cum-income NAV to 8% in normal market conditions. Renewed annually, it has authority to repurchase up to 14.99% of SLS's share capital. During the market turmoil earlier this year, the board considered that market conditions were not normal and therefore did not issue or buy back shares until conditions became more stable. During FY20, 0.5m shares (0.5% of the share base) were bought back at a cost of £2.4m and a weighted average discount of 8.8%; this was 0.2p per share accretive to NAV. SLS also has a discretionary tender mechanism in place, although none have been undertaken since June 2015, as the board considers share buybacks are the primary method to manage the trust's discount.

Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

SLS is a conventional investment trust with one class of share; there are currently 99.4m ordinary shares in issue, with a further 4.8m held in treasury. The trust has a £45m unsecured loan

agreement with Royal Bank of Scotland International, expiring on 31 October 2022, made up of a five-year, fixed-rate loan of £25m at 2.349% and a five-year £20m revolving credit facility. At 13 November 2020, SLS had net gearing of 0.5%. Nimmo says his inclination is to increase the trust's gearing, maybe towards the end of the year if the market weakens as we close in on Brexit.

ASI is paid a tiered management fee of 0.85% pa up to £250m of SLS's NAV, 0.65% pa between £250m and £550m and 0.55% pa above £550m. In FY20, SLS's ongoing charges ratio (OCR) was 0.88%, which was 2bp lower than 0.90% in FY19. The OCR has now declined for the last five financial years (to the lowest level in the company's lifetime), helped by the management fee reduction from 1 July 2018 and economies of scale following the DNDL merger in October 2018.

Dividend policy and record

In FY20, SLS's revenue return of 6.74p per share was 23.4% lower year-on-year because of a raft of dividend cuts and suspensions by investee companies in March and April in response to coronavirus-induced economic uncertainty. Drawing on the trust's revenue reserves to supplement income, the board considered it prudent to hold the trust's annual dividend steady at 7.70p per share (0.88x covered), given the uncertain timing of an economic recovery and in case of a setback in investee companies resuming their dividend payments.

SLS pays semi-annual dividends in April and October or November. The board aims to distribute around a third of the total annual distribution as the interim dividend with around two thirds as the final dividend. Over the last five financial years, the trust's total distribution has compounded at a rate of 5.8% pa. Based on its current share price, SLS offers a dividend yield of 1.3%.

Peer group comparison

Exhibit 10 shows the largest funds in the AIC UK Smaller Companies sector, which all have a market cap greater than £100m and at least a three-year track record. SLS's NAV total returns are significantly above average over all periods shown, ranking second over the last one and five years and fourth over the last three and 10 years. The trust's discount is narrower than average, its ongoing charge is in line with the mean and it has a lower-than-average level of gearing. SLS's dividend yield is below the mean, which is unsurprising given its focus on capital growth rather than income.

Exhibit 10: Selected peer group at 20 November 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Standard Life UK Smaller Cos	586.4	13.5	33.0	82.7	280.9	(5.6)	0.9	No	101	1.3
Aberforth Smaller Companies	1,009.0	(9.7)	(9.4)	13.5	136.5	(7.7)	0.8	No	106	2.8
BlackRock Smaller Companies	721.7	4.5	15.3	67.0	243.6	(4.1)	0.7	No	104	2.2
BlackRock Throgmorton Trust	600.9	12.4	34.2	95.2	297.8	0.6	0.6	Yes	123	1.5
Henderson Smaller Companies	718.6	8.2	17.1	61.3	270.2	(6.9)	0.4	Yes	110	2.5
Invesco Perpetual UK Smaller	160.8	(1.2)	14.5	60.3	229.0	(10.6)	1.0	No	100	2.1
JPMorgan Smaller Companies	239.2	17.6	41.0	73.6	251.1	(5.2)	1.0	No	111	1.8
Montanaro UK Smaller Companies	218.4	6.9	10.9	36.1	129.6	(6.9)	0.8	No	107	4.1
Oryx International Growth	165.8	6.5	41.1	81.9	364.6	(5.8)	1.6	No	100	0.0
Rights & Issues Investment Trust	141.8	(0.3)	(7.7)	58.4	298.6	(10.3)	0.5	No	100	1.7
Strategic Equity Capital	130.7	(0.5)	1.8	26.7	235.0	(21.1)	1.1	Yes	100	0.6
Simple average	426.7	5.3	17.4	59.7	248.8	(7.6)	0.9		106	1.9
Rank (out of 11 funds)	5	2	4	2	4	4	5		7	9

Source: Morningstar, Edison Investment Research. Note: *Performance as at 19 November 2020 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

SLS's board has five non-executive independent directors. Chairman Liz Airey joined the board on 21 August 2019 as part of a succession plan and assumed her current role on 1 April 2020 on the retirement of previous chairman Allister Langlands. Tim Scholefield (senior independent director since 25 October 2018) was appointed on 20 February 2017, Caroline Ramsay on 22 August 2016, Ashton Bradbury on 2 July 2018 and Alexa Henderson on 8 October 2018.

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