

Standard Life Private Equity Trust

Focused on a broader opportunity set

Standard Life Private Equity Trust (SLPE) aims to achieve long-term total returns via investing in a focused, primarily European portfolio of leading private equity buyout funds. The investment policy was revised in January 2017, removing size and geographic restrictions, to enlarge the investment opportunity set without diluting the trust's strategy and focus. New fee arrangements have been agreed, with a single annual management fee of 0.95% of NAV and no incentive fee. The board has also stated its intention to raise the FY17 dividend to 12.0p, equating to a 3.8% yield, and grow it at least in line with inflation. Returns have been notably strong over one year.

12 months ending	Share price (%)	NAV (%)	LPX 50 (%)	LPX 50 NAV (%)	MSCI World (%)	FTSE All-Share (%)
31/12/12	32.0	0.9	25.3	10.1	11.3	12.3
31/12/13	23.2	11.5	38.2	13.6	24.9	20.8
31/12/14	10.0	8.8	4.2	8.8	12.2	1.2
31/12/15	1.1	8.0	5.9	4.9	5.4	1.0
31/12/16	43.0	29.9	29.8	29.3	29.1	16.8

Source: Thomson Datastream, Bloomberg. Note: Twelve-month discrete £-adjusted total return performance up to last published quarter-end NAV.

Investment strategy: Europe-focused fund selection

SLPE invests via primary commitments and secondary transactions in what the manager views as the leading European private equity buyout funds. The aim is for the portfolio to comprise around 35 to 40 active private equity fund investments, broadly diversified by country, sector and maturity. The manager employs a bottom-up approach to private equity fund selection, with a top-down overlay designed to direct the investment team towards attractive geographies, sectors and strategies. Exposure is managed through the primary and secondary funds markets.

Market outlook: Attractive opportunities exist

Private equity funds' uninvested capital is at peak levels, reaching US\$869bn globally in H116, but SLPE's manager notes this remains lower than the expected level of investment over a typical five-year private equity fund investment period, and does not anticipate higher purchase prices leading to significantly depressed returns. While European private equity deal volumes have been volatile, the manager reports fairly steady activity in the mid-market segment on which SLPE is focused. Should an economic downturn or potential market dislocation occur, this could provide an attractive opportunity for tactical investment. In the current pricing environment, the manager sees potential for smaller, region-specific funds – which face less competition for deals – to provide attractive opportunities.

Valuation: Narrowed discount, increased yield

Having followed a broadly widening trend over the previous two years, SLPE's share price discount to NAV has narrowed from 36.5% in March 2016 to its current level of 11.1%, which stands as one of the narrowest in the peer group. The board intends to increase the FY17 dividend to 12.0p, equating to a prospective yield of 3.8%, leading the dividend-paying funds in SLPE's peer group.

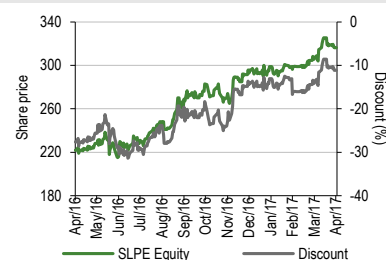
Investment trusts

2 May 2017

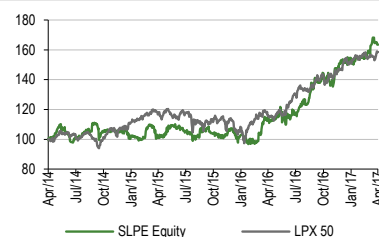
Price 316.3p
Market cap £486m
AUM £541m

NAV* 355.9p
Discount to NAV 11.1%
*Estimated NAV as at 31 March 2017.
FY17 prospective yield 3.8%
Ordinary shares in issue 153.7m
Code SLPE
Primary exchange LSE
AIC sector Private Equity
Benchmark None

Share price/discount performance



Three-year performance vs index



52-week high/low 325.5p 215.0p
NAV** high/low 356.0p 303.0p

**Including income.

Gearing

Gross* 0.0%
Net cash* 17.9%

*As at 31 March 2017.

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Exhibit 1: Trust at a glance

Investment objective and fund background

SLPE's objective is to achieve long-term total returns through investing in a diversified portfolio of leading private equity buyout funds, a majority of which will have a European focus, with exposure managed through the primary and secondary funds markets. The investment policy was revised in January 2017 to remove size and geographic restrictions, with no change to the portfolio composition. The board has concluded that there is currently no available benchmark that is an appropriate measure of SLPE's investment performance.

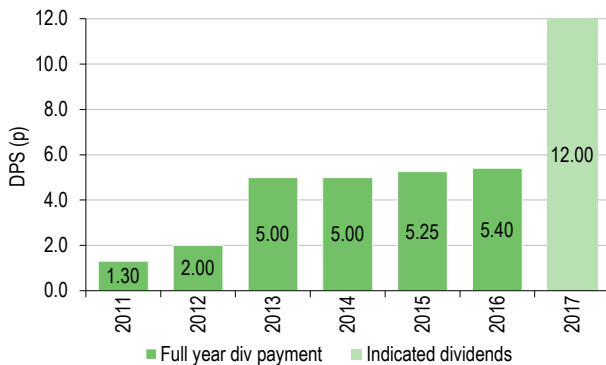
Recent developments

- 18 April 2017: March 2017 estimated NAV per share 355.9p.
- 24 March 2017: Qtrly update to 31 Dec 2016: NAV per share +4.3% to 361.2p.
- 1 February 2017: Change of ticker from SEP to SLPE.
- 31 January 2017: Change of name to Standard Life Private Equity Trust.
- 24 January 2017: AGM approval to change investment policy.
- 5 December 2016: Final results for year-ended 30 Sept 2016 – NAV total return +24.8%; 3.6p final dividend recommended. Board proposal to change the investment policy, dividend policy and fee arrangements.

Forthcoming		Capital structure		Fund details	
AGM	January 2018	Ongoing charges	0.99% (FY16 direct fees)	Group	SL Capital Partners LLP
Interim results	8 June 2017	Net cash	17.9%	Manager	Team managed
Year end	30 September	Annual mgmt fee	0.95% of net assets	Address	1 George Street, Edinburgh EH2 2LL
Dividend paid	July, January	Performance fee	None	Phone	0131 245 0055
Launch date	May 2001	Trust life	Indefinite	Website	www.slcapital.com/slpet
Continuation vote	N/A	Loan facilities	£80m revolving credit facility		

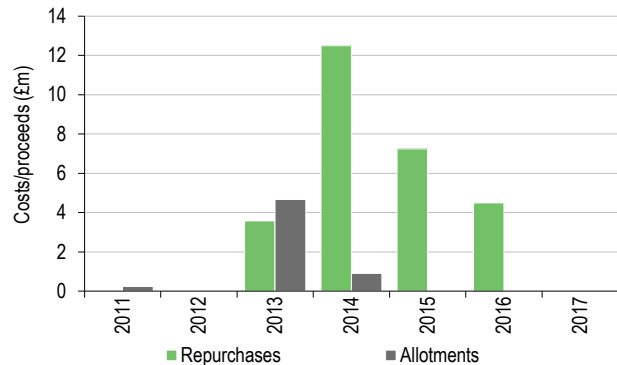
Dividend policy and history (financial years)

The board has stated its intention to increase the total dividend to 12.0p for FY17 and maintain the real value of the annual dividend in future years. An interim dividend was introduced in FY15.

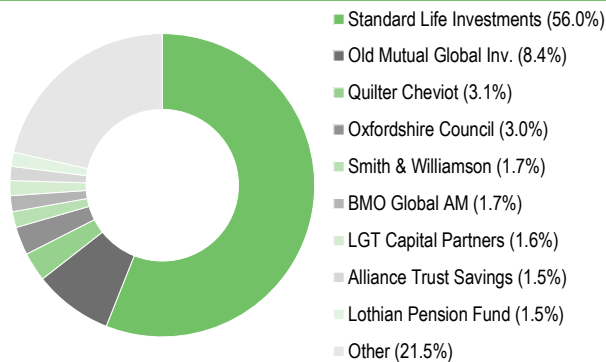


Share buyback policy and history (financial years)

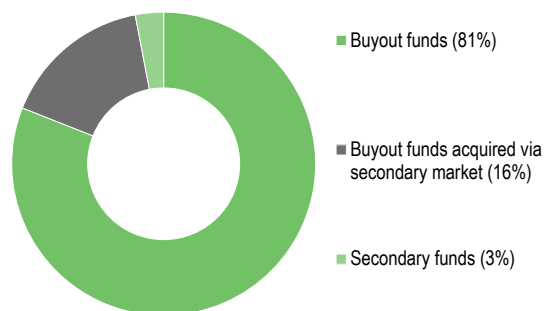
The board views buybacks as part of its strategy in relation to capital efficiency. SLPE has authority to repurchase 14.99% and allot 5.0% of issued share capital. No shares have been repurchased since August 2016.



Shareholder base (as at 27 March 2017)



Portfolio exposure by fund type (as at 30 September 2016)



Top 10 underlying holdings (as at 30 September 2016)

Company	Business	Fund	Year of investment	% of net assets	
				30 Sept 2016	30 Sept 2015*
Action	Non-food discount retailer	3i Eurofund V	2011	6.1	3.4
Scandlines	Northern European ferry operator	3i Eurofund V	2007	1.7	1.2
Lindorff	Debt collection & accounting services	Nordic Capital VIII	2014	1.3	0.9
QuironSalud	Spanish private healthcare provider	CVC European Equity Partners V	2011	1.2	0.6
Schenck Process	Industrial weighing systems	Industri Kapital 2007	2007	1.2	1.2
Parques Reunidos	Amusement parks	Candover 2005 Fund	2007	1.0	1.7
Not disclosed	Recovery audit services	Advent Global Private Equity VI	2012	1.0	0.8
AWAS/Pegasus	Aircraft lessor	Terra Firma Capital Partners III	2007	0.9	1.2
Not disclosed	Pets services and solutions retailer	BC European Capital IX	2015	0.9	N/A
C�er�lia	Ready-to-use dough manufacturer	IK VII	2015	0.9	0.7

Top 10 at each date

16.2 15.0

Source: SLPE, Edison Investment Research, Bloomberg, Thomson Reuters, Morningstar. Note: *N/A where not in September 2015 top 30.

Changes to investment policy, fees and dividends

In December 2016, following a strategic review, the board proposed changes to the trust's investment policy, dividend policy and fee arrangements. To reflect the investment policy changes, which removed the size and geographic restrictions on private equity investments, the board recommended a change in the trust's name to Standard Life Private Equity Trust (from Standard Life European Private Equity Trust). The revisions to the investment policy and name change were approved by shareholders at the January 2017 AGM.

Investment policy revisions

The key aim of the investment policy changes was to increase the private equity opportunity set without diluting the trust's strategy and focus. No portfolio changes were made as a result of the policy revisions and shareholders should not expect a radical shift in the composition of the trust's portfolio, which will remain concentrated with a European focus.

The manager was previously constrained to investing in private equity funds targeting transactions with €100m to €2.0bn enterprise values and principally investing in Europe. The size constraints had been widened in 2015, while US exposure had been steadily rising, reaching 21.0% in FY16.

The cash management policy was broadened to include opportunistic utilisation of listed direct private equity investments (in suitably liquid companies), in order to maximise returns on cash held pending investment. SLPE had previously invested this cash in equity index tracker funds.

New fee arrangements

The board has agreed new fee arrangements with the manager for FY17, with a single annual management fee of 0.95% of net asset value replacing the previous 0.8% management fee and success-based performance fee, which had a set five-year life expiring at the end of FY16.

Dividend policy changes

The board has stated that it will raise the FY17 total dividend to 12.0p and has committed to maintaining the real value of the dividend through growing it at least in line with inflation, in the absence of unforeseen circumstances. The board modified its approach to dividends in FY14, focusing on maintaining the real value of the dividend, and introduced an interim dividend in FY15.

Fund profile: Europe-focused diversified fund of funds

Launched in May 2001, SLPE is an LSE-listed investment trust aiming to achieve long-term total returns through investing in a diversified portfolio of private equity buyout funds, a majority of which will have a European focus. The investment strategy involves rigorous screening and detailed due diligence to identify and evaluate prospective private equity fund investments. Historically, private equity funds have delivered a wide dispersion of returns and the manager considers that access to leading private equity managers and appropriate fund selection are vital to optimise investment performance. The objective is for SLPE's portfolio to comprise around 35 to 40 active private equity fund investments at any one time, with portfolio diversification being controlled via concentration limits, which are applied at an individual fund (12.5% of NAV) and manager (20.0% of NAV) level.

SLPE's investment manager, SL Capital Partners, ranks among the largest investors in private equity funds and co-investments in Europe, having raised c £9.0bn of private equity funds on behalf of over 200 clients worldwide. Led by Roger Pim, Graeme Gunn and Peter McKellar, the investment team comprises 32 professionals and the senior executives have worked together for an average of nine years. The manager believes that its scale and the team's experience enable it to identify and invest in Europe's premier private equity funds, knowledge of and access to which may be limited in the wider market.

The fund manager: SL Capital Partners

The manager's view: Retaining existing focus, adding flexibility

SL Capital senior executive Graeme Gunn observes that, while private equity funds' uninvested capital is at record levels globally, reaching US\$869bn in H116, this remains less than the expected capital that would be invested over the five-year investment period that is common for private equity funds. Consequently, he sees limited evidence that returns will be significantly depressed by private equity managers paying higher prices for deals or investing in lower quality companies. Although he concedes that returns for 2015 and 2016 vintage investments may not match those from the three previous years, his view is that the generally more conservative debt levels applied to deals keeps risk levels manageable and returns will be acceptable. While he would like to see more deal volume across the private equity market in general, Gunn reports that volumes have been fairly steady in the mid-market segment that remains SLPE's core focus. He views private equity as a stock-picking investment strategy where returns tend to have a low correlation to the broader macroeconomic and political developments that can lead to elevated volatility in listed markets.

On a five-year view, Gunn notes that a significant change – potentially a dislocation – in the global economy is still expected, and that SLPE continues to be positioned with this in mind. However, he highlights that, while focused on maintaining a strong capital position to take advantage of tactical investment opportunities, SLPE has continued actively making new primary investment commitments, including €34.0m to IK VIII in October 2016 and £22.0m to HgCapital 8 in February 2017. Gunn reflects that SLPE's £312m outstanding commitments at end-March 2017, less £55m believed unlikely to be drawn, represents c 50% of NAV, which is considered a comfortable level. He also notes that SLPE's £97.7m liquid resources and £80.0m undrawn credit facility bring unfunded commitments to less than 25% of NAV. Drawdowns continue to lag distributions and he highlights the strength of distributions in February and March 2017, with SLPE receiving £39.8m from 10 divestments across nine funds, at exit multiples ranging from 1.1x to 8.2x cost and uplifts to portfolio valuation prior to realisation of 0% to 92% (average 30%).

Gunn has no concerns over the size of the trust's underlying holding in Action, which represents an unusually large c 6% of SLPE's NAV. He observes that this reflects the successful nature of the investment, currently performing strongly, and highlights how, given the trust's conviction strategy, individual companies can contribute materially to SLPE's performance. Action is held via 3i Eurofund V and Gunn notes that the fund's manager could look to float the company in due course.

Gunn confirms that there is no intention to make major changes to SLPE's portfolio, with the most significant aspect of the investment policy changes seen to be the additional flexibility provided over secondary fund investments. He indicates that SLPE is more likely to add US exposure, noting that SL Capital has a Boston-based team managing US investments. He reiterates the intention to evolve SLPE's portfolio to a primary to secondary investments ratio of c 70:30 compared with c 80:20 currently. SLPE's largest recent secondary investment was a €20.0m original commitment to Nordic Capital VII, purchased in January 2017 for €22.1m at a 2.0% premium to the latest reported valuation. US\$3.1m and US\$1.6m original commitments to Towerbrook Investors III and IV were purchased in March 2017 for US\$1.1m, a 15.9% discount to the latest reported valuation.

Following the removal of the deal size restrictions, Gunn indicates that SLPE is more likely to invest in smaller, region-specific funds, which can provide access to niche markets and often face less competition for deals, rather than adding exposure to larger transactions.

SLPE is reviewing how it will invest in listed direct private equity investment companies as part of its cash management strategy. Gunn sees a limited number of suitable companies and suggests that a basket of around five could be selected, following appropriate due diligence. He notes that these listed holdings will be the first call for drawdowns into portfolio funds, within envisaged hold periods.

Asset allocation

Investment strategy and process

Following the changes to the investment policy that took effect in January 2017, there are no restrictions on the enterprise value range of investments made by the funds in which SLPE invests (previously €100m and €2.0bn), or any constraints on the level of portfolio investments outside Europe (previously 20% of gross assets at the time of purchase). However, SLPE's investment policy retains a reference to Europe, as a majority of the portfolio will have a European focus.

SLPE's principal focus is to invest in what the manager views as the leading private equity buyout funds. The aim is for the portfolio to comprise around 35 to 40 active fund investments. SLPE's policy is to maintain a broadly diversified portfolio by country, industry sector, maturity and number of underlying investments. The investment team's extensive fund and direct deal experience gives the manager a strong insight into the strategies, processes and disciplines of the funds considered for investment, which is considered to lead to better qualitative judgements being made.

SLPE has increased its focus on the private equity secondary market, acquiring or selling selected fund interests to fine-tune portfolio exposures as well as maintain capital efficiency. Secondary investments typically generate lower absolute returns, but shorter holding periods can lead to higher internal rates of return (IRRs) being achieved. The manager expects c 1.4x exit multiples with IRRs of 20% to 25% for secondary investments, compared with c 1.8x exit multiples and IRRs of 17% to 18% for primary investments. Fully invested secondary interests also have a lower risk profile than primary commitments, as underlying holdings can be evaluated prior to purchase.

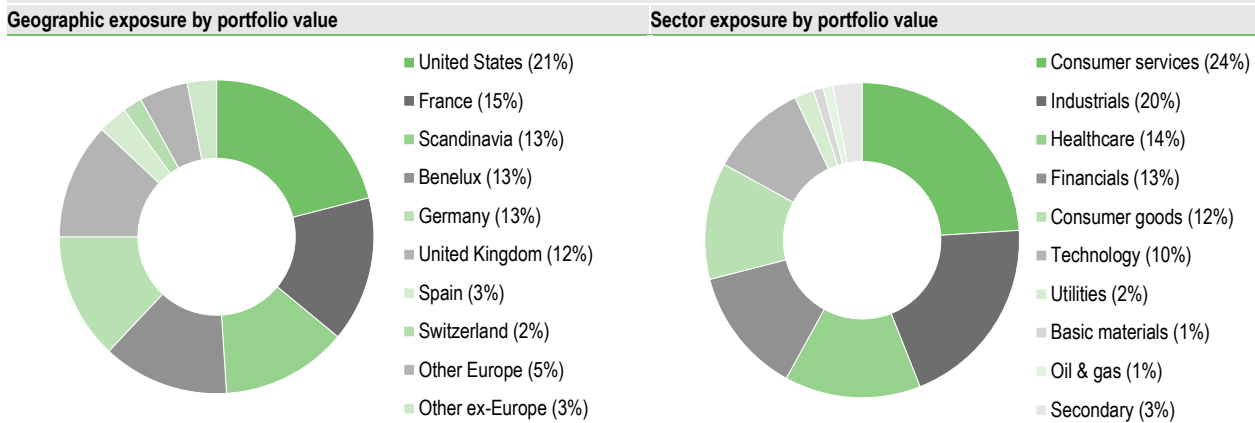
SL Capital Partners follows a systematic, disciplined approach to investment selection, monitoring and realisation. The investment process broadly breaks down into three stages, comprising the preparation of a deal qualification memorandum (DQM), preliminary investment recommendation (PIR) and final investment recommendation (FIR). Each year, DQMs are prepared on around 100 to 150 of the c 800 institutional-grade private equity funds in Europe that are monitored, with about 25 funds reaching the PIR stage. SL Capital typically commits to 10-15 primary fund investments and completes at least 15 secondary transactions each year, with SLPE making around four primary and five secondary investments a year.

To maximise the level of invested assets, the manager pursues an over-commitment strategy, making fund commitments that exceed SLPE's available capital, based on an assessment of scheduled and projected portfolio cash flows. SLPE's non-sterling currency exposure is primarily to the euro and US dollar. This exposure is not hedged due to the irregularity in size and timing of individual cash flows, but cash balances and bank debt are held broadly in proportion to the currency of the trust's outstanding fund commitments.

Current portfolio positioning

At 30 September 2016, SLPE's portfolio comprised 49 private equity fund interests with 478 underlying investments, representing holdings in 452 separate companies. Excluding four secondary fund investments made in 2001 and 2005/06, there are between 300 and 350 'core' underlying companies. Underlining its focused approach, SLPE's top 10 fund holdings at 30 September 2016 represented 45.9% of NAV, equal to 56.4% of the invested portfolio, with each fund holding 16 investments on average. The top 10 underlying company holdings accounted for 16.2% of NAV (see Exhibit 1), with seven companies each representing more than 1.0% (including one above 5%), a level at which they can make a material contribution to portfolio returns, thus differentiating SLPE's exposure from the broader private equity market.

Exhibit 2: Portfolio diversification by geography and sector at 30 September 2016

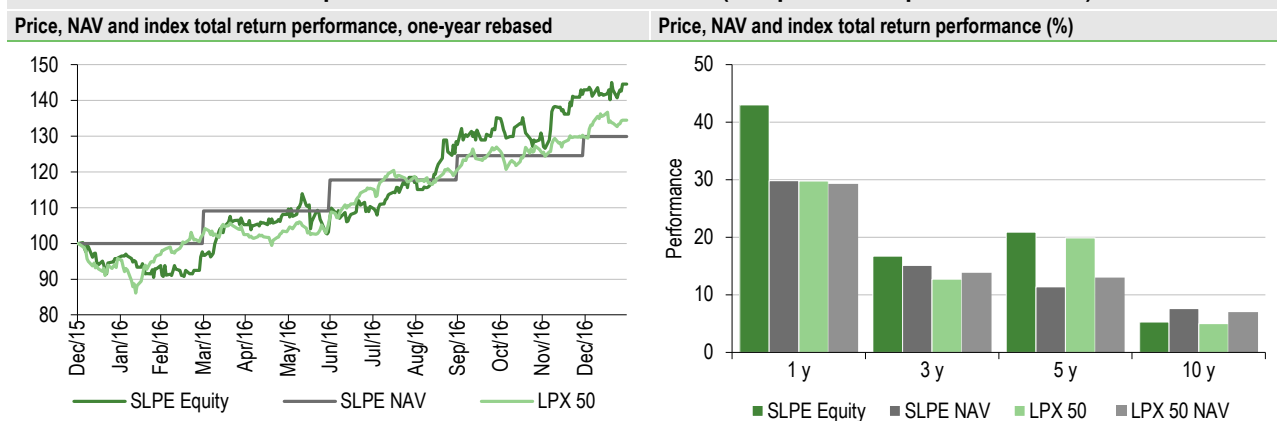


Source: SLPE, Edison Investment Research

Performance: Notably strong one-year returns

As shown in Exhibit 4, SLPE's NAV total return has outperformed global private equity (PE) peers, represented by the LPX 50 index, over one, three and 10 years to end-December 2016, while underperforming over five years. Compared with European PE peers, represented by the LPX Europe index, SLPE's NAV total return has outperformed over one, three, five and 10 years. The strengthening of the US dollar against the euro over three, five and 10 years (+30.1%, +22.6% and +28.7%) is likely to account for a significant element of the stronger NAV performance of the LPX 50 versus the LPX Europe over these periods. Exhibit 3 illustrates the strength of SLPE's and the LPX 50 index's NAV total return performance over one year, with the significant narrowing of SLPE's discount reflected in its share price total return outperformance over this period. The 14.4% and 16.2% declines of sterling against the euro and US dollar over one year, largely driven by the UK's vote to leave the EU in June 2016, have significantly added to performance in sterling terms.

Exhibit 3: Investment trust performance to 31 December 2016 (last published quarter-end NAV)



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

Exhibit 4: Share price and NAV total return performance, relative to indices (%)

	Three months	Six months	One year	Three years	Five years	10 years
Price relative to LPX 50	4.1	10.3	10.2	11.1	4.4	2.5
Price relative to LPX Europe	5.3	9.6	12.0	3.6	1.0	1.6
Price relative to MSCI World	4.6	15.6	10.8	4.2	22.0	(31.4)
Price relative to FTSE All-Share	7.8	18.8	22.5	33.3	59.9	(2.4)
NAV relative to LPX 50 NAV	(1.7)	(0.7)	0.4	3.4	(7.0)	5.9
NAV relative to LPX Europe NAV	(0.8)	(0.9)	4.2	10.9	3.2	16.0

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

Discount: Narrowing 12-month trend

As illustrated in Exhibit 5, over the last three years, SLPE's share price discount to NAV has moved in a relatively wide range between 10% in June 2014 and 36% in March 2016. Having followed a broadly widening trend for the two years to March 2016, the discount has narrowed over the last year and currently stands at 11.1%, which compares to its three-year average of 20.7%.

Exhibit 5: Share price discount to NAV over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

SLPE has 153.7m ordinary shares in issue, having repurchased 2.0m shares (1.3% of outstanding capital) in the year to 30 September 2016. The board views share repurchases in relation to capital efficiency, alongside new fund commitments, secondary fund purchases and dividend payments. SLPE has an £80m credit facility running to December 2020, which was undrawn at 28 February 2017, with £89m held in cash and money market funds, equating to a 16.3% net cash position.

From FY17, SLPE will pay SL Capital a single annual management fee of 0.95% of NAV. SLPE previously paid a 0.8% pa management fee, with a 10% incentive fee on returns above 8% pa over the five years to end-FY16. Strong NAV growth triggered a £6.4m (1.2% of NAV) incentive fee payment. For FY16, excluding indirect fund fees and incentive fees, ongoing charges were 0.99%.

Dividend policy and record

The board believes that providing a strong, stable dividend is attractive to shareholders and, in December 2016, took the decision to increase the annual dividend to 12.0p per share for the year ending 30 September 2017, more than double the total dividend for FY16 and equating to a prospective yield of 3.9%. In addition, the board is committed to maintaining the real value of the dividend from this level, in the absence of unforeseen circumstances. FY16 interim and final dividends were both increased by 2.9%, bringing the total for the year to 5.4p. SLPE's revenue reserves at 30 September 2016 stood at 5.7p per share after payment of the 3.6p final dividend.

Peer group comparison

Exhibit 6 shows a comparison of SLPE with a selected peer group of private equity funds of funds. SLPE's NAV total return to 31 December 2016 (its last reported quarterly NAV date) is ahead of the peer group average over one year but below the average over three, five and 10 years. SLPE's

share price discount to NAV stands as one of the narrowest in the peer group. SLPE's 0.99% FY16 ongoing charge (reflecting direct fees and excluding incentive fees) is the lowest in the peer group and is expected to remain competitive at c 1.15% following the replacement of the 0.8% pa management fee and incentive fee arrangement with a single 0.95% annual management fee from FY17, particularly as the majority of peers levy a performance fee. SLPE has not drawn against its £80m credit facility, leaving it ungeared, similar to the majority of peers. SLPE's 3.8% yield, which reflects the proposed 12.0p FY17 dividend, leads the dividend-paying funds in the peer group.

Exhibit 6: Selected private equity fund of funds peer group as at 28 April 2017*

% unless stated	Region	Mkt cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Standard Life Private Equity	Europe	486.2	29.9	52.5	71.5	108.1	(9.8)	0.99	No	100	3.8
Aberdeen Private Equity	Global	130.1	19.2	56.0	64.9		(16.5)	1.87	Yes	100	3.4
F&C Private Equity Trust	Global	259.6	23.3	46.8	72.7	141.0	0.6	1.27	Yes	108	3.2
HarbourVest Global Private Equity	Global	994.3	28.4	76.9	102.7		(12.7)	2.16	No	100	0.0
ICG Enterprise Trust	Europe	513.7	19.5	28.8	57.5	108.4	(13.5)	1.41	No	100	2.7
JPEL Private Equity	Global	321.3	42.9	80.7	49.5	64.9	(14.2)	1.94	Yes	108	0.0
NB Private Equity Partners	Global	499.3	34.8	84.7	104.8		(15.7)	2.27	Yes	100	3.8
Pantheon International	Global	1,105.6	26.1	60.3	84.3	152.0	(17.0)	1.39	Yes	100	0.0
Average		538.8	28.0	60.8	76.0	114.9	(12.3)	1.66		102	2.1
Trust rank in sector		5	3	6	5	4	2	8		3	1

Source: Morningstar, Edison Investment Research. Note: *Performance data to 31 December 2016. TR = total return. All returns expressed in sterling terms.

The board

SLPE's board comprises five independent non-executive directors. Edmond Warner (appointed director November 2008, chairman January 2013) is chairman of BlackRock Commodities Income Investment Trust and Grant Thornton UK, and a director of Clarkson. Senior independent director Christina McComb (appointed January 2013) spent 14 years with 3i Group and is chairman of OneFamily Mutual Assurance, senior independent director of the British Business Bank, and a director of Baronsmead Venture Trust and Nexxon. David Warnock (appointed January 2009), a co-founding partner at Aberforth Partners for 19 years until 2008, is chairman of Troy Income & Growth Trust and a director of Seneca Investment Managers. Alastair Barbour (appointed April 2011) is a director of RSA Insurance Group, Phoenix Group Holdings, Liontrust Asset Management and CATCo Reinsurance Opportunities Fund. Alan Devine (appointed May 2014) has 40 years' experience in both commercial and investment banking and recently retired from Royal Bank of Scotland Group, where he was CEO of RBS Shipping Group and a director of Cairn Capital.

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