



Absolute Return Global Bond Strategies



Standard Life
Investments

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About Standard Life Investments

Standard Life Investments is a leading asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive *Focus on Change* investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence.

As active managers, we place significant emphasis on rigorous research and a strong collaborative ethos. We constantly think ahead and strive to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

As at 31 December 2016, Standard Life Investments managed £277.9 billion* on behalf of clients worldwide. Our investment capabilities span equities, fixed income, real estate, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs around 1,700 talented individuals. We maintain a presence in over 20 locations across Europe, North America, Asia and Australia. In addition, we have close relationships with leading domestic asset managers in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

Our parent, Standard Life plc, was established in 1825. A leading provider of long-term savings and investments, Standard Life floated on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Standard Life Investments launched as a separate company in 1998 and quickly established a reputation for innovation in pursuit of our clients' investment objectives.

Our investors rank among some of the world's most sophisticated and high-profile institutions. They include pension plans, banks, mutual funds, insurance companies, fund-of-fund managers, endowments, foundations, charities, official institutions, sovereign wealth funds and government authorities.

*US\$343.5 billion, €325.5 billion, AUD\$474.2 billion, CAD\$460.5 billion. Exchange rates used are US dollar = 1.235649, euro = 1.171509, Australian dollar = 1.706463, Canadian dollar = 1.657069, as at 31 December 2016

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Introducing Absolute Return Global Bond Strategies

Absolute Return Global Bond Strategies targets a positive return and sustainable, steady performance in a variety of market environments. We target a return of cash* +3% each year (gross of fees) evaluated over rolling three-year periods, with expected volatility of less than 5%. This is in line with historical bond-market levels of return but with less uncertainty.

To achieve this objective, we seek genuine diversification, investing across a wide range of fixed income opportunities in both traditional and advanced asset strategies. These include credit, government bonds and currencies. In addition, we routinely use a variety of conventional derivatives for investment and hedging purposes.

To maximise return potential, we combine a broad range of macro and tactical positions to create a portfolio of strategies that complement each other, chosen specifically to work well together in a wide array of economic outcomes.

* 3-month LIBOR (in the currency of the hedged share class)

Why choose an absolute return solution?

A low interest rate environment presents serious challenges to fixed income investors. With market conditions likely to prove less supportive for developed bond markets in the future, there is growing interest in more innovative fixed income strategies. These provide scope to look beyond traditional benchmark indices and are more closely aligned with an investor's specific return objectives.

In a challenging macroeconomic environment, there is strong demand for strategies that seek to reduce overall investment risks without unduly sacrificing the returns available.

Absolute return bond strategies represent an effective way to accomplish this goal, complementing government bond or investment grade credit allocations. They target positive returns throughout the economic cycle, irrespective of market direction, interest rates or economic growth. Importantly, they seek to do so without the need for elevated levels of risk and in a way which is uncorrelated with traditional bond indices.

Since its inception, Standard Life Investments' Absolute Return Global Bond Strategies has successfully sought to do exactly this, targeting consistent, lower-risk returns through extensive diversification.

Five reasons to invest

- ▶ Absolute return investment objective combined with low-volatility expectation
- ▶ Provides extensive diversification across a range of fixed income and currency strategies
- ▶ Transparent portfolio positioning and comprehensive return attribution
- ▶ Low correlation with government bonds and credit
- ▶ Low, flat fee structure like a conventional asset portfolio

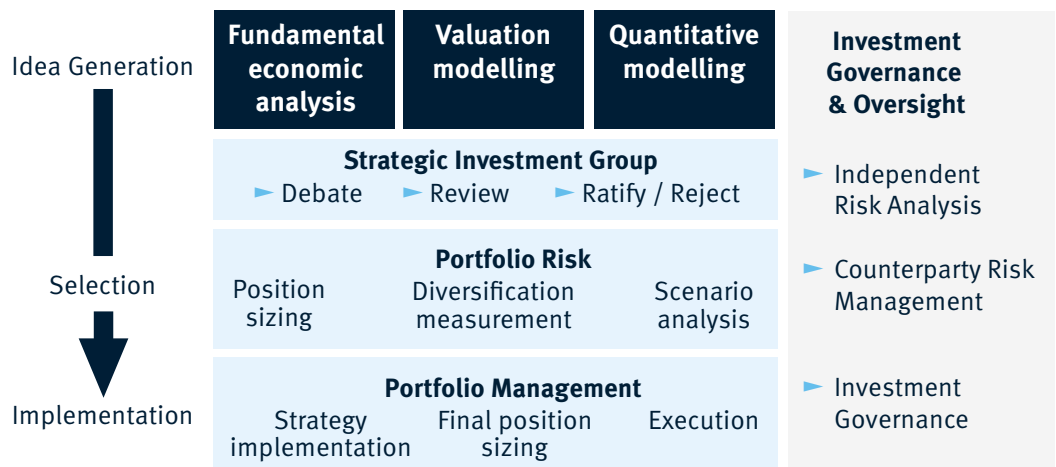
Absolute Return Global Bond Strategies at a glance	
Benchmark	3-month LIBOR (in the currency of the hedged share class)
Performance target	Benchmark +3% per annum gross of fees on a three-year rolling basis
Expected volatility	2-4% under normal circumstances (limit 5%)
Launch date	29 March 2011
Regulatory status	UCITS IV
Liquidity	Daily

What is our investment approach?

Our investment philosophy is based on the belief that a fixed income portfolio can benefit from a diversification of investment strategies as well as differences in time horizons. We carefully select strategies by type and time horizon to create a diversified and stable portfolio, where even if some strategies fail to deliver, others can be expected to outperform.

Our investment process is driven by a top-down, macro-oriented investment style, where the portfolio consists of 20-30 individual investment positions drawn from across the unconstrained investment universe. We expect each one of these strategies to deliver positive returns in our central view of the world on an 18-24

months investment horizon. We also subject the portfolio to a dynamic asset allocation process, monitoring all exposures continually and rigorously, and altering or closing them at any point in time. In summary, we aim to build a genuinely diversified fixed income portfolio, driven by our fundamental macro view.



Idea generation

We generate investment ideas from the macroeconomic themes developed by our multi-asset investing team. We also include the tactical investment strategies that have been adopted by our fixed income specialists.

To select strategies, we follow a rigorous process involving a range of investment techniques, including fundamental macroeconomic analysis, quantitative research and valuation modelling. Strategies are then assessed from an expected risk, return, diversity and liquidity perspective. In addition, our risk experts analyse all ideas to understand the risk impact of a new strategy, both in isolation and on the portfolio as a whole.

Selection

Proposed strategies are reviewed and approved by the Strategic Investment Group, our decision-making forum which provides expert qualitative assessment and complements the stringent quantitative analysis of our risk team. The Strategic Investment Group bases its approval of individual strategies on three criteria:

- ▶ conviction in its return potential
- ▶ its effectiveness in mitigating risk
- ▶ its liquidity and scalability.

Implementation

We implement approved investment strategies efficiently and effectively using conventional market instruments, e.g. direct investment and derivatives. The portfolio managers also make active asset allocation decisions and ensure the portfolio at all times meets robust risk management constraints.

How do we construct the portfolio?

We invest in an unconstrained investment universe and have broad freedom of choice in the instruments we can use. That enables us to find the most compelling investment opportunities across the whole fixed income universe and bring them together in a diversified way. Diversification is the key element of our portfolio construction process.

In order to build a genuinely diversified portfolio we divide all of the investment positions into the following seven groups.

Credit

Positions providing exposure to bonds which offer yield in excess of risk-free government bonds (corporate, securitized or sovereign credits, including their derivatives)

Duration

Positions providing directional exposure to government bonds or interest rates or their derivatives

Cross-market

Positions aiming to explore changes in relative value between duration-equivalent government bonds of different countries

Yield curve

Positions aiming to explore changes in the yield differential between government bonds of the same country in various maturities

Inflation

Positions aiming to benefit from changes in inflation expectations in either single countries or relative between two countries

Foreign exchange

Positions aiming to benefit from the change in the FX rate between developed or emerging currencies

Volatility

Positions exploiting changes in expected volatility of interest rates through swaptions or similar instruments

When building these positions, we invest only in fixed income instruments that offer daily liquidity. We may also routinely implement positions using conventional derivatives. We use derivatives as they:

- ▶ allow efficient management of investment risks
- ▶ broaden the range of available investment positions, as some would not be accessible using traditional approaches
- ▶ enhance portfolio liquidity
- ▶ reduce transaction costs.

We have significant experience in managing derivative instruments and can reassure investors that we provide:

- ▶ dedicated counterparty credit analysis and selection
- ▶ exposure control at a portfolio, instrument and business level
- ▶ daily collateral management.

We also hold a significant proportion of the portfolio in cash and short-dated deposits to meet the collateral and margin requirements of those positions implemented using derivatives.

Who manages the portfolio?

Absolute Return Global Bond Strategies brings together the talent and experience of two highly regarded teams.

Our fixed income team, which contains over 60 experienced investment professionals, has an excellent track record across a range of bond mandates. It works in partnership with our multi-asset investing team, which comprises

over 50 experienced and dedicated individuals. Together, they include many of the specialists who help shape the macroeconomic strategy of Standard Life Investments.

Three experienced professionals have specific responsibility for managing Absolute Return Global Bond Strategies.



Roger Sadewsky
Investment Director
Multi-Asset Investing

Roger has over 30 years' industry experience and joined Standard Life Investments in 2004. He began his career in rates before specialising in credit and credit derivatives. Prior to joining the firm, he gained experience at Deutsche Bank and then at JP Morgan where he was responsible for distributing credit products (cash and derivatives) to UK asset managers. While working within Standard Life Investments' credit team, Roger was responsible for developing our macro expertise by working closely with the credit, rates and multi-asset investing teams.



Katy Forbes
Investment Director
Fixed Income

Katy began her career at Standard Life Investments in November 2001 where she worked as an analyst in the treasury team. In 2006, she joined Standard Life Bank as an asset and liability manager in the finance division. In October 2006, she re-joined Standard Life Investments as a derivatives manager in the treasury team, and then transferred internally in August 2008 to the inflation-linked bond team. Katy has 15 years' investment experience.



Adam Skerry
Investment Director
Fixed Income

Adam joined Standard Life Investments five years ago, having previously worked as a Fixed Income Investment Manager at Baring Asset Management. He has 18 years' industry experience. Since joining us, Adam has responsibility for the management of nominal and index-linked gilt portfolios and acts as a manager on our Absolute Return Global Bond Strategies Portfolio. He provides input on key market themes and trade strategies relating to interest rates and inflation.

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