

Q2 2020

Standard Life Enhanced-Diversification Growth Fund

Aberdeen Standard
Investments

Activity

We made a number of changes in response to the evolving Covid-19 situation. Early in the quarter, we believed there was a significant gap between market performance and fundamentals, given the uncertain economic recovery trajectory. Therefore, activity in April focused on selectively rebalancing exposures in favour of assets we considered were better-supported by policy and fundamentals. We increased our corporate bond exposure after central banks broadened the scope of their bond-buying programmes. Specifically, we increased our high-yield corporate bond position and reduced the embedded hedge from our European investment-grade corporate bond strategy. We also added a short US small-cap equity position.

As Europe's economic and political outlook evolved, we closed exposure to European equities in favour of US equities. Later, we reduced the US equity market and short US small-cap positions, while increasing our allocation to the US large-cap versus small-cap strategy. Additionally, we opened a new position in global equity gold miners, comprising a basket of stocks with earnings linked to gold prices. We view gold as attractive, given the scale of monetary stimulus and its potential impact on currencies. We also opened a global equity future-mobility position, seeking to profit from the fast adoption of electric vehicles. We added global equity video games and 5G-related strategies where we see substantial earnings growth potential beyond the immediate boost of the 'stay at home' environment. To balance these changes, we reduced the Korean equity position, booking profits.

We added an emerging market (EM) currency relative-value strategy, seeking to exploit the perceived vulnerability of certain EM currencies in the current environment. We closed our US dollar versus Thai baht pair, as the baht is no longer our favoured expression of the weakening EM theme. As Europe's political tensions and economic outlook worsened, we added Swiss franc versus euro and yen versus euro positions. Following news

of substantial European stimulus packages, we closed the former and switched the yen versus euro position into a yen versus US dollar position.

In June, we increased our gold miners and future-mobility global equity strategies and reduced our US large-cap versus small-cap position. We also increased our high-yield and global short-dated corporate bond exposures. We trimmed the investment-grade corporate bond position, taking profits. Lastly, we closed the corporate bond hedge and modified the embedded currency exposures within the EM debt position.

Outlook

While improving Covid-19 infection and mortality trends have allowed some countries to start releasing lockdowns, we view the progress as limited. The return to normal is likely to be slow, particularly in those parts of the service sector reliant on close interaction with clients. Levels of unemployment have risen at record rates, so the potential knock-on consequences for consumption and therefore businesses are material. Mitigating this are central bank and government stimulus packages of unprecedented scale. This will underpin some assets, and it is in these areas we have aligned our positioning. The range of potential outcomes for economies and markets is extraordinarily wide. Some equity markets appear to already price in an optimistic recovery scenario, hence our holdings in those are relatively low. These volatile conditions do, however, offer the potential for valuable new opportunities which our team is on the alert to uncover.

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Cumulative and Annualised Performance as at 30/06/2020

| | 3 Months (%) | 1 Year (%) | 3 Years p.a. (%) | 5 Years p.a. (%) |
|---|--------------|------------|------------------|------------------|
| Standard Life Enhanced Diversification Growth | 4.7 | -5.4 | 0.2 | N/A |

Discrete annual performance - year to 30/06

| | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) | 2016 (%) |
|---|----------|----------|----------|----------|----------|
| Standard Life Enhanced Diversification Growth | -5.4 | 1.3 | 4.9 | 4.9 | N/A |

Fund performance has been calculated net of Annual Management Charge.
Source: Aberdeen Standard Investments (Fund).

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

Performance

Market returns

The strong performance of global equities rewarded our Korean equity strategy. These gains were partly offset by negative contributions from our short US technology and short US small-cap equity positions. Corporate bond markets also performed well, supported by central bank actions. This benefited our global short-dated corporate bond and European investment-grade corporate bond allocations. Similarly, renewed risk appetite boosted our South African government bonds position.

Enhanced diversifiers

Our US dollar versus Thai baht currency pair hampered performance. The dollar weakened following the US Federal Reserve's significant policy easing measures. Our Japanese yen versus euro pair also suffered, as the yen's defensive characteristics proved less appealing in the prevailing environment. In the UK, the weak economic outlook caused inflation expectations to retreat, helping drive positive returns from our short UK inflation strategy.

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Important information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. This investment may be affected by changes in currency exchange rates.

Risk factors you should consider before investing:

- The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. The fund makes extensive use of derivatives for investment purposes. Past Performance is not a guide to future performance.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund may invest in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives will result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund makes extensive use of derivatives.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

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Standard Life Enhanced-Diversification Growth Fund is a Unit Linked Insured Fund. The fund is invested in the Aberdeen Standard Investments Dynamic Multi Asset Growth Fund (from 7 August 2019 the fund name was amended from Standard Life Investments Enhanced Diversification Growth Fund), managed by Aberdeen Standard Investments.

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