



Standard Life was founded in Edinburgh in 1825, and **Standard Life Investments** was formed in 1998 as its wholly owned investment management business. Today it has \$400 billion AUM, >50% of which is third party. The head office remains in Edinburgh and it has offices worldwide, including Boston.

**Mikhail Zverev** joined Standard Life Investments in 2007. He has run SLI's global equity unconstrained fund since 2010. In 2012, he was appointed head of global equities. He



graduated from St Petersburg State Technical University with a BSc Physics. He started his career in 1998 with Trigon

Capital, an Eastern European investment banking firm. He gained his MSc Accounting and Finance from LSE and joined Schroder Salomon Smith Barney in London in 2001, before moving to First State Investments in 2002.

#### **What percentage of AUM are in equities?**

“We have over \$120 billion in equities, including \$11 billion in dedicated global equity funds run from Edinburgh and \$20 billion in dedicated US equity funds run from Boston.”

#### **What's the relationship between Boston and Edinburgh?**

“From a US corporate's perspective: US and global equities combined is just over \$30 billion and we also have a couple of billion in wealth management assets as well as a large pool of assets run by our multi-asset team which invests in equity from time to time. So you can see our scale.

We work extremely closely between different teams. We see companies together, conduct our research together and debate our ideas together. For example, two of the global equity fund managers are based in Boston, to be closer to our US equities team. We cover >2,000 stocks worldwide which we formally review at least every three months. And we monitor those stocks daily from a news flow point of view. The global equity team participates in all these research discussions.”

#### **Does the Boston office recommend US stocks?**

“The global equity team normally buy the 'buy' rated US ideas. We can have a different view but it would be rare for us to buy a stock if our Boston office didn't like it.”

#### **Does Standard Life Wealth (SLW), the private client division of SLI, have autonomy from SLI?**

“It is completely connected to our equity research so they take our recommendations but they have a mind of their own in terms of whether the investment characteristics of a particular stock match their client requirement. So they are not just buying what we tell them. They sometimes join our meetings and sometimes host their own meetings in London.”

#### **How many FMs/analysts are based in Edinburgh and Boston respectively?**

“There are six global equity portfolio managers - four in Edinburgh and two in Boston. There are 12 US analysts/PMs. The US analysts are split by sector while in Edinburgh we are all generalists. Most of our US equity team have a dual role. They are sector analysts and portfolio managers. We try to combine analytical coverage of a stock and portfolio decision making.”

## **Discuss the 5,000 companies in your investable universe**

“Companies need to have a market cap of >\$1 billion and >\$3 million daily trade. However, there is a global smaller companies team also based in Edinburgh which focuses on companies in the \$1 - \$3 billion market cap and below range. We work alongside them as well (for companies in the \$1 - \$3 billion range).”

## **You look for 'positive fundamental change' - discuss.**

“As fundamental investors, we believe the market is less efficient at pricing when there is fundamental change as the market might be slow to understand it and price it in. Change could be internal - new product lines, new markets (geographic or adjacent) or restructuring. It could be external - regulatory, technological or competitive changes that puts the business at an advantage.”

## **Does SLI have an investment style?**

“No - we focus on change and this might look like value or growth but we find opportunities across different styles. We look for unrecognised change.”

## **What screens do you use?**

“Our only real screen is meeting lots of companies and digging deep into the trends of those business which might result in material change. We are of the view that sometimes it is just as valuable for a company to meet a highly informed provider of capital waiting for the right moment to get involved rather than only meeting companies we are invested in (i.e. companies should meet non-holders as well as holders).”

## **Which benchmarks do you use?**

“Our unconstrained funds are benchmark agnostic. If we use an index, the MSCI ACWI.”

## **Active share ratio?**

“Even for our benchmark indexed core funds it's high - 90% or more. It is mid-90% in unconstrained portfolios. We are very committed to be active (not activist!) investors.”

## **Do you have a target price when you buy a stock?**

“We look at the materiality of upside but we are not beholden to the price target. We compare the upside on a two year time horizon if we are right about the change. We are not completely driven by price targets, however, as the share price of an airline may rise or fall due to a fall or rise in the oil price, for example.”

## **Average length of a holding?**

“In the global funds - two years and slightly longer in the US funds. We have patience to wait for our case to play out. Some stocks we've held for 4 - 5 years.”

## **Typical size of positions? Value of largest position?**

“It depends on the portfolio. If we have high conviction it is 2.5% of the fund. In our unconstrained fund we have only 50 stocks. We have 75 - 100 stocks in our core portfolios. If we really like a US idea and we hold it in the global and US funds, a position could be ~\$500 million.”

## **Any sectors you won't invest in?**

“No but there is some money which has SRI overlays or ethical funds. Also, we do subscribe to UNPRI agreement on cluster munitions.”

## **Any sectors/themes you do favour?**

“Healthcare is 10% of US equities as that's an area that's prone to change. We have 8.8% of US equities in technology as that's another area that's prone to change. Consumer discretionary is a strange sector as it includes retail, media and automotive but there are lots of opportunities there too. Ditto consumer staples. Regulated utilities are unlikely to be prone to much change.”

## **Talk me through some of your high conviction positions.**

*“CVS Health - \$485 million (combined global equity and US equity holding)*

This is a high conviction position for both sides (US and global). We like it for several reasons. We really believe in the effectiveness of their integrated model and that combines the benefit of having their own retail network with pretty sophisticated packaging of the PBM for clients. They lead the sector in being innovative, aggressive cost control and getting the best for their clients/members. They are expanding their capabilities. There is interesting

change going on in the business and the sector overall where bigger, stronger intermediaries are optimizing healthcare plans for better cost control for their customers. They are flexing their scale and getting a better deal out of healthcare providers.

*Advanced Auto Parts - \$299 million (combined global equity and US equity holding)*

We like how Advanced Auto Parts is moving away from do-it-yourself to do-it-for-me so margins are set to increase. Also the recent M&A will be accretive.

*Electronic Arts - \$434 million (combined global equity and US equity holding)*

Two changes there we like. The evolution of the computer games industry to digital distribution: more downloads, more follow on content. To us this adds up to a superior margin profile as they no longer rely on physical distribution. It also provides more recurring revenues which improves predictability and visibility so there's already a re-rating. We also like the cost control focus."

### **Sell triggers?**

"There are three reasons we'd sell:

- The case has played out therefore we no longer have a non-consensus view. We no longer know or think what the market doesn't know. It's not a reflection on the quality of the business or the valuation of the business. Now everybody else sees what we see.
- We were wrong and there was no positive change.
- Sometimes there's a top down structural threat and this could be a macro or a regulatory issue. For example, we sold Cognizant a few years ago when immigration reforms threatened the whole business model for the outsourcing industry. We are now holders again."

### **Do you have to meet management before you buy a stock?**

"No but we have a very strong preference to meet management. We are not likely to have a high conviction position if we've not met management. We like to have an on-going, regular dialog."

**Where do you prefer to meet management? your offices, at HQ, conferences, group meetings etc.**

"A combination of all of the above but the best case scenario is in our offices where the global and US teams can participate. That way a US company can speak to several pools of capital at the same time and we have a conversation that is led by the person who knows the company best."

**Have recent FCA legislative changes in the UK affected how SLI meets companies ? (i.e. institutions can no longer pay for corporate access from client commissions)**

"Given how important meeting companies is to our research process, we now engage more with alternative sources like Phoenix-IR."

**How many investment banks do you deal with for corporate access?**

"Our investment banking relationships are driven by research. It is at the discretion of the sector analyst as he/she is best placed to judge that research on a specific sector. We look for authoritative and value add research."

**Why should corporates target SLI?**

"We are fundamental, fairly long term investors and really care what is happening in a company's business. We will bring to the table decision makers who run >\$30 billion. We will come prepared, having read conference call transcripts, presentation packs and results coverage before the meeting. We will focus on things that affect their business and matter to their business. Our analysts tend to be experienced people who have covered the stock for a long time. We won't waste their time talking about the quarter or China macro. We are looking to back positive change."

This article also appeared in the Winter edition of IR Magazine.

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Phoenix-IR specializes in helping public companies identify, target and communicate with investors based in the U.K., continental Europe, the U.S., and the Middle East