

SMP Sterling Roll-Up Fund PLC

Abbreviated Annual Report for the year
ended 31 August 2018

Manager:
SMP FUND SERVICES LIMITED
Clinch's House,
Lord Street,
Douglas, Isle of Man
IM99 1RZ

General Information

Directors

R K Corkill

W J Clarke*

D M Schuster* (Chairman)

* denotes Non-executive Director

Company Secretary

R K Corkill

Manager and Registrar

SMP Fund Services Limited

Clinch's House, Lord Street, Douglas

Isle of Man, IM99 1RZ, British Isles

Investment Manager

Aberdeen Asset Managers Limited

10 Queen's Terrace

Aberdeen, AB10 1YG, British Isles

Fiduciary Custodian

Link Corporate Services (Jersey) Limited

12 Castle Street, St Helier

Jersey, JE2 3RT, British Isles

Auditor

PricewaterhouseCoopers LLC

Sixty Circular Road, Douglas

Isle of Man, IM1 1SA, British Isles

Manager's Report

Introduction

As detailed in the previous section entitled 'General Information', SMP Sterling Roll-Up Fund PLC (the "Fund") is managed by SMP Fund Services Limited (the "Manager") and the investment manager is Aberdeen Asset Managers Limited (the "Investment Manager"). That section also details the Directors, the Company Secretary, the Fiduciary Custodian and the Auditor.

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and is managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 (the "Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with the Regulations, the Fund complies with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in May 2014 (the "SORP"). The Fund was originally established and authorised on 28 January 1993.

The term 'roll-up fund' from which the Fund's name is derived, describes a fund which retains its income and gains within the fund in order to enhance the capital value of the fund and hence is reflected in the share price. Therefore no dividends are paid to shareholders. Roll-up funds can have considerable administrative advantages to investors who do not require a regular income from their investments and prefer to accumulate income within their investment without the need to re-invest dividends.

Important information

The Annual Report & Audited Financial Statements for the year ended 31 August 2018 (together with the Abbreviated Annual Report for the year ended 31 August 2018 that has been sent to all registered shareholders) may be viewed on our website - www.smppartners.com and are available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund.

If shareholders have any questions regarding the Fund please contact our Shareholder Services Team on 01624 682224 - or by email to fund.services@smppartners.com.

Investment objective, policy and strategy

The Fund's investment objective is to provide investors with a high return, before taxation, from a managed portfolio of predominantly fixed-interest securities, denominated in sterling, with all income being accumulated in the price of shares.

Investment Manager overview for
the year ended 31 August 2018
Market review

Sterling corporate bonds underperformed UK government bonds over the 12 months to 31 August.

The final four months of 2017 were positive for corporate bonds; benign government bond markets, loose monetary policies and improving levels of economic activity all helped create an environment which attracted investors into riskier assets. Financials led the performance tables – in particular subordinated bonds – but spreads tightened in practically all sectors.

Moving into 2018, sterling investment grade credit continued to outperform UK government bonds in January, although the return generated by a tightening of credit spreads over gilts was entirely offset by a move higher in government bond yields. In February and March, spreads widened as risk aversion remained elevated across financial markets. The main drivers were rising wages, rising inflation, and a realisation that interest rates were set to rise in the US and the UK. Yield spreads for corporate bonds over government bonds widened, led by higher beta sectors such as subordinated financials and hybrid corporates.

Credit spreads continued to widen between April and June as European politics once again caused some concerns, and on heightened fears of a material trade war between the US and its major trading partners. In Italy, two populist parties formed a coalition throughout, unnerving markets. Italian-domiciled corporate bonds underperformed materially and other areas of the European Union, such as Portugal and Spain, were weak in sympathy. Sector-wise both banks and insurers were among the weakest while safe haven sectors were stronger performers.

Corporate bond markets were materially calmer over the summer months, and spreads tightened modestly in both investment grade and high yield markets. Government bond yields rose, however, led by US Treasuries as higher inflation and tighter monetary policy were priced in. Developed markets materially outperformed emerging markets, which were particularly affected by weakness in Turkey and Argentina. Both investment grade and high yield markets were supported by lower-than-expected levels of new issuance. Towards the end of the review period the sterling investment grade market lagged other markets as Brexit concerns increased.

Performance and activity of
the Fund

During the first half of the review period, the Fund benefited from an overweight position in financials. Insurance subordinated bonds were buoyed by the performance of equity markets at the start of 2018, albeit this area suffered disproportionately in February and March as credit spreads widened. The Fund's positioning in utilities was also beneficial, with an overweight position in electric names and an underweight position in water companies boosting the top line. In January, the Fund took some profits from bonds at the shorter end of the maturity spectrum, including Clydesdale Bank. In February, weakness in Vodafone bonds was used as a catalyst to reduce its underweight position while the Fund took the opportunity of widening its position in AXA bonds to take a more constructive position.

Dignity Finance, the UK funeral home operator, underperformed significantly in March after a ratings agency downgrade. This action followed a profit warning in January, resulting in spreads on the bonds widening materially. However, Dignity staged a measure of recovery in April after strong first quarter sales figures led to an upgrade in full year expectations. The Fund used the strong move to exit the position. Risk assets shifted wider in May on the back of Italy's political woes, resulting in some underperformance. Enel was weak, largely due to political volatility around its sovereign, Italy. The Fund's overweight position in longer-dated utility names also detracted. In terms of stock selection, bonds in electric names EDF and PPL provided some ballast to performance. In June, asset allocation detracted slightly, with higher beta sectors such as subordinated banks and insurance coming under pressure. However, this was countered by positive relative returns from stock selection, notably positions in banks such as Standard Chartered and HSBC performed well.

In contrast, the Fund's overweight beta position boosted performance in July as credit markets rallied. The subordinated insurance sector was particularly strong, and an underweight position in senior insurance bonds was also beneficial. The real estate sector was weakest, widening on concerns about commercial property values in the UK. In terms of security selection, performance was led by financials, with insurers such as Prudential and AXA and senior bonds from Citigroup and Deutsche Bank providing strong returns. In August, asset allocation was a marginal drag, with Tier 1 bank bonds being pushed wider on Brexit concerns. Italian names were also weak, as were subordinated insurance bonds. The Fund's underweight position in sovereign and supranational bonds provided some ballast to performance. The Fund made selective sales at attractive levels to temper some risk exposures and free up some cash to fund the expected issuance in September. Aviva subordinated bonds were sold following strong performance. We continued to trim long end utilities such as Eastern Power Networks and National Grid.

Outlook*

As with much of 2018 to date, politics is likely to play a material part in investment outcomes over the coming period. Government bond yields are trending higher, and this trend, with higher inflation and policy rates, could well continue; as a result, the Fund's appetite for interest rate risk remains low.

*Investments markets and conditions can change rapidly and as such, the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Comparative Table

Change in net asset value per share

| | 2018 p | 2017 p | 2016 p |
|--|---------------|---------------|---------------|
| Opening net asset value per share | 404.71 | 406.07 | 352.83 |
| Return before operating charges* | (1.69) | 2.54 | 57.46 |
| Operating charges | (4.26) | (3.90) | (4.22) |
| Return after operating charges* | (5.95) | (1.36) | 53.24 |
| Distributions on preference shares | - | - | - |
| Closing net asset value per share | 398.76 | 404.71 | 406.07 |
| *after direct transaction costs of | 0.08 | 0.03 | 0.02 |

Performance

| | 2018 | 2017 | 2016 |
|----------------------|---------|---------|--------|
| Return after charges | (1.47%) | (0.34%) | 15.09% |

Other information

| | 2018 | 2017 | 2016 |
|--------------------------|-------------|-------------|-------------|
| Closing net asset value | £19,400,964 | £22,539,948 | £25,714,562 |
| Closing number of shares | 4,865,357 | 5,569,540 | 6,332,480 |
| Operating charges | 1.06% | 0.96% | 1.15% |
| Direct transaction costs | 0.021% | 0.008% | 0.006% |

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

Performance record for the year ended

| | Highest offer share price p | Lowest bid share price p | Net allocation per share* p |
|----------------|-----------------------------------|--------------------------------|-----------------------------------|
| 31 August 2014 | 364.11 | 313.36 | 25.58 |
| 31 August 2015 | 392.67 | 339.35 | 10.47 |
| 31 August 2016 | 431.57 | 349.41 | 51.35 |
| 31 August 2017 | 429.66 | 379.16 | (2.81) |
| 31 August 2018 | 430.02 | 392.54 | (6.47) |

*Net allocation is based on average shares during the year.

Net asset value record for the year ended

| | Net asset value of participating shares £ | Shares in issue | Cancellation price per share p |
|----------------|--|-----------------|-----------------------------------|
| 31 August 2016 | 25,714,562 | 6,332,480 | 406.07 |
| 31 August 2017 | 22,539,948 | 5,569,540 | 404.71 |
| 31 August 2018 | 19,400,964 | 4,865,357 | 398.76 |

Ongoing charges figure ("OCF") for the year ended

| | OCF* |
|----------------|-------|
| 31 August 2016 | 1.15% |
| 31 August 2017 | 0.96% |
| 31 August 2018 | 1.06% |

*OCF is the total expenses paid by the Fund in the year expressed as a percentage of the Fund's average net asset during the year.

Summary of investments

| | % of Fund's property 31.08.2018 | % of Fund's property 31.08.2017 |
|------------------|------------------------------------|------------------------------------|
| Government bonds | 4.09 | 4.65 |
| Corporate bonds | 91.89 | 90.61 |
| Bank balances | 4.02 | 4.74 |
| | <u>100.00</u> | <u>100.00</u> |

Due to licence restrictions, individual credit ratings have not been disclosed. However a credit rating analysis is disclosed below in accordance with the requirements of the SORP.

Credit rating analysis

| | Market Value as at 31.08.2018 £ | Market Value as at 31.08.2017 £ |
|------------------------------|---------------------------------------|---------------------------------------|
| Investment grade | 18,224,146 | 20,599,665 |
| Non-investment grade | 133,426 | 653,135 |
| Total debt securities | <u>18,357,572</u> | <u>21,252,800</u> |

Top five holdings

| Asset description | % of Fund's property 31.08.2018 | Asset description | % of Fund's property 31.08.2017 |
|--|------------------------------------|---|------------------------------------|
| 1. TRANSPORT FOR LONDON 2.125% 24/04/2025 | 2.67 | 1. TRANSPORT FOR LONDON 2.125% 24/04/2025 | 2.69 |
| 2. ELECTRICITE DE FRANCE SA 6.25% 30/05/2028 | 1.70 | 2. ELECTRICITE DE FRANCE SA 6.25% 30/05/2028 | 1.52 |
| 3. UNITED KINGDOM GILT 4% 07/03/2022 | 1.58 | 3. UNITED KINGDOM GILT 4% 07/03/2022 | 1.46 |
| 4. UNITED KINGDOM GILT 6% 07/12/2028 | 1.51 | 4. PMF 2017 - 1 B A 1.147% 12/03/2054 | 1.34 |
| 5. PRECISE MORTGAGE FUNDING 1.352% 12/03/2054 | 1.47 | 5. ELECTRICITE DE FRANCE SA 5.5% 17/10/2041 | 1.20 |

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