March 2019

Quarterly Investment Report

Aberdeen Diversified Income Fund

Key fund information

- Total return target[1]: Cash[2] +5.0% p.a. over rolling 5 year periods
- Yield target[3]: 4.5% p.a.
- Expected volatility[4]: Well below that of equity
- Fund structure: UCITS Regulated ICVC
- On 1 September 2016 the Aberdeen Managed Distribution Fund was renamed as the Aberdeen Diversified Income Fund as the strategy was realigned to the Diversified Assets approach

The Fund returned 3.2% over Q1 2019, gross of fees. Over the last 12 months it has returned 0.0%.

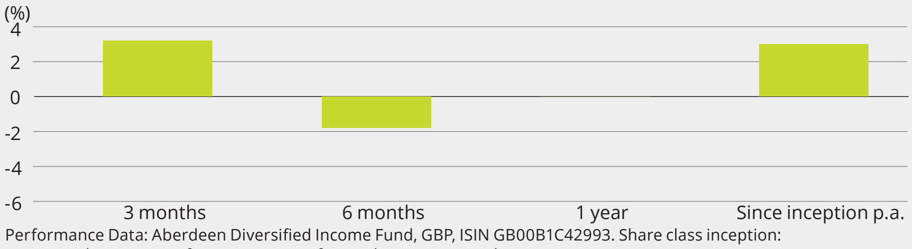
There were positive contributions from a range of asset classes including listed equity, emerging market bonds, infrastructure, asset backed securities (ABS) and property. There was a small negative contribution from insurance linked securities.

It has been well documented that 2018 was the worst year for broad investment markets since the global financial crisis with a significant decline in asset prices in Q4. The most notable theme throughout the first quarter of 2019 was the general recovery in sentiment towards risk assets, with areas such as global equities and credit reversing much of the drawdowns of the previous quarter. Investors were reassured by the US Federal Reserve's (Fed) more patient approach to interest rate hikes and an apparent easing in US-China trade tensions.

Against this background, the Fund returned 3.2% during the quarter, gross of fees. There were positive contributions from a range of asset classes including listed equity, emerging market bonds, infrastructure, asset backed securities (ABS) and property. There was a small negative contribution from insurance linked securities.

Current global economic growth prospects remain subdued; however some of the political risk that plagued economies and markets in 2018 appears to have softened – at least in the short term. The latter point coupled with the more dovish tone from the Fed has provided some relief to markets and this has been reflected in the asset price moves year to date. Our view on the medium-term outlook for traditional asset classes (developed government bonds, corporate bonds and equities) is largely unchanged - we believe they face a challenging return environment given current valuations. We are therefore comfortable with our relatively modest exposure to traditional asset classes and see more compelling opportunities elsewhere.

Period returns



Performance Data: Aberdeen Diversified Income Fund, GBP, ISIN GB00B1C42993. Share class inception: 30 September 2016. Performance gross of annual management charges.
Source: Aberdeen Standard Investments, Lipper. Figures as at 31 March 2019. All return data gross of annual management charges. Had such fees been deducted returns would have been lower.

Past performance is not a guide to future results.

[1] This is an internal performance target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest prospectus. Target defined as cash +4.5% p.a. net of institutional fees (60bps p.a.). Restated as a gross target to acknowledge the range of possible share classes available.
[2] Cash represented by 1 month GBP LIBOR.
[3] This is an internal yield target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest prospectus.
[4] Predicted volatility is based on internal forecasts and is not a reliable indicator of future performance. All return data gross of annual management charges. Had such fees been deducted returns would have been lower.

Aberdeen Standard Investments

Asset class news

As noted above, global equities produced double digit returns in the first quarter which offset the bulk of the losses experienced towards the end of 2018. Our low volatility equity strategy underperformed the benchmark index over the quarter, negatively contributing to the underperformance of the equity sub-portfolio was its exposure to factors such as value, quality and low volatility.

Local currency emerging market bonds also had a good start to 2019. January was a particularly positive month for the asset class as a weaker US dollar and more dovish comments from the Fed were viewed as positives for a number of emerging economies, especially those with US dollar funding requirements such as Turkey and South Africa. Towards the end of the period, performance was more mixed as emerging market currencies depreciated on aggregate while bond prices remained resilient.

The infrastructure sector performed well over the quarter, with strong results from a number of our holdings in this area. Within the renewables sector Greencoat Renewables published an end December NAV reflecting a 2018 NAV total return of 14.8%. This reflects strong revenues from underlying assets plus a one-off boost from an increase in the assumed asset life of the portfolio from 25 to 30 years. Asset life extension assumptions also boosted the returns of The Renewables Infrastructure Group. During the quarter both of these companies also had oversubscribed capital raisings.

Having been relatively resilient to the spread widening environment of last year, ABS eventually succumbed to the upward pressure on spreads in the last couple of months of 2018. Consistent with other credit assets, ABS have started 2019 positively particularly in the later stages of the quarter.

While relatively benign from a performance perspective, there was more news in relation to our main holding in insurance linked securities (ILS). In mid-January Markel Corporation announced that Tony Belisle, CEO and founder of Markel CATCo, and Alissa Fredricks, CEO-Bermuda Market CATCo, were no longer with the company as a consequence of their violation of Markel policies related to an undisclosed personal relationship. Management and oversight of Markel CATCo is now provided by other experienced Markel employees. Following consultation with shareholders, CATCo Reinsurance Opportunities Fund subsequently confirmed that its two share classes are going to be put into run-off. Investors will receive their capital over the next three years as existing contracts expire and losses on the events of 2017 and 2018 are finalised / paid out to claimants. We believe that the shares will deliver high returns over this run-off process given the wide discounts to net asset value where the shares are currently trading.

Aircraft leasing has been in the news this quarter with the grounding of Boeing's 737 Max after two crashes within five months and Airbus announcing they will cease production of the A380 after 2021. We have no exposure to the 737 Max in our portfolios and have an exposure of approximately 0.5% to the A380 through two investment companies. The share prices of these companies fell by around 12-15% following the Airbus announcement, offsetting positive returns of similar amounts in 2018. Looking forward we believe that current share prices factor in a particularly low re-sale valuation of the A380 which limits downside risk and provides significant upside potential.

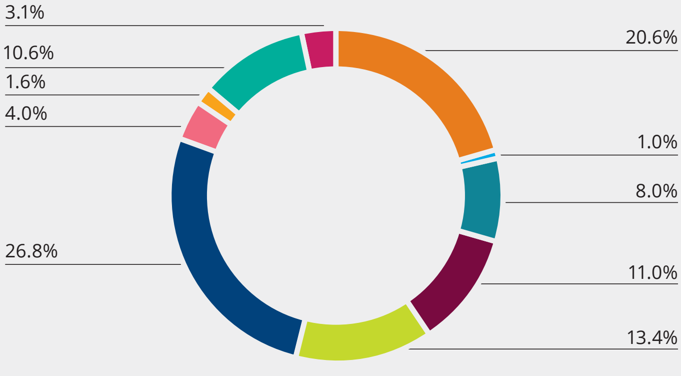
Outlook and positioning

In private equity we initiated a position in Onex, a large and well established Canadian private equity/debt investment company. We believe Onex is a high quality manager and like the fact that fees received from managing third party funds more than cover ongoing running costs of the company. Towards the end of 2018 Onex was impacted by the broader equity market sell-off with shares moving to a discount to NAV. This effectively means we are getting a good quality private equity/debt portfolio at a discount to NAV and with positive fee income.

We increased our exposure to infrastructure through allocations to Greencoat UK Wind, The Renewable Infrastructure Group and Greencoat Renewables, which all raised capital during the quarter through attractively priced placings.

Within listed equity exposure, we altered our positioning in Eurostoxx 50 Dividend Futures. As the December 2019 contracts approached our expected settlement value we sold our entire position in them and added to our positions in December 2020 and December 2021 contracts.

Investment profile – current asset allocation



Source: Aberdeen Standard Investments, 31 March 2019.
Figures may not add up due to rounding.

Expected income contributions

Asset class	DIF Weight (%)	Prospective Yield (%)	Contribution (%)
Listed Equity	20.6	2.6	0.5
Private Equity	1.0	0.4	0.0
Property	8.0	3.7	0.3
Infrastructure	11.0	4.3	0.5
Asset Backed Securities	13.4	4.0	0.5
Emerging Market Bond	26.8	7.6	2.0
Absolute Return	4.0	3.9	0.2
Insurance Linked	1.6	5.5	0.1
Special Opportunities	10.6	5.1	0.5
Cash	3.1	0.0	0.0
Total	**100.0**	**4.7**	**4.7**

Source: Aberdeen Standard Investrments, 31 March 2019. Expected return is not an indication of future results.Figures may not add up due to rounding.

Past performance is not a guide to future results.

Overall, our view on the outlook for traditional asset classes (developed government bonds, corporate bonds and equities) is largely unchanged - we believe they face a challenging returns environment. We are therefore comfortable with our relatively modest exposure to equities and see more compelling opportunities elsewhere.

Within traditional credit markets we have some concerns that level of credit spreads on offer is not commensurate with risk at this point in the cycle. We therefore have negligible direct exposure to corporate credit and patiently await a more attractive point to reinvest. We continue to see ABS as offering an attractive risk-return trade-off. Whilst this gives us exposure to mortgages and other forms of securitised debt we are conscious that this also gives us significant indirect exposure to corporate loans through collateralised loan obligation (CLO) positions. In general we view the spreads on offer from mezzanine CLO bonds as offering attractive levels of compensation for this risk but we are monitoring this situation carefully.

We continue to view local currency emerging market bonds as the most attractive of the larger, more liquid asset classes primarily due to the attractive nominal and real yields on offer relative to developed markets. This is supported by inexpensive currency valuations and decent underlying fundamentals. We are encouraged by the relative resilience and independence of returns exhibited by the asset class in 2018 whilst being mindful that this will not hold true in all potential scenarios.

Elsewhere we see attractions across a broad range of niche alternative assets including litigation finance, healthcare royalties and aircraft leasing. We are also seeing a potential pipeline of interesting new opportunities.

Performance Statistics

The Fund returned 3.1% over the quarter, net of management fees. Since inception the Fund has delivered a return of 4.9% per annum. The Fund's long-term volatility also remains well below that of equity at 6.1% p.a. The Fund returns continue to be good in both absolute and risk adjusted terms.

Net performance to 31 March 2019

	Performance (%)						
					Annualised		
%	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since inception (% p.a.)
Fund	-0.3	3.1	-2.0	-0.5	5.6	4.1	4.9

	Calendar year performance (%)				
%	Year to Date	2018	2017	2016	2015
Fund	3.1	-5.3	7.2	13.7	-1.2

	Discrete annual returns (%) – year ended 31/03				
%	2019	2018	2017	2016	2015
Fund	-0.5	2.1	16.0	-4.4	8.3

	Risk numbers		
	Volatility (since inception % p.a.)	Sharpe Ratio (since inception)[5]	Beta to equities (since inception)[6]
Fund	6.1	0.0	0.3

Performance Data: Aberdeen Diversified Income Fund, Share Class I Acc GBP, ISIN GB00B1C42779. Performance net of annual management charges. Inception date of share class: 1 October 2012.
Source: Aberdeen Standard Investments, Lipper. Figures as at 31 March 2019.

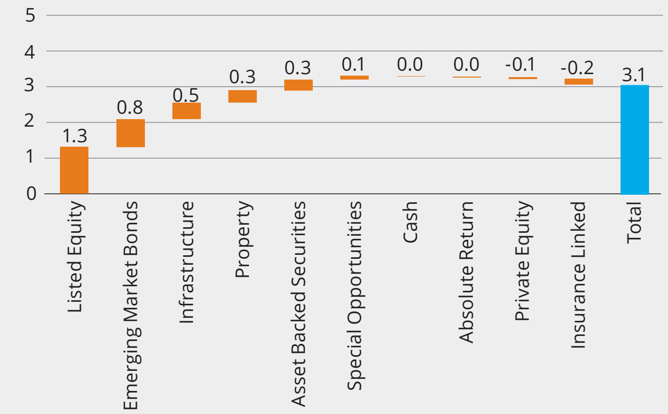
Past Performance is not a guide to future results.

[5] Weekly data points, risk-free rate represented by 1 month GBP LIBOR
[6] Equities represented by MSCI World Index (hedged to GBP)
All return data net of annual management charges.

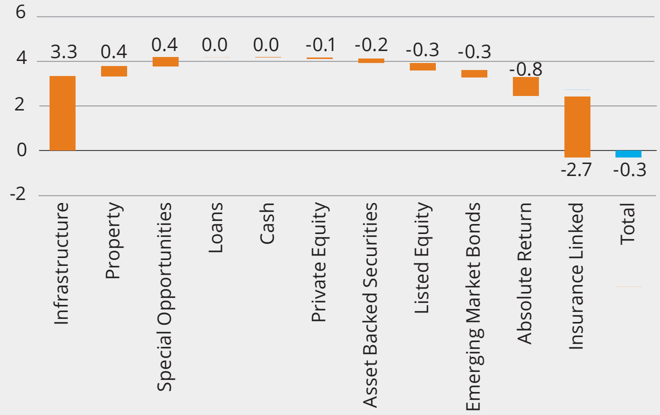
Performance attribution

Over the quarter there were positive contributions from a range of asset classes including listed equity, emerging market bonds, infrastructure, ABS and property. There was a small negative contribution from insurance linked securities. From the perspective of 12 month contributions, the asset class movements that we have discussed extensively in previous quarters continue to dominate the contributions. Namely, the positive contributions from infrastructure and property, offset by insurance linked securities and absolute return.

3 month contributions (gross)



12 month contributions (gross)



Source: Aberdeen Standard Investments, BPSS, Thomson Reuters DataStream. Figures as at 31 March 2019. Performance Data: Aberdeen Diversified Income Fund, Share Class Z Acc GBP, based on gross valuations at close of business, consistent with special month end pricing (SMEP) valuations. Shown in GBP. Estimated breakdown of returns based on attribution of performance by asset class.

Past performance is not a guide to future results.

Portfolio detail

Fund	%
Listed Equity	**20.6**
Low Volatility Equity	17.7
Equity Dividend Futures	2.9
Private Equity	**1.0**
Global Diversified Private Equity (Onex Corp)	1.0
Property	**8.0**
Student Housing (GCP Student Living REIT)	1.5
Student Housing (Unite Group REIT)	0.2
Private Rented Sector (PRS REIT)	1.2
Global REIT (Alstria Office REIT)	0.5
Global REIT (Kojamo REIT)	0.5
Social Housing (Civitas REIT)	1.5
Social Housing (Residential Secure Income REIT)	0.7
Social Housing (Triple Point REIT)	0.7
Healthcare (Target Healthcare REIT)	0.6
Logistics (Aberdeen Standard European Logistics	0.6
Infrastructure	**11.0**
Diversified Infrastructure (3I Infrastructure)	0.4
Renewable Infrastructure (Greencoat Renewables)	2.1
Renewable Infrastructure (Greencoat UK Wind)	0.5
Renewable Infrastructure (John Laing Environmental)	0.2
Renewable Infrastructure (The Renewables Infrastructure Group)	1.6
Social Infrastructure (HICL)	2.4
Social Infrastructure (International Public Partnerships)	2.0
Social Infrastructure (John Laing Group)	1.7
Emerging Market Debt	**26.8**
Emerging Market Bonds	26.8
Cash	**3.1**
Cash	3.1

Fund	%
Asset-Backed Securities	**13.4**
Senior ABS	2.0
Collateralised Loan Obligations (Blackstone/GSO)	0.4
Collateralised Loan Obligations (Fair Oaks Dynamic Credit Fund) OEIC	1.7
Collateralised Loan Obligations (Neuberger Berman CLO Income) OEIC	0.8
Collateralised Loan Obligations (Fair Oaks Income)	0.6
Collateralised Loan Obligations (Marble Point)	0.2
Global Loans (TwentyFour Income)	0.8
Mezzanine ABS (Prytania Diversified ABS Fund) OEIC	2.5
Mezzanine ABS (TwentyFour Asset Backed Opportunities Fund) OEIC	4.4
Absolute Return	**4.0**
Market Neutral Futures Overlay	1.2
Alternative Risk Premia	2.8
Insurance Linked	**1.6**
Insurance Linked (Blue Capital)	0.6
Insurance Linked (Catco Reinsurance)	1.0
Special Opportunities	**10.6**
Diversified Opportunities (Aberdeen Diversified Income & Growth)	1.5
Healthcare Royalties (BioPharma Credit)	2.0
Litigation Finance (Burford)	1.7
Aircraft Leasing (Nimrod Air Three)	0.2
Aircraft Leasing (Nimrod Air Two)	0.4
Aircraft Leasing (DP Aircraft)	0.2
Marketplace Lending (Funding Circle)	0.3
Marketplace Lending (P2P Global)	2.3
Asset Financing (GCP Asset Backed Income)	0.5
Asset Financing (SQN Asset Financing)	1.0
Shipping (Tufton Oceanic)	0.4
Total	**100.0**

Source: Aberdeen Standard Investments, 31 March 2019. Figures may not add up due to rounding.

Important Information

For professional investors only – not for use by retail investors:

Aberdeen Diversified Income Fund

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.
- Bonds valuations are affected by changes in interest rates, inflation and the creditworthiness of the bond issuer. There is a risk that a bond issuer may not be able to repay the money they borrowed nor make their required interest payments. The risk increases for bonds with lower credit ratings. Where a bond market has a low number of buyers and/or high number of sellers, it may be harder to sell particular bonds at an anticipated price and/or in a timely manner.
- Derivatives: This Fund can use derivatives in order to meet its investment objectives. The use of derivatives may result in greater fluctuations in the value of the Fund, and may increase the magnitude of any losses.
- Emerging Markets: Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries and this may mean your money is at greater risk.
- Exchange Rates: The Fund may have holdings which are denominated in different currencies and may be affected by movements in exchange rates. Consequently, the value of the Fund's investments and the income from them may rise or fall in line with exchange rates.
- REITs: The Fund may invest in real estate investment trusts (REITs) which themselves invest directly in real estate. Under adverse market or economic conditions, such assets may become difficult to buy or sell or experience a drop in value.
- A full list of risks applicable to this Fund can be found in the Prospectus.

Other Important information

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