Active Equities

Research-driven, high-conviction investing giving clients access to our best equity ideas worldwide
“Our goal is simple: to consistently deliver what matters most to our clients – repeatable and intended outcomes.”

Devan Kaloo,
Global Head of Equities
We are active equity investors. We believe that deep fundamental research and a disciplined investment process are the most effective way to deliver long-term returns for our clients. The scope of our research means we can offer a wide range of investment outcomes. These include high active, income, small-cap and responsible investing strategies.

A sense of partnership - both internally and externally - underpins our approach. We work closely with our clients to ensure we are meeting their investment needs, from the products we offer, to the services we provide. As a company, collaboration and team debate defines our culture – enabling us to harvest our team’s collective intelligence and diversity of thought. We believe that star teams, rather than star managers, make the best decisions and deliver the best results for our investors.

The consideration of environment, social and governance (ESG) factors is a fundamental part of our equity process. To fully understand a company, you need to understand its ESG risks and opportunities. Once you do, then you can provide better client outcomes, while contributing to a more sustainable world. The full integration of ESG considerations and proactive company engagement helps us to achieve these aims. It also means we can deliver a broad range of responsible investment strategies with enhanced ESG reporting.

Within this brochure, we answer four key questions that will help potential investors understand our approach, resources and product range.

1. Why choose ASI?
2. How do we manage your investments?
3. Who manages your investments?
4. What can we offer our clients?

Devan Kaloo
Global Head of Equities
Why choose ASI?

We have the experience, expertise and global resources to uncover some of the best investment opportunities for our clients.

Our core beliefs
Three core beliefs underpin our active equity investment approach.

1. Fundamental research delivers key insights
In our view, company fundamentals ultimately drive share prices but are often valued inefficiently in the shorter term. We believe that in-depth research is the key to delivering insights that allow us to exploit these inefficiencies and identify the best investment opportunities for our portfolios.

2. ESG assessment and corporate engagement
We place constructive engagement and ESG considerations at the heart of company research, ensuring we are responsible stewards of our clients’ assets. We believe this approach can mitigate risks and enhance long-term returns. This is because ESG considerations are financially material so companies with robust ESG practices tend to enjoy long-term financial benefits.

3. Disciplined, active investment can deliver superior outcomes
We aim to build high-conviction portfolios where our stock-specific insights drive performance, giving clients access to our best investment ideas. As a result of our process, we can offer our clients a broad range of outcomes to meet their specific needs.
“As active equity investors, we believe that deep fundamental research and a disciplined investment process are the best way to meet our clients’ investment needs now and in the future.”

Mark Vincent,
Global Head of Equity Research
How do we manage your investments?

Our focus on fundamental research allows us to build portfolios from the bottom up, prioritising our highest conviction stock ideas – and ultimately driving returns. There are four key steps to our investment approach.

1. Generating our investment ideas
   Our scale affords coverage of a wide and dynamic universe, with in-depth, locally-sourced insights. We have over 140 highly experienced equity professionals across the world, each engaged in fundamental stock research and insight generation.
   
   Face-to-face meetings anchor how we understand and challenge the key elements of a company’s fundamentals. We have first-rate access to the businesses we research, conducting over 6,000 company meetings a year (not including ESG engagements). We corroborate the findings from these company engagements through broader discussions with competitors, customers and suppliers. This first-hand experience allows us to produce wide-ranging, company level insights that drive portfolio performance.

2. A leading research platform
   Our equity teams use a common investment language and research framework that structures how we express our thinking on companies. This facilitates the effective articulation of research insights which are captured in formal, structured stock research notes. We have also developed a proprietary research platform used by all our equity teams, giving instant access to our research globally.
3. The team drives results
Perhaps the most important part of our process is peer review. For us, this is one of the most powerful tools to help identify our best stock ideas. Team debate brings disciplined checks and challenges to our process. It pools collective insights and experiences in a way that helps determine the most material issues and builds deeper understanding of businesses. Through debate, we explore all angles in our stock research. We also incorporate views from beyond the equities team. Through this collaborative approach we ensure only the best investment ideas make it into our final portfolios.

4. Constructing the right portfolios
We build our portfolios from the bottom-up, ensuring that only the highest-conviction stock ideas enter our portfolios.

Our ‘construction pods’ oversee our portfolios. These pods are dedicated groups of investors who have ultimate accountability for a strategy. They debate stock holdings, building conviction in the best ideas that come from the equity desks.

No matter what the objective of the portfolio, we ensure that the largest component of our active risk is stock-specific.

“Peer review is one of the most powerful tools to build conviction and help identify our best stock ideas”

Flavia Cheong,
Head of Equities - Asia Pacific
Who manages your investments?

To uncover the best companies takes resources, experience and collaboration.

We have over 140 equity professionals around the world, each meeting companies, conducting in-depth research and sharing their insights with the wider team.

They are supported by specialists from across the company, from our credit, real estate and multi-asset teams as well as quant and risk analytics specialists. Lastly, the team leverages the knowledge and market views of more than 30 economists within the Aberdeen Standard Investments Research Institute and around 50 specialists in ESG analysis across different asset classes.

This level of support means our equity specialists can focus on what they do best: delivering compelling market-leading investment insights for all our investors.

“At ASI, we have star teams rather than star managers - reflecting our belief that a team-based approach is the best way to generate the most compelling, market-leading insights for our clients.”

Devan Kaloo,
Global Head of Equities

All data source Aberdeen Standard Investments as at 31 March 2020.
4,000 monitored companies

>6,000 company meetings per annum

All data source Aberdeen Standard Investments as at 31 March 2020.
ESG – integrated at every stage

We integrate ESG factors into every stage of our investment process. Our goal is to reduce risk, enhance potential value for our investors and foster companies that can contribute positively to the world.

Three core beliefs underpin our approach

• ESG factors are financially material – the level of consideration they are given in a company will ultimately have an impact on corporate performance, either positively or negatively.

• Understanding ESG risks and opportunities alongside other financial metrics allows us to make far better investment decisions.

• Informed and constructive engagement helps foster better companies, enhancing the value of our clients’ investments.

ESG in our DNA

ESG considerations have been incorporated in our stock analysis and decision-making for 25 years. Our process brings together three different ‘levels’ of ESG input:

• Investment managers – actively engage to analyse company-specific risks and influence corporate behaviours.

• ESG equity analysts – conduct pre-investment due diligence and post-investment, ongoing company engagement. They also take thematic insights from the ESG team and translate them into actionable regionally applicable insights.

• Central ESG investment team – conduct thematic research globally, identifying regions, industries and sectors that are most vulnerable to ESG risks and identifies those that can take advantage of the opportunities presented.

In our view, this process enables us to deliver truly differentiated and industry-leading ESG analysis and engagement.
Evaluating a company’s ESG credentials

A systematic and globally-applied approach to ranking stocks allows us to compare companies consistently on their ESG credentials – both regionally and against their peer group.

We capture the findings from our research and company engagement meetings in formal research notes. Some of the key questions we ask include:

- How material are ESG issues for this company – and how are they being addressed?
- What is our assessment of the quality of this company’s governance, ownership structure and management?
- Are incentives and key performance indicators aligned with the company’s strategy and the interests of shareholders?

Having considered the regional universe and peer group in which the company operates, we then allocate it an ESG score between one (leader) and five (laggard). This is applied across every stock we cover globally.

We also use a combination of external and proprietary in-house quantitative scoring techniques to complement and cross-check our analyst-driven ESG assessments.

Staying engaged

Once we invest in a company, we are committed to helping them maintain or raise their ESG standards further, using our position as a shareholder to press for action as needed.

We see this programme of regular engagement as a necessary fulfilment of our duty as a responsible steward of our clients’ assets. It is also an opportunity to share examples of best practice we have seen in other companies and to use our influence to effect positive change.

In brief

- ESG scores are used to summarise a company’s ability to manage ESG risks
- Scores are based on a company’s regional universe and peer group
- Analyst discretion is required where companies do not consistently meet all guidelines
ESG engagement in action

A large European engineering conglomerate drew up a best-in-class plan to reduce its carbon footprint through greater energy efficiency and carbon credits. It even mapped out new potential revenue streams from innovative climate-change solutions.

Yet vulnerabilities remained. The company’s financial projections were based on current carbon pricing, rather than the much higher prices forecast by the Paris agreement to combat climate change.

The company had already committed to a 50% carbon reduction in the medium term, and to long-term carbon neutrality. But we pushed for even higher standards.

The first was to ingrain ESG considerations into the company’s philosophy by tying key ESG performance indicators to executive pay. The second was to encourage the company to stress test its financial projections by introducing higher carbon costs in its financial modelling.

The company’s commitment to combating climate change has already produced tangible results, with an estimated €20 million a year in energy savings over the past three years.
What can we offer our clients?

We construct portfolios to deliver a broad range of outcomes to meet our clients’ investment needs. The table below shows our range of equity investment solutions. These fall under four broad categories, detailed below.

High active

Our high active strategies are designed to materially outperform their benchmarks over the longer term. Achieving this requires extensive research to develop stock-specific insights. These are then brought together in concentrated high-conviction portfolios.

Smaller companies

Small-caps offer us a broad, rich and under-researched opportunity set. Because they provide a different source of returns to large-caps, they can also help our clients diversify risk as part of a broader equity portfolio.

Income

Our income portfolios aim to provide our clients with a premium, sustainable yield and attractive risk-adjusted total returns. This is based on the belief that dividends are a key driver of the total return from equities.

Responsible investing

The financial world is changing. Investors are increasingly demanding that their investments not only deliver sustainable financial returns, but also reflect their ethical or moral values. We are committed to helping our clients meet that aspiration.

A representative selection of distinct client outcomes

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*Sustainable and responsible investment
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.

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Diversification does not necessarily ensure a return or protect against a loss.

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