Aberdeen Diversified Income and Growth Trust

Widely diversified, flexible multi-asset investment

Investment trusts
Multi-asset

1 May 2019

Aberdeen Diversified Income and Growth Trust (ADIG) follows a diversified multi-asset approach, aiming to generate attractive long-term income and capital returns. The managers aim to hold a genuinely diversified, global, multi-asset portfolio of investments with differing return drivers and risk characteristics, that should produce uncorrelated returns. Performance has been mixed since the appointment of Aberdeen Standard Investments (ASI) as manager in February 2017, but positions in longer-term, less liquid investments, typically only accessible to large, sophisticated investors, are steadily being built up, and the experienced investment team is confident that the Libor +5.5% pa target return can be achieved over the investment cycle. The FY18 total dividend was 1.17x covered and the board intends to increase the FY19 dividend by 2.3% to 5.36p, representing a 4.7% yield.

12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	FTSE All-Share (%)	MSCI AC World (%)	UK Gilts All Stocks (%)
31/03/15	1.0	3.0	11.5	6.6	19.0	13.9
31/03/16	(3.0)	(6.6)	6.2	(3.9)	(0.6)	3.3
31/03/17	1.1	4.4	6.8	22.0	33.0	6.6
31/03/18	8.0	4.5	5.9	1.2	2.9	0.5
31/03/19	1.9	(0.5)	6.3	6.4	11.1	3.7

Source: Refinitiv. Note: *Blended benchmark is FTSE All-Share/FTSE World ex-UK 80:20 composite up to 26 February 2015, then UK CPI +4.0% up to 10 February 2017 and Libor +5.5% thereafter. All % on a total return basis in sterling.

The market opportunity

Equity markets have rebounded in 2019, pushing valuation multiples above 10-year average levels, with weakening global economic output likely to temper corporate earnings growth. While the prospects for equities are unclear, relatively low yields detract from the appeal of government bonds, and the outlook is also clouded by changes in interest rate expectations, potentially leading to further volatility in equity and bond markets. Given this backdrop, a diversified portfolio of income-generating alternative assets with the prospect of uncorrelated returns may appeal to investors.

Why consider investing in ADIG?

- Genuinely diversified multi-asset portfolio should produce uncorrelated returns.
- Access to ASI global investment platform's best ideas in public/private markets.
- Up to c 40% portfolio exposure to funds typically closed to retail investors.
- NAV total return volatility expected to be around half that of equities.
- Competitive 0.88% ongoing charges, with no performance fee.
- 5% threshold for active discount management policy (based on ex-fair NAV).

Moderate gearing, narrow discount, attractive yield

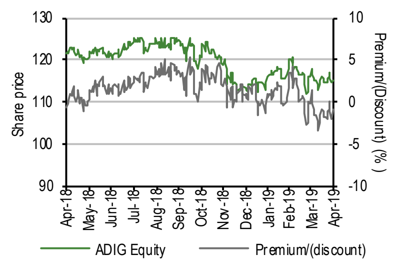
While many of its peers are ungeared, ADIG has moderate structural gearing, with a £60m 6.25% bond due in 2031. Since October 2018, ADIG's shares have moved from a premium to a 1.6% discount to ex-fair NAV, which compares with a one-year average 1.5% premium and a three-year average 2.8% discount. The trust's 4.6% historic dividend yield is the second highest in the peer group, well above the 2.5% average yield, and the dividend rate was increased in the first quarter of FY19.

Price	**115.0p**
Market cap	**£380m**
AUM	**£465m**
NAV*	116.9p
Discount to NAV	1.6%
NAV**	119.0p
Discount to NAV	3.4%

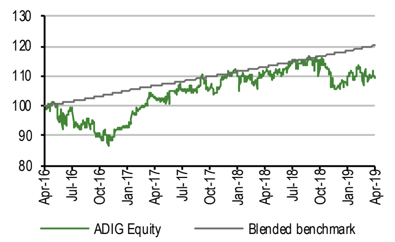
*Excluding income. **Including income. As at 29 April 2019.

Prospective FY19 yield	4.7%
Ordinary shares in issue	330.7m
Code	ADIG
Primary exchange	LSE
AIC sector	Flexible Investment
Benchmark	Libor +5.5%

Share price/discount performance



Three-year performance vs b'mark



52-week high/low	125.3p	112.0p
NAV* high/low	125.4p	114.3p

*Including income.

Gearing

Gross*	14.5%
Net*	10.4%

*As at 31 March 2019.

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Edison profile page

Aberdeen Diversified Income and Growth Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

ADIG's investment objective is to achieve a total portfolio return of Libor +5.5% per annum (net of fees) over rolling five-year periods by investing globally using a flexible multi-asset approach via quoted and unquoted investments.

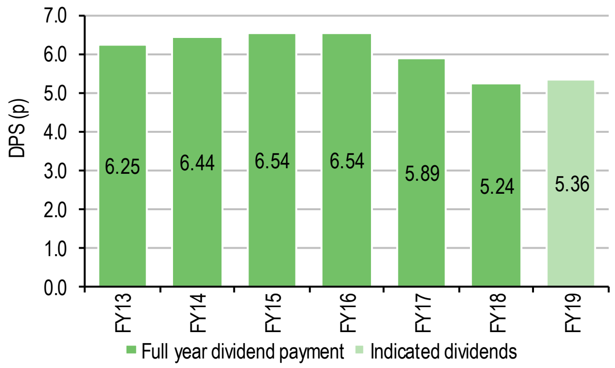
Recent developments

- 27 February 2019: 1.34p first interim dividend declared for FY19.
- 27 February 2019: Kevin Ingram retired from the board.
- 1 February 2019: Davina Walter appointed as a director.
- 15 January 2019: Intention to pay four quarterly dividends of 1.34p for FY19, with the total FY19 dividend rising by 2.3% from 5.24p to 5.36p.
- 15 January 2019: Final results to 30 September 2018 – NAV TR +2.5% versus benchmark +6.2%; share price TR +7.9%.
- 17 December 2018: 1.31p fourth interim dividend declared for FY18.

Forthcoming		Capital structure		Fund details	
AGM	February 2020	Ongoing charges	0.88%	Group	Aberdeen Standard Investments
Interim results	June 2019	Net gearing	10.4%	Managers	Mike Brooks, Tony Foster
Year end	30 September	Annual mgmt fee	0.50% of NAV; 0.45% over £300m.	Address	7th Floor, 40 Princes Street, Edinburgh EH2 2BY
Dividend paid	Mar, Jul, Oct, Jan	Performance fee	None		
Launch date	5 January 1898	Trust life	Indefinite (subject to vote)	Phone	0808 500 0040
Continuation vote	Annually from 2020 AGM	Loan facilities	£60m 6.25% debenture 2031	Website	www.aberdeendiversified.co.uk

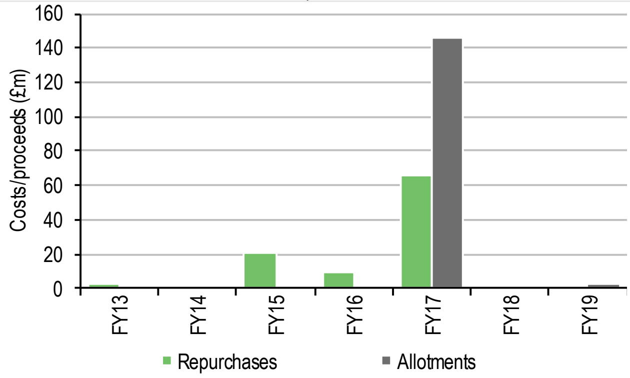
Dividend policy and history (financial years)

ADIG pays quarterly dividends, at a level consistent with the expected annual underlying portfolio yield. The quarterly dividend was rebased by c 20% in Q317 to enable a sustainable dividend to be paid.

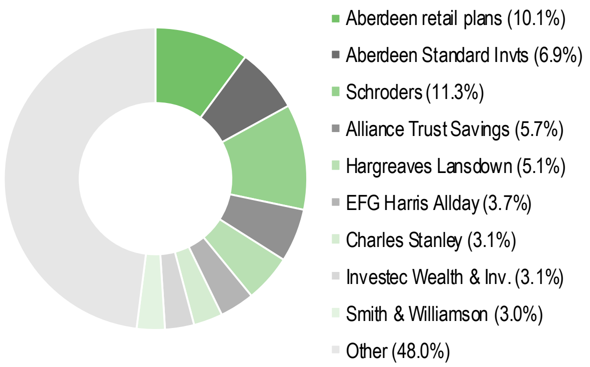


Share buyback policy and history (financial years)

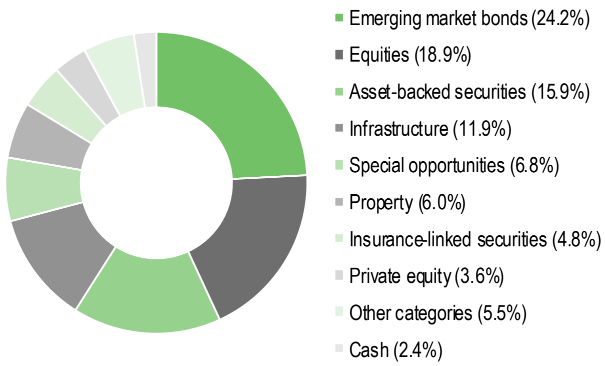
ADIG has authority to repurchase up to 14.99% and allot up to 10% of its issued share capital. In April 2017, 118.6m shares were issued as part of the merger with AUKT, while 53.4m shares were repurchased in a concurrent tender offer.



Shareholder base (as at 30 April 2019)



Portfolio exposure by asset category (as at 31 March 2019)



Top 10 holdings (as at 31 March 2019)

		Portfolio weight %	
Investment	**Asset category**	**31 March 2019**	**31 March 2018***
Aberdeen Smart Beta Low Volatility Global Equity Income Fund	Equities	18.9	17.7
TwentyFour Asset Backed Opportunities Fund	Asset-backed securities	12.6	12.5
Markel CATCo Reinsurance Fund	Insurance-linked securities	3.6	4.9
Aberdeen Global Loans Fund	Loans	2.9	8.7
Aberdeen Frontier Markets Bond Fund	Emerging market bonds	2.3	2.0
Aberdeen Indian Bond Fund	Emerging market bonds	2.2	3.8
Blackstone GSO Loan Financing	Asset-backed securities	2.1	2.3
BlackRock Renewable Income UK	Infrastructure	1.9	1.8
Aberdeen European Residential Opportunities Fund	Property	1.7	N/A
Burford Capital	Special opportunities	1.6	N/A
Top 10 (% of holdings)		**49.8**	**57.8**

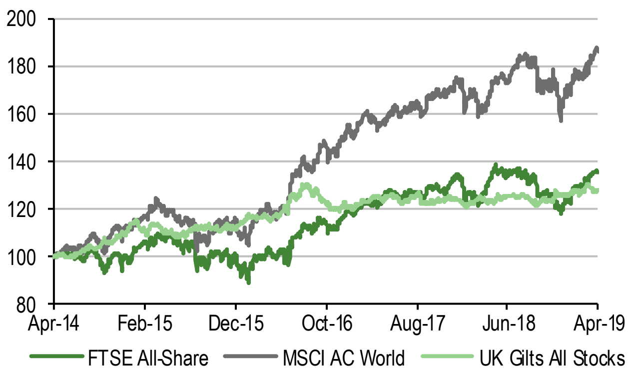
Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-March 2018 top 10.

Market outlook: Unclear prospects for stocks and gilts

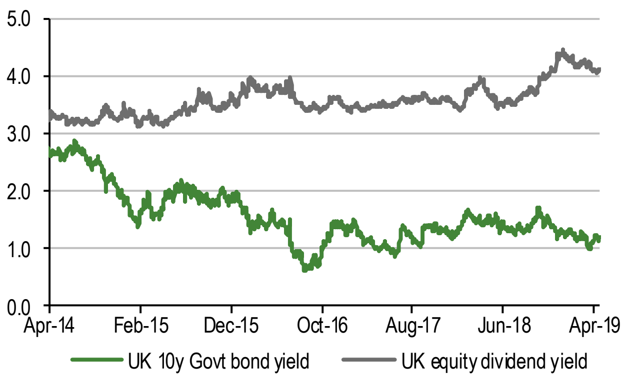
As illustrated in Exhibit 2 (left-hand chart), UK equities have significantly underperformed world equities over the last five years as a whole, but after two pronounced periods of elevated volatility, UK and world stock market indices are both close to all-time high levels. Over the same period, UK government bond returns have almost matched UK equity returns, driven by falling yields (see Exhibit 2, right-hand chart). This has led to a widening in the yield premium of equities relative to gilts, reducing the relative appeal of UK government bonds as an asset class.

Exhibit 2: UK equity returns and yields vs government bonds over five years

UK and world stock market index returns versus UK government bonds



UK 10-year govt bond yield versus UK equities dividend yield



Source: Refinitiv, Edison Investment Research. Note: Data to 30 April 2019.

While average company valuations remain some way off their peak levels, the equity market rebound in 2019 has pushed UK and world indices' forward P/E multiples back above 10-year average levels. As well as offering more limited scope for further re-rating, the outlook for equity markets is tempered by the prospect of slowing global growth weighing on corporate earnings, while downside risks also exist, such as the UK making a disorderly exit from the EU, and a greater than envisaged slowdown in China. The investment outlook is also clouded by changing expectations for interest rate rises, which could lead to further volatility in equity and bond markets.

Fund profile: Widely diversified, multi-asset portfolio

Founded on 5 January 1898 as British Assets Trust (BSET) and managed by Ivory & Sime (which eventually became F&C Investments), the trust had a global equity income mandate prior to 27 February 2015, when it adopted a multi-asset strategy with an absolute return focus and became BlackRock Income Strategies Trust (BIST). Following a strategic review, Aberdeen Asset Management (now Aberdeen Standard Investments) was appointed as manager on 11 February 2017 and the trust was renamed Aberdeen Diversified Income and Growth Trust (ADIG), retaining its absolute return focus, but employing a more widely diversified multi-asset strategy. ADIG's ability to access distinct alternative asset classes and a very broad range of longer-term, less liquid investment funds that may otherwise be closed to retail investors is a key differentiator of the trust.

On 31 March 2017, ADIG adopted a new investment objective targeting a total portfolio return of Libor +5.5% per annum (net of fees) over rolling five-year periods. As BIST, the trust previously targeted a total portfolio return of UK CPI +4% per annum (before ongoing charges) over a five- to seven-year cycle. From October 2011 to February 2015, the trust (BSET) had a composite benchmark index weighted 80% FTSE All-Share index and 20% FTSE World (ex-UK) index. Prior to October 2011, the benchmark was a 75:25 composite of these two indices. Libor is due to be phased out by 2021 and the manager is in the process of identifying a suitable alternative measure, following which the board will seek shareholders' approval for a change in the investment objective.

ADIG's investment policy is to pursue a truly diversified multi-asset approach to generating highly attractive long-term income and capital returns. The trust invests globally using a flexible multi-asset approach via quoted and unquoted investments, with no restrictions over geographic or sector exposures, other than to achieve an appropriate spread of risk by maintaining a diversified portfolio, including (but not limited to) the following securities and asset classes:

- **Equity-driven assets** – developed and emerging market equity, and private equity.
- **Alternative diversifying assets** – high-yield bonds and loans; emerging market debt; alternative financing; asset-backed securities; property; social, economic, regulated and renewable infrastructure; commodities; absolute return investments; insurance-linked securities; farmland; and aircraft leasing.
- **Low-return assets** – gold, government bonds, investment-grade credit and tail-risk hedging.

Asset allocation is flexible, allowing investment in what the manager considers the most attractive opportunities at any point in time while maintaining a diversified portfolio. Government and investment-grade corporate bonds are not currently expected to feature in ADIG's portfolio, given their low returns and better opportunities available elsewhere. The expectation is for the portfolio to be c 60% invested in ASI funds or direct investments and c 40% in third-party managed funds selected by ASI, but these proportions may vary over time as investment opportunities arise (c 55% in ASI-managed investments and c 45% in third-party managed funds as at end-February 2019).

ADIG's portfolio is managed by the Aberdeen Standard Investments (ASI) diversified multi-asset team and its lead portfolio managers are team head Mike Brooks and senior investment manager Tony Foster. Brooks joined Aberdeen in 2015 from Baillie Gifford, where he co-founded the Diversified Growth strategy in 2008. Foster joined Aberdeen on its April 2014 acquisition of SWIP, and was responsible for the £390m Halifax Fund of Investment Trusts from 2009 to 2016. The investment team includes two additional portfolio managers and two investment analysts.

Appropriate selection from a widely diversified range of potential investments is facilitated by ASI's wide array of specialist capabilities in alternative as well as traditional asset classes. The portfolio managers draw extensively on ASI's broad research capabilities, including macro and asset class research specialists, to identify investments that offer the most attractive risk-adjusted returns.

Changes implemented in 2017

The board undertook a strategic review in 2016, which concluded that the trust (BIST) should not continue to pursue its objective of growing the dividend at least in line with inflation, given the prevailing low-yield environment, as it was deemed to require an imprudent level of risk for shareholders. This policy had depleted capital reserves and necessitated exposure to higher-risk assets that were considered likely to generate less stable returns and increase NAV volatility.

Having concluded this review, the board proposed the following changes:

- **Investment manager** – Appointing Aberdeen's Diversified Multi-Asset team, with Mike Brooks and Tony Foster as lead portfolio managers.
- **Merger and name change** – Significantly enlarging the trust's assets by merging with Aberdeen UK Tracker Trust (AUKT) and renaming the combined company Aberdeen Diversified Income and Growth Trust (ADIG).
- **Investment objective and policy** – Managing the trust under a diversified multi-asset strategy targeting returns of Libor +5.5% per annum (net of fees) over rolling five-year periods.
- **Dividend policy** – Reducing the dividend to a level commensurate with prevailing low yields.
- **Discount policy** – Replacing the zero-discount policy with a more flexible approach that recognises the constraints imposed by gearing and a more illiquid prospective portfolio.

As part of the overall changes, a tender offer was made for 20% of the trust's shares in issue.

The main rationale for the merger with AUKT was to increase the trust's assets, thereby reducing the relative gearing level and spreading fixed costs across a larger asset base, while also improving the liquidity of the shares in the secondary market.

After adopting the new investment policy, and completing the merger with AUKT, a large proportion of the portfolio was reshaped within three months, with the realignment of ADIG's investment portfolio completed during the second half of FY17 (to 30 September 2017). As BIST, the trust previously held a portfolio of quoted equities, alternatives, pooled investment funds and exchange-traded funds, most of which were readily realisable, while some longer-term investments were sold back to former manager BlackRock. ADIG's broader multi-asset approach includes investment commitments to unquoted illiquid alternative assets that can require 12 months or longer to be fully drawn down, although during these drawdown periods, the portfolio managers seek to minimise the effect of cash drag by investing in quoted closed-end funds with similar underlying exposures.

Aberdeen Diversified Growth strategy track record

The £600m open-ended Aberdeen Diversified Growth Fund (ADGF) is the largest and longest-established fund managed by the ASI diversified multi-asset team. ADGF typically requires daily liquidity in its investments and has a performance target of Libor +4.5% pa (net of fees). ADIG has a higher Libor +5.5% pa (net of fees) objective, as greater performance is expected from unlisted opportunities that it can invest in due to its closed-end structure, while also benefiting from gearing.

From its inception on 1 November 2011 to end-December 2018, ADGF returned 4.8% pa gross of fees, which is slightly below its target return. However, this is largely due to weakness in Q418; as at end-September 2018, ADGF had achieved a gross return since inception equivalent to Libor +5.0% pa, with less than half the volatility of equities. During stress events, when the MSCI World index has fallen more than 10%, ADGF has demonstrated the resilience of its multi-asset portfolio. Net of fees, ADGF returned -2.6% from 31 July 2015 to 25 August 2015, when the index fell by 10.5%, and -4.2% from 31 December 2015 to 11 February 2016, when the index fell by 12.7%.

The fund managers: Mike Brooks and Tony Foster

The managers' view: Traditional assets face major headwinds

Lead portfolio managers Mike Brooks and Tony Foster observe that a traditional balanced portfolio of equities and bonds has generally served investors well over the past 10 to 30 years, producing good returns with lower volatility than equity markets. However, looking forward, they believe this approach faces significant headwinds. Firstly, strong fixed income market returns have been driven by falling bond yields, partly due to unprecedented monetary easing, suggesting weaker current prospects for returns from government bonds. Secondly, equity markets have reached new highs despite generally challenging economic conditions, also partly helped by central bank monetary easing policies. As central bank support diminishes, equity market risks may well resurface, with market volatility remaining elevated. The managers also highlight that equity markets can perform poorly for extended periods, such as the 12 years from end-December 2000, over which time the FTSE 100 index produced a lower total return than cash.

Brooks and Foster note that ADIG's portfolio delivered a positive return in FY18, but this was behind its medium-term objective, with insurance-linked securities and emerging market bonds notably dragging on performance, while equities and asset-backed securities were among the stronger contributors to returns. They comment that the contribution from asset classes such as property, real assets and special opportunities is expected to grow over time as initial long-term investments reach maturity and new opportunities are identified by the specialist managers.

ADIG's managers highlight that during FY18, new investments were added in private equity, social infrastructure and insurance-linked securities; since the year-end, commitments have been made to funds investing in economic infrastructure in Europe (SL Capital Infrastructure II), and social infrastructure in Latin America (Andean Social Infrastructure Fund I), as well as healthcare royalties (Healthcare Royalty Partners IV) and litigation finance (Burford Opportunity Fund). In addition to the Burford fund, a c 1% of NAV position was taken in Burford Capital, which is the world's leading provider of funding for commercial litigation. Burford finances the legal costs of carefully selected commercial cases, typically in return for a percentage of the damages or awards paid to successful claimants. Importantly for ADIG, returns on Burford's investments are dependent on the outcome of their cases and are not influenced by broader economic developments.

Commenting on ADIG's new infrastructure commitments to SL Capital Infrastructure II and Andean Social Infrastructure Fund I, which are both managed by specialist ASI teams, the managers note that the funds are respectively targeting annual net-of-fee returns to investors of 8–10% and 13–15% over periods up to 15 years and 11 years, with both considered to have attractive deal pipelines. The managers highlight the significant diversification benefits to ADIG's portfolio from the new special opportunities commitments. Healthcare Royalty Partners IV provides capital to biotech companies and academic institutions to fund drug research and development, in exchange for royalty income from existing licensed drugs, targeting annual net-of-fee returns of 10–12%. The key risk that royalty income is markedly lower than expected is mitigated by the expertise of the fund manager. Burford Opportunity Fund provides third-party financing for commercial litigation and is able to deliver highly attractive returns due to its specialist expertise and a lack of competition.

The managers emphasise that during the time it takes for longer-term investments to build up their project portfolios, they maintain ADIG's exposure to the respective asset classes via investments in closed-end funds. During FY18, they took advantage of share price weakness to take holdings in HICL Infrastructure and John Laing Infrastructure (JLIF), as well as 3i Infrastructure. They note that, following the completion of the JLIF takeover (at a 24% premium to its prior market price), there was a temporary increase in the portfolio's cash allocation shortly after the year-end, with cash distributions also received from long-term private equity and property investment fund holdings, which sold assets at premiums to carrying value.

Asset allocation

Investment approach: Diversified, unconstrained asset selection

ADIG's ability to generate its targeted, sustainable, long-term returns stems from the multi-asset approach adopted by the manager, which includes the following three key elements:

- **Genuinely diversified portfolio**. The breadth and scope of the trust's multi-asset investment opportunities are considered essential to achieving an attractive and sustainable level of long-term growth, with the uncorrelated nature of returns from different asset classes also making a valuable contribution to risk management.
- **Unconstrained and flexible asset allocation**. The manager is not restricted by index allocations and the portfolio need not hold investments in any asset class that is believed to offer unattractive returns. Target asset allocations can be varied over time in accordance with the relative return prospects for individual asset classes, which enables the manager to maintain a consistent long-term growth target.
- **Robust risk management**. Risk management is embedded within the investment approach, starting from the diversification that underpins portfolio construction, and benefits from the investment team's breadth and depth of experience from a variety of backgrounds. Specialist portfolio construction and quantitative risk tools are used alongside the portfolio managers' qualitative judgments, ongoing scenario analysis and peer review within the investment team.

The board and the manager believe that equities should form a core, but not dominant, part of any growth or income portfolio. This is reflected by ADIG's target portfolio weighting in equities (quoted and unquoted) being varied in a 20–30% range since it adopted its current investment policy. Given their current low returns, government and investment-grade corporate bonds are not expected to feature in the portfolio in the near term. However, they form part of the broad multi-asset opportunity set and may be held when the portfolio managers see them as relatively attractive.

The majority of the portfolio is expected to comprise a range of diversifying assets, including:

- **Equity-driven assets** – developed and emerging market equity, and private equity.
- **Alternative diversifying assets** – high-yield bonds and loans, emerging market debt, alternative financing, asset-backed securities, property, infrastructure, commodities, absolute return investments, insurance-linked securities, farmland and aircraft leasing.
- **Low-return assets** – gold, government bonds, investment-grade credit and tail-risk hedging.

ASI's global investment platform includes over 1,000 investment professionals across teams specialising in equities (quantitative and active), fixed income (emerging market debt, high-yield bonds, loans, investment-grade credit and government bonds), property, property multi-manager, private equity, infrastructure, real assets, hedge funds and other alternative asset classes. ADIG accesses these capabilities either via direct investment sub-portfolios managed by the appropriate ASI specialist team, or via ASI-managed pooled funds, with investment in any ASI fund being subject to board approval.

Up to 35% of ADIG's total assets may be invested in the Aberdeen Global Smart Beta Low Volatility Global Equity Income Fund, which provides all of the trust's listed equity exposure (18.9% of the portfolio as at end-March 2019 – see Exhibit 5). This fund was launched in May 2017 and is actively managed by ASI's quantitative equities team, aiming to outperform the MSCI AC World index over the medium term, while targeting c 85% of the volatility and 140% of the dividend yield of the index. The portfolio consists of c 200 global equities, with stock selection based on a range of quantitative factors including valuation, quality and financial strength. The portfolio is well diversified by country, sector and position size, and is regularly rebalanced in favour of those companies that rank highly on the preferred measures.

No more than 40% of total assets, at the time of investment, may be invested in unlisted alternative assets in aggregate. Non-sterling currency exposure is typically hedged back to sterling unless currency exposure is part of the investment rationale, such as for local currency emerging market bonds. Active currency positions may be taken in order to enhance the portfolio's risk/return profile.

Investment process

The managers' investment process is based around three broad stages:

- **Strategic framework setting** – ASI's economic and thematic research team models expected returns for each asset class, focusing on three-, five- and 10-year horizons, based on economic forecasts, implied market views, and assumptions about historical trends and mean reversion. The team's view on investment returns through and across market cycles, and where potential opportunities exist to rotate investments from expensive to cheap assets, provides an initial frame of reference for ADIG's portfolio managers in setting broad asset allocations.
- **Best idea identification** – Ideas from ASI's specialist alternatives investment teams and the diversified multi-asset team are considered for potential inclusion in ADIG's portfolio. Additional research is conducted on the most promising opportunities, including meeting with the relevant investment manager. A detailed review is then presented to ADIG's investment team, which thoroughly cross-examines the investment case and identify areas requiring further study. Once approved, ideas are added to a 'buy list'. Portfolio holdings are regularly reviewed in a similar way, with the investment removed from the buy list and the holding sold if the investment case is no longer valid, or the valuation and diversification benefits are no longer deemed attractive.

- **Implementation** – ADIG's lead portfolio managers adopt a pragmatic portfolio construction process, ascribing each investment a weighting that reflects the relative attractiveness of the investment case, as well as the portfolio's liquidity profile and balance of exposure to traditional and alternative asset classes. ADIG's portfolio is reviewed at the diversified multi-asset team's weekly meetings, and all investments are regularly reassessed, with scenario analysis and liquidity stress tests conducted as part of the risk management process. The portfolio is formally reviewed each month by a wider group, including performance and risk teams.

Target asset allocation

Using the strategic framework and research resources, the lead portfolio managers aim to deploy ADIG's assets across a broad range of sectors, with c 55% of the trust's assets currently invested in ASI-managed funds and c 45% in third-party managed funds, although these proportions may vary over time as suitable investment opportunities arise. There is a balance between accessing the most attractive illiquid opportunities and retaining flexibility to add some value through altering the asset allocation. It is expected that c 60% of ADIG's portfolio will offer quarterly or better liquidity, including c 40% offering daily liquidity (68% of portfolio currently has daily liquidity, while 17% has annual or less frequent liquidity). Exposure to specific investments may also depend on the ability to buy into funds, and will be subject to due diligence and prevailing market conditions.

The lead portfolio managers determine appropriate target portfolio allocations for each asset class based on five-year forecasts for total and income returns, also taking into account available investment opportunities and the spread of liquidity across the portfolio. Exhibit 3 shows ADIG's most recent target portfolio allocations, and how the asset class total return and income expectations translate into return and income expectations for the target portfolio. We note that the total return expectation (net of fees) for the target portfolio is 7.4pp ahead of the assumed Libor rate of c 1.5% over the five-year forecast period, which provides scope for the portfolio to regain ground after a relatively weak recent performance against its absolute return benchmark of Libor +5.5%.

Exhibit 3: Target portfolio income and return expectations as at end-January 2019

(% unless stated)		Five-year forecasts		Target portfolio	
Asset category	**Target portfolio allocation**	**Total return expectations**	**Income expectations**	**Return contribution**	**Income contribution**
Emerging market debt	18.0	7.8	6.5	1.4	1.2
Listed equity	17.0	4.7	2.9	0.8	0.5
Infrastructure	16.0	11.0	4.5	1.8	0.7
Asset-backed securities	15.0	7.5	6.5	1.1	1.0
Special opportunities*	12.0	12.0	5.4	1.4	0.6
Property	9.5	9.0	1.5	0.9	0.1
Private equity	4.5	10.0	0.0	0.5	0.0
Insurance-linked securities	4.0	7.5	0.1	0.3	0.0
Absolute return	2.5	4.5	6.0	0.1	0.2
Real assets (farmland)	1.0	8.0	10.0	0.1	0.1
Global loans	0.0	4.5	5.0	0.0	0.0
Tactical asset allocation	0.0	0.5	0.0	0.3	0.0
Cash	0.5	1.5	1.5	0.0	0.0
Total (gross of fees)	**100.0**			**8.7**	**4.5**
Total (gross of fees and gearing)				**9.6**	
Total (net of fees)				**8.9**	
Total (net of fees, above Libor)				**7.4**	

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *Includes litigation finance, aircraft leasing, shipping, marketplace lending, healthcare royalties.

As performance and return expectations for each asset class vary over time, target allocations are regularly reviewed. Exhibit 4 shows the evolution of ADIG's target portfolio allocations since its current investment policy was adopted at end-March 2017 (from right to left). Significant changes over this period include the target allocation to global loans being reduced from 10% to 0%, and listed equity being reduced from 25% to 17%, while the target allocation for emerging market debt has increased from 12% to 18%, making it the largest target exposure, and infrastructure has increased from 8% to 16%. Other noteworthy changes in target allocations include insurance-linked securities being reduced from 8% to 4%, following the poor performance of ADIG's Markel CATCo investments, offset by increases in asset-backed securities and special opportunities, which includes litigation finance, aircraft leasing, shipping, marketplace lending, and healthcare royalties. The target allocation to absolute return has been steadily trimmed from 6.0% to 2.5%, as returns proved more correlated with equity markets than expected.

Exhibit 4: Target asset allocation changes since adoption of current investment policy

Asset category	31 January 2019	Change	31 December 2018	Change	31 March 2018	Change	31 March 2017
Emerging market debt	18.0	0.0	18.0	0.0	18.0	6.0	12.0
Listed equity	17.0	0.0	17.0	0.0	17.0	(8.0)	25.0
Infrastructure	16.0	1.0	15.0	3.0	12.0	4.0	8.0
Asset-backed securities	15.0	2.0	13.0	0.0	13.0	2.0	11.0
Special opportunities	12.0	2.0	10.0	4.0	6.0	(2.0)	8.0
Property	9.5	0.0	9.5	0.0	9.5	1.5	8.0
Private equity	4.5	0.5	4.0	0.0	4.0	0.0	4.0
Insurance-linked securities	4.0	(4.0)	8.0	0.0	8.0	4.0	4.0
Absolute return	2.5	(1.0)	3.5	(1.0)	4.5	(1.5)	6.0
Real assets (farmland)	1.0	(0.5)	1.5	0.0	1.5	(1.5)	3.0
Global loans	0.0	0.0	0.0	(6.0)	6.0	(4.0)	10.0
Cash	0.5	0.0	0.5	0.0	0.5	(0.5)	1.0
Total	**100.0**		**100.0**		**100.0**		**100.0**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research.

Current portfolio positioning

ADIG's full portfolio listing versus target allocations (as at end-December 2018) is shown in Exhibit 12 in the Appendix. This highlights the portfolio's 41% target allocation to longer-term investments across all asset classes, while only 15% of the portfolio was held in these investments as at end-December 2018. This significant difference between actual and target allocations results from commitments to unquoted illiquid alternative assets typically requiring 12 months or longer to be fully drawn down. During these drawdown periods, the portfolio managers seek to minimise the effect of cash drag by investing in quoted alternative closed-end funds. While providing similar underlying asset exposures, these liquid holdings also represent the sources of funding to meet the longer-term investment commitments as they are drawn over time.

Exhibit 5: Portfolio asset allocation vs target allocations (% unless stated)

	Portfolio end-March 2019	Portfolio end-March 2018	Change (pp)	Target end-March 2019*	Actual weight vs target (pp)
Emerging market debt	24.2	21.4	2.8	18.0	6.2
Listed equity	18.9	17.7	1.2	17.0	1.9
Asset-backed securities	15.9	16.1	(0.2)	15.0	0.9
Infrastructure	11.9	9.8	2.1	16.0	(4.1)
Special opportunities	6.8	4.6	2.2	12.0	(5.2)
Property	6.0	4.8	1.2	9.5	(3.5)
Insurance-linked securities	4.8	7.0	(2.2)	4.0	0.8
Private equity	3.6	2.4	1.2	4.5	(0.9)
Global loans	2.9	8.7	(5.8)	0.0	2.9
Absolute return	2.0	3.3	(1.3)	2.5	(0.5)
Real assets (farmland)	0.6	0.5	0.1	1.0	(0.4)
Cash	2.4	3.7	(1.3)	0.5	1.9
Total	**100.0**	**100.0**		**100.0**	

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *Target allocations last changed at end-January 2019.

As shown in Exhibit 5, ADIG's portfolio is well diversified across a wide range of asset classes. Portfolio exposures vary from target allocations by up to 6.2pp for a number of reasons, including asset classes where targets have recently been revised thus making the portfolio underweight, such as special opportunities, or overweight, such as loans. Another influence is where an asset class has outperformed making the portfolio overweight, as is the case for emerging market bonds.

Longer-term unlisted investments

The portfolio managers see ADIG's ability to access distinct asset classes and funds that are otherwise closed to retail investors as a key differentiator and attraction for shareholders. Details of the 15 longer-term unlisted investments currently in ADIG's portfolio are shown in Exhibit 6.

Exhibit 6: ADIG's longer-term investment commitments and valuations as at 31 March 2019 (£m unless stated)

Investment	Asset class	Strategy	Expected term	Total committed	Net capital invested*	Valuation 31 March 2019	30 Sept 2018	30 Sept 2017
Harbourvest/ Mesirow**	Private equity	Portfolio of 2001-2008 buyout, venture and direct fund interests	Up to 6 years	7.2	4.3	6.3	7.6	0.0
Maj Investment 4**	Private equity	2012 fund: small/medium sized Danish growth businesses	3+ years	5.3	0.8	2.7	3.0	4.8
Maj Investment 5	Private equity	2016 fund: small/medium sized Danish growth businesses	8+ years	3.0	0.9	0.7	0.7	0.6
TrueNoord	Private equity	Regional aircraft leasing company (equity co-investment)	Up to 5 years	4.6	4.0	6.5	4.9	2.3
Agricultural Capital Management II	Real assets	Permanent cropland investments (blueberry, citrus, etc)	8+ years	5.4	3.0	2.7	2.8	0.8
Aberdeen Property Secondaries II**	Property	Realisation of value from property funds which are in run-off	3+ years	20.5	4.3	6.1	7.1	2.6
Aberdeen European Residential Opps	Property	Conversion of commercial property into residential	5+ years	13.4	8.0	8.0	6.7	3.1
Cheyne Social Property	Property	Development of socially responsible residential property	3 years	8.5	2.2	2.2	1.4	0.0
Aberdeen Global Infrastructure II**	Infrastructure	Development of social infrastructure projects (US/Australia)	26 years	14.7	5.6	6.5	5.6	0.0
BlackRock UK Renewable**	Infrastructure	Diversified portfolio of UK renewable power projects	3+ years	8.5	8.5	8.7	8.7	8.6
Markel CATCo 2018	Insurance-linked	High level insurance cover for catastrophe risk events	3+ years	25.3	25.3	16.6	28.1	0.0
SL Capital Infrastructure II	Infrastructure	Utilities, energy and transportation infrastructure projects in Europe	12-15 years	24.6	2.7	2.7	0.0	0.0
Andean Social Infrastructure Fund I	Infrastructure	Social infrastructure projects in Colombia, Chile, Peru, Uruguay	Up to 11 years	19.2	0.0	0.0	0.0	0.0
Burford Opportunity Fund	Special opportunities	Third-party financing for commercial litigation	5-7 years	19.2	3.4	3.4	0.0	0.0
Healthcare Royalty Partners IV**	Special opportunities	R&D funding in exchange for existing licensed drugs' royalty income	11 years	19.2	0.8	0.8	0.0	0.0
Total				**198.6**	**73.8**	**73.9**	**76.6**	**22.8**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *Total invested net of capital distributions; **capital/income distributions received since investment made.

ADIG has committed capital to three private equity strategies (counting Maj Investment 4 and 5 as one strategy) identified by ASI's private equity team, and two of these have already returned capital. Maj Investment 4 was a notable contributor to FY18 performance, selling two businesses at substantial premiums to carrying value, and ADIG has earned a return of over 40% on its original £4.9m investment. In mid-FY18, ADIG acquired secondary holdings in a selection of mature funds managed by HarbourVest and Mesirow, and these are producing a regular stream of distributions.

The portfolio managers see physical assets (property, infrastructure, transport and real assets) as ideally suited to ADIG's investment approach, in that they are long term, offer attractive risk-adjusted returns and add considerably to portfolio diversification. Over time, they expect most of these investments to deliver double-digit percentage annual returns, net of fees. ADIG's physical assets exposure increased from 13.1% to 20.9% of net assets during FY18 as investment commitments were drawn down and new investments made.

During FY18, a stake in Aberdeen Global Infrastructure II was acquired from ASI (following third-party due diligence). ADIG's investment coincided with the completion of the Perth Stadium in Australia, which was subsequently written up in value, and the fund has started paying dividends to investors. In FY19, ADIG has made commitments to funds investing in infrastructure in Europe (SL Capital Infrastructure II) and Latin America (Andean Social Infrastructure Fund I), as well as healthcare royalties (Healthcare Royalty Partners IV) and litigation finance (Burford Opportunity Fund), where the managers see particularly strong potential for uncorrelated returns.

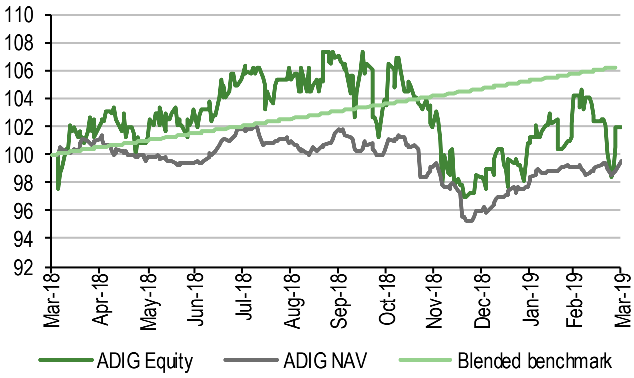
Performance: Short-term weakness weighs on returns

As illustrated in Exhibit 7, ADIG's share price and NAV total returns were negative in the last quarter of 2018, corresponding with the broad sell-off in global equity markets. However, ADIG's NAV was primarily affected by the uncorrelated negative returns of its two Markel CATCo insurance-linked securities holdings, due to loss provisions for 2018 events, most notably Californian wildfires, as well as raised loss reserves for 2017's hurricanes and wildfires. ADIG's listed equity exposure dragged on NAV performance in the fourth quarter, but a number of other asset classes made positive contributions, most notably emerging market bonds and infrastructure. To put ADIG's performance in context, its -4.1% portfolio return in the final three months of 2018 compares with a -10.6% return for the MSCI AC World index, and the strategy has shown similar resilience when equity markets have experienced comparable falls (see page 5).

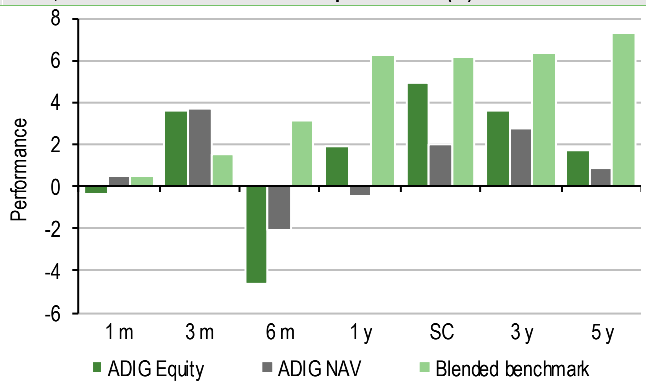
ADIG recorded a slightly negative NAV total return (-0.5%) over one year to end-March 2019, but its share price total return was a positive 1.9%. Over two years since the change of investment policy, ADIG achieved positive share price and NAV total returns of 10.0% and 3.9%, respectively, equating to annualised returns of 4.9% and 2.0%. While these returns are lower than ADIG's absolute return benchmark of Libor +5.5% per annum, this is a medium-term objective and the managers believe it can still be achieved over a five-year horizon, including the first two years under the current investment policy. Three- and five-year data are shown for reference but are less relevant given ADIG's change of investment policy at end-March 2017.

Exhibit 7: Investment trust performance to 31 March 2019

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: SC is since change of policy on 31 March 2017. Blended benchmark is FTSE All-Share/FTSE World ex-UK 80:20 composite up to 26 February 2015, then UK CPI +4.0% up to 10 February 2017 and Libor +5.5% thereafter. SC, three- and five-year performance figures annualised.

As shown in Exhibit 8, ADIG's NAV total return trailed the FTSE All-Share and MSCI AC World indices over one year and over the two years since the change of investment policy, while its share price total return outperformed the FTSE All-Share index over two years. However, we note that ADIG's share price and NAV total returns both clearly outperformed the FTSE All-Share and MSCI AC World indices over the first year following the change of investment policy (to end-March 2018).

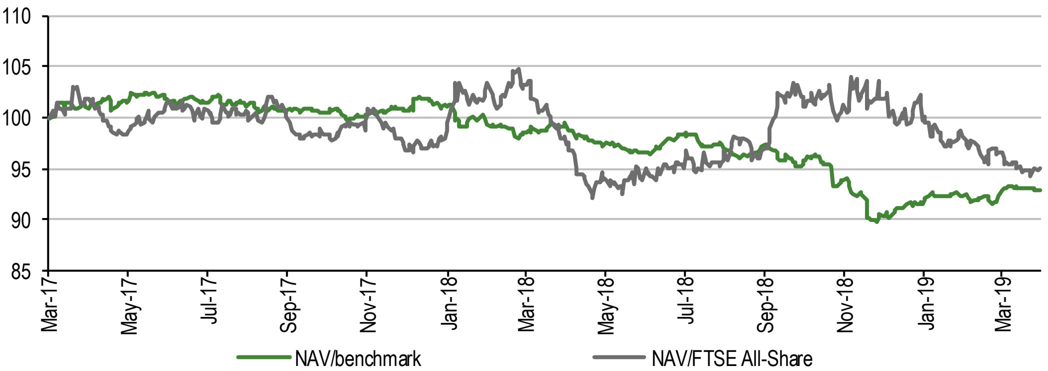
Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Since change*	Three years	Five years
Price relative to blended benchmark**	(0.9)	2.0	(7.6)	(4.1)	(2.3)	(7.5)	(23.5)
NAV relative to blended benchmark**	(0.1)	2.1	(5.0)	(6.4)	(7.7)	(9.7)	(26.7)
Price relative to FTSE All-Share	(2.9)	(5.3)	(2.9)	(4.2)	2.2	(15.3)	(19.0)
NAV relative to FTSE All-Share	(2.2)	(5.2)	(0.3)	(6.5)	(3.5)	(17.3)	(22.4)
Price relative to MSCI AC World	(3.7)	(5.6)	(2.9)	(8.2)	(3.7)	(26.8)	(39.3)
NAV relative to MSCI AC World	(2.9)	(5.5)	(0.3)	(10.4)	(9.1)	(28.6)	(41.9)

Source: Refinitiv, Edison Investment Research. Note: *Since change of policy on 31 March 2017. **Blended benchmark is FTSE All-Share/FTSE World ex-UK 80:20 composite up to 26 February 2015, then UK CPI +4.0% up to 10 February 2017 and Libor +5.5% thereafter. Data to end-March 2019. Geometric calculation.

Exhibit 9 shows ADIG's NAV total return relative to its absolute return performance objective over the two years since its change of investment policy at end-March 2017. We note that ADIG aims to achieve this objective over rolling five-year periods, and the return profiles of the asset classes held in the portfolio mean that NAV returns would be expected to be differentiated from the benchmark over shorter periods. Also shown is ADIG's NAV total return relative to the FTSE All-Share index, which highlights the trust's broadly uncorrelated performance relative to equity markets.

Exhibit 9: NAV total return relative to benchmark and market index since change of policy*



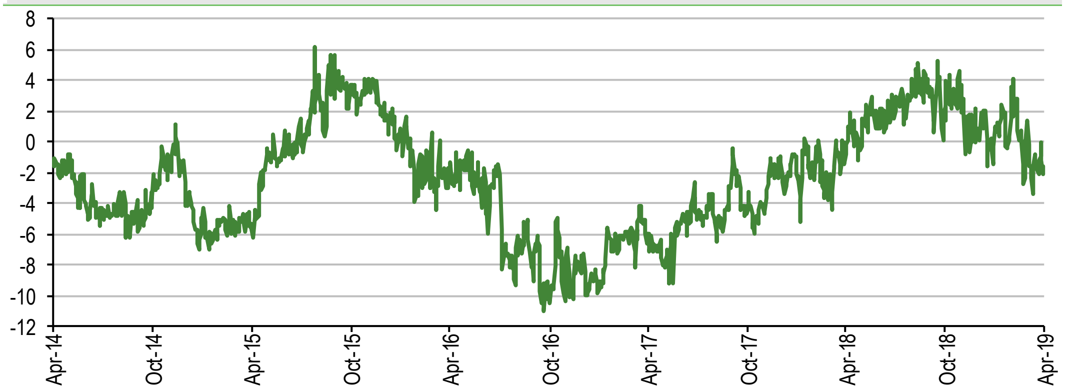
Source: Refinitiv, Edison Investment Research. Note: *Change of investment policy on 31 March 2017.

Discount: Shares trading close to ex-fair NAV

Having previously pursued a nil discount policy, the board introduced a revised discount control policy following ADIG's merger with AUKT on 6 April 2017. Subject to market conditions, portfolio composition and gearing, the board aims to limit ADIG's share price discount to NAV (ex-income, debt at fair value) to 5%, by repurchasing shares in the market. This threshold reflects the relatively illiquid nature of the portfolio and the constraints of ADIG's bond covenants. The board closely monitors the level of discount or premium and will undertake share buybacks or reissue shares from treasury when considered to be in shareholders' interests.

As illustrated in Exhibit 10, ADIG's share price discount to ex-fair NAV narrowed steadily from its five-year widest point of 11.1% in October 2016 through to October 2018, when the shares reached a 5.3% premium to ex-fair NAV. During FY18 (to end-September 2018), this trend was largely driven by sustained demand for the shares, as two small repurchases were outweighed by a modest level of share allotments. In FY19 to date, the premium has narrowed and the shares have moved to a 1.6% discount to ex-fair NAV, which compares with an average 1.5% premium over one year and 2.8% and 2.4% average discounts over three and five years, respectively.

Exhibit 10: Share price premium/discount to NAV (excluding income) over five years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

ADIG is a conventional investment trust with a single class of share in issue. As at 30 April 2019, there were 330.7m ordinary shares outstanding, with a further 34.7m held in treasury. The board has authority, renewed annually, to repurchase up to 14.99% of ADIG's outstanding shares and allot up to 10% of issued capital. During FY18, 0.5m shares (0.2% of issued capital) were repurchased into treasury at discounts to the prevailing NAV, while 2.2m shares (0.7% of issued capital) have been reissued from treasury at prices above the prevailing NAV in FY19 to date.

As part of the changes that were implemented along with the change of investment objective and policy, a tender offer for 20% of ADIG's issued share capital was completed in April 2017. At the same time, the trust was enlarged through the merger with AUKT. Under the tender offer, 53.4m shares were repurchased, while 118.6m shares were issued to those AUKT shareholders who elected to roll-over their shares. The aggregate effect of these two transactions was an £84m increase in ADIG's assets. Subsequent to the tender offer, a further 3.1m shares (0.9% of issued capital) were repurchased under the revised discount management policy.

Also, as part of the reorganisation in 2017, the board resolved to put forward a continuation vote to shareholders annually, starting from the 2020 AGM, believing it to be in the best interest of the trust to give shareholders the opportunity to decide on its future at regular intervals.

Borrowings

ADIG has fixed borrowings in the form of £60m of 6.25% bonds maturing in 2031, which were issued at 99.343p, with the discount and issue costs amortised over the life of the bonds. ADIG's stated investment policy contains a gearing limit of 20% of net asset value at the time of drawdown, but the board's policy is to have a more modest level of gearing. At end-March 2019, the £59.5m book value of the bonds equated to 14.5% gross gearing, while net gearing stood at 10.4%.

The board considered the level and structure of the trust's gearing as part of its strategic review in 2016 and concluded that repaying the £60m of bonds outstanding would have had a material adverse effect on NAV, as early repayment is subject to a Spens clause (obliging a 'make whole' penalty payment), so the bonds were retained. However, the gearing level was reduced due to the net increase in ADIG's asset base resulting from its merger with AUKT and concurrent tender offer.

Fees

Since appointing Aberdeen Standard Investments (ASI) as investment manager, with effect from 11 February 2017, ADIG has paid a management fee of 0.5% pa on net assets up to £300m and 0.45% pa on net assets above £300m. Investments in ASI funds that invest directly in alternatives, including infrastructure and property, are charged the lowest institutional rate, and are excluded from the overall management fee calculation to avoid double charging. Fees charged on investments in ASI funds that do not invest in alternatives are waived or rebated to ADIG, and these assets are included in the overall management fee calculation.

ADIG's ongoing charges for FY18 were 0.88% of net assets. FY17 ongoing charges were only 0.58% of net assets due to Aberdeen Asset Management's agreement to waive its entitlement to a management fee from its appointment as investment manager on 11 February 2017 until 6 October 2017, six months after the merger with AUKT was implemented. Additionally, Aberdeen agreed to make a contribution of £0.85m to cover the costs incurred in implementing the merger.

ADIG has in recent years charged 65% of management fees and financing costs to capital and 35% to revenue. After a review of recent and anticipated sources of return, the board has changed the allocation to charge 60% to capital and 40% to revenue with effect from 1 October 2018.

Dividend policy and record

ADIG's board recognises the importance that many investors attach to dividends, and thus the trust's dividend policy formed a critical component of the strategic review in 2016. At this time, the policy was to pay dividends at least at the existing annual level of 6.54p per share and to grow the dividend at least in line with inflation. The board concluded that the policy needed amending due to changes in market conditions, reflected by increased equity market volatility and declining yields on many investments such as gilts, along with the resultant increased risk to capital of maintaining the dividend level. The board therefore proposed a c 20% reduction in the annual dividend to a sustainable level that still represented an attractive yield in the prevailing low-yield environment.

For FY17, first and second quarterly dividends of 1.635p were paid in March and April 2017 (prior to the merger with AUKT), with a rebased third interim dividend of 1.31p paid in October 2017, equivalent to an annualised rate of 5.24p, which represented the new c 20% lower sustainable level. A fourth interim dividend of 1.31p was paid in January 2018, taking the total FY17 dividend to 5.89p, c 10% lower than the 6.54p per share paid for FY16, reflecting the rebasing of the quarterly dividend midway through the year.

ADIG's current policy is to pay an attractive dividend consistent with its underlying portfolio yield, making quarterly distributions for the periods ending December, March, June and September. The trust aims to deliver an above-market yield and its portfolio includes exposure to a diverse range of asset classes, many of which deliver an attractive level of income. The board intends quarterly distributions to be consistent with the expected annual underlying portfolio yield, and has flexibility to make distributions from capital. Due to the timing of the quarterly payments, shareholders are unable to approve a final dividend each year. Therefore, in line with corporate governance best practice, the dividend policy is put to shareholders for approval at the AGM each year.

For FY18, first, second and third interim dividends of 1.31p were paid in March, July and October 2018, with the fourth interim dividend of 1.31p paid in January 2019. While there was no change to the quarterly distributions during the year, the FY18 total dividend of 5.24p was c 11% lower than the 5.89p per share paid for FY17, reflecting the rebasing of the quarterly dividend midway through the prior year. The 5.24p total dividend was 1.17x covered by ADIG's FY18 revenue return of 6.15p per share, which was 15.8% higher than its FY17 revenue return of 5.31p per share. This increase largely reflected the benefit of a full year of dividends from a number of ADIG's new fund positions that were established during the spring and summer of 2017.

For FY19, the board has stated its intention to declare four quarterly dividends of 1.34p each, or 5.36p in total. This represents an increase of 2.3% over the 5.24p total paid for FY18, which compares to UK consumer price inflation of 2.4% over the year to 30 September 2018. The first quarterly dividend of 1.34p for FY18 was declared in February 2019 and paid in March 2019. The intended 5.36p FY19 total dividend represents a 4.7% prospective yield.

Peer group comparison

Exhibit 11 shows a comparison of ADIG and the other 10 members of the AIC Flexible Investment sector with a market cap over £100m. ADIG's NAV total return is lower than the peer group average over three and five years, but these periods are not of primary relevance, as ADIG adopted a new investment policy on 31 March 2017, following a strategic review in 2016 and the appointment of Aberdeen as investment manager in February 2017. ADIG's NAV total return is also lower than the average over one year, and over the two years since its change of investment policy. As noted earlier, ADIG's one-year NAV total return was particularly affected by the weak performance of Markel CATCo as a result of storms and wildfires in 2017 and 2018.

Exhibit 11: Selected Flexible Investment peer group as at 30 April 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR SC**	NAV TR 3 year	NAV TR 5 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Aberdeen Diversified Income & Growth	380.3	0.1	3.1	9.3	6.4	(2.9)	0.88	No	110	4.6
Caledonia Investments	1,680.6	13.6	18.4	35.2	61.5	(16.1)	1.24	No	100	1.9
Capital Gearing	335.2	6.8	8.4	22.3	34.9	2.0	0.76	No	100	0.5
Hansa Trust 'A'	240.0	5.5	16.0	36.8	24.3	(30.1)	0.51	No	100	1.6
Henderson Alternative Strategies Trust	107.1	4.6	8.0	34.7	27.3	(18.4)	1.06	No	100	1.8
JZ Capital Partners	380.7	9.4	(3.5)	16.1	38.3	(38.6)	3.18	Yes	132	3.9
Personal Assets	976.0	5.5	3.2	15.7	30.3	1.0	0.89	No	100	1.4
RIT Capital Partners	3,239.1	8.2	13.4	32.8	58.0	7.9	0.68	Yes	101	1.6
Ruffer Investment Company	383.3	(0.8)	(2.0)	11.2	18.6	(4.2)	1.19	No	100	0.8
Tetragon Financial	928.2	23.0	22.8	55.7	118.9	(46.0)	1.73	Yes	100	5.6
UIL	172.1	35.8	30.7	80.5	176.7	(42.7)	1.15	Yes	177	3.9
Average	**802.1**	**10.1**	**10.8**	**31.9**	**54.1**	**(17.1)**	**1.21**		**111**	**2.5**
Rank in peer group	**7**	**10**	**9**	**11**	**11**	**4**	**8**		**3**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 29 April 2019. **SC is since change of policy on 31 March 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

ADIG's share price discount to NAV is among the narrowest in the peer group, with three peers trading at a premium to NAV. ADIG's ongoing charge is towards the lower end of the peer group range and it does not charge a performance fee. Unlike many of the peers which are ungeared, ADIG has a moderate level of gearing, while its 4.6% historical dividend yield is the second highest in the peer group, well above the 2.5% average yield.

The board

Following the appointment of Davina Walter on 1 February 2019 and the retirement of Kevin Ingram at the AGM on 27 February 2019, ADIG's board comprises five non-executive directors, all of whom are independent of the investment manager. Walter spent over 11 years in US equity research and more than 16 years as an investment manager of US equity portfolios, most recently at Deutsche Asset Management. She has been involved with investment trusts since 1985 and is chairman of JPMorgan US Smaller Companies Investment Trust.

James Long (appointed chairman February 2015, director May 2006) was formerly director of risk and compliance at AstraZeneca Europe, corporate finance director at Inchcape and managing director, Asia and Emerging Markets, for the ESAB Group. Tom Challenor (appointed April 2017) is a director of Euroclear and previously worked at Threadneedle Asset Management, where he held the roles of director of strategy and risk from 2005–09 and CFO from 1997–2005. Jim Grover (appointed June 2013) held the position of group strategy director at Diageo until September 2013, and was formerly a senior adviser to the Consumer Markets group of KPMG. Julian Sinclair (appointed July 2015) is CIO at Talisman Global Asset Management, and was previously a senior portfolio manager at BlueBay Asset Management and a partner at Altima Partners.

On completion of ADIG's merger with Aberdeen UK Tracker Trust (AUKT) in April 2017, the board comprised seven directors, with Kevin Ingram, Tom Challenor and Paul Yates joining the board from AUKT, while Lynn Ruddick and Jimmy West retired as directors, after 11 years' and 21 years' service, respectively. A subsequent review determined that five directors is the optimal size for ADIG's board, and a refreshment of the board's composition was initiated following the review. This process is being overseen by Chairman James Long, who will retire from the board on its completion, at or before the 2020 AGM. The first step in the process was the retirement of Ian Russell and Paul Yates on 31 October 2018, reducing the board from seven to five directors.

Appendix: Full portfolio listing

Exhibit 12: ADIG portfolio versus target allocations as at end-December 2018

Asset class/investment	Portfolio weight 31 December 2018	Target weight 31 December 2018
Aberdeen Smart Beta Low Volatility Global Equity Income Fund	18.1	
Total listed equity	**18.1**	**17.0**
PE Fund portfolio (HarbourVest/Mesirow)	1.6	**1.5**
European small/mid (Maj Invest 4 and 5)	0.8	**1.0**
Co-investment (TrueNoord)	1.4	**1.5**
Total private equity	**3.8**	**4.0**
Agricultural Capital Management II	0.6	**1.0**
Total real assets (farmland)	**0.6**	**1.5**
Aberdeen Property Secondaries Partners II	1.4	**4.0**
Aberdeen European Residential Opportunities Fund	1.4	**2.5**
Cheyne Social Property Impact LP	0.5	**1.7**
Social housing (Residential Secure Income REIT)	0.7	
Social housing (Triple Point Social Housing REIT)	0.8	
Residential Property (PRS REIT)	0.9	
Total property	**5.7**	**9.5**
Social Infrastructure (Aberdeen Global Infrastructure II)	1.4	**3.0**
Social Infrastructure (Andean Social Infrastructure Fund I)	0.0	**4.2**
Economic Infrastructure (SL Capital Infrastructure II)	N/A	**5.5**
Renewable Infrastructure (BlackRock Renewable UK Income)	1.8	**1.8**
Diversified Infrastructure (3i Infrastructure)	0.8	
Renewable Infrastructure (Greencoat Renewables)	0.3	
Renewable Infrastructure (The Renewables Infrastructure Group)	1.2	
Renewable Infrastructure (Foresight Solar Fund)	1.3	
Social Infrastructure (HICL)	1.4	
Social Infrastructure (International Public Partnerships)	1.3	
Social Infrastructure (John Laing Group)	1.4	
Total infrastructure	**11.0**	**15.0**
Aberdeen Global Loans Fund	4.2	
Total global loans	**4.2**	**0.0**
Mezzanine ABS (TwentyFour Asset Backed Opportunities)	12.6	
Junior ABS (Blackstone/GSO)	2.0	
Junior ABS (Fair Oaks Income)	0.5	
Junior ABS (Marble Point Loan Financing)	0.8	
Total asset-backed securities	**15.9**	**13.0**
Emerging Market Bond Sub-Portfolio	17.9	
Aberdeen Indian Bond Fund	2.2	
Aberdeen Frontier Markets Bond Fund	2.3	
Total emerging market debt	**22.4**	**18.0**
Alternative Risk Premia	1.5	
Tail Protection (36 South)	0.7	
Total absolute return	**2.2**	**3.5**
Markel CATCo Reinsurance: 2018 sub-fund	3.5	**5.0**
CATCo Reinsurance Opportunities	0.4	
Blue Capital Alternative Income	1.0	
Blue Capital Reinsurance Holdings	0.1	
Total insurance-linked securities	**5.0**	**8.0**
Burford Opportunity Fund	0.8	**4.2**
Healthcare Royalty Partners IV	N/A	**4.2**
Litigation Finance (Burford Capital)	1.6	
Aircraft Leasing (Doric Nimrod Air Two)	1.0	
Marketplace Lending (P2P Global)	1.5	
Marketplace Lending (Funding Circle)	0.4	
Healthcare Royalties (BioPharma Credit)	1.0	
Total special opportunities	**6.4**	**10.0**
Cash	**4.7**	**0.5**
Total	**100.0**	**100.0**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: Target allocations to longer-term investments shown in bold.

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