

Defensive European Equity Income Fund

Monthly Factsheet

At 30 June 2020



Fund description

Aberdeen Standard Investments ('ASI') and J.P. Morgan Mansart Management Limited ('JPMM') have together launched the Defensive European Equity Income Fund. The Fund combines active equity income stock picking with a systematic option hedging strategy.

The Fund will invest in derivatives based upon target securities via a fully funded total return swap. The target securities are selected by ASI and are high yielding equities and equity related securities of corporations domiciled in European countries (which might include emerging markets of Europe – exposure to which will be less than 20% of the Fund's Net Asset Value in aggregate), excluding the UK, or companies that derive a significant proportion of their assets there.

In addition, the Fund will enter into a derivative based systematic option hedging strategy, in order to obtain limited protection against losses and, at times, generate an additional return for the Fund (being the premium received on options written by the Fund). The strategy sells call options and buys put options on a basket of broad and diversified European stock market indices. The strategy may reduce potential downside if equity prices decline more than the average, but will not protect in all scenarios of decline in equity prices. The strategy was designed by ASI and J.P. Morgan Corporate & Investment Bank and has been implemented by JPMM.

Fund objective

The Fund aims to provide income with some capital appreciation over the long term while actively managing volatility.

There is no guarantee that the Fund will achieve its objective and investors could lose some or all of their investment.

Cumulative performance (as at 30/06/2020)

	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.
Defensive European Equity Income Fund*	2.39	9.91	-6.74	0.77	NA	NA
Reference Index**	3.86	15.72	-8.58	-1.02	NA	NA
Relative	-1.48	-5.80	1.84	1.79	NA	NA

Source: Aberdeen Standard Investments, Morningstar Direct.

Year on year performance

	1 Year to 30/06/2020 (%)	1 Year to 30/06/2019 (%)	1 Year to 30/06/2018 (%)	1 Year to 30/06/2017 (%)	1 Year to 30/06/2016 (%)
Defensive European Equity Income Fund*	0.77	NA	NA	NA	NA
Reference Index**	-1.02	NA	NA	NA	NA
Relative	1.79	NA	NA	NA	NA

* Performance data: Defensive Equity Income Fund, EUR, ISIN IE00BHJWC218. Performance gross of annual management charges. Date of launch: 12/03/2019.

** FTSE World Europe ex UK, EUR

Source: Aberdeen Standard Investments, Morningstar Direct.

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.

Key Facts

Fund Manager(s)	Will James
Fund manager's start date	11 March 2019
Fund size	€103.22m
Annual Management Charge	
Institutional	0.80%
Retail	1.55%
Ongoing Charge Figure	
Institutional	0.95%
Retail	1.70%
Minimum Initial Investment	
Institutional	€1,000,000
Retail	€10,000

The value of investments within the fund can fall as well as rise and is not guaranteed - you may get back less than you pay in. The fund is permitted to use derivatives for the purposes of efficient fund management, reduction of risk or to meet its investment objective. The value of assets held in the fund may rise and fall as a result of exchange rate fluctuations.

Note

Past performance is not a guide to future returns and future returns are not guaranteed. This fund is not managed against a specific benchmark.

This document is intended for use by individuals who are familiar with investment terminology. Please contact a financial adviser if you need an explanation of the terms used.

J.P.Morgan

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Composition by country

	Fund %
Germany	23.79
Switzerland	15.77
France	15.69
Netherlands	12.43
Italy	11.37
Sweden	6.78
Denmark	4.80
Finland	2.93
Norway	2.73
Spain	2.23
Belgium	1.48

Composition by sector

	Fund %
Financials	23.92
Health Care	16.73
Industrials	14.81
Utilities	12.16
Consumer Staples	8.40
Materials	6.78
Communication Services	6.08
Energy	5.07
Information Technology	3.05
Consumer Discretionary	1.51
Real Estate	1.48

Top 10 holdings

Stocks	Fund (%)	Dividend Yield (%)
ENEL	5.13	4.72
RWE	4.32	2.78
Fincombank	4.20	2.69
Nestle	4.12	2.64
Novo Nordisk	3.91	2.19
Roche	3.80	2.87
Sanofi	3.72	3.59
Zurich Insurance Group	3.52	6.02
AXA	3.46	7.71
ASML	3.05	0.84

Source: Bloomberg, Dividend FY19

Commentary

Market strength continued in June as there were tentative signs of recovery in consumer and industrial sentiment indicators post the easing of lockdown measures and against a supportive backdrop of policy driven liquidity. The Strategy delivered a positive return over the month with active stock selection contributing strongly while there was an unsurprising drag from the collar overlay given the ongoing market strength.

Top stock contributors

- ▶ Fincombank – Italian financial saw ongoing strong net inflows and good activity in their online brokerage business
- ▶ Enel – Italian utility continued to benefit from a tightening of Italian BTP spreads and the positive sentiment around the potential impact of EU stimulus
- ▶ Deutsche Post – German post and parcels business benefited from improving sentiment around economic demand indicators

Bottom stock contributors

- ▶ Stock selection was very strong in June with no portfolio names impacting performance very negatively. As a result relative performance was largely impacted by large index constituents not owned within the strategy.

Key risks

Please consider the following risk factors:

- ▶ 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. Past performance is not a guide to future results.
- ▶ The fund will be invested or exposed to equity securities whose value may decline due to general market conditions which are not specifically related to a particular company.
- ▶ The fund will be invested in the systematic option hedging strategy which is based on diversified equity indices and not on the actual equities held within, or exposed to by, the fund at any given time. The performance of the indices might differ from the performance of the equities, which might adversely impact the performance of the option hedging strategy and therefore the Net Asset Value of the fund.
- ▶ The fund is exposed to counterparty risk which may arise from the failure of the swap counterparty to fulfil its obligations and you may lose some or all of your investment. Counterparty risk is mitigated through exposure management including collateral.
- ▶ The fund may have an exposure to equities which are not denominated in the currency of the fund. Where Investment Manager ASI determines to not hedge all or a part of the resulting FX exposures, the Net Asset Value of the fund will be impacted by FX movements between the currency of the fund and the currency of the equity securities.
- ▶ Investments in shares are subject to market risks that may cause their prices to fluctuate over time. This can affect the value of your investment.
- ▶ The fund employs a swing pricing methodology to protect against the dilution impact of transaction costs. A change in the pricing basis will result in movement in the fund's published price.

Key trading activity

Deutsche Telecom was bought given the attractive dividend yield, the improving growth profile and the strong restructuring potential given its holding in T-Mobile US.

Market outlook

It appears that Europe is in the latter stages of the first wave of COVID-19 and life is starting to get to back to a 'new normal'. There is no guarantee that there will not be a second wave but at least governments and countries should be better prepared. Europe is at an interesting juncture at the moment with a supportive monetary and potentially fiscal backdrop (given the EU Recovery Fund and Green Deal) and in relative terms what appears to be less political risk than other regions across the globe. As a result, one should expect investors to become increasingly interested in the region if Europe demonstrates its willingness to stimulate growth. In the meantime, it remains the case that the true extent of the real economic impact from COVID-19 has not yet been felt and given recent market strength there are likely to be market pull backs for which the Strategy remains well placed to handle given its construct.

The portfolio remains well positioned to protect to the downside as well as capture any equity upside as and when it comes, while delivering an attractive dividend yield. Equity yield has become all the more compelling given the lack of yield available from other asset classes while there is growing confidence in the underlying cash generation and dividend paying credentials of the portfolio holdings given the active approach applied within the Strategy. There remains a good balance across sectors, conviction in the individual companies and an ongoing focus on attractive and sustainable dividends. There also remains confidence in the balance sheets of the portfolio holdings should the environment deteriorate any further. The through cycle approach to dividend investing that has been in place for the last 11 years continues to serve the portfolio well and this is especially pertinent when coupled with the collar overlay that seeks to dampen volatility and reduce risk.

Additional information

The fund is a sub fund of PassIM Structured Funds plc incorporated in Ireland and is authorised as an Undertaking for Collective Investment in Transferable Securities (UCITS) in Ireland and regulated by the Central Bank of Ireland.

Standard Life Investments Limited is a Co-Investment Manager of the Fund along with J.P. Morgan Mansart Management Limited.

J.P. Morgan Mansart is a specialist asset management company affiliated with J.P. Morgan Corporate & Investment Bank, focused on delivering customised fund solutions (e.g. UCITS/ AIFs) for financial intermediaries (Asset Managers, Insurers, Pension Funds, Banks and Wealth Managers) on a global basis ex-US. J.P. Morgan Corporate & Investment Bank has a pioneering presence in systematic strategies spanning all asset classes and geographies, with over 100 professionals.

Key risks (cont.)

- ▶ Derivatives: This Fund can use derivatives in order to meet its investment objective. The use of derivatives may result in greater fluctuations in the value of the fund, and may increase the magnitude of any losses.
- ▶ More information in relation to risks in general may be found in the "Risk Factors" section of the prospectus/KIID and/or the supplement of the fund. <http://www.jpmorganmansart.com>.

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