

Q2 2019

# Quarterly Commentary



## Emerging Markets Equity Strategy

### Performance highlights

- Emerging-market (EM) equities advanced in the second quarter of 2019, supported by easing monetary policy among major central banks.
- Near-term volatility remains as the U.S.-China trade dispute drags on, increasing fears of a global economic slowdown.
- The Strategy outperformed its benchmark, the MSCI Emerging Markets Index, for the second quarter.

### Strategy performance

The Emerging Markets Equity Strategy returned 3.84%<sup>1</sup> for the second quarter of 2019, outperforming the 0.74% return of its benchmark, the MSCI Emerging Markets Index.

Stock selection in China was a key positive contributor to Strategy performance for the quarter, bolstered by the core domestically focused holdings, most notably Shanghai International Airport, travel services provider China International Travel Service, and Chinese alcoholic beverage producer Kweichow Moutai. Shanghai International Airport's shares rose on good first-quarter 2019 results that were boosted by its duty-free business. The absence of holdings in internet retailing giant Alibaba and internet services provider Baidu also aided Strategy performance.

Alibaba's share price was hampered by the escalating trade tensions, while Baidu released relatively weak first-quarter 2019 results and forecast further headwinds ahead, given the tougher macroeconomic backdrop, tightening regulations and intensifying competition.

However, some of the Strategy's mainland China holdings were also hampered by similar fears of a slowdown in economic growth and consumer spending, including online auto retailer Autohome, hotel chain operator Huazhu Group and property developer Hang Lung Group, which had a negative impact on performance for the quarter. The Strategy's holding in Hangzhou Hikvision also detracted as shares of the surveillance-equipment maker fell after the U.S. imposed curbs on information and communications technology company Huawei due to investors' fears of similar sanctions.

Stock selection in India was also a notable contributor to Strategy performance over the quarter. The Strategy's core holdings rallied as the re-election of the Bharatiya Janata Party (BJP) with a bigger-than-expected mandate signaled the continuity of government policies and reform. The Strategy's holding in HFDC was among the top contributors.

In Latin America, stock selection in Brazil also boosted Strategy performance. Specifically, the momentum for key reforms in Brazil aided the Strategy's holdings in retailer Lojas Renner and banking and financial services company Banco Bradesco.

Conversely, the Strategy's holding in South African retailer Massmart performed poorly over the quarter. The stock price remained pressured by subdued consumer sentiment, while the departure of its CEO also had a negative impact. The lack of exposure to Russian state-owned oil company Gazprom, also weighed on Strategy performance. Its shares rallied after the company posted solid first-quarter 2019 results and proposed raising its dividend by nearly 60%.

### Market review

EM equity markets ended the second quarter of 2019 slightly higher, as the period was marked by the push and pull of U.S.-China trade tensions on the one hand, and looser monetary policy on the other. Trade tensions caused a sharp sell-off in May, but markets recovered in June as central banks signaled willingness to ease monetary policy.

<sup>1</sup> Performance is gross of fees and does not reflect advisory fees, had such fees been deducted, returns would have been lower. The above is supplemental information and supplements the composite presentation (as provided in the GIPS disclosures). The GIPS disclosures and Net performance can be found in the composite presentation at the end of the document.

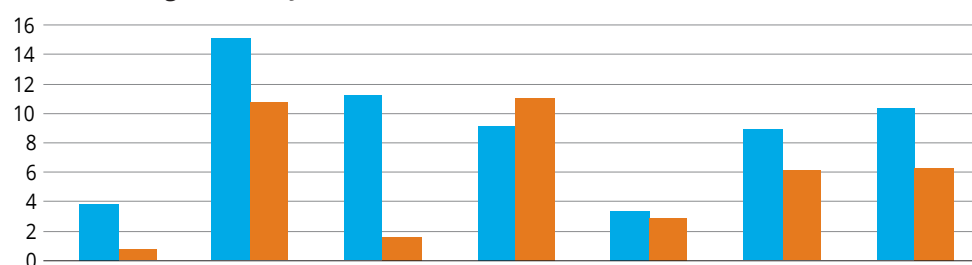
Better-than-expected economic data from the U.S. and China also lifted markets over the quarter. However, investor sentiment was hampered by higher crude oil prices, as supply concerns intensified due to increased geopolitical tensions in the Persian Gulf. The re-election of incumbent leaders in both India and Indonesia were positive for investors, who saw these as supportive for further market-oriented reforms.

### Outlook

EMs have rebounded since the beginning of 2019, as several risks that plagued investors in 2018 moderated. We feel that the U.S. Federal Reserve's accommodative monetary policy stance could improve monetary conditions in EMs, thereby reviving economic expansion. Meanwhile, the political outlook in key markets such as India and Indonesia is encouraging, in our judgment, following their respective incumbent re-election victories that pave the way for market reforms to progress in these countries. Despite the current lack of political coordination in Brazil and the risk of deteriorating relations between the U.S. and Mexico, we have a positive view of the longer-term economic outlook for Latin America as the political consensus to revitalize these economies is evident. Additionally, we think that China's shift from deleveraging to consumption-led stimulus should cushion global growth. Against this backdrop, we believe that corporate earnings should recover, albeit modestly. Following last year's sell-off, we feel that the asset class remains attractively priced relative to both its historical average and its developed-market peers.

Nevertheless, we think that lingering concerns over U.S.-China trade tensions, even with the latest truce, as well as market signals of an impending global economic recession, could cause near-term volatility. Amid the uncertainty, we will maintain our focus on what we believe are high-quality companies with healthy fundamentals and experienced management.

### Performance (gross) as of June 30, 2019



	Annualized						
	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception*
■ Composite	3.84	15.10	11.20	9.19	3.35	8.90	10.34
■ Benchmark	0.74	10.76	1.61	11.06	2.87	6.17	6.32
Excess Return	3.10	4.34	9.59	-1.87	0.48	2.73	4.02

\* Inception date: January 1, 1996. All sources (unless indicated) Aberdeen Standard Investments, June 30, 2019. Performance is gross of fees and does not reflect advisory fees, had such fees been deducted, returns would have been lower. Net performance can be found in the composite presentation at the end of the document.

**PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS.**

### Top 10 portfolio holdings as of June 30, 2019

% of Portfolio	
Tencent Holdings	5.8
Samsung Electronics	5.4
Taiwan Semiconductor	5.0
HDFC	4.3
Ping An Insurance	3.9
Banco Bradesco	3.7
AIA Group	2.9
Naspers	2.7
Kweichow Moutai	2.4
Vale	2.3
<b>Percent of Portfolio in Top Ten</b>	<b>38.4</b>

Figures may not sum due to rounding. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. Representative account is an unregistered commingled vehicle used for illustrative purposes only. A full list of holdings is available upon request. Your portfolio may not include these securities. This information should not be considered a recommendation to purchase or sell any security. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report or that securities sold have not been repurchased. Securities discussed do not represent the entire portfolio and in the aggregate may represent only a small percentage of the portfolio's holdings. The above is supplemental information and supplements the composite presentations (as provided in the GIPS disclosures) which can be found in the appendix.

## Performance attribution by country (3-month period ended June 30, 2019)

## Largest positive and negative quarterly contributions

## Best-performing

	Emerging Markets Equity Strategy		MSCI Emerging Market Index		Relative Contribution
	Closing Weight %	Return %	Closing Weight %	Return %	
China	26.77	1.66	31.55	-3.92	1.84
India	14.46	8.59	8.97	0.50	1.03
Brazil	11.62	10.49	7.65	7.21	0.62
Mexico	4.92	7.70	2.54	1.27	0.33
Korea	7.09	1.23	12.37	-0.87	0.25

## Worst-performing

	Emerging Markets Equity Strategy		MSCI Emerging Market Index		Relative Contribution
	Closing Weight %	Return %	Closing Weight %	Return %	
Russia	3.13	0.24	4.04	17.28	-0.62
South Africa	4.41	6.04	5.94	6.79	-0.15
Argentina	0.95	-4.59	0.35	—	-0.11
Thailand	2.66	5.76	3.00	9.42	-0.09
Taiwan	5.00	-0.09	10.83	1.12	-0.09

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## Performance attribution by stock (3-month period ended June 30, 2019)

## Largest positive and negative quarterly contributions

## Best-performing

	Emerging Markets Equity Strategy		MSCI Emerging Market Index		Relative Contribution
	Closing Weight %	Return %	Closing Weight %	Return %	
Shanghai International Airport	1.52	31.47	0.01	31.90	0.41
China International Travel	1.86	23.97	0.01	24.57	0.38
Alibaba*	—	—	4.36	-7.13	0.34
Kweichow Moutai	2.37	14.67	0.10	14.41	0.33
HFDC	4.28	11.77	0.94	11.77	0.30
Baidu Inc.*	—	—	0.59	-28.81	0.26
AIA Group	2.88	9.50	—	—	0.24
Lojas Renner	1.44	21.00	0.18	21.16	0.23
Ayala Land	1.85	15.96	0.13	15.96	0.22
Banco Bradesco	3.65	8.24	0.91	7.39	0.20

## Worst-performing

	Emerging Markets Equity Strategy		MSCI Emerging Market Index		Relative Contribution
	Closing Weight %	Return %	Closing Weight %	Return %	
Autohome	1.36	-18.55	0.09	-18.55	-0.29
Gazprom*	—	—	0.71	62.10	-0.28
Hangzhou Hikvision	0.89	-21.72	0.02	-21.18	-0.26
Huazhu Group	1.29	-14.01	0.09	-13.98	-0.15
Lukoil	1.27	-6.50	0.63	-6.25	-0.11
ITC	1.77	-5.67	0.25	-5.77	-0.10
Massmart Holdings	0.40	-20.15	—	—	-0.10
Hang Lung Group	0.71	-11.34	—	—	-0.10
LG Chem	1.55	-4.77	0.28	-5.03	-0.08
Falabella	—	—	0.09	-11.46	-0.07

\*Non-holding

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## Performance attribution by sector (3-month period ended June 30, 2019)

	Emerging Market Equities Strategy		MSCI Emerging Market Index		Relative Contribution
	Closing Weight %	Return %	Closing Weight %	Return %	
Financials	27.80	7.88	25.20	4.16	1.10
Consumer Discretionary	12.90	5.49	13.40	-1.13	0.86
Industrials	2.60	18.93	5.30	0.09	0.49
Consumer Staples	11.10	5.68	6.60	3.41	0.39
Real Estate	6.00	6.84	3.00	-0.06	0.38
Materials	8.80	2.64	7.60	-1.06	0.29
Health Care	0.80	-7.30	2.60	-6.62	0.14
Information Technology	13.70	0.98	13.90	0.17	0.13
Utilities	—	—	2.70	3.09	-0.06
Communication Services	10.50	-3.72	11.70	-2.36	-0.09
Energy	4.20	-2.88	7.90	1.38	-0.20
Cash	1.50	0.50	—	—	0.02
<b>Total</b>	<b>100.00</b>	<b>10.96</b>	<b>100.00</b>	<b>9.95</b>	<b>1.01</b>

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## Appendix

## Composite information

Year	Composite return gross (%)	Composite return net (%)	Benchmark return (%)	Composite standard deviation (%)	Benchmark standard deviation (%)	Number of portfolios (*throughout period)	Dispersion (%)	Market value at end of period	Percentage of firm assets (%)	Total firm assets (legacy history)
3 Months	3.84	3.58	0.74			28 ( 28)	1.86	22,081,271,157		
Year to date	15.10	14.53	10.76			28 ( 28)	3.47	22,081,271,157		
1 Year	11.20	10.10	1.61			28 ( 28)	3.12	22,081,271,157		
2 Years p.a.	4.42	3.38	5.04			28 ( 28)	5.46	22,081,271,157		
3 Years p.a.	9.19	8.10	11.06	13.58	13.67	28 ( 26)	7.67	22,081,271,157		
4 Years p.a.	5.99	4.94	4.87	15.63	16.11	28 ( 23)	8.52	22,081,271,157		
5 Years p.a.	3.35	2.32	2.87	14.99	15.65	28 ( 19)	8.25	22,081,271,157		
7 Years p.a.	4.79	3.74	4.53	14.57	14.59	28 ( 19)	9.90	22,081,271,157		
10 Years p.a.	8.90	7.82	6.17	16.78	17.43	28 ( 12)	12.29	22,081,271,157		
Since inception p.a.	10.34	9.23	6.32	21.44	22.56	28 (<=5)		22,081,271,157		
2018	-13.47	-14.34	-14.24	14.73	14.62	38 ( 38)	2.72	24,475,880,339	4.04	606,245,078,792
2017	30.05	28.75	37.75	14.32	15.36	47 ( 45)	4.68	40,782,768,015	11.02	370,088,382,260
2016	13.18	12.05	11.60	15.80	16.07	47 ( 45)	2.34	34,117,841,402	10.09	338,134,038,404
2015	-12.55	-13.43	-14.60	14.11	14.04	45 ( 39)	2.31	30,500,912,078	7.96	383,382,349,203
2014	-0.32	-1.32	-1.82	15.73	14.99	42 ( 41)	2.75	40,268,991,695	8.75	460,247,164,576
2013	-6.01	-6.95	-2.27	17.69	19.03	44 ( 44)	1.67	47,630,206,311	16.79	283,691,791,514
2012	27.46	26.18	18.63	19.59	21.49	47 ( 47)	3.17	53,394,368,510	18.87	282,934,299,343
2011	-10.10	-11.00	-18.17	23.86	25.76	48 ( 42)	2.93	36,088,137,315	15.18	237,665,068,531
2010	28.82	27.53	19.20	29.21	32.59	43 ( 39)	4.14	31,470,205,895	12.44	253,013,841,040
2009	82.02	80.20	79.02	28.51	32.35	39 ( 25)	8.31	15,256,636,805	7.79	195,840,242,737

Composite inception: 01 Jan 1996.

N.B. Where a calendar year return is shown the annualised standard deviation presented is of 36 monthly returns to the calendar year end.

**Composite disclosures**

**Composite:** Emerging Markets Equity

**As of:** 30-Jun-19

**Definition of the firm**

Aberdeen Standard Investments ("ASI" or "the Firm") is defined as all portfolios managed globally by the asset management entities of Standard Life Aberdeen plc excluding Private Equity, Aberdeen Standard Capital and Lloyds Syndicate portfolios. ASI is the global brand name of the investment businesses of Aberdeen Asset Management plc and Standard Life Investments under which all products are now marketed. The Firm inception date is 1st January 2018; and includes track records that either were, or were part of, legacy compliant firms, some of which are compliant from earlier dates: Aberdeen Asset Management plc (compliant from 1st January 1996); Standard Life Investments (compliant from 1st January 1996); and Aberdeen Property (compliant from 1st January 2013). Composite returns, start date and composite and firm assets reported prior to acquisitions represent those of the legacy firm which managed the product at the time. Changes in the firm organization, investment style or personnel have not caused alterations of historical composite performance. Compliant Presentations produced during the period between the annual period end and the date of release to the market of ASI's financial results will not contain the Firm assets or % of Firm assets for that annual period end. The total Firm assets is material non-public information before the official results release date and to release it in GIPS Compliant Presentations would be against the law: and where laws and/or regulations conflict with the GIPS standards, firms are required to comply with the laws and regulations and make full disclosure of the conflict in the compliant presentation.

**GIPS compliance**

ASI claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. ASI has been independently verified for the periods to 31st December 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The effective date of compliance is 1st January 1996. The inception date of the composite is 31/12/1995 and it was created on 13/04/2006. A complete list of the Firm's composites, and policies for valuing portfolios, calculating performance and preparing compliant presentations, is available on request.

**Composite description**

This composite comprises accounts with at least 80% invested in equities managed on a discretionary basis. The accounts within this composite invest primarily in companies based in the equity markets of those countries defined as having Emerging Markets by Morgan Stanley Capital International.

**Composite methodology**

Returns are time-weighted total rates of return including cash and cash equivalents, income and realised and unrealised gains and losses. Returns are shown net of non-recoverable tax, whilst recoverable tax is included on a cash basis. Composites results are weighted by individual portfolio size, using start of period market values. Portfolios are valued at least monthly or on the date of any contribution/withdrawal greater than 8.49% within 1 month. Annual returns are calculated using geometric linking of monthly returns. Exchange rates used are WMR 16:00 Closing Spot Rates. Composites may contain portfolios of different base currencies, translated into a common currency for composite returns using the exchange rates stated above. A fund becomes eligible for inclusion the first full calendar month after funding. Inclusion may be deferred in cases where it has not been possible to implement the investment strategy. Terminated funds leave composites at the end of the calendar month before official notification of termination is received. Results include all discretionary, fee paying accounts of the Firm.

The dispersion of annual returns is measured by the range of the portfolio returns represented within the composite for the full period. Dispersion is not calculated for composites with less than five accounts for the whole period. Additional information on policies for calculating and reporting returns is available on request.

**Presentation of results**

Gross returns are presented before management, custodial and other fees but after all trading expenses. Net returns are calculated after the deduction of a representative management fee.

**Primary index description**

MSCI Emerging Markets.

**Representative fee description**

Emerging Markets Equity Customised fee: 1% p.a.

**Derivative instruments**

The portfolios in this composite may invest in exchange traded futures and options for efficient portfolio management. Derivatives are not used to leverage the portfolios.

**PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS.**

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