



# Aberdeen Latin American Income Fund Limited

Alternative Investment Fund Managers Directive –  
Pre-investment Disclosure Document  
Article 23 AIFMD

8 November 2018

# Aberdeen Latin American Income Fund Limited

Aberdeen Private Wealth Management Limited (a non-EU alternative investment fund manager), as manager of Aberdeen Latin American Income Fund Limited (a non-EU AIF), is not generally subject to the EU Alternative Fund Managers Directive (Directive 2011/61/EU) other than in circumstances where the Company is being marketed into the European Union. In such circumstances, AIFMD requires that, among other things, non-EU managers of non-EU alternative investment funds register the fund on the relevant National Private Placement Register and make available to investors certain information, as set out in Article 23 of the AIFMD, prior to such investors' investment in the Company. In addition, Article 23 requires that non-EU alternative fund managers disclose certain information on a periodic basis. Accordingly, the Manager has notified the UK Financial Conduct Authority of its intention to market the Company (as a non-EU alternative investment fund) in the UK. In addition, the Jersey Financial Services Commission has granted permission for the Company to be marketed within the EU in accordance with Jersey Laws.

Defined terms used in this pre-investment disclosure document can be found in section 20 below.

## 1. A description of the Investment Strategy, Policy and Objective of the Company, Types of Assets the Company may invest in, Investment Techniques, Principal Risks and Investment Restrictions

Information about the Company's investment strategy and objectives, the types of assets in which the Company may invest, the investment techniques and investment restrictions, investors are directed to the disclosures set out in the Annual Report which can be found on the Company's website: <http://www.latamincome.co.uk>.

The Company is not a fund of funds.

## 2. Key Risks

There are certain key risks which may arise from investment in the Company which include:

### Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The Board has carried out a robust assessment of these risks and uncertainties facing the Company at the current time in the table below together with a description of the mitigating actions taken by the Board. The principal risks associated with an investment in the Company's shares are published monthly on the Company's factsheet or they can be found in the Pre-Investment Disclosure Document published by the Manager, both of which are on the Company's website. The Board reviews the risks and uncertainties faced by the Company in the form of a risk matrix and heat map at its annual audit committee and a summary of the principal risks are set out below.

An explanation of other risks relating to the Company's investment activities, specifically market risk including interest rate risk, foreign currency risk and other price risk, liquidity risk, credit risk, gearing risk and a note of how these risks are managed, is contained in note 14 to the financial statements on pages 59 to 66.

Description	Mitigating Action
<b>Investment strategy and objectives</b> – the setting of an unattractive strategic proposition for the Company and the failure to adapt to changes in investor demand may lead to the Company becoming unattractive to investors, a decreased demand for Ordinary shares and a widening discount at which the Ordinary shares trade relative to their NAV.	The Board keeps the level of discount at which the Company's Ordinary shares trade as well as the investment objective and policy under review and the Board is updated at each Board meeting on the make up of and any movements in the Shareholder register.
<b>Investment portfolio, investment management</b> – investing outside of the investment restrictions and guidelines set by the Board could result in poor performance and inability to meet the Company's objectives.	The Board sets, and monitors, its investment restrictions and guidelines, and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process and application of the guidelines.
<b>Financial obligations</b> – the ability of the Company to meet its financial obligations, or increasing the level of gearing, could result in the Company becoming over-	The Board sets a gearing limit to ensure that covenant restrictions in the Company's loan facility are not breached and the Board receives regular updates on the actual gearing levels

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geared and therefore unable to take advantage of potential opportunities and result in a loss of value of the Company's Shares.

**Financial and regulatory** – the financial risks associated with the portfolio could result in losses to the Company. In addition, failure to comply with relevant regulation (including the Companies (Jersey) Law, the Financial Services and Markets Act, the Alternative Investment Fund Managers Directive, Accounting Standards and the FCA's listing rules, disclosure and prospectus rules) may have a negative impact on the Company.

**Operational** – the Company is dependent on third parties for the provision of all systems and services (in particular, those of AAM) and any control failures and gaps in these systems and services could result in a loss or damage to the Company.

**Income and dividend risk** - there is a risk that the portfolio could fail to generate sufficient income to meet the level of the annual dividend drawing upon, rather than replenishing, its revenue and/or capital reserves.

the Company has reached from the Investment Manager together with the assets and liabilities of the Company and reviews these at each Board meeting.

The financial risks associated with the Company include market risk, liquidity risk and credit risk, all of which are managed by the Investment Manager. Further details of the steps taken to mitigate the financial risks associated with the portfolio are set out in note 14 to the financial statements. The Board relies upon Aberdeen Standard Investments to ensure the Company's compliance with applicable regulations and from time to time employs external advisers to advise on specific matters.

The Board receives reports from the Manager on internal controls and risk management at each Board meeting and receives assurances from its significant service providers. Further details of the internal controls which are in place are set out in the Directors' Report on pages 28 and 29.

The Board monitors this risk through the review of income forecasts, provided by the Manager, at each Board meeting.

### 3. Risk Management Systems

Each of the Manager and Investment Manager are fully integrated members of the Standard Life Aberdeen PLC group of companies which provides a variety of services and support to the Manager and Investment Manager in the conduct of their business activities. Risk oversight is conducted through the operation of the Group's risk management processes and systems. Further details of the Group's risk management programme and systems are set out in the Appendix to this document.

### 4. Leverage

The Company's investment policy is flexible, enabling it to invest in all types of securities, including (but not limited to) equity shares, preference shares, debt, convertible securities, warrants, depositary receipts and other equity-related securities. Derivative investments may be used for efficient portfolio management and hedging and may also be used in order to achieve the investment objective (i.e. to enhance portfolio performance).

Whilst the Manager is not required to set an overall leverage limit under AIFMD and therefore none has been set, the Company is permitted to incur gearing under its investment policy. The Company's board of directors is responsible for determining the gearing strategy for the Company. Gearing is used selectively to leverage the Company's portfolio in order to enhance returns where, and to the extent that, it is considered appropriate to do so. Gearing generally includes bank borrowings or indebtedness incurred through the issue of debt securities.

The Board has adopted a policy that the value of the Company's investments exposed by borrowings or derivatives (but excluding the collateral held in respect of any such derivatives) will not exceed the Company's net assets by more than 30%.

For further information about the gearing strategy of the Company, the types and sources of leverage permitted and the principal risks, investors are directed to the disclosures contained in the Annual Report.

### 5. Modification of Investment Policy

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In accordance with the FCA listing rules, any material change to the Company's investment policy will require the prior approval of the FCA as well as the approval of shareholders of the Company. In considering what is a material change the Company will have regard to the cumulative effect of any changes since the shareholders last had the opportunity to vote.

## **6. Contractual Relationship between the Company and Investors, Applicable Law and the Enforcement of Judgements**

The Company is incorporated with limited liability in Jersey as a closed-ended investment company under the Companies (Jersey) Law 1991 (as amended) and its shares are listed on the London Stock Exchange. In addition the Company constitutes and is regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988. Investors who acquire shares in the Company will do so subject to the Articles. The Articles are one of the Company's constitutional documents and contain the rights and restrictions attaching to the Company's shares. The Articles may only be amended by way of a special resolution. A shareholder's liability to the Company will be limited to the value of the shares held by such shareholder.

As the Company is incorporated in Jersey, it may not be possible for an investor located outside that jurisdiction to effect service of process upon the Company within the local jurisdiction in which that investor resides. All or a substantial portion of the assets of the Company may be located outside of the local jurisdiction in which an investor resides and, as a result, it may not be possible to satisfy a judgment against the Company in such local jurisdiction or to enforce a judgment obtained in the local jurisdiction's courts against the Company.

A number of legal instruments provide for the recognition and enforcement in Jersey of judgments given in other states. Where no particular legal instrument applies, a judgment creditor may nevertheless have rights to seek to enforce a judgement under Jersey law.

Details on how to invest in Aberdeen Latin American Income Fund Limited are set out in the Annual Report.

## **7. Information on the Manager and Service Providers**

### Manager

The Company is managed by Aberdeen Private Wealth Management Limited, which is a registered private company that is incorporated in Jersey. The Manager is a subsidiary of Standard Life Aberdeen PLC, a company incorporated in Scotland.

The Manager is registered with the JFSC in accordance with the FSL for the conduct of fund services business. Pursuant to the Management Agreement, the Manager provides investment management services, company secretarial services, registered office facilities and general administrative services to the Company.

The Manager has delegated the investment management of the Company to Aberdeen Asset Managers Limited. Further details of the delegation arrangements are set out in paragraph 9 below.

### Auditor

Ernst & Young LLP has been appointed as the Company's auditor responsible for auditing the annual financial statements in accordance with auditing standards and, as appropriate, regulations, and for providing its report to the Company's shareholders in the annual report and financial statements. In addition, applicable law and regulation may require other reports to be prepared for the Company and, as the appointed auditor of the Company, the Auditor will undertake such work under the auditor service agreement between the Company and the Auditor.

### Registrar and Transfer Agent

The registrar and transfer agent of the Company is Computershare Investor Services (Jersey) Limited and is responsible for keeping the register of shareholders, which may be inspected at the Registrar's office at Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES, during normal business hours.

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## Stockbroker

Cantor Fitzgerald Europe Limited has been appointed as the Company's stockbroker to provide the Company with corporate broking and associated financial advisory services.

## Custodian

BNP Paribas Securities Services, Jersey Branch has been appointed as the Company's custodian to provide custodian services to the Company, including settlement and safekeeping of the Company's securities.

Investors' rights against service providers will vary depending on a range of factors. Investors may be afforded certain rights against service providers by the general law of the jurisdiction in which they are based.

## 8. Protection from Professional Liability Risks

The Manager has effective internal operational risk management policies and procedures in order to appropriately identify measure, manage and monitor operational risks, including professional liability risks, to which it is or could reasonably be exposed. These policies and procedures are subject to regular review and the operational risk management activities are performed independently as part of the risk management policy.

The management of operational risk, through the risk and control self-assessment process, is aimed at identifying risks in existing processes and improving existing controls to reduce their likelihood of failure and the impact of losses. All risks and events are facilitated via the internal risk management system, which provides a platform to facilitate the convergence of governance, risk and compliance.

The Manager is required to cover professional liability risks, such as the risk of loss of documents evidencing title of assets to the Company, and complies with such requirement by maintaining an amount of its own funds in accordance with AIFMD.

## 9. Delegation Arrangements and Management of Conflicts

### Delegation Arrangements

From time to time, the Manager may delegate certain management functions to its affiliated subsidiaries, including Aberdeen Asset Managers Limited, or to third parties. The Manager has delegated:

- Investment management to the Investment Manager, Aberdeen Asset Managers Limited
- Administration of the Company to Aberdeen Asset Managers Limited which in turn has sub-delegated this function to BNP Paribas Fund Services UK Limited

### Investment Management

The Manager has delegated investment management to the Investment Manager, which is authorised to undertake fund management and provide investment advice by the FCA. The Investment Manager is part of the Standard Life Aberdeen PLC group of companies of which the Manager is also part.

Under the Investment Management Agreement, the Investment Manager is required to provide such investment management services to the Company as the Manager may, from time to time, require in connection with the investment of the monies and assets of the Company, management of the portfolio and will be responsible for advising on the purchase and sale of investments.

### Administration

The Manager has delegated the administration of the Company to Aberdeen Asset Managers Limited which in turn has sub-delegated this function to BNP Paribas Fund Services UK Limited. The Administrator will assist the Manager

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in calculating the Company's Net Asset Value, as well as to provide fund accounting services in respect of the Company.

## Conflicts of Interests

The Manager and the Investment Manager are committed to treating clients and shareholders fairly and have implemented procedures and processes to ensure that this is the case. In particular, the Manager and the Investment Manager have approved and adopted the Conflicts of Interests Policy of Standard Life Aberdeen plc.

The objective of the Conflicts of Interests Policy is to ensure the fair treatment of clients and shareholders in cases of conflicts of interests or potential conflicts of interests which may arise in the course of providing management, advisory or administrative services to the Company.

To achieve this objective, the Conflicts of Interests Policy seeks to ensure that the Company and its service providers and the Manager and its delegates have adequate organisational and structural measures in place:

- To identify circumstances which constitute or may give rise to a conflict of interests entailing a material risk of damage to the interests of the Company or its shareholders
- To provide procedures, mechanisms and systems to manage or resolve any such conflicts of interests; where such conflict cannot otherwise be avoided, ensuring that the Company, the Manager and the Investment Manager always act in the best interests of shareholders
- To maintain a proper record of any such conflict or potential conflict and to ensure proper reporting to affected shareholders

The following circumstances have been identified as constituting or potentially giving rise to conflicts of interests:

- The Manager and/or the Company may maintain other business relationships with BNP Paribas Securities Services, its delegates, or members of its group. For example, the Administrator provides the Company and the Manager with fund administration services including net asset value calculations.
- Directors of the Manager are senior executives of, and employed by, Standard Life Aberdeen plc
- The Manager, the Investment Manager and the Company Secretary are affiliated entities of Standard Life Aberdeen plc. The key terms of the Investment Management Agreement and the CoSec Agreement are similar to those which might be agreed between independent third parties
- The Investment Manager has discretion to enter into foreign exchange hedging transactions and borrowings on behalf of the Company. The Investment Manager may appoint an affiliate of any existing service provider or any other third party to act as a counterparty in the execution of foreign exchange transactions in connection with the currency hedging activities of the Company and/or to implement the currency hedging strategy
- Standard Life Aberdeen plc and its affiliates may hold or trade in securities and instruments of the same type as the securities and instruments held or traded in by the Company; they may also utilise the same or similar strategies as those adopted by the Investment Manager on behalf of the Company. In addition, the Company may make investments in other funds managed or advised by Aberdeen or its affiliates

In order to ensure that actual and potential conflicts of interests are appropriately identified, managed and monitored, Standard Life Aberdeen plc has established a formal committee which operates under documented terms of reference and which meets regularly to maintain oversight of the Conflicts of Interests Policy and the management of live conflicts situations. Standard Life Aberdeen plc maintains a documented matrix of known or inherent conflicts of interests, as well as a documented register of live actual or potential conflicts of interests arising in the carrying on of its business operations.

## 10. Valuation Procedures

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The Company's accounting policies, including its policy in relation to the valuation of investments, are set out in the 'Notes to the Financial Statements' in the Annual Report at [www.latamincome.co.uk](http://www.latamincome.co.uk).

The Company has delegated a number of its duties to the Manager including the proper valuation of the Company's assets, the calculation of the Net Asset Value of the Company and the publication of such Net Asset Values. Accordingly, the Manager has approved and adopted Aberdeen's Valuation Policy. The Manager considers that the Valuation Policy contains appropriate and consistent procedures to ensure that a proper and independent valuation of the assets of the Company can be performed.

The Administrator has been engaged by Aberdeen Asset Managers Limited to assist the Manager in calculating the Net Asset Value of the Company. In practice, this means that the Administrator sources prices for the assets of the Company and calculates a proposed Net Asset Value. These calculations are presented to the Manager, which discusses any particular pricing issues with the Administrator and may ultimately decide whether any prices require adjustment before the Net Asset Value of the Company is adopted. This may be the case where the price of an asset is hard to value and the Administrator has used fair value pricing, or where the price of an asset has increased or fallen by a significant proportion since its previous valuation.

## 11. Liquidity Risk Management and Redemption Rights

The Manager has a Liquidity Policy in place. For closed ended funds such as the Company, given their very nature, the Liquidity Policy focuses, primarily, upon the potential issues with regard to the mis-pricing of illiquid securities. Aberdeen's market risk department is responsible for providing asset level liquidity evaluation reports on a periodic (e.g. monthly) basis to the Manager, the Investment Manager and other Aberdeen entities. This market risk department uses various risk assessment methods and sophisticated portfolio modelling, via a tool called APT (Advanced Portfolio Technologies), to measure the risk profile of assets held by portfolios and the risk of there being portfolio illiquidity related to the assets. This measurement enables the provision of management information to the Manager and the Investment Manager to enable those risks to be monitored. The portfolio modelling and measurement looks at the following risks: (i) asset liquidity risk (where a number of methods are used to measure liquidity, depending upon the nature of the asset – e.g. traded volumes reported on an exchange as a percentage of the total outstanding of the specific asset or with reference to the depth of the market using the bid-ask spread as an indicator); and (ii) contingency arrangements or liquidity buffers.

There are no redemption rights attaching to shares in the Company.

## 12. Fees, Charges and Expenses

The Manager charges an annual fee of 1.0% of the Net Asset Value of the Company valued monthly. The Company also incurs annual fees, charges and expenses in connection with administration, directors' fees, marketing, auditors' fees, lawyers' fees and depositary charges. The Company's Ongoing Charges (including the management fee) for the latest financial year amounted to 2.0%.

The Manager has agreed to ensure that the Company's Ongoing Charges Ratio ("OCR") will not exceed 2.0% when calculated annually as at 31 August. Until further notice, to the extent that the OCR ever exceeds 2.0% the Manager will rebate part of its fees in order to bring that ratio down to 2.0%.

## 13. Fair Treatment/Preferential Treatment of Investors

The Manager has adopted a policy regarding treating customers fairly, the operation of which is overseen by a formal committee comprised of senior managers from Aberdeen's various business units and from its risk division. The role of the Conduct Risk Committee, which meets regularly and operates under documented terms of reference, is to ensure that among other matters the Conduct Risk Policy is implemented and maintained and to consider any actual or potential Conduct Risk Policy issues arising in connection with Aberdeen carrying on its business operations. General awareness training on the Conduct Risk Policy and what it means to Aberdeen and its customers is delivered to all Aberdeen staff.

No investor in the Company obtains preferential treatment or the right to obtain preferential treatment.

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## 14. Availability of the AIF's latest annual report

The Company's latest annual report is available on the Company's website ([www.latamincome.co.uk](http://www.latamincome.co.uk)).

## 15. Procedure and Conditions for the Issue and Sale of Shares

The issue of new shares by the Company either by way of a fresh issue of shares or by way of the sale of shares from treasury, is subject to the requisite shareholder authorities being in place and all FCA listing rule requirements having been met. Shares in the Company can also be bought in the open market through a stockbroker. They can also be purchased through the Aberdeen savings schemes and qualify fully for inclusion within tax-efficient ISA wrappers. For further information about how shares in the Company may be purchased, investors are directed to the section headed 'How to Invest in Aberdeen Latin American Income Fund Limited' can be found in the Annual Report: [www.latamincome.co.uk](http://www.latamincome.co.uk).

## 16. Latest NAV of the AIF

The Company's NAV is published by way of an announcement on a regulatory information service. For internet users, additional data on the Company, including the latest published NAV, the closing price of ordinary shares for the previous day of trading on the London Stock Exchange, performance information and a monthly factsheet, is available on the Company's website: [www.latamincome.co.uk](http://www.latamincome.co.uk).

## 17. AIF's historical performance

The Company's historical performance, including copies of the Company's previous annual report and accounts, are available on the Company's website: [www.latamincome.co.uk](http://www.latamincome.co.uk).

## 18. Prime Brokerage

The Company has not appointed a prime broker.

## 19. Periodic Disclosures

The Manager will, at least as often as the annual report and accounts are made available to Shareholders, make the following information available to Shareholders:

- Any changes to (i) the maximum level of Gearing that the Manager may employ on behalf of the Company and (ii) any right of reuse of collateral or any guarantee granted under any leveraging arrangement
- The total amount of Gearing employed by the Company
- The percentage of the Company's investments which are subject to special arrangements resulting from their illiquid nature
- The current risk profile of the Company outlining (i) measures to assess the sensitivity of the Company to the most relevant risks to which the Company is or could be exposed and (ii) if risk limits set by the Manager have been or are likely to be exceeded and where these risk limits have been exceeded, a description of the circumstances and, the remedial measures taken
- The risk management systems employed by the Manager outlining the main features of the risk management systems employed by the Manager to manage the risks to which the Company is or may be exposed. In the case of a change, information relating to the change and its anticipated impact on the Company and its Shareholders will be made available

The Manager will inform Shareholders as soon as practicable after making any material changes to its liquidity management system and procedures. Any material changes to the periodic disclosures described above will be provided to Shareholders by way of an announcement to a regulatory news service announcement on the London Stock Exchange.



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## 20. Defined terms

The following defined terms are used in this pre-investment disclosure document:

Aberdeen	Standard Life Aberdeen PLC and subsidiary companies
Administrator	BNP Paribas Fund Services UK Limited
AIFMD	European Union Directive 2011/61/EU, together with its implementing measures
Annual Report	the Company's Annual Report and Accounts for the year ended 31 August 2015
Articles	the Company's articles of association, as amended from time to time
Auditor	Ernst & Young LLP
Company or AIF	Aberdeen Latin American Income Fund Limited
Conduct Risk Committee	Aberdeen's formal committee for overseeing, among other matters, the Conduct Risk Policy
Conduct Risk Policy	Aberdeen's documented policy regarding treating customers fairly
Conflicts of Interests Policy	Aberdeen's conflicts of interest policy
FCA	Financial Conduct Authority
FSL	Financial Services (Jersey) Law 1998 (as amended)
Investment Manager	Aberdeen Asset Managers Limited
Investment Management Agreement	Investment management agreement between the Company, the Manager and the Investment Manager dated 14 July 2010
Jersey Law	Collective Investment Funds (Jersey) Law, 1988
JFSC	Jersey Financial Services Commission
Liquidity Policy	Aberdeen's documented policy regarding liquidity risk management
Management Agreement	management agreement between the Company and the Manager dated 14 July 2010
Manager	Aberdeen Private Wealth Management Limited
Net Asset Value or NAV	the net asset value of the Company
Ongoing Charges	ratio of expenses as a percentage of average daily shareholders' funds calculated as per the Association of Investment Company's industry standard method
Registrar	Computershare Investor Services (Jersey) Limited
Stockbroker	Cantor Fitzgerald Europe Limited
Valuation Policy	Aberdeen's documented valuation policy regarding the production and oversight of net assets values of collective funds in the Europe, Middle East and Africa region

### Other important information

Issued by Aberdeen Private Wealth Management Limited which is regulated by the Jersey Financial Services Commission. Registered Office: 1st Floor, Sir Walter Raleigh House, 48-50 Esplanade, St Helier, Jersey JE2 3QB. Registered in Jersey No. 41618. An investment company should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.



Appendix to Pre-investment Disclosure Document

Aberdeen Fund Managers Limited: Risk management

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## Risk Management function

Standard Life Aberdeen plc and its subsidiaries ("the Group") is committed to building and continuously improving a sound and effective system of internal control and a risk management framework that is embedded within its operations; this is the Group's first line of defence.

The Group's Risk Division, as the second line of defence, exists to support management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Conduct & Compliance, Operational Risk and investment risk Oversight. The team is headed by the Group's CRO, who reports to the Chief Executive Officers of the Group. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system (SWORD).

The Group's Internal Audit Department is independent of the Risk Division and reports directly to the Group co- CEOs and to the chair of the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment; it is the Group's third line of defence.

The Group's corporate governance structure is supported by several committees that bring together Group's subject matter experts from different departments, to assist the Boards of Directors of Standard Life Aberdeen plc, its subsidiaries and the funds to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those that deal with investment recommendations to the Boards. The specific goals and guidelines on the functioning of these committees are described in their respective terms of reference.

## Description of the process of identifying, assessing and managing risks

- **Market risk:** Is monitored through factor modelling used to calculate both absolute and relative ex ante quantities such as tracking error (TE) and Value at Risk (VaR). The VaR is computed on a NAV basis as the maximum loss that the portfolio should incur over 20 days, 99% of the time under normal market conditions. The fund's portfolio risks are decomposed into intuitive components to pinpoint areas of unexpected market risk. The techniques are applied to all relevant asset classes. The market risk is further monitored through the computation of the level of leverage by both the gross and net approach. The leverage is calculated by converting

each FDI into the equivalent position in the underlying assets of those derivatives, on a NAV basis. The market risk linked to the concentration risk is mitigated through investment restrictions set according to the basic principle of diversification.

- **Liquidity risk:** The Group has a Liquidity Risk Management Policy in place applicable to the funds and set out in accordance with its overall Risk Management Process, relative to the size, scope and complexity of the funds. Liquidity Risk is monitored on both the asset and liability sides. To measure and monitor asset liquidity risk the Group employs a number of methods specific to the underlying assets. In all cases, the approach is to reference the actual holdings of the sub-fund against a true measure of the market at both an aggregate and a position level. The Group has implemented a Group Pricing Policy which details the operational responsibilities for pricing assets, this policy is owned and overseen by the Group pricing Committee. On the liability side, investor transactions and, beyond this, investor behaviour are the main driver of liquidity within each sub-fund. In this context, the articles and prospectuses contain certain key provisions or limits which provide protection to the funds and ultimately investors, in situations where liquidity might become a concern. In addition, the fund receives and analyses periodic reports in respect of the shareholder concentration within each sub-fund. Any shareholder concentrations and transactional behaviour are identified at sub-fund level and any particular concerns noted are escalated to the relevant Group Committee and respective Boards, if material.
- **Credit and counterparty risk:** The credit and counterparty risks linked to derivatives transactions are managed through processes outlined in the Group's Counterparty Credit Risk Policy. This Policy underpins on the following principles: Internal Credit assessments; credit limits; exposure calculation and oversight and Control. Credit research on counterparties is carried out by the Credit Investment Team. Research is conducted on the basis of qualitative and quantitative analysis and is presented for discussion at the Credit Committee on a monthly basis. Each counterparty is reviewed at least once per annum. Furthermore the Risk and Exposure Committee (REC) and/or credit Committee can impose house level restrictions on concentrations. Credit risk exposures are calculated net of collateral received. The methodology for calculating an amount for potential exposure arising from movements in mark to market is approved by the REC. Acceptable collateral and

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other commercial and credit terms for inclusion in the International Swap and Derivative Association (ISDA) documentation is defined in the Group Derivative Management Policy. Counterparty credit exposures are monitored against internal limits by an investment control team and monitored by the Group Credit Committee and Risk and Exposure Committee.

- **Legal risk:** All key contractual arrangements entered into by the funds are reviewed by the Legal Department and, where required, by external legal counsel. If these contracts refer to delegation arrangements, where applicable, there is an operating memorandum defining information flows between the parties, frequency of services and deadlines, a clear attribution of rights and responsibilities of each party and, when applicable, the key performance indicators to measure performance. Any litigation issues are also handled by the Legal Department.

Each OTC derivatives are framed within the legal provisions of the ISDA Master agreement which defines the rights and obligations of parties engaging in derivatives trading. The ISDA master agreements are negotiated and signed between each umbrella/sub-fund and the counterparty. The Credit Support Annex (CSA) is a legally binding document which is annexed to the ISDA agreement and details the Minimum Transfer Amount (MTA) or collateral required by AAML when engaging in OTC derivatives trading with counterparties. The Group Derivative Management Committee is responsible for approving the commercial terms associated to derivative documentation for the Group.

- **Tax risk:** The Group uses external tax consultants to advise on tax structuring, transactions and tax reporting.
- **Operational risk:** The Operational Risk Management Framework ensures that the operational risks taken and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented. The identification, measurement, management and monitoring of operational risk within the Group are achieved through the use of the Group's Operational Risk Management Framework System, SWORD. This system provides the following key Risk Management Modules:
  - *Event Management:* This module serves as a historical loss database, in which any operational failures, loss and damage experience (Events) will be recorded. The

records include professional liability damages. The process for recording, investigation and mitigation of Events aims to ensure that they are not repeated.

- *Issues and Actions Plan:* The issues and actions module provides a standardised mechanism for identifying, prioritising, classifying, escalating and reporting internal audit findings and other on-going / unresolved matters impacting the Group from a risk or regulatory perspective (Issues).
- *Risk and Control Self Assessment (RCSA):* The RCSA process is to ensure key risks and key controls are identified and managed effectively in order to satisfy, at a Group level, Internal Capital Adequacy (ICAAP) requirements. The RCSA also provides a systematic and holistic means of identifying risk and control gaps that could impact business or process objectives which are agreed by senior management to complete.
- *Business Continuity Plan (BCP):* Is in place and designed for invocation where there has been significant disruption to normal business functions at any Standard Life Aberdeen plc office that is likely to last longer than 24 hours.

## Measuring risk

Where appropriate the Group applies the following measurements for each fund:

- **Leverage:** Has the effect of gearing a fund's expected performance by allowing a fund to gain greater exposure to underlying investment opportunities (gains and losses). The higher the leverage the greater the risk (potential loss).
- **Volatility, Value-at-Risk (VaR) and Conditional VaR (CVaR):** Volatility measures the size of variation in returns that a fund is likely to expect. The higher the volatility the higher the risk. VaR measures with a degree of confidence the maximum the fund could expect to lose in any one given day, assuming a normal (Gaussian) distribution, this is a function of the volatility of the fund. The higher the volatility, the higher the VaR, the greater the risk. CVaR calculates the expected loss, under the assumption that the VaR has been reached.
- **Tracking error (TE):** Measures the expected magnitude of divergence of returns between the fund and benchmark over a given time.
- **Systematic and stock specific risk:** Systematic risk represents the proportion of a fund's risk that is

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attributable to market exposure; and specific risk represents the risk that is intrinsic to individual stocks (i.e. particular to a given stock's attributes).

- **Stress test and scenario analysis:** Captures how much the current portfolio will make or lose if certain market conditions occur.
- **Concentration risk:** By grouping the portfolio through various different exposures: country, sector, issuer, asset etc., to identify where concentration risk exists.

### Escalation and reporting

The Group recognises timely and adequate reporting measures as well as escalation channels to be key components of the control process and management of risk.

The Risk team provide regular updates to the Board/senior management on the adequacy and effectiveness of the Risk Management Process indicating, where applicable, actual or anticipated deficiencies and the remedial measures.

In addition, all issues and events impacting any Group entity or the funds are logged in SWORD, by the relevant area within the prescribed time limits.