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Initiation | Investment companies

4 October 2018

Aberdeen New Dawn

Market setback creates opportunities

Aberdeen New Dawn (ABD) has been using recent falls in Asian markets to reduce its underweight exposure to China (Chinese stocks dominate ABD's benchmark). The manager has become more comfortable with the Chinese market (see page 13) and has demonstrated its ability to pick stocks, delivering strong outperformance from its open-ended fund focused on the China A share market; this fund forms part of ABD's portfolio (see page 9).

In recent years, ABD's performance relative both to its peer group and its benchmark has stabilised. The manager is determined to improve on this and believes the portfolio's focus on quality and value will be rewarded.

Capital growth from Asia Pacific ex Japan

ABD aims to provide shareholders with a high level of capital growth through equity investment in the Asia Pacific countries excluding Japan. ABD holds a diversified portfolio of securities in quoted companies spread across a range of industries and economies. ABD is benchmarked against the MSCI All Countries Asia Pacific ex Japan Index (in sterling terms).

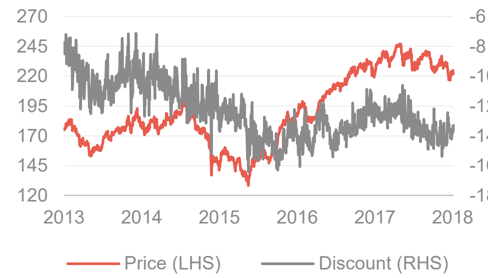
Year ended	Share price total return (%)	NAV total return (%)	MSCI AC Asia Pacific ex-Japan TR. (%)	MSCI AC World total return (%)
30/09/14	3.4	6.3	5.8	11.2
30/09/15	(16.6)	(14.5)	(8.5)	(0.1)
30/09/16	32.1	33.2	37.7	30.6
30/09/17	21.2	18.8	16.8	14.9
30/09/18	2.6	4.0	4.9	12.9

Source: Morningstar, Marten & Co

Sector	Asia ex Japan
Ticker	ABD LN
Base currency	GBP
Price	221.34p
NAV	257.34p
Premium/(discount)	(14.0%)
Yield	1.9%

Share price and discount

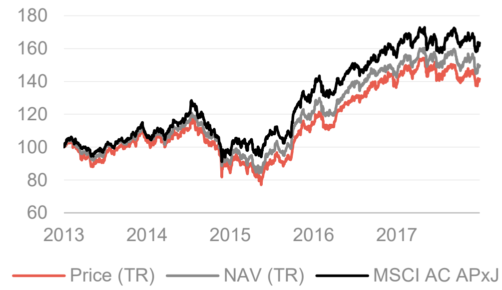
Time period 30/09/2013 to 02/10/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/09/2013 to 30/09/2018



Source: Morningstar, Marten & Co

Domicile	England and Wales
Inception date	12 May 1989
Manager	Aberdeen Fund Managers
Market cap	250.0m
Shares outstanding	113.0m
Daily vol. (1-yr. avg.)	103.4k shares
Net gearing	10.8%

Contents

Market outlook

Trade wars, rising US interest rates and a strong dollar have impacted on Asian equity markets

Equity markets in the Asia Pacific region and China, in particular, have been falling in recent months. This is both in absolute terms and relative to global indices. The growing trade war between the US and China has impacted on sentiment, as have rising US interest rates and a strong US dollar.

Figure 1: MSCI AC Asia Pacific ex Japan relative to MSCI AC World Index

Source: Morningstar, Marten & Co

Trade and currency wars?

Figure 2: Yuan/$ exchange rate

Source: Bloomberg, Marten & Co

US interest rates have increased twice in 2018 and two more rate rises are planned

As Figure 2 shows, the Chinese currency has depreciated sharply since mid-April 2018, returning to levels last seen at the end of 2016. The move occurs in the wake of a 0.25% hike in US rates on 21 March 2018, a further quarter point rise on 13 June and the promise of two more quarter point rate rises to come in 2018.

Over the course of 2018, the trade war rhetoric that accompanied President Trump's election has become reality

The first salvos in the trade war were fired in January 2018 when tariffs were imposed on Chinese washing machines and solar panels. The steel and aluminium tariffs followed in March and 25% tariffs on $50bn of other Chinese goods on 6 July. In the latest development, tariffs on a further $200bn of Chinese goods were announced on 18 September. These start at 10% and increase to 25% next year. China has responded with tariffs of its own but the depreciation of the yuan will offset the impact of US tariffs to some extent and President Trump may revive his accusations of currency manipulation as a consequence.

The effects of the trade war have threatened to spill over into other Asian nations as Chinese imports of the semi-finished goods and raw materials that contribute to the end product sold to the US are affected. The manager says that the Philippines appear to be most vulnerable to this issue but even the Vietnamese market, which appears on the right hand side of the chart in Figure 3, saw most of the gains it made in Q4 2017 and Q1 2018 evaporate, as investors fretted about the impact of a trade war on its booming export market.

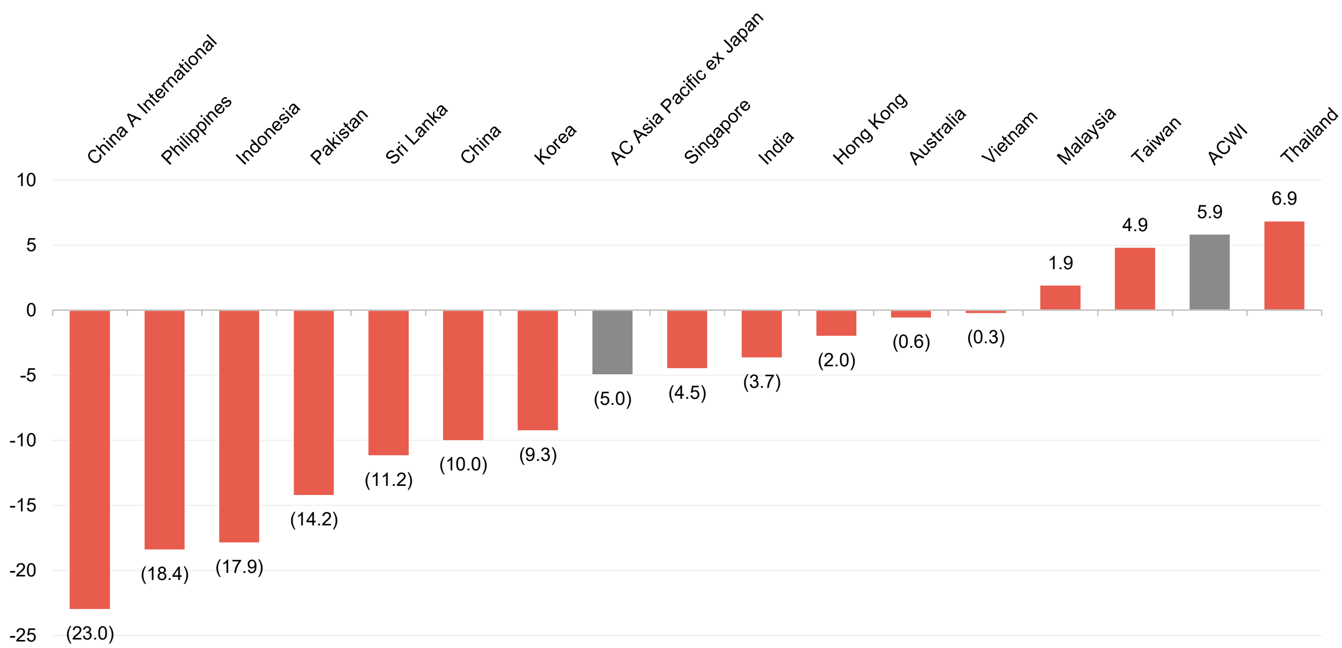
Asian countries are deepening trade ties

However, it may be that growth of intra-regional trade helps to cushion any US trade war blow. The Trans-Pacific Partnership (TPP) went ahead without the US and now the emphasis is on negotiating the RCEP (Regional Comprehensive Economic Partnership), which will include China and India.

China is also pushing ahead with its Belt and Road initiative (aimed at deepening trade links and improving transport infrastructure across much of the world excluding the Americas). This is no one-way street, however. Countries benefitting from these initiatives must also contribute and, in August 2018, the new government in Malaysia cancelled $22bn of Belt and Road related projects on affordability grounds.

Falling valuations

Figure 3: Year to date moves in MSCI indices (in sterling)

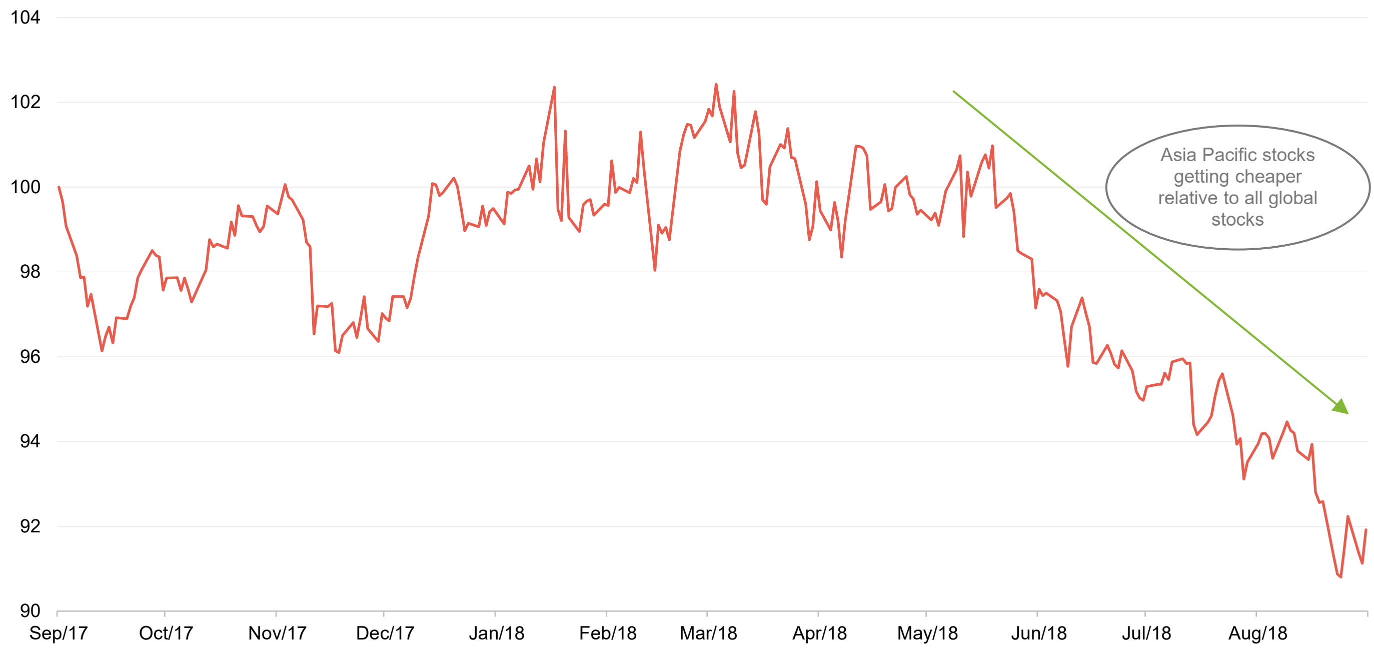


Source: Morningstar, Marten & Co

Figure 3 shows that Asian markets have been weak this year and the Chinese A share market particularly so (A shares are listed in mainland China, while H-shares are listed in Hong Kong); only Thailand has beaten the MSCI AC World Index. Rising oil prices have also had a negative effect on many markets, notably India where rising fuel costs are feeding through into higher inflation and a weaker current account.

The net effect has been a moderation in valuations across Asia as is evident in Figure 4.

Figure 4: MSCI AC Asia Pacific ex Japan p/e ratio relative to MSCI AC World Index p/e ratio



Source: Bloomberg, Marten & Co

Fund profile

High levels of capital growth through equity investment in Asia Pacific ex Japan countries

Aberdeen New Dawn (ABD) aims to provide shareholders with a high level of capital growth through equity investment in the Asia Pacific countries excluding Japan. ABD holds a diversified portfolio of securities in quoted companies spread across a range of industries and economies. Investments may also be made through collective investment schemes (funds – both open and closed-ended) and in companies traded on stock markets outside the Asia Pacific region, provided that over 75% of their consolidated revenue is earned from trading in the Asia Pacific region or they hold more than 75% of their consolidated net assets in the Asia Pacific region.

Further information about ABD is available at: www.newdawn-trust.co.uk

ABD is benchmarked against the MSCI All Countries Asia Pacific ex Japan Index (in sterling terms).

The manager is Aberdeen Fund Managers Limited which has delegated the investment management of the company to Aberdeen Asset Management Asia Limited (Aberdeen or the manager). Both companies are wholly owned subsidiaries of Standard Life Aberdeen Plc. At the end of December 2017, Standard Life Aberdeen's Asia Pacific equities business had assets under management (AUM) of $37.4bn, of which the large cap, Asia Pacific ex Japan strategy (that ABD forms a part of) accounted for $14.7bn.

Aberdeen's approach is to manage money using a team approach (see the investment process section on page 7). QuotedData's analysts met James Thom, a senior investment manager in the team, for the purposes of preparing this note. More information on the manager is given on page 16.

Manager's view

How sustainable is dollar strength?

The manager notes the strengthening of the US dollar relative to Asian currencies but questions whether this trend is sustainable. It points to the flattening yield curve (which charts the relationship between long-term and short-term interest rates) in the US – this gap tends to narrow towards the end of the business cycle as central banks push up short term interest rates to reduce inflation) and the withdrawal of stimulus from that economy as quantitative easing (QE) is unwound.

Limited contagion risk from 'problem' emerging market countries such as Argentina and Turkey

Asian markets have fallen in tandem with growing investor concern about the health of emerging economies. The manager highlights however that Asia is in far better shape than countries such as Argentina, Turkey, South Africa and Brazil. Indonesia is running a current account (balance of trade) and fiscal (government spending relative government revenue) deficit. Its currency and bond market have come under pressure. The manager says that investors are paying close attention to the region's central banks' policy responses to the situation but the country is fundamentally less volatile than emerging markets outside of Asia.

Value emerging in China as stocks slide

The manager notes that Chinese markets are still heavily influenced by retail investment activity and sentiment swings can result in large valuation overshoots, both positive and negative. The team sees value emerging in China and has been taking advantage of the sell-off to add to stocks at attractive valuations.

The government has the levers to manage China's credit boom and has successfully stabilised the debt to GDP ratio

Concern has been building in some quarters about the growth of Chinese credit. The debt/GDP ratio for China is estimated to be in excess of 250%; this is high compared to most countries. There are also worries about the extent of non-performing loans (loans that are have not kept up with their interest or principal repayments and may become a bad debt) on Chinese banks' balance sheets. There may also be a larger problem within the shadow-banking market (the shadow banking market refers to lending and other financial activities that are undertaken by unregulated institutions or under unregulated conditions). The manager acknowledges the situation but points out that the government is well aware of where the issues lie and has the levers, in the form of the ability to set interest rates and tax rates, for example, available to fix them. Almost all debt is in local currency (and so not exposed to exchange rate risk) and the most challenged companies tend to be state-owned enterprises where the government has considerable influence.

US exports are just 1.3% of corporate revenues

The manager is watching whether the government will react to any slowdown in the economy with fresh stimulatory measures. However, with respect to the growing trade war, the manager points out that US revenues account for just 1.3% of listed company earnings in China (most of that is focused in the technology hardware sector).

Stronger oil price and upcoming elections holding back Indian equity market

Oil prices have been stronger in recent months. This is good news for producers such as Malaysia but it is having a negative impact on India, which is a net importer. In India, rising fuel prices have contributed to an uplift in inflation and a weaker rupee. Investors are nervous anyway, in advance of elections scheduled for 2019, but the manager says that, from a bottom-up perspective, Indian companies are in good shape.

Generally, earnings prospects look good and balance sheets are strong

In general, the manager is positive on the outlook for the region and says that the long-term macroeconomic fundamentals remain supportive. The manager also reports that, generally within the portfolio, earnings prospects look good and balance sheets are strong. This is reflective of Asian markets generally; the manager predicts an earnings recovery over the next couple of years as margins expand and average net debt to equity ratios in Asia are a fraction of those in the US, for example.

Investment process

There was very little impact on the makeup of the Asian equities team as a result of the merger that formed Standard Life Aberdeen. However, there has been an accelerated shift towards assigning research responsibilities on a sector by sector basis rather than along geographic lines.

Stock selection is key to portfolio construction

Stock selection is still key to portfolio construction but thematic insights (such as technological developments) and structural changes to industries influence stock selection. The core tenets of the Aberdeen approach to managing money remain unchanged, as follows:

- a, long-term, buy and hold strategy;
- a research-intensive process with an emphasis on meeting management; and
- a bias towards high quality companies (where quality is determined by an assessment of management, business focus, the health of the balance sheet and corporate governance).

A preference for and the promotion of good corporate governance is an important part of the approach

A preference for and the promotion of good corporate governance is an important part of the approach. In recent times, Aberdeen has broadened this to include an evaluation of both the environmental and social impacts of a potential investment. Environmental, social and governance (ESG) analysts are embedded within the investment management team. Aberdeen is not an activist investor but sees the value of engaging with companies.

Important to meet management

No stock is bought unless the manager has met management and follow up meetings are held at least six-monthly. The team had over 1,600 meetings with companies last year.

Any member of the team can put forward a new investment idea but initial research tends to be carried out by the relevant sector and geographic specialist. Ideas are circulated internally and discussed at team meetings until a consensus has been reached.

With respect to assessing the potential reward available from a stock, an analysis is made of key financial ratios, the market that the company operates within, the peer group and the company's business prospects.

Diversification is key to risk management

Risk assessment is focused on ensuring that the portfolio is adequately diversified (on a range of metrics) rather than formal sector or geographic controls. Little attention is paid to market capitalisation but an evaluation of liquidity does have a role.

New additions to the portfolio tend to be introduced at a 0.5% weighting and will be increased only after they have been monitored for a while and the investment thesis appears to be working. Thereafter, position sizes are driven by conviction and the manager's assessment of portfolio diversification.

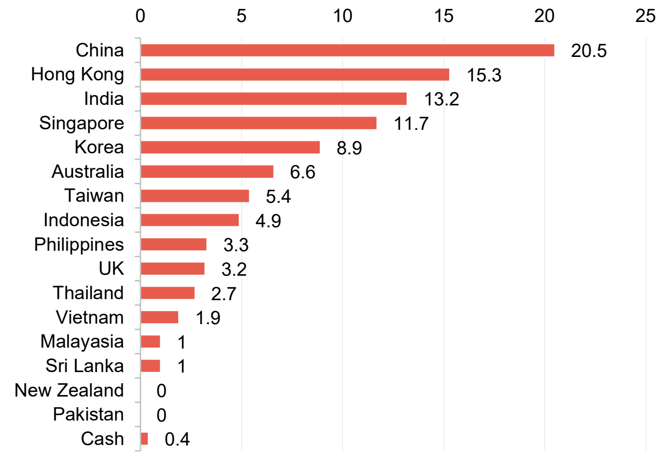
In the day-to-day management of the portfolio, the manager seeks to take advantage of anomalous price movements to either top up or top slice positions. This typically accounts for the bulk of buying and selling activity. Sales are often also triggered by M&A activity; the manager believes that its emphasis on high quality companies results in selecting stocks for portfolios that are also likely targets for takeovers. Sales will also be made when the manager's investment thesis does not go to plan.

The trust's current gearing level is around 10% and the manager says that borrowings are used conservatively where opportunities arise. ABD does not hedge currency risk on a continuing basis but may, from time to time, match specific overseas investment with foreign currency borrowings (see page 15).

Asset allocation

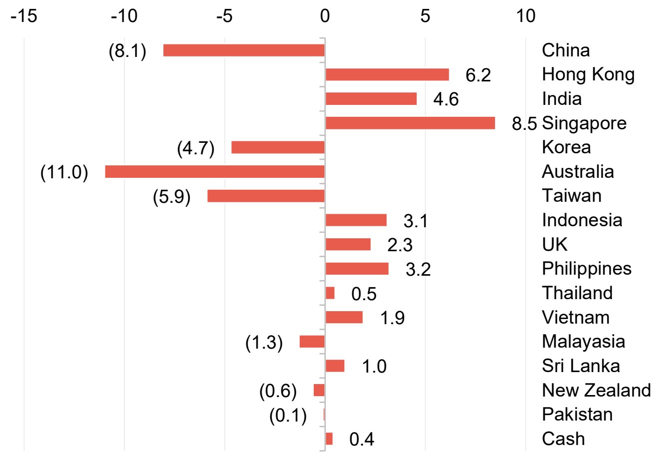
The manager has been adding selectively to ABD's modest exposure to frontier markets. The portfolio now includes three Vietnamese companies, for example (see page 10).

Figure 5: ABD asset allocation by country as at 31 August 2018



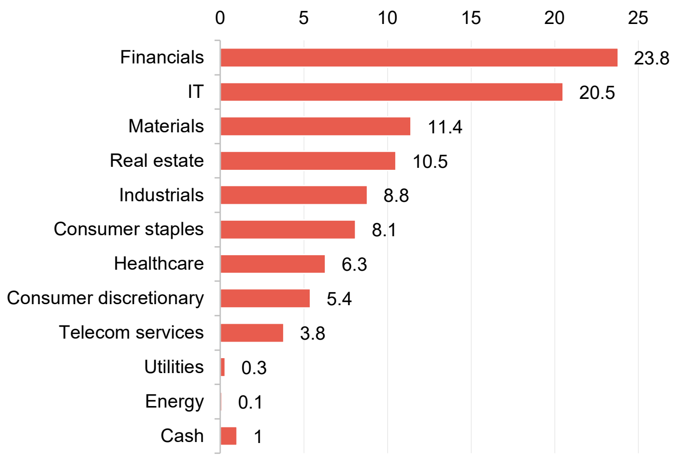
Source: Aberdeen New Dawn, Marten & Co

Figure 6: ABD asset allocation relative to benchmark as at 31 August 2018



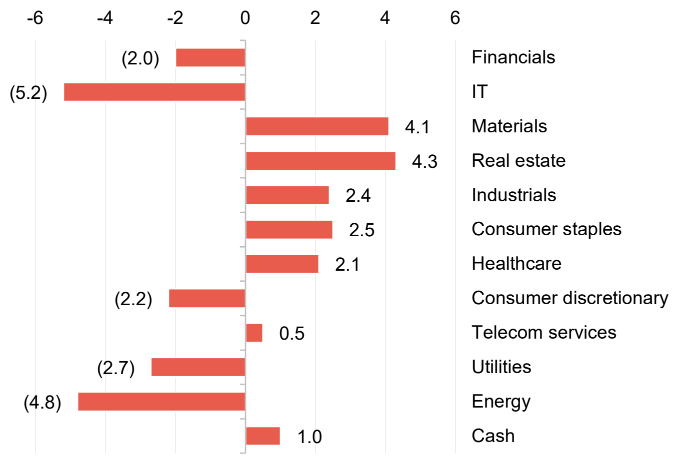
Source: Aberdeen New Dawn, Marten & Co

Figure 7: ABD asset allocation by sector as at 31 July 2018



Source: Aberdeen New Dawn, Marten & Co

Figure 8: ABD asset allocation relative to benchmark as at 31 July 2018



Source: Aberdeen New Dawn, Marten & Co

The major change of the last couple of years, however, has been an increase in the fund's direct exposure to mainland Chinese companies (rather than seeking to access Chinese growth through companies based in Hong Kong and Singapore). The manager says that it has become more comfortable with corporate governance standards and, with respect to Tencent, for example, corporate structures (see page 13). The manager notes that the Chinese companies in the portfolio have strong balance sheets (net cash in aggregate), low exposure to exports (just 1% of sales coming from overseas), average earnings growth of 18% and trading on an average p/e ratio of 14.6x (both as at 31 July 2018).

Relative to the benchmark, ABD has a notable underweight exposure to information technology. ABD's manager says that this reflects valuations in that sector and the absence of a holding in Alibaba (one of the largest stocks in the benchmark with a weighting of 3.6% at 31 August 2018).

Top 10 holdings

Funds are used to gain diversified exposure to Indian and locally-listed Chinese stocks

Figure 9 shows the top 10 holdings in the portfolio as at the end of August 2018.The constituents of the top 10 holdings are unchanged from six months earlier, underlining ABD's long-term approach. The top 10 holdings account for almost half the portfolio but include two fund investments, an Indian fund and the China A-share fund is held to give ABD diversified exposure to those markets, with the investment in the Indian fund also providing tax benefits. The management fees charged on these are rebated so there is no additional cost to ABD. ABD's active share (the percentage of a portfolio that is different to its benchmark) at the end of August 2018 was 70.7%.

Figure 9: 10 largest holdings as at 31 August 2018

Stock	% of gross assets 31 Aug 2018	% of gross assets 28 Feb 2018	% change	Country	Business focus
Aberdeen Global Indian Equity	11.3	10.8	0.5	India	Collective fund
Aberdeen Global China A Share	6.5	6.8	(0.3)	China	Collective fund
Samsung Electronics	5.4	5.1	0.3	Korea	Technology
TSMC	4.4	3.9	0.5	Taiwan	Technology
Jardine Strategic	3.9	4.0	(0.1)	Hong Kong	Conglomerate
Tencent	3.9	3.5	0.4	China	Technology
Ayala Land	3.3	2.9	0.4	Philippines	Property
AIA	3.0	3.0	0.0	Hong Kong	Insurance
Oversea-Chinese Banking Corp.	3.0	3.5	(0.5)	Singapore	Bank
Bank Central Asia	3.0	2.6	0.4	Indonesia	Bank
Total	**47.7**	**46.1**			

Source: Aberdeen New Dawn, Marten & Co

Aberdeen Global Indian Equity

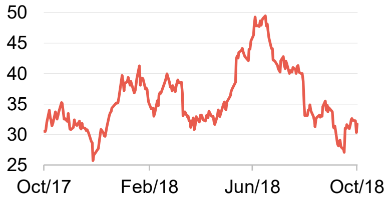
Managed by the Asian equities team, the $2.0bn Aberdeen Global Indian Equity Fund invests in a concentrated (33-stock as at 31 August 2018) portfolio of large cap Indian equities. It beat its benchmark (the MSCI India Index) by 1.89% per annum over the five years ended 31 August 2018 (GBP share class).

Aberdeen Global China A Share

Aberdeen Global China A has beaten its benchmark by 16.7% per annum, since launch

Also managed by the Asian equities team, the $1.8bn Aberdeen Global China A Share Equity Fund invests in a concentrated (33-stock as at 31 August 2018) portfolio of large cap Chinese equities. It beat its benchmark (the MSCI China A share Index) by 16.7% per annum over the period from its launch on 16 March 2015 to 31 August 2018 (USD share class).

Figure 10: Huazhu Group share price



Source: Bloomberg, Marten & Co

Figure 11: Wuxi Biologics share price

Source: Bloomberg, Marten & Co

New additions to the portfolio

Portfolio turnover has risen somewhat in recent years. Much of the turnover reflects top slicing and incremental additions to weightings in response to valuation changes. New holdings this year include:

Huazhu Group, a Chinese hotel operator, is now the twelfth-largest in the world with a portfolio of over 3,900 hotels at the end of June 2018. It also has a membership programme with over 108m participants. China has been experiencing growth in both inbound and internal tourism. Huazhu is emphasising growth within the mid and up-scale segments of the hotel market and, to that end, has concluded a partnership deal with Accor. The manager thinks that this will help boost margins. It also thinks that Huazhu has a good track record of executing on its business plan. Huazhu is expecting full year revenue growth of 18%-22% for 2018.

Wuxi Biologics is a sub-contractor to a number of biotech companies looking to outsource part of their research and development work and/or manufacturing process. The manager believes the company is becoming a national ‘champion’ in this area and has demonstrated a good track record of business execution. The company operates from three sites in China and is the only company in China with FDA-approved biologic manufacturing facilities. The company has plans to add manufacturing facilities in Ireland, Singapore and the US, as well as building on its presence in China. Year-on-year revenue growth at the half-year stage (end June 2018) was 61% and it has a substantial and growing order book.

The manager also made new investments in Autohome (a leading online car buying site in China), Mobile World (a mobile phone and consumer electronics retailer in Vietnam) and Vietnam Technological & Commercial Joint Stock Bank (Techcombank), Vietnam’s leading mortgage provider and VISA credit card franchisee.

Exits from the portfolio

Three holdings have been sold in their entirety. Aitken Spence, a Sri Lankan conglomerate whose business has been under pressure; MTR Corporation, where the manager believed that the valuation looked expensive following the payment of a large special dividend; and Malaysian bank, CIMB, which had outperformed rivals but the manager felt it was failing to deliver on its original investment thesis.

Performance

As Figure 12 shows, ABD lagged both its benchmark and its peer group in the period from Q4 2014 to Q1 2016. Its relative performance has stabilised since but short-term weakness has dragged down the cumulative returns shown in Figure 13.

Longer-term, the principal cause of ABD’s underperformance can be attributed to its underweight exposure to both China and the technology sector, both of which dominate returns in the sector in recent years.

Short-term attribution analysis reflects a continuation of a longer-term trend where underweight exposure to China and technology held back returns

Shorter-term analysis, carried out by Aberdeen and BNP Paribas Securities Services, using data from Thomson Reuters Datastream, suggested that, on a geographic basis for 2018 (to the end of July), the greatest positive influences on the fund's performance relative to its benchmark came from stock selection in Australia, India and Hong Kong, and an underweight exposure to Chinese equities. The portfolio's exposure to Singapore and Vietnam proved unhelpful.

Figure 12: ABD NAV total return performance relative to benchmark[1] and peer group[2] to 31 August 2018

Source: Morningstar, Marten & Co. Note 1) Note: ABD's benchmark is the MSCI AC Asia Pacific ex Japan index in sterling. 2) The peer group is defined on page 12.

Figure 13: ABD performance over periods ending 30 September 2018

	1 month	3 months	6 months	1 year	3 years	5 years
ABD share price TR	(2.0)	0.3	(1.4)	2.6	64.2	41.6
ABD NAV TR	(2.9)	(0.7)	(0.8)	4.0	64.6	49.6
Benchmark[1]	(1.7)	(0.2)	2.2	4.9	68.7	63.5
Peer group[2] avg. NAV TR	(2.7)	(1.5)	0.2	5.1	71.5	79.2

Source: Morningstar, Marten & Co. Note: Note 1) Note: ABD's benchmark is the MSCI AC Asia Pacific ex Japan index in sterling. 2) The peer group is defined on page 12.

On a sector level, the portfolio's underweight exposure to information technology and stock selection there and in the consumer staples sector detracted from returns. However, exposure to the financials sector proved beneficial.

Figure 14: Positive contributions

	Portfolio weight 31/07/18 (%)	Index weight 31/07/18 (%)	Stock return YTD (%)	Contribution to relative return (%)
Anhui Conch Cement	1.40	0.14	44.8	0.43
CSL	2.61	1.16	37.2	0.41
Swire Properties	1.67	0.08	28.3	0.35
Swire Pacific	1.13	0.09	22.5	0.22
Rio Tinto	2.41	0.44	8.1	0.22

Source: Aberdeen, BNP Paribas Securities Services, Thomson Reuters Datastream

Maybe of more interest, given the manager's emphasis on stock selection as a primary driver of alpha (the outperformance of a stock over its index), are the stock-specific moves shown in Figures 15 and 16.

Anhui Conch Cement is China's largest cement manufacturer, CSL is an Australian healthcare company and Swire Properties is a listed subsidiary of Hong Kong based conglomerate, Swire Pacific.

Figure 15: Negative contributions

	Portfolio weight 31/07/18 (%)	Index weight 31/07/18 (%)	Stock return YTD (%)	Contribution to relative return (%)
Alibaba	nil	3.80	12.0	(0.41)
City Developments	1.84	0.05	(17.9)	(0.38)
Indocement Tunggal Prakarsa	0.70	0.03	(35.1)	(0.37)
Ayala Land	2.98	0.10	(10.7)	(0.35)
Naver Corporation	1.40	0.32	(18.7)	(0.25)

Source: Aberdeen, BNP Paribas Securities Services, Thomson Reuters Datastream

Not holding Alibaba was a drag on ABD's relative performance. City Developments is a Singapore-listed property company. Indocement is the Indonesian listed subsidiary of Heidelberg Cement. Ayala Land is a family-controlled property company in the Philippines and one of ABD's largest holdings.

Peer group

Up-to-date information on ABD and its peer group is available at [QuotedData.com]

For comparison purposes, a subset of funds in the AIC's Asia excluding Japan sector has been used. Excluded funds include those with a small cap bias and those whose remit includes an income objective. Witan Pacific, which sits in the AIC's Asia including Japan sector, has also been excluded.

Figure 16: Selected Asian trusts comparison table (data as at 2 October 2018)

	Market cap £m	(Discount)/ Premium (%)	Yield (%)	Ongoing charge (%)
ABD	250	(14.0)	1.9	0.84
Edinburgh Dragon	671	(11.1)	0.9	1.03
Fidelity Asian Values	280	(2.6)	1.3	1.29
Invesco Asia	195	(13.0)	2.0	1.00
JPMorgan Asian	318	(11.0)	4.6	0.73
Martin Currie Asia	134	(12.7)	4.4	1.07
Pacific Assets	321	(2.4)	1.0	1.25
Pacific Horizon	192	2.6	0.0	1.07

Source: Morningstar, Marten & Co

With a market cap of £250m as at 2 October 2018, ABD is a reasonable size. It trades on the widest discount of this peer group (within the wider peer group, only Aberdeen Asian Smaller companies trades on a wider discount) but this could narrow if ABD's relative performance improves. ABD's yield is modest, reflecting its focus on capital growth and because, unlike a couple of its peers, it does not make distributions from capital. Its ongoing charges ratio is competitive (see page 15 for more detail).

Figure 17: Asia ex Japan trusts NAV total return performance over periods ending 30 September 2018

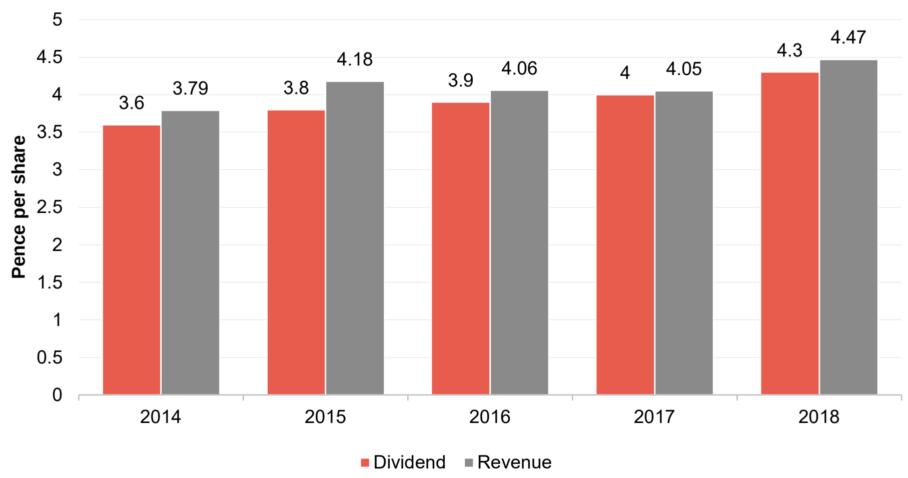
	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
ABD	(2.9)	(0.7)	(0.8)	4.0	64.6	49.6
Edinburgh Dragon	(2.7)	(1.3)	(1.4)	4.5	62.2	51.1
Fidelity Asian Values	(3.2)	(1.0)	0.8	1.7	67.3	82.4
Invesco Asia	(2.1)	(0.7)	1.1	2.7	75.6	92.6
JPMorgan Asian	(1.2)	0.3	1.1	7.3	84.1	89.4
Martin Currie Asia Unconstrained	(2.5)	(0.2)	1.9	4.5	63.5	48.8
Pacific Assets	(3.2)	1.0	6.6	11.6	53.4	84.3
Pacific Horizon	(4.9)	(6.6)	(5.9)	4.9	85.4	90.6
Schroder Asia Pacific	(2.1)	(2.9)	(1.5)	4.2	81.0	94.7

Source: Morningstar, Marten & Co

ABD's three and five-year performance falls towards the bottom of this peer group. For a time, other funds in this peer group were less cautious on China and the corporate structures that allowed access to Chinese leading technology companies; they reaped the rewards. The manager had a long-standing conviction that it would not invest in companies such as Tencent and Alibaba that were only accessible to foreign investors through structures known as 'variable interest entities'. These structures had been established to bypass Chinese government restrictions on foreign ownership of internet licences. The manager relaxed this stance somewhat towards the end of last year and Tencent was added to ABD's portfolio. (Alibaba still does not feature as the manager continues to have some reservations about its corporate governance). The recent setback in the Chinese market has allowed the manager to narrow the fund's underweight exposure. The success of the Chinese A share fund, that was highlighted on page 9, demonstrates that the manager can outperform in this market. In addition, over shorter time periods, when markets have been weak, ABD's focus on quality stocks has made it more resilient.

Dividend

Figure 18: ABD dividends and revenue per share since 2014



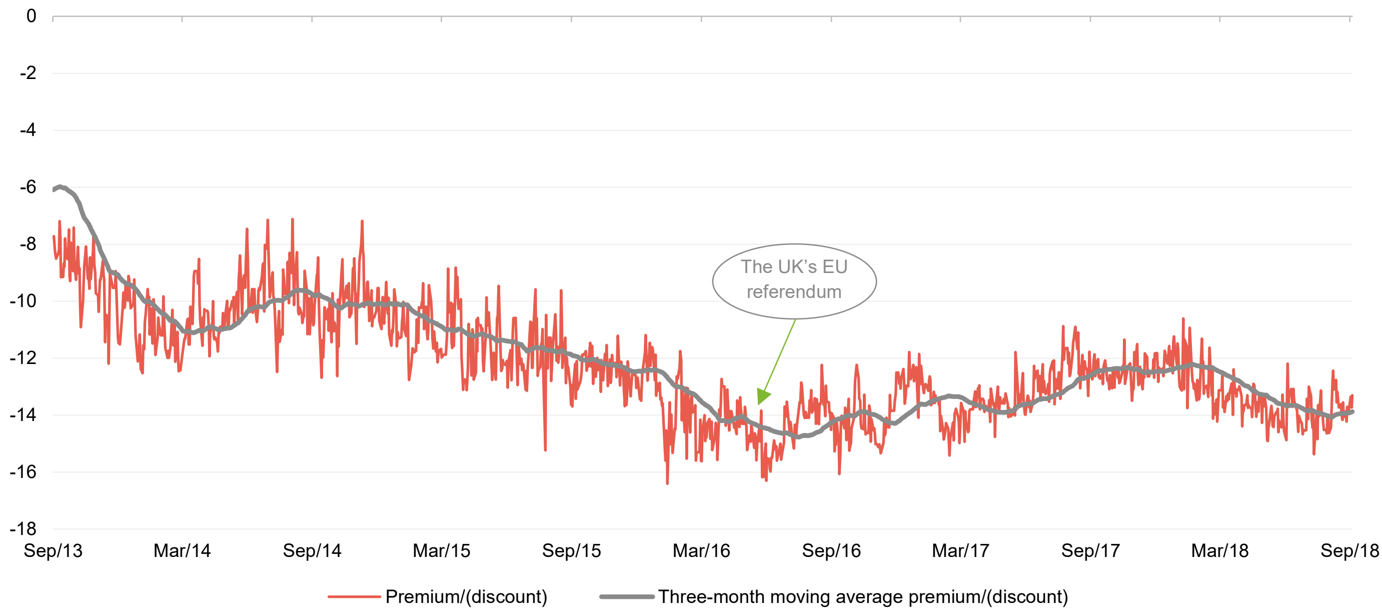
Source: Aberdeen New Dawn

ABD's focus is on generating capital growth rather than income. It pays two dividends a year, in January and September, from surplus income (unlike some of its peers, which pay a large part of their dividend from capital). As illustrated in Figure 18, ABD has grown its total dividend every year for at least the last five years and, because its dividend has been fully covered each year, ABD has continued to grow its revenue reserve. This stood at £13.118m at the end of April 2018, equivalent to 11.6p per share.

Discount

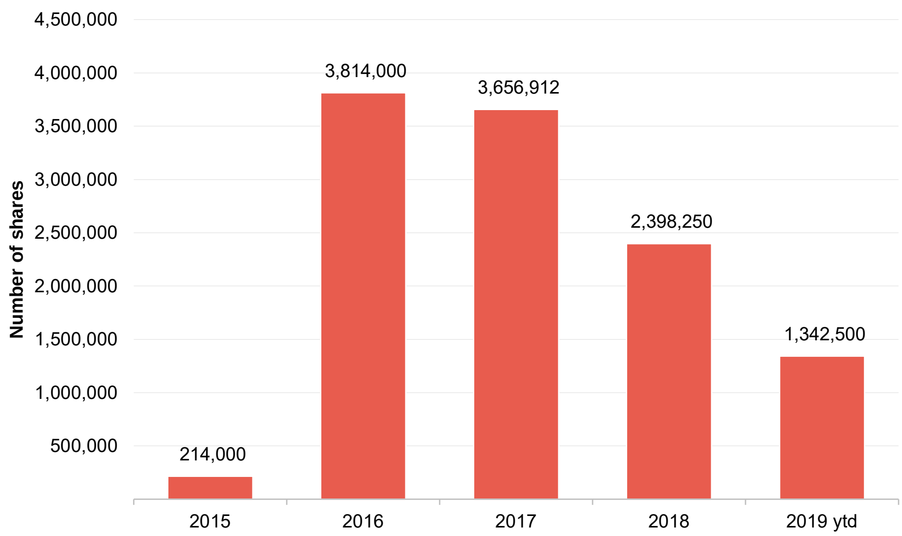
ABD's discount has moved within a range of 11.3% to 16.3% over the year ending 31 August 2018 and averaged 13.0% over that period. In normal market conditions ABD repurchases shares when the discount is wider than the board would like. The board has no specific discount target in mind. Its aim is to provide a degree of liquidity for shareholders. The authority to repurchase shares is renewed at each AGM (and more frequently, if necessary).

Figure 19: ABD discount over five years to 30 September 2018



Source: Morningstar, Marten & Co

Figure 20: ABD shares repurchased in years ended 30 April



Source: Aberdeen New Dawn, Marten & Co

Shares are repurchased into treasury and can only be re-issued to the market at a premium to the NAV. In the event that the number of treasury shares represents more than 10% of ABD's issued share capital (excluding treasury shares), the company will cancel sufficient treasury shares such that the remaining balance will equal 7.5% of the issued share capital.

Fees and costs

The management fee is payable monthly in arrears based on an annual rate of 0.85% of NAV. The fee is adjusted so that there is no additional fee charged on other funds managed by the manager. The management agreement is terminable by either side on not less than 12 months' notice.

Half the management charge is charged against the company's revenue account and the balance against the capital account.

In addition to the management fee, the company pays an amount each year to the manager for its promotional activities in relation to the trust. This was £158,000 for the year ended 30 April 2018, unchanged from the previous year.

For the year ended 30 April 2018, ABD's ongoing charges ratio was 0.84% (down from 0.91% for the previous accounting year).

Capital structure and life

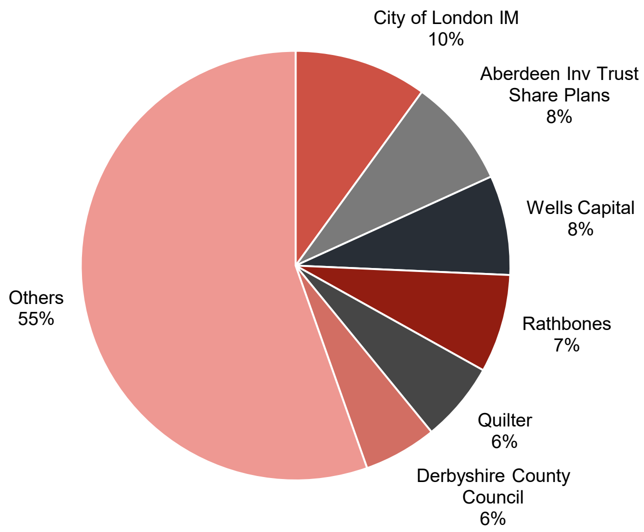
ABD has 113,111,348 ordinary shares in issue and no other classes of share capital.

The board determines the gearing strategy for the company subject to a current maximum limit of 25% of net assets. Borrowings are short to medium term and particular care is taken to ensure that any bank covenants permit maximum flexibility of investment policy. ABD has a £35m multi-currency loan provided by the Royal Bank of Scotland. The facility is due to mature in October 2019 and the board is considering the options for its renewal. Net gearing at the end of August 2018 was 10.8%.

ABD does not have a fixed life. However, under its articles of association, if, in the 90 days preceding ABD's 30 April year end, its average discount exceeds 15%, notice will be given of an ordinary resolution to be proposed at the following AGM to approve the continuation of the company. ABD usually holds its AGMs in September.

Major shareholders

Figure 21: Major shareholders as at 30 April 2018



Source: Aberdeen New Dawn, Marten & Co

Management team

Aberdeen has a commitment to investing in both people and technology and is recruiting currently for its offices in Singapore and Hong Kong. In addition to the seven office locations shown in Figure 22, the company also aspires to open an office in Shanghai, China.

Figure 22: Location of Aberdeen's offices

Source: Aberdeen Standard Investments, Marten & Co

Flavia Cheong heads up the 44-strong Asia Pacific equities team and her deputy is Kwok Chem-Yeh. The Singapore office is the manager's largest. This is where James Thom and, ABD director, Hugh Young (see below) are based.

Board

ABD has five directors all of whom are non-executive and who do not sit together on other boards. The majority are independent of the manager with the exception of veteran fund manager, Hugh Young (see below), who is a director of various entities connected with or within the Standard Life Aberdeen Group, which owns the manager.

All directors stand for re-election each year. Total directors' fees are limited to £200,000 per annum and this limit may only be increased by shareholder resolution.

Figure 23: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding[2]
David Shearer	Chairman	01/01/2007		35,000	25,000
John Lorrimer	Chairman of the audit committee	01/01/2010		29,500	25,000
Susie Rippinghall	Director	01/07/2014		26,000	25,000
Marion Sears	Director	01/08/2016		26,000	35,000
Hugh Young	Director	02/05/1989		26,000[1]	81,320

Source: Aberdeen New Dawn, Marten & Co Note: 1) Hugh Young's fee has been assigned to the Standard Life Aberdeen Group. 2) as at 30 April 2018

David Shearer is a board level strategic advisor and turnaround specialist. Previously he was chairman of Mouchel Group Plc and Crest Nicholson Plc, and a non-executive director of City Inn Limited, where he led the successful restructuring of these respective businesses. He was also co-chairman of Martin Currie (Holdings) Limited. He is currently chairman of Liberty Living Group Plc, Liberty Living Finance Plc and the Scottish Edge Fund, and a non-executive director of Speedy Hire Plc.

John Lorrimer held a number of management positions in Citigroup prior to joining Standard Chartered Bank, where he was group head of finance and latterly group head of compliance and regulatory risk. He is also a director of BUPA Australia Limited and Bank of Queensland Limited.

Susie Rippinghall has over 20 years of fund management experience in Asian markets and was, until 2013, portfolio manager of Scottish Oriental Smaller Companies Trust Plc. She is currently a non-executive director of Sovereign Asset Management Limited, NTAsian Discovery Fund and NTAsian Emerging Leaders Fund.

Marion Sears had an executive career in stockbroking and investment banking and was latterly a managing director of investment banking at JPMorgan. She is also a non-executive director of Persimmon Plc, Dunelm Group Plc and Fidelity European Values Plc.

Hugh Young was an investment manager with Fidelity International and MGM Assurance prior to joining what is now Aberdeen Asset Managers Limited in December 1985. He is managing director of Aberdeen Asset Management Asia Limited, responsible for all the Standard Life Aberdeen Group's investments in Asia. He is also a director of Aberdeen Australia Equity Fund Inc., Aberdeen Asia Pacific Income Investment Company Limited, Aberdeen Asian Income Fund Limited, Aberdeen Asian Smaller Companies Investment Trust Plc (alternate) and The India Fund Inc.

QuotedData

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IMPORTANT INFORMATION