

June 2018

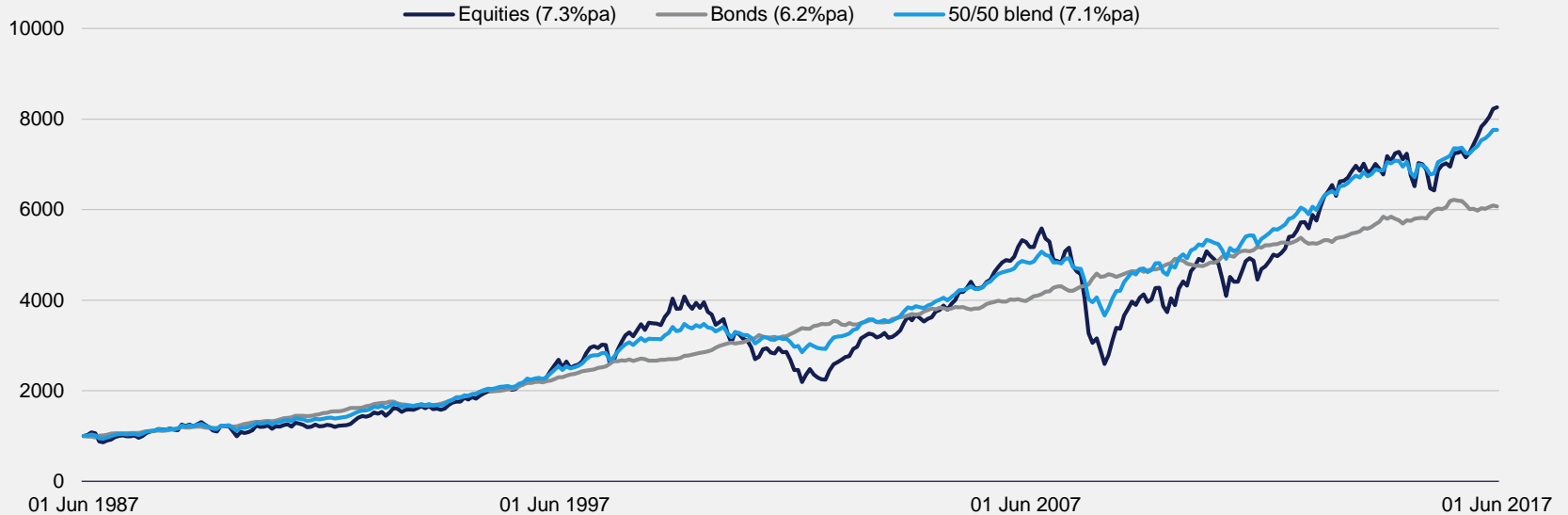
# Time to Diversify

Mike Brooks, Head of Diversified Assets



# Historically traditional asset classes have delivered...

## 30 Year Return (%pa)



Source: Aberdeen Standard Investments. Performance shown in USD terms. Equity represented by a blend of MSCI World Equity; Bonds by Citigroup WGBI USD Hedged; and the 50/50 portfolio a 50% equity, 50% bond blend monthly rebalanced. Data to 30 June 2017

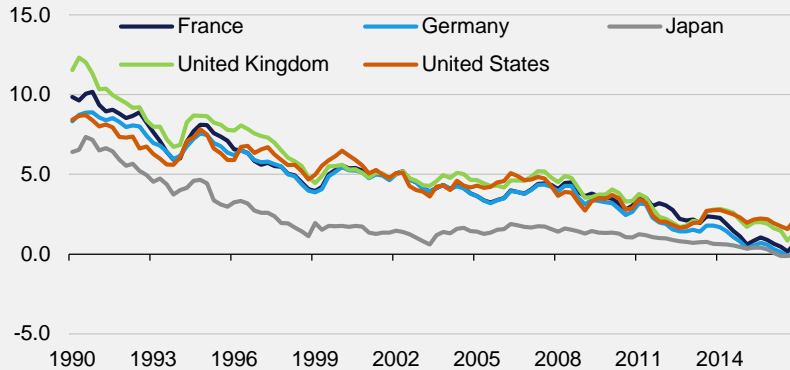
## Past performance is not a guide to future results

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# ...but face a challenging outlook

## Structurally lower growth and bond yields

### Bond yields (10 year)

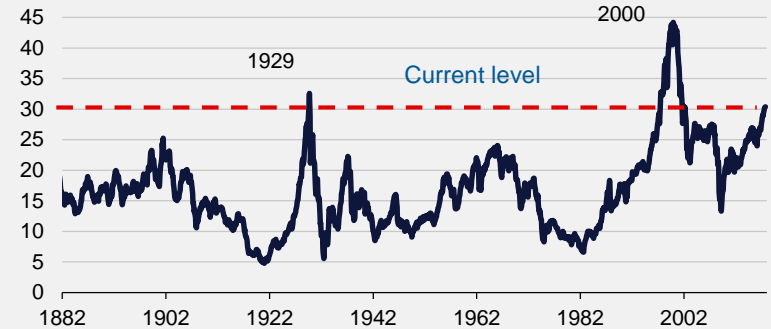


- Most developed economies are facing structurally lower growth due to weakening demographics, substantial debt burdens and increasing protectionism
- Given extremely low bond yields our 5-year expected return for government bonds is less than 1.4% p.a.\*

\* As at Feb 2018 in GBP. Source: Aberdeen Standard Investments

## Expensive equity valuations and increasing risks

### Shiller CAPE (S&P 500 Price/10Y average earnings)



- Equity markets have had a strong run since the financial crisis but now valuations are stretched. Our 5-year expected return is now 3.3% p.a.\*
- Near-term risks include monetary tightening, trade wars and slowdown in Chinese growth

\* As at Feb 2018 in GBP. Source: Aberdeen Standard Investments

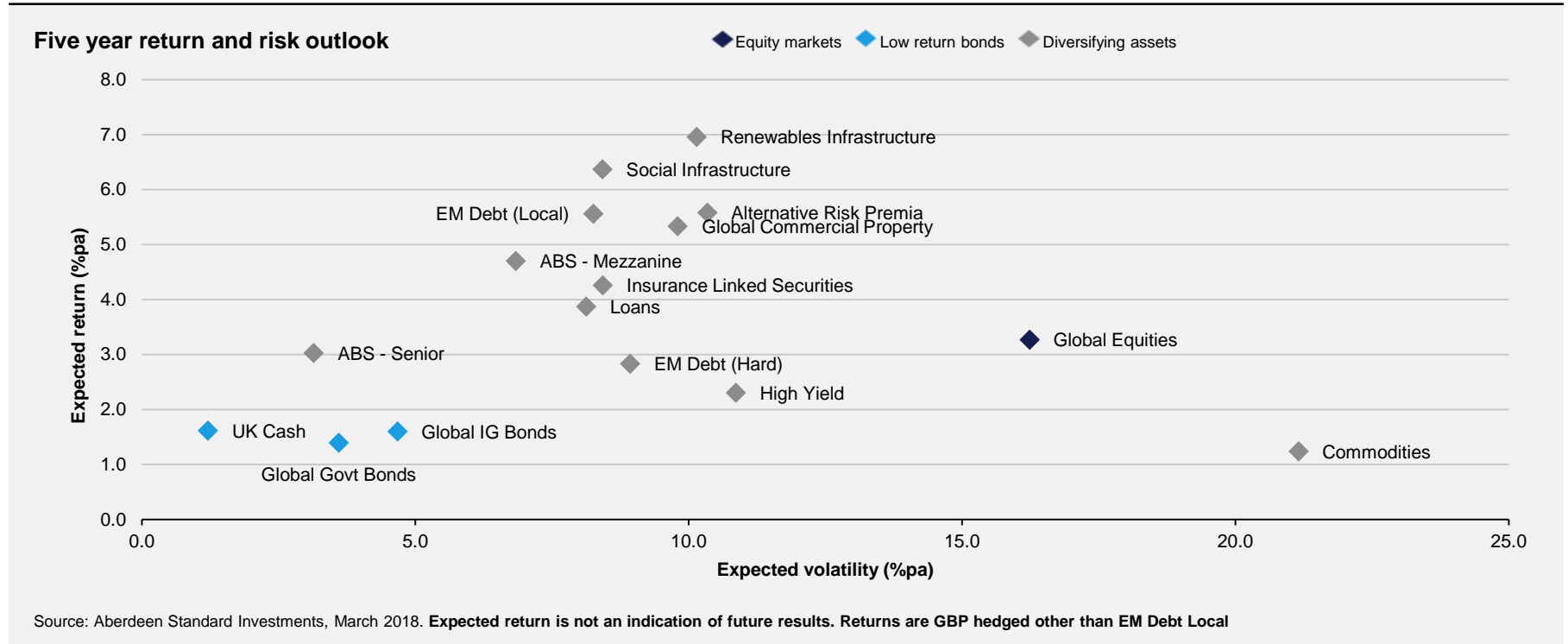
# A rich opportunity set that can reduce reliance on equities and bonds

## Capturing the breadth of opportunities



Source: Aberdeen Standard Investments

# Outlook favours diversification



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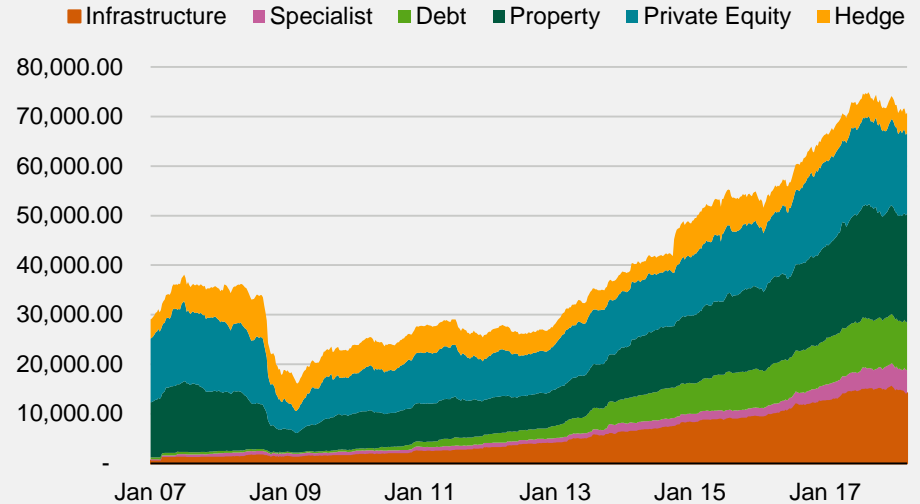
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# Use of listed alternatives helps achieve fuller diversification

- Listed alternatives provide an ideal route to accessing illiquid asset classes in a liquid form
- Similar to REITs but with a range of different underlying alternative assets rather than just property
- The market has grown markedly over the past 10 years with increasing focus on genuine diversifiers:
  - £15bn in Infrastructure (Social, Renewables, Core)
  - £10bn in specialist credit including Loans, ABS, Aircraft Leasing, Marketplace Lending and Healthcare Royalties
  - £4bn in other areas such as Litigation Finance and Insurance Linked Securities
- Experience investing in the sector helps to influence key terms of new offerings – fees, discount control management, etc.

## Growth of the listed alternative market

### Market Cap £m



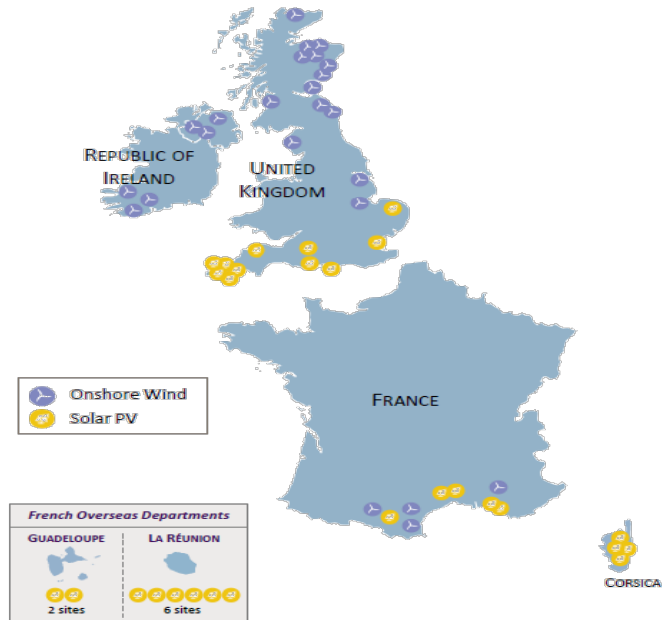
Source: Numis, March 2018

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# Infrastructure: The Renewables Infrastructure Group

## Asset exposures – The Renewables Infrastructure Group



Source: The Renewables Infrastructure Group

Selected for illustrative purposes only to demonstrate management style and not as an indication of future performance or investment recommendation.

### Investment overview

- Invests in operational solar and onshore wind farms

### Return

- Target 7-9% return

### Risk

- Some exposure to power prices but dampened by stable revenues from subsidies
- No construction risk or economic exposure

### Investment route

- Held in the Aberdeen Diversified Growth Fund since inception in July 2013
- Held alongside other renewables funds such as John Laing Environmental and Next Energy Solar

# Insurance-linked: Catco



## Investment overview

- Invests in contracts providing cover against insurance losses due to extreme natural catastrophes

## Returns

- Expected net return of Libor +10%

## Risk

- Diversified across perils to mitigate impact of any one extreme event
- Asset class has no economic exposure and hence is uncorrelated to equities and other asset classes

## Investment route

- Catco provide higher expected return than cat bonds
- Aberdeen multi-asset exposure since 2015

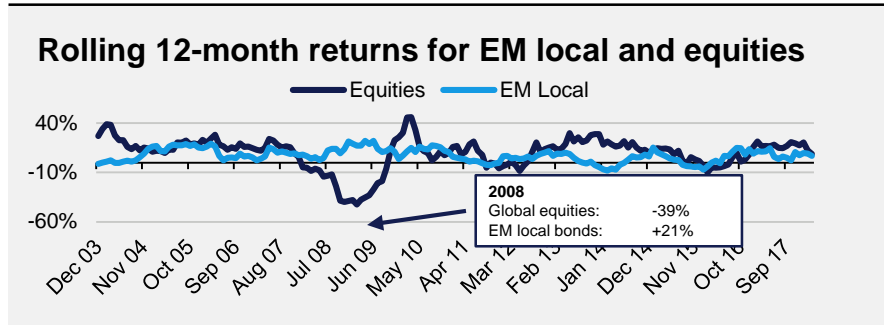
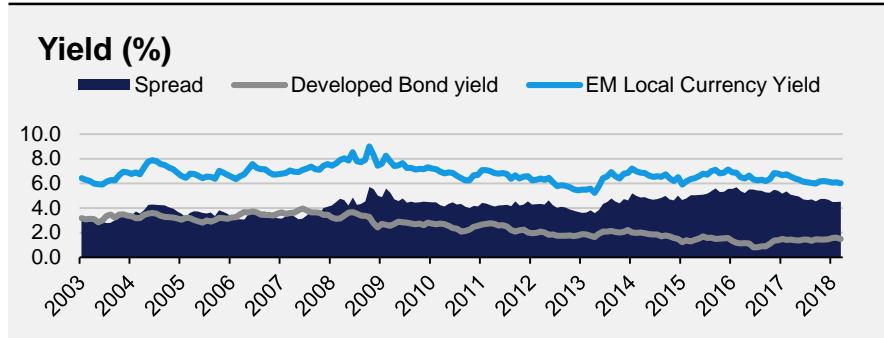
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# Emerging Market Local Currency Bonds



Source: Aberdeen Standard Investments, Bloomberg, March 18. EM Local index is JPM GBI-EM Global Diversified. Returns on index are expressed relative to currency funding basket used within DMA portfolios: equally weighted across AUD, NZD, CAD, NOK, SEK and GBP. Developed bond index is JPM GBI Global Index. Equities represented by MSCI World (hedged to GBP). The JPM GBI-EM Global Diversified index is constrained to a maximum weight of 10% to any one country and comprises 16 countries including Brazil, Colombia, Hungary, Indonesia, Malaysia, Mexico, Poland, Russia, South Africa, Thailand and Turkey

## Investment overview

- Diversified portfolio of bonds issued by emerging market governments

## Returns

- Attractive yield to maturity of around 7%. Spread over developed markets relatively wide

## Risk

- Emerging economy debt levels are far lower than those of developed economies
- Unhedged FX exposure balanced by basket of developed market currencies – reducing volatility of overall exposure
- Can provide significant diversification benefits in some scenarios

## Investment route

- Active portfolio managed by Aberdeen's EM debt team comprising 37 investment professionals

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# Litigation finance: Burford

## Lady Justice



Selected for illustrative purposes only to demonstrate management style and not as an indication of future performance or investment recommendation. Source: Burford Capital, September 2017

### Investment overview

- Provides third-party financing for commercial litigation

### Returns

- Highly attractive returns on offer given lack of competition from banks and specialist expertise
- Delivered strong returns since inception in October 2009

### Risk

- Risk of individual case losses mitigated by having a diversified portfolio
- No economic exposure and hence no correlation to other asset classes

### Investment route

- Burford is the leading provider of third-party financing for commercial litigation
- Aberdeen multi-asset exposure since inception in 2009

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# Healthcare Royalties: BioPharma Credit



## Investment overview

- Listed investment company providing exposure to a diversified portfolio of debt backed by assets or royalties from biotechnology firms

## Return

- Targets 8-9% expected return and 7% yield

## Risk

- Key risk is that royalty income is markedly lower than expected – mitigated by expertise of fund manager
- Significant diversification benefits as risks are very different to others in the portfolio

## Investment route

- Managed by Pharmakon Advisors, an experienced healthcare royalties investor

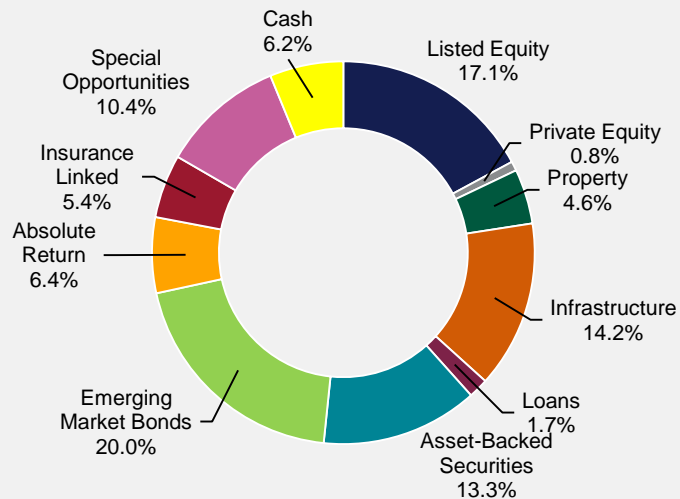
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\* Source: Aberdeen Standard Investments, BioPharma Credit, September 2017

What does diversification look like  
in 2018?

# Flagship strategies focused on growth and income

## Aberdeen Diversified Growth Fund

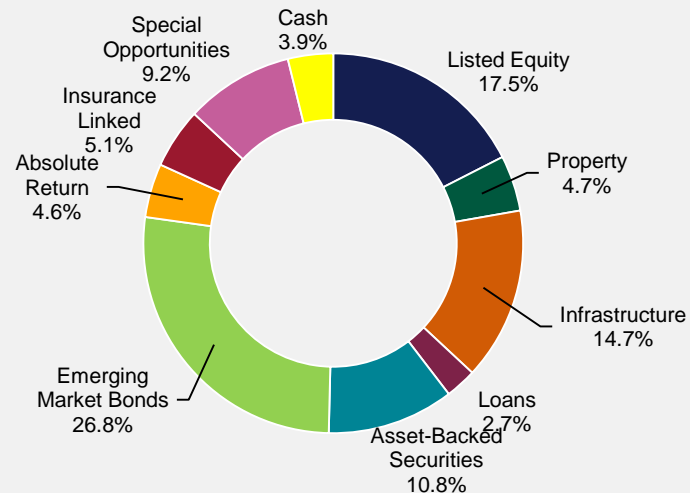


**Genuine diversification**

**Unconstrained flexible asset allocation**

Source: Aberdeen Standard Investments, 31 March 2018. Figures may not add up due to rounding

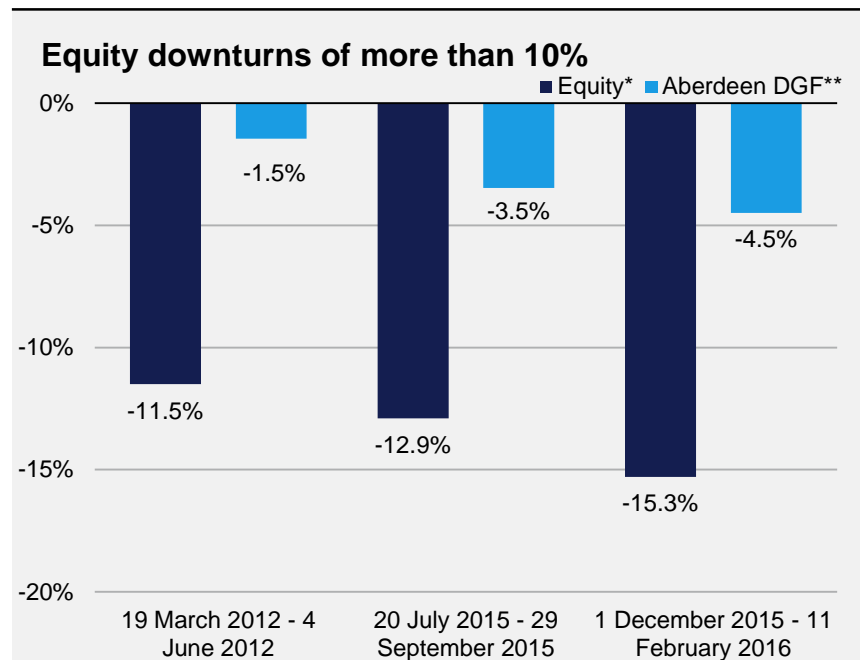
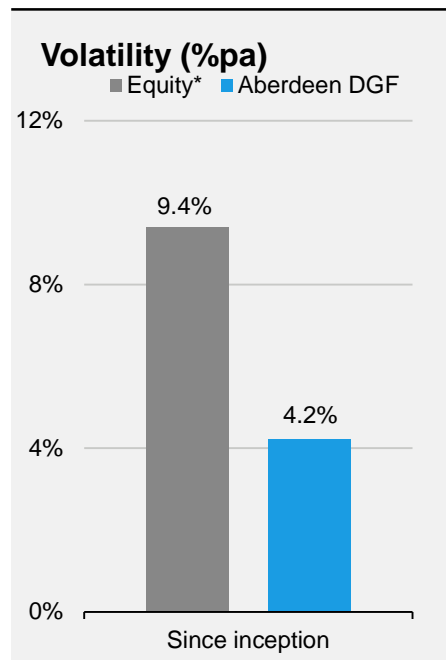
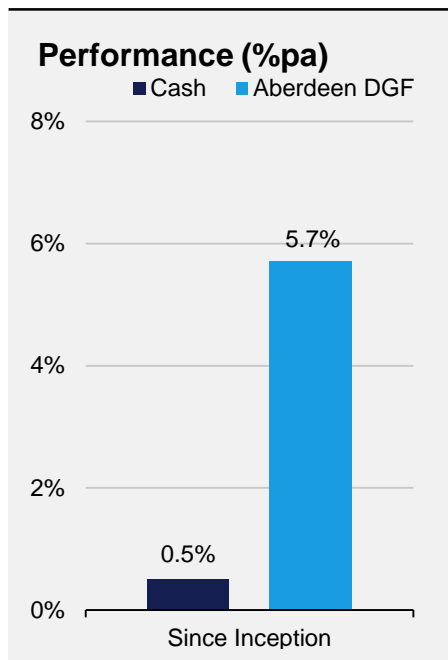
## Aberdeen Diversified Income Fund



**Simple and accessible**

Source: Aberdeen Standard Investments, 31 March 2018. Figures may not add up due to rounding

# Generating attractive, consistent returns since inception of the strategy



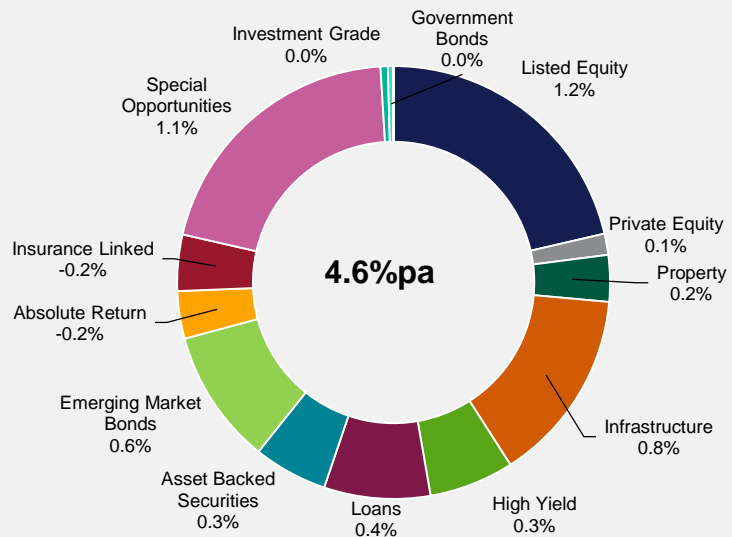
Source: Aberdeen Standard Investments, BPSS, Thomson Reuters DataStream, Z AccSMEP, Aberdeen Diversified Growth Fund, gross of fees. Inception: 1 Nov 11. Performance to 31 March 2018. Libor represented by 1 month GBP Libor. \* Equity represented by MSCI World Equity hedged to GBP. \*\* Aberdeen Standard Investments, BPSS, Thomson Reuters DataStream, Aberdeen Diversified Growth Fund, gross of fees. Performance is shown gross of fees and does not reflect investment management fees. Had such fees been deducted, returns would have been lower

## Past performance is not a guide to future results

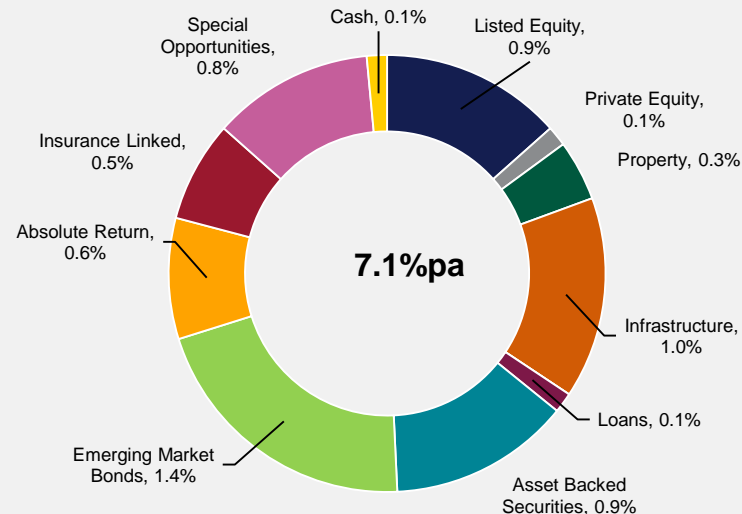
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# Drawing on a diverse range of contributors to returns

## 3 Year Contributions



## Forward looking expectations (5 years)



\* Aberdeen Standard Investments, BPSS, Thomson Reuters DataStream, SMEP, Aberdeen Diversified Growth Fund, gross of fees. Estimated breakdown of returns based on attribution of performance by asset class. Past performance is not a guide to future results. \*\* Forward looking expectations include an additional 0.8%pa for the potential returns from active asset allocation and diversification impacts, as well as a reduction for fund expenses. Forecasts are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially. For illustrative purposes only. Figures may not add up due to rounding. Relates to the Growth Fund (UK range) in GBP terms. Source Aberdeen Standard Investments, 31 March 2018

# Conclusion

- Diversification still makes sense, but it is a good time to look beyond just equities and bonds
- There are more options available to investors today, so genuine diversification is possible
- Aberdeen Standard Investment's multi-asset strategies offer:
  - Genuine diversification
  - Substantial breadth and depth of resources
  - Flexibly managed
  - Simple and accessible





# Disclaimer

## Important information

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**The following risk factors should be considered prior to making an investment decision:**

#### Aberdeen Diversified Growth Fund

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested
- Investing globally can bring additional returns and diversify risks. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your clients investment
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your clients money is at greater risk

- Bonds are affected by changes in interest rates, inflation and any decline in creditworthiness of the bond issuer. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may not be able to pay the bond income as promised or could fail to repay the capital amount used to purchase the bond. Where a bond market has a low number of buyers and/or a high number of sellers, it may be harder to sell particular bonds at an anticipated price and/or in a timely manner
- This Fund can use derivatives in order to meet its investment objectives. This may result in gains or losses that are greater than the original amount invested
- A full list of risks applicable to this Fund can be found in the Prospectus

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##### Aberdeen Diversified Income Fund

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- Bond valuations are affected by changes in interest rates, inflation and the creditworthiness of the bond issuer. There is a risk that a bond issuer may not be able to repay the money they borrowed nor make their required interest payments. This risk increases for bonds with lower credit ratings. Where a bond market has a low number of buyers and/or a high number of sellers, it may be harder to sell particular bonds at an anticipated price and/or in a timely manner
- Derivatives: This Fund can use derivatives in order to meet its investment objective. The use of derivatives may result in greater fluctuations in the value of the Fund, and may increase the magnitude of any losses

- Emerging Markets: Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries and this may mean your clients money is at greater risk
- Exchange Rates: The Fund may have holdings which are denominated in different currencies and may be affected by movements in exchange rates. Consequently, the value of the Fund's investments and the income from them may rise or fall in line with exchange rates
- REITs: The Fund may invest in real estate investment trusts (REITs) which themselves invest directly in real estate. Under adverse market or economic conditions, such assets may become difficult to buy or sell or experience a drop in value
- A full list of risks applicable to this Fund can be found in the Prospectus

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