

# Aberdeen Ethical World Equity Fund

Annual short report for the year ended 31 July 2016

## Investment objective and policy

To achieve long-term capital growth. The objective will be achieved through investment in a portfolio of international quality investments chosen on the basis of ethical ("socially responsible") criteria. These criteria include the environment, employee relations, product quality and international operations. The Fund may also invest in fixed interest securities.

## Performance review

For the year ended 31 July 2016, the value of Aberdeen Ethical World Equity Fund – A Income Shares increased by 11.82% compared with an increase of 17.99% in the benchmark, the FTSE World Index.

Source: Lipper, Basis: total return, NAV to NAV, net of annual charges, UK Net income reinvested, GBP.

Please remember that past performance is not a guide to future returns. The price of shares and the revenue from them may fall as well as rise. Investors may not get back the amount originally invested.

## Market review

Global equities rose during the volatile year under review, which culminated in Britain's unexpected decision to leave the European Union. The Brexit vote induced severe market turbulence, which gave way to greater composure after central banks assured to keep monetary policy accommodative.

The expected direction of US interest rate policy continued to drive market sentiment. In December, the US Federal Reserve's (Fed) move to raise interest rates by 25 basis points in December helped remove a key source of uncertainty, but in early 2016 growing caution over the fragile global recovery and persistent deflationary pressures forced the Fed to lower expectations for the number of rate hikes this year. The change in policy stance resulted in US dollar weakness, which provided some relief to commodities and commodity-dependent emerging markets.

Elsewhere, sentiment picked up when Japan and Europe imposed negative interest rates to combat low inflation and boost spending. However, the move quickly raised questions about the efficacy of such increasingly extreme monetary policy. This translated into weak markets, particularly within the financial sector, and for Japan a shift to a strengthening currency.

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## Portfolio review

At the stock level, Daito Trust Construction contributed to relative performance, after it posted record sales and profits for the year to March, driven by higher construction volumes and improved margins. Taiwan Semiconductor Manufacturing Company climbed as it delivered results that exceeded forecasts, on the back of robust smartphone demand and cost cuts. Towards the end of the period, the company also won a contract to be Apple's sole supplier of its next-generation processor used in the upcoming iPhone series. Pepsico rose too, as the company's management raised its 2016 outlook after earnings surpassed estimates, buoyed by organic sales growth and cost efficiencies.

Conversely, Standard Chartered detracted from performance, due to an increase in loan impairments and declining business activity in 2015. The lender halved its interim dividend to conserve capital. On a more positive note, the bank returned to profitability in the first half of 2016. In July, it appointed IMF director Jose Vinals as its chairman, given his experience in dealing with regulatory uncertainties. He spent seven years on the Financial Stability Board, which oversees the global banking-sector regulations. Jones Lang Lasalle's share price declined due to the effects of the Brexit vote. Potash Corporation of Saskatchewan also fell after the company reduced its 2016 estimates twice during the period and cut its quarterly dividend, as its profits suffered from a fall in fertiliser prices.

In portfolio activity, we exited Engie, South32, Ericsson, Zurich Insurance, Sysmex and BHP Biliton, which were mentioned in our interim report. Subsequently, we sold French retailer Casino Guichard, after it divested its Thai business, which we regarded as one of the attractive growth drivers of the company; and Nordea which has performed favourably since our initial investment and remains well-capitalised. However, we feel the business has limited potential for future growth, and are cautious over exposure to the Nordic property market. We exited Vale, following a sustained rally in Brazilian assets this year, supported by speculation amid renewed momentum for a change in government, as well as a sharp improvement in iron-ore prices. Notwithstanding this, imbalances between supply and demand continue to weigh on the market. We also sold Schneider to fund opportunities elsewhere.

Against this, we introduced Check Point Software Technologies, Mitsubishi Estate, M&T Bank, Housing Development Finance Corporation, Intercontinental Exchange and Whitbread, as mentioned in our interim report. In the second half, we introduced American software provider Amdocs, which benefits from solid client retention which gives it a robust recurring revenue stream; UK-based engineering software solutions provider Aveva, which boasts highly-regarded levels of service; and French eye-care company Essilor, which is well-placed to benefit from low rates of market penetration, particularly in emerging markets and aging populations. Other stocks we introduced included Hong Kong-listed Samsonite International, which has strong brands and a management team with a good track record of execution; and Japanese cycling and fishing equipment manufacturer Shimano, which has a sustainable technological advantage in an industry with high barriers to entry; and German eyewear retailer Fielmann, which has an established presence across Europe. We also initiated positions in Swiss financial software provider Temenos, which is well-placed to benefit from structural growth drivers as technology penetrates the finance industry. We introduced Kasikornbank, a leading Thai commercial lender that benefits from a robust branch network and a market-leading position among small- and medium-sized enterprises; and Japan's Keyence, a market leader that taps into growing demand for factory automation.

Lastly, we initiated positions in diversified Philippines property business Ayala Land which enjoys solid recurring revenue; and Casey's General Stores, a well-managed US convenience store operator with good growth opportunities.

## Outlook

While investor sentiment has strengthened post-Brexit vote, the longer-term implications of the UK's decision to leave the European Union will play out over time. The IMF's downgrade of its global growth forecasts confirms that the Brexit vote will likely add downward pressure to the world economy, which already faces an array of downside risks. Geopolitical turmoil, weak oil prices, a close presidential race in the US and uncertainty in Europe all threaten to dampen growth. Meanwhile, central banks appear to be running out of ammo, with negative interest rates in Europe and Japan failing to revive their economies. Despite the challenges that lie ahead, we remain confident of our bottom-up investment process, and will capitalise on market volatility to introduce new holdings with compelling valuations and proven long-term growth drivers.

## Portfolio breakdown

Portfolio of investments	As at 31 July 2016 %	As at 31 July 2015 %
North America	36.80	34.32
Asia Pacific	24.34	18.36
Europe, Middle East & Africa (ex United Kingdom)	13.87	19.91
United Kingdom	11.64	15.36
Japan	8.58	6.67
Latin America	3.71	5.61
<b>Investment assets</b>	<b>98.94</b>	<b>100.23</b>
<b>Net other assets/(liabilities)</b>	<b>1.06</b>	<b>(0.23)</b>
<b>Net assets</b>	<b>100.00</b>	<b>100.00</b>

## Fund facts

	Interim/annual accounting dates	Income payment dates
	31 January, 31 July	30 April, 31 October
	Ongoing charges figure % as at 31 July 2016	Ongoing charges figure % as at 31 July 2015
Share class A	1.63	1.65
Share class I	1.13	1.15

The ongoing charges figure (OCF) is the total expenses paid by each share class in the year against its average net asset value. This includes the annual management charge, the other operating expenses and any synthetic element to incorporate the ongoing charges of any underlying collective investments. The OCF can fluctuate as underlying costs change. Where underlying costs have changed, the OCF disclosed in the Key Investor Information Document will be updated to reflect current changes.

## Distribution summary

	Total distribution (p) for the year to 31/07/2016	Total distribution (p) for the year to 31/07/2015
A Accumulation	1.4524	2.2811
A Income	1.1000	1.7500
I Accumulation	2.6829	3.6354
I Income	1.9500	2.6900

Prior to 6th April 2016, distributions paid in respect of the Fund came with a tax credit of 1/9th of the amount stated. UK higher and additional rate taxpayers not holding through an ISA may have additional income to pay in respect of these. Non taxpayers are not entitled to a refund of the 1/9th tax credit. Distributions received by corporate investors are subject to the corporate streaming rules.

## Performance summary

	Net asset value as at 31/07/2016 pence per share	Net asset value as at 31/07/2015 pence per share	Net asset value % change
A Accumulation	201.67	180.99	11.43
A Income	151.82	137.30	10.58
I Accumulation	229.02	204.51	11.98
I Income	164.88	149.12	10.57

Net of tax and expenses.

## Performance record

Accounting year ended		Highest price pence per share	Lowest price pence per share
2014	A Accumulation	189.74	165.97
2014	A Income	147.40	128.91
2014	I Accumulation	213.30	186.14
2014	I Income	160.50	140.04
2015	A Accumulation	203.78	175.96
2015	A Income	156.31	135.18
2015	I Accumulation	229.90	198.20
2015	I Income	169.96	147.11
2016	A Accumulation	205.46	151.71
2016	A Income	155.53	114.84
2016	I Accumulation	233.31	171.89
2016	I Income	169.30	124.74

## Risk profile

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

Typically lower rewards, lower risk				Typically higher rewards, higher risk		
←				→		
1	2	3	4	5	6	7

Risk and reward indicator table as at 31 July 2016.

- This Fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past.
- Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases. The indicator does not take into account the following risk of investing in this Fund:
  - Exchange Rates: Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
  - A full list of risks applicable to this Fund can be found in the Prospectus.
  - The latest risk and reward profile can be found on the Key Investor Information Document (KIID) for this Fund which is available on the website at [aberdeen-asset.co.uk](http://aberdeen-asset.co.uk).

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## Other information

Consumers' rights and protections, including any derived from EU legislation, are currently unaffected by the result of the UK referendum to leave the European Union, and will remain unchanged unless and until the UK Government changes the applicable legislation.

### What if I have a complaint?

If you need to complain about any aspect of our service, you should write to the Complaints Team, Aberdeen Fund Managers Limited, 10 Queen's Terrace, Aberdeen, AB10 1YG, who will initiate our formal complaints procedure. If you prefer, you may call the Complaints Team on 01224 404490 or email [complaints@aberdeen-asset.com](mailto:complaints@aberdeen-asset.com) in the first instance. A leaflet detailing our complaints procedure is available on request.

If the complaint is not resolved by us to your satisfaction then you may take your complaint to the Financial Ombudsman Service. In order to contact the Financial Ombudsman Service or obtain details of the compensation scheme you should write to The Financial Ombudsman Service, Exchange Tower, London, E14 9SR or telephone 0300 1239 123 or 0800 023 4567.

### Literature and Fund information

Our website contains a wealth of information on our funds and investment approach, including Key Investor Information Documents (KIIDs) for all of the funds available for investment. We also publish Supplementary Information Documents (SIDs), Application Forms, Fund Lists and Terms and Conditions.

You can invest online and access fund performance and pricing information.

Please visit:

**[aberdeen-asset.co.uk](http://aberdeen-asset.co.uk)**

Alternatively please contact our Customer Services Team on:

**Tel: 0345 300 2890**

**Email: [customer.services@aberdeen-asset.com](mailto:customer.services@aberdeen-asset.com)**

### Report and accounts

Copies of the annual and half-yearly long form report and accounts for this Fund are available free of charge on request to Aberdeen Fund Managers Limited.

Aberdeen Ethical World Equity Fund is a sub-fund of Aberdeen Investment Funds ICVC, an openended investment company ('OEIC') authorised under the Financial Services and Markets Act 2000.

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## Appointments

### **Authorised Corporate Director**

Aberdeen Fund Managers Limited

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