

# Aberdeen Asia Pacific Equity Fund I

## GB00BOXWNG99



## Analyst Notes

### Standard Life Investments & Aberdeen Asset Management Merger

#### Immaterial Change

08 Mar, 2017 | Standard Life Investments (SLI) and Aberdeen Asset Management confirmed over the weekend they are in late stage discussion to merge in an all-share deal that would see the two Edinburgh-based firms create the UK's largest asset manager with combined assets of over GBP 660 billion. If the deal were to be completed Standard Life would own two thirds of the combined group; Keith Skeoch, Standard Life's Chief Executive would co-lead the merged entity alongside Aberdeen's Chief Executive Martin Gilbert. In addition, Rod Paris of Standard Life is expected to become CIO for the combined group. A new board is likely to be formed with equal representation from both companies, led by Standard Life chairman Sir Gerry Grimstone, while Aberdeen's chairman, Simon Troughton, would become deputy chairman.


Aberdeen's strength lies in equities, particularly Asian and emerging markets--areas that have seen significant outflows over the last few years. The firm has looked to broaden its product offering, placing a heavier emphasis on fixed income and moving into areas such as alternatives more recently, as was evident in its bid for Pioneer in late 2016. It has also seen departures of some key individuals such as Anne Richards, the global CIO, who left to become CEO of M&G in February 2016. Standard Life Investments, which started out as the investment arm of the insurance firm, has made increasing head roads into asset management over the past decade. The firm has a diversified range of products, but in the years since the global financial crisis the success of its Bronze-rated Global Absolute Returns Strategies (GARS) and the resulting strong asset growth has led it to dominate other investment offerings in SLI's line-up. As with Aberdeen, SLI also saw significant outflows in 2016 driven by disappointing results from their GARS offerings.

Given Aberdeen's strength in emerging

market equities and Standard Life's more diversified stable of products dominated by their multi-asset range, we feel the merger of the two will be complementary -- and may not lead to much rationalisation of their offerings. That said, at this stage, we would caution investors against making any pre-emptive moves until there is greater clarity around the merger and the impact it might have on its underlying investment teams and product ranges. Until there is a clearer picture, we are maintaining our existing pillar ratings on both Parents and also the Morningstar Analyst Ratings on Aberdeen and Standard Life strategies.

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**Morningstar Analyst Rating**  
 **Bronze**  
 8 Mar 2017  
 11:10, UTC-0600

**Morningstar Category**  
 Asia-Pacific ex-Japan Equity

**Category Index**  
 MSCI AC Asia Pac Ex JPN NR USD

**Total Assets**  
 1,331.89  
 Mil GBP

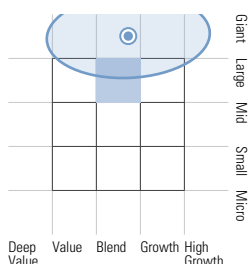
**Current Yield %**  
 —

**Inception Date**  
 05/07/06

**Domicile/Currency**  
 GBR/GBP

**Morningstar Rating**  
 ★★

### Equity Style Map








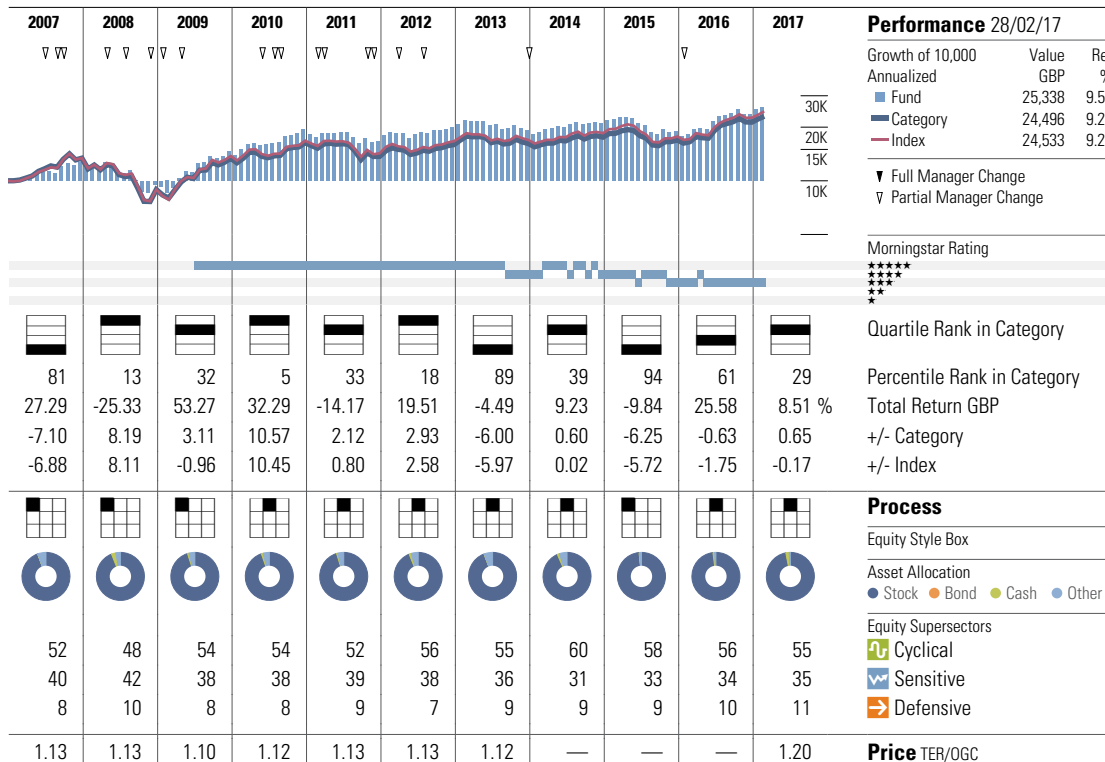
### People

Hugh Young 02/90  
 Flavia Cheong 08/96  
 Robert Penaloza 11/97

Total Named Managers 35

### Morningstar Pillars

Process  Positive  
 Performance  Neutral  
 People  Positive  
 Parent  Neutral  
 Price  Negative



### Analyst View

Mark Laidlaw, —

## The star is shining a little less bright at Aberdeen Asia Pacific Equity.

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### Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

 Gold  Silver  Bronze  Neutral  Negative

The Morningstar Analyst Rating for Funds is a forward-looking analysis of a fund. Morningstar has identified five key areas crucial to predicting the future success of a fund: People, Parent, Process, Performance, and Price. The pillars are used in determining the Morningstar Analyst Rating for a fund. Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). Neutral represents funds in which our analysts don't have a strong positive or negative conviction over the long term (defined as a full market cycle or at least five years) and Negative represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance over the long term (defined as a full market cycle or at least five years). Past performance of a security may or may not be sustained in future and is no indication of future performance. For detailed information about the Morningstar Analyst Rating for Funds, please visit <http://global.morningstar.com/managerdisclosures>

27 Dec, 2016 | Aberdeen Asia Pacific Equity remains an attractive choice but no longer one of our top picks in this space. The peer group has been getting stronger, while our conviction in Aberdeen Asia has wavered.

All that said, this is still a quality outfit, with a large, well-resourced investment team led by Flavia Cheong. Like a number of senior members in the team, she has spent the majority of her investment career at the firm, having joined back in 1996. She was appointed head of Asia ex Japan equities in July 2015 when the strategy's longtime steward, Hugh Young, moved onto a broader role within the firm. This was a logical decision in our eyes. She leads a flat-structured team, where members are generalists rather than having sector-specific responsibilities, thereby minimising the level of key-person risk. There have been a couple of senior departures in the past few years, but so far Aberdeen has been able to promote suitably experienced replacements from the bench.

Aberdeen applies a consistent approach across all equity strategies, and the keys are quality and valuation. Aberdeen is a patient investor, willing to back quality businesses that are well managed. A potential criticism is that the

team may not be critical enough when a business makes a mistake or begins to deteriorate. To its credit, Aberdeen has attempted to address this by reviewing long-term positions that have stumbled. Examples include Standard Chartered Bank, which the team decided to keep, and Li & Fung, which was sold as the team determined the investment thesis no longer held true.

The strategy faces additional challenges. Capacity has been a factor for a number of years, though this has been lessened by net outflows of GBP 4.8 billion over the year to 30 June 2016, seemingly due to negative sentiment towards the asset class and poor performance. Aberdeen Asia Pacific remains a quality choice but a few missteps have enabled rivals to get a leg up. As a reflection of this, we are downgrading the Morningstar Analyst Rating to Bronze from Silver.

# Morningstar Global Fund Report

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### Morningstar Analyst Rating

	2015	2016	2017
 Gold			
 Silver			
 Bronze			
Neutral			
Negative			
Under Review			
Not Ratable			

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The date shown next to the Morningstar Analyst Rating is the date on which Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the fund based on the analyst's latest review and research report for the fund.

### The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

#### People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

#### Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

#### Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

#### Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

#### Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

**Morningstar Analyst Ratings**

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**Gold**

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

**Silver**

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

**Bronze**

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

**Neutral**

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

**Negative**

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**Not Ratable**

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