

Aberdeen World Equity Fund I Acc

GB0031682734



Analyst Notes

Aberdeen Standard Investments: Equities Division Update

Maintain Rating

31 May, 2018 | The information barriers between the investment teams of the legacy Standard Life Investments and Aberdeen Asset Management were removed effective 17 April 2018, nearly eight months after the merger between the firms was completed. That means the teams can now freely share research and insights.

Aberdeen Standard Investments was formed following the merger, establishing a diversified asset-management business with combined assets under management of USD 756.5 billion (as of December 2017), the majority of which are within equities and fixed income.

In January 2018, the firm announced the leaders of its equities management committee, which boasts broadly equal representation from each side of the merger. We have since caught up with various members of this committee, including Flavia Cheong, head of Asia Pacific equities, Stephen Docherty, head of global equities, and Devan Kaloo, global head of equities and head of emerging-markets equities.

For the Asia-Pacific region, the merger has resulted in a 50-strong Asia-Pacific equities team running approximately USD 37 billion (as of December 2017) of assets in the region. Still, four members of the Edinburgh-based Standard Life Asia equity team have left the firm. Some departures were seen from the legacy Aberdeen team, too, including two Hong Kong-based investment managers. Cheong noted that they are in the process of hiring replacements and have made adjustments to the remuneration packages for the Hong Kong-based team to encourage retention. Another positive change was the assignment of sector coverage responsibilities to senior investment managers, in which each manager will have formal ownership of 20-25 stocks going forward.

The UK equity team, headed by Andrew Millington with Leslie Duncan serving as his deputy, now has 15 members. In addition to the

11-strong former SLI team in Edinburgh, Charles Luke, Georgina Cooper, Louise Kernohan, and Romney Fox, who were former Aberdeen employees based in London, now also report into Millington. The team's sector coverage has been reorganised to incorporate the London-based members.

Harry Nimmo has been made head of small-cap equities, with Andrew Paisley as his deputy. There have been no key changes to the team, which sees no change to its incarnation under the SLI brand. We viewed SLI's small-cap franchise as a key strength and are reassured to see it largely insulated from any potential disturbance that personnel change can bring.

On the global equity desk, Docherty was appointed head of global equities with Dominic Byrne as his deputy. Byrne is leading the team responsible for the "focus on change" investment approach, which has been recently enhanced through the transfer of Joanna McIntyre (global emerging markets), Tony Hood (Europe), and Euan Sander-son (United States) from the regional teams. Docherty's team has remained largely stable, boasting nine portfolio managers with an average of 18 years' industry experience and 17 years at the legacy Aberdeen. We will be closely monitoring future turnover following this corporate change.

Indeed, we have seen some leave the legacy Standard Life Investments in recent months. Kevin Troup and Karen McKellar will be retiring after 24 and 25 years in the industry, respectively. Mikhail Zverev and Alistair Way, previous heads of global equities and Asia/global emerging-markets equities, respectively, as well as Ross Mathison and Jaime Ramos-Martin, have decided to leave the business.

In a newly created role, Mark Vincent, who previously ran a global emerging-markets income fund, was appointed as global head of equity research. He is responsible for developing the combined equity research process, including the new research template and ensuring it is adopted globally. We think his appointment is a positive development and expect it will bring the combined research capabilities to the fore and ensure consist-

ency in equity research across the firm.

On the process front, the team has integrated Standard Life's investment philosophy of "focus on change" into the research process, which seeks out underappreciated company- and industry-level fundamental change that creates opportunities over one to three years, alongside Aberdeen's long-term quality and value investment approach. This integration has taken shape in the form of a new research note template, which was formally rolled out on 14 May 2018.


Going forward, both the legacy Aberdeen and Standard Life investment teams globally will utilise this standardised research template for all stocks under coverage. Building on this unified research platform, investment products globally will be managed according to either a "long-term quality" or "focus on change" investment approach.

Within Asia, all portfolios will be managed under the long-term quality approach. Given that Standard Life's footprint in Asia was relatively limited both from an asset and personnel standpoint, we think that adhering to the long-term quality approach is sensible, and that it should facilitate continuity among vast majority of assets managed in the region.

While the resulting impact of the merger has led to a few personnel departures, the bulk of the teams remain intact. Furthermore, we are encouraged by the creation of sector coverage across local investment teams in Asia Pacific and believe that this will foster better accountability and ownership among investment managers in the region. On the process front, we think that the integration of "focus on change" in the team's analyses could in theory result in better timing in market entry and exit among stock positions. However, we will need greater detail on those changes and how they will be implemented across different strategies. Indeed, we would like to further observe how the "focus of change" approach is integrated into the analysis and how it will impact broader portfolio outcomes/characteristics. In the meantime, we maintain the existing Morningstar Analyst Ratings across all of Aberdeen's equity strategies.

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Morningstar Analyst Rating
 **Bronze** 31 May 2018
 13:30, UTC-0500

Morningstar Category
Global Large-Cap Blend Equity

Category Index
MSCI World NR USD

Total Assets
295.95
Mil GBP

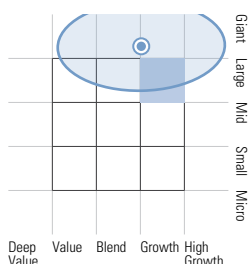
Current Yield %
1.12

Inception Date
01/11/07

Domicile/Currency
GBR/GBP

Morningstar Rating
★★★

Equity Style Map



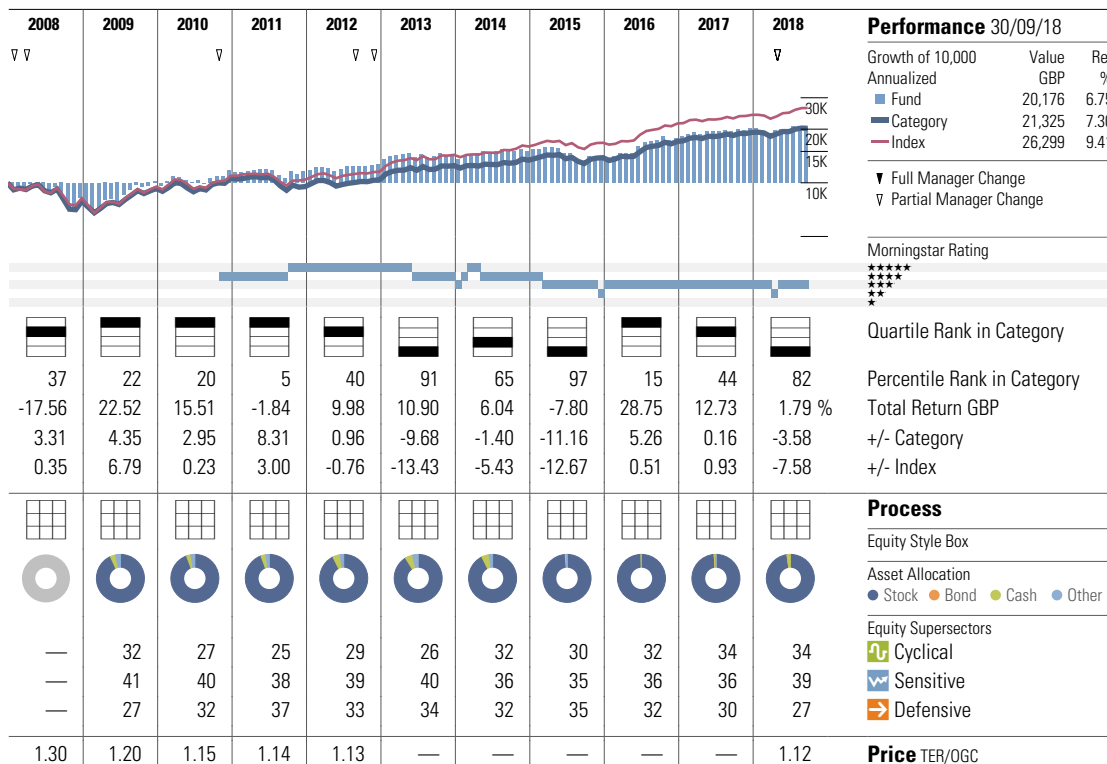
People

Not Disclosed 09/83

Total Named Managers 1

Morningstar Pillars

Process	Positive
Performance	Neutral
People	Positive
Parent	Neutral
Price	Negative



Analyst View

Muna Abu-Habsa, Director

Still a good choice for global equity exposure, even if we're less enamoured of it than we had been.

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Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

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28 Mar, 2018 | This is still a good choice for global equity exposure, but some uncertainty regarding the consistency of investment approach, following the merger with Standard Life Investments, has weighed on our confidence.

It continues to be managed by an experienced, well-resourced and, thus far, stable global equity team, headed by Stephen Docherty, whom we hold in high regard. Following the merger, Docherty has been appointed as head of the global equity management committee, with Devan Kaloo as global head of equity. The appointment of two Aberdeen personnel to senior positions provides a degree of continuity, but it's as yet unclear how changes to the research function supporting both entities will impact the stability of the team and the implementation of this strategy.

Until now, the Edinburgh-based team of portfolio managers has been leveraging Aberdeen's regional offices to find stock ideas. The team compiles a global buy list of about 330 stocks. A unique feature is that there are no quantitative filters and the list instead results from fundamental research. Analysts prefer quality, straightforward companies with transparent financial statements and clear business

strategies. The team then seeks to identify pricing anomalies from a global perspective. The team builds a diversified portfolio but does not aim to mimic the index.

Although the fund has historically performed well across the market cycle, including weaker markets such as 2008 and 2011, the benchmark-agnostic approach, wedded to the focus on quality and value, can lead to extended periods of relative underperformance. We saw evidence of this between 2013 and 2015, due in part to the team's preference for emerging- over developed-market stocks as well as the significant underweight in the U.S.. Investors were subsequently rewarded, though we expect the team's search for reasonably priced quality stocks to continue to be constrained in the short-term.

All told, we continue to think well of the seasoned, long-standing team running this fund, but the current uncertainty resulting from corporate change has reduced our confidence in the strategy's long-term merit. We are thus downgrading the fund to a Morningstar Analyst Rating of Bronze from Silver, as we believe that better reflects our current expectations of the fund over the long term.

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	2016	2017	2018
 Gold			
 Silver			
 Bronze			
Neutral			
Negative			
Under Review			
Not Ratable			

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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.

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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).

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Not Ratable

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