Aberdeen Ethical World Equity Fund I Acc

GB0006833932

Morningstar Analyst Rating
Bronze

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 Sanderson (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 consistency 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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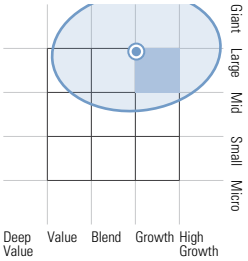
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Morningstar Analyst Rating
Bronze
31 May 2018 13:30, UTC-0500

Morningstar Category	Category Index	Total Assets	Current Yield %	Inception Date	Domicile/ Currency	Morningstar Rating
Global Large-Cap Blend Equity	MSCI World NR USD	144.74 Mil GBP	—	27/05/99	GBR/GBP	★★

Equity Style Map

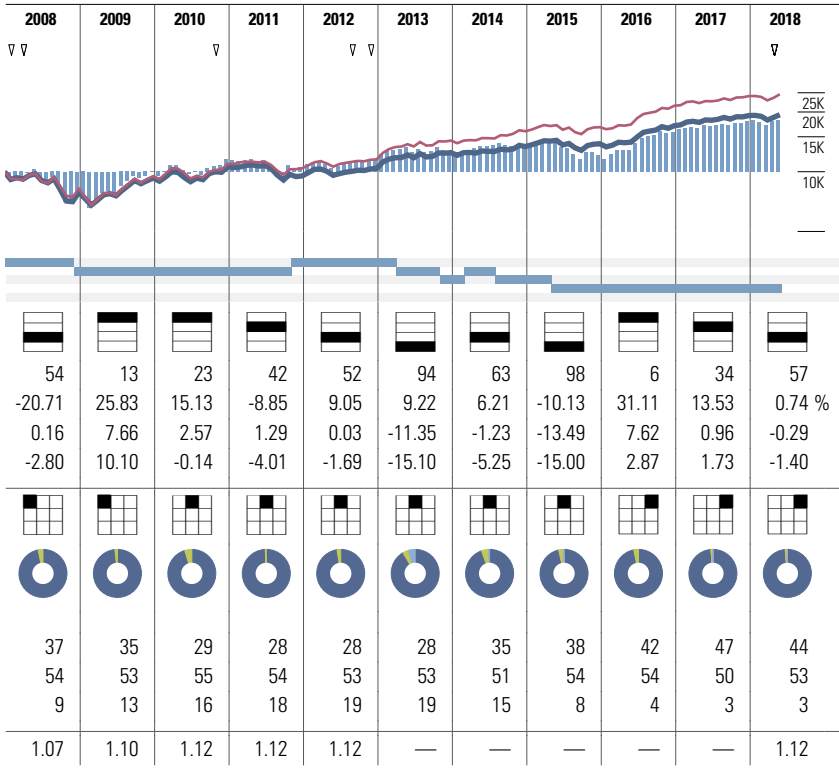


People

Not Disclosed	03/08
Total Named Managers	1

Morningstar Pillars

Process	Positive
Performance	Neutral
People	Positive
Parent	Neutral
Price	Negative



2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
											Quartile Rank in Category
54	13	23	42	52	94	63	98	6	34	57	Percentile Rank in Category
-20.71	25.83	15.13	-8.85	9.05	9.22	6.21	-10.13	31.11	13.53	0.74 %	Total Return GBP
0.16	7.66	2.57	1.29	0.03	-11.35	-1.23	-13.49	7.62	0.96	-0.29	+/- Category
-2.80	10.10	-0.14	-4.01	-1.69	-15.10	-5.25	-15.00	2.87	1.73	-1.40	+/- Index
											Process
											Equity Style Box
											Asset Allocation
											Stock Bond Cash Other
37	35	29	28	28	28	35	38	42	47	44	Equity Supersectors
54	53	55	54	53	53	51	54	54	50	53	Cyclical
9	13	16	18	19	19	15	8	4	3	3	Sensitive
											Defensive
1.07	1.10	1.12	1.12	1.12	—	—	—	—	—	1.12	Price TER/OGC

Performance 31/05/18

Growth of 10,000 Annualized	Value GBP	Ret %
Fund	17,850	5.72
Category	20,437	7.10
Index	24,562	9.01

▼ Full Manager Change
∇ Partial Manager Change

Morningstar Rating

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.

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, is worth monitoring.

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.

The team constructs a diversified portfolio, but not according to the conventional classifications of the MSCI World Index. The ethical mandate also results in structural underweightings in certain sectors that screen poorly. The clearest example is healthcare, as firms involved with animal testing are completely excluded. The screens are more lenient towards other unethical practices, such as weapons manufacturing, provided that only a small proportion of firm revenue is derived from such activities.

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-markets stocks as well as the significant underweighting in the U.S.. In addition, investors should note that the portfolio biases resulting from the ethical screens can exacerbate this. During the market sell-off in 2011, for example, the team struggled to find worthy replacements for more-resilient tobacco and pharma stocks. That being said, the structural biases have not inhibited the fund over the long term, and it has outperformed peers since launch in 1999, which is particularly impressive for a fund with an ethical constraint.

All told, we continue to think well of the seasoned, long-standing team running this fund, but we are closely monitoring the changes resulting from corporate change. The fund retains its Morningstar Analyst Rating of Bronze.

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Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

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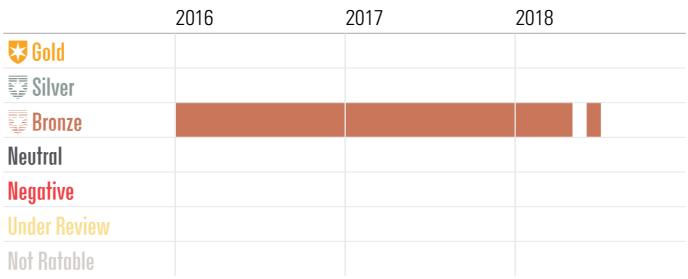
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People

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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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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