We're talking SUCCESS

After many years when financial markets have seen near-uninterrupted growth, **Tony Foster**, Senior Investment Manager of the Aberdeen Diversified Income and Growth Trust plc and **Bruce Stout**, Manager of Murray International Trust PLC, discuss how investors may need to change their measures of success to adapt to the current environment.

What are your overall measures of success on your funds?

TF: Our approach is to find a wide range of asset classes that can offer or have the potential to offer an attractive return, building on a portfolio with a range of different risk characteristics and return drivers. It is the power of diversification taken on the widest possible scale. Alongside equities and bonds, our portfolio will include infrastructure, property, private equity and other 'real' assets.

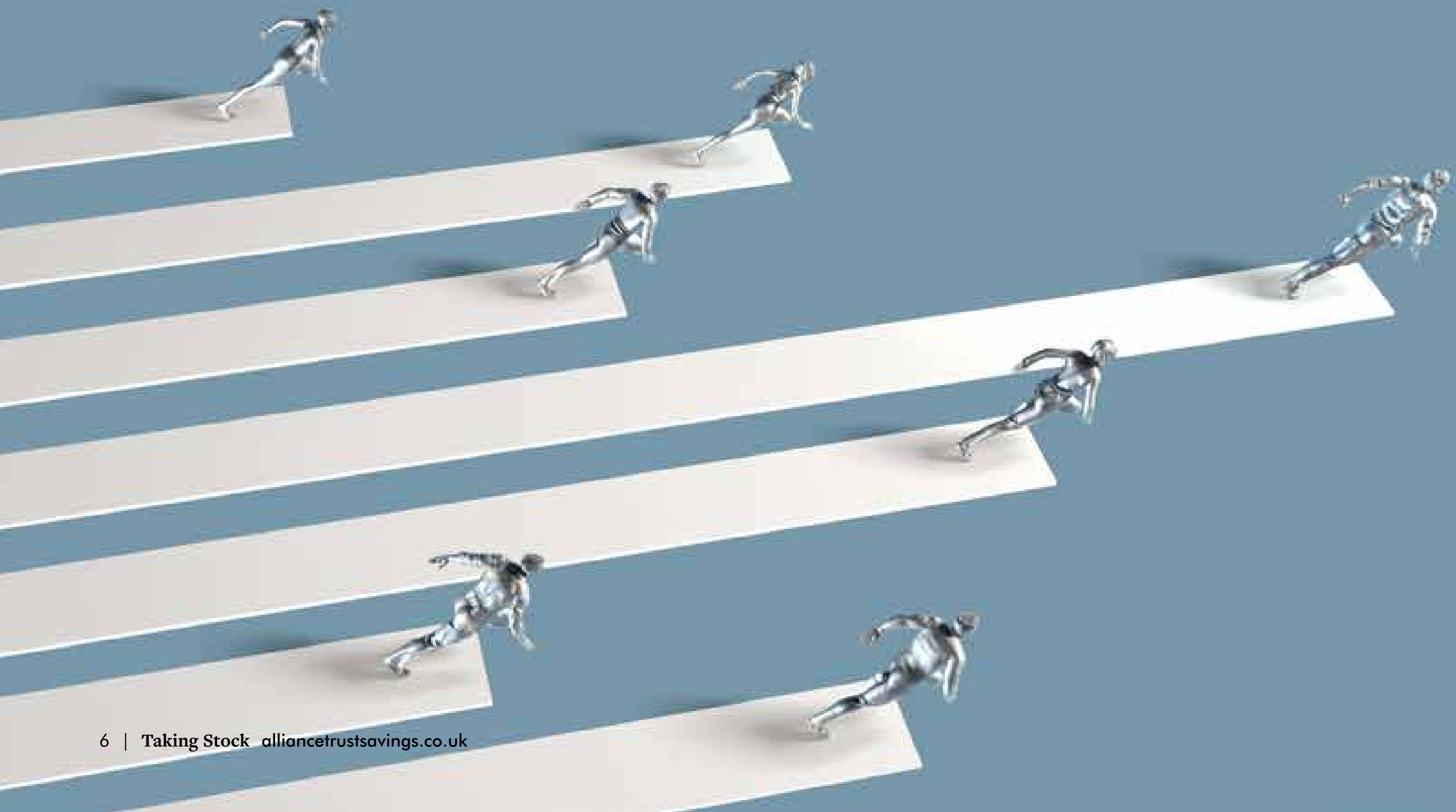
BS: Ours is a large liquid investment trust, managed with a long-term, bottom-up focus. We want to find high quality growth businesses that throw off cash and increase their dividends. Our active share is around 0.9%, so the trust won't behave anything like the benchmark. Success to us is growing and protecting capital over time.

How do you go about picking winners today?

BS: We believe investors need to get away from conventional thinking about, for example, emerging versus developed markets or certain sectors. We are flexible and we go where there is good growth. In the US, for example, debt to GDP is high, companies are buying back stocks at high valuations. Is using cheap financing to buy expensive stock really a good option? It may be in the interest of senior management, but it is not in the interests of us as shareholders.

In contrast, since the early 2000s, the payout ratios from Asian stocks have shifted as they increased their dividends. Taiwan Semiconductor, for example, has seen phenomenal growth and has grown its payouts. This is the type of business we want. In emerging markets more generally debt to GDP is low, free cash flow is very strong, the payout ratios are rising every year. The capital base of banks in emerging markets is really strong. I don't see the same in Italian, German or British banks where lending practices are problematic and consumer debt is high. Companies in Indonesia and Mexico have learned over decades that it is dangerous to run a leveraged balance sheet, particularly if it is in dollars.

TF: I agree investors need to re-think. A balanced portfolio of bonds and equities won't give you the returns they've given you over the past 30 years. We are not investing in developed market government bonds and investment grade corporate credit, for example. The interest rates on offer are too low. They assume a very gloomy outlook for growth and inflation; and this is not our central view.



Has greater value emerged in equities over the last few months?

TF: We believe value is still difficult to come by in equities. Our exposure is currently around 20% of the portfolio – this is at the low end of our range of 20-35%. Valuations are still expensive and earnings expectations are falling. We are finding better value in areas such as infrastructure.

That said, our target return is LIBOR + 5.5% net of fees*. That cannot be achieved without holding some growth assets. Where we are invested we are focused on fundamentals-based global equity.

BS: In many cases, we agree. Market complacency was shattered when the Nasdaq dived 25% last year. This should always provide pricing opportunities and we are vigilant to that. However, we still have relatively low exposure to the UK and Europe. There is simply better growth elsewhere. Today, we hold 30% in Asia and 18% in Latin America.

Success goes beyond good returns, but also ensuring effective diversification. How are you managing that today?

TF: We look broadly for diversification. We have a holding in litigation finance, for example, which provides funding for commercial litigation. The group provides the funding to pursue the case, and if the litigant wins, Burford takes a share of the proceeds. The returns are attractive, but most importantly, they are not linked to rising rates or falling stock market, just to which case progresses in court. They are looking for cases with individual drivers.

The fund also holds a number of niche opportunities. It includes a Latin American infrastructure fund, for example. These are the types of asset people can't invest in directly, but they can have exposure through this fund. We look as widely as possible to find opportunities that give shareholders attractive returns over time.

BS: For us, diversification means trying to find something completely different to what we already own. Auckland airport, for example, has exposure to Chinese overseas tourism, where traffic volumes are increasing. This is very different to other areas we own in the portfolio, such as Unilever Indonesia or Brazil's Banco Bradesco. We want 50 different businesses doing different things that are not correlated. ■

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* This is an internal performance target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest prospectus.

Aberdeen Diversified Income and Growth plc discrete performance (%)

Year ending	31/12/18	31/12/17	31/12/16	31/12/15	31/12/15
Share Price	(4.2)	21.2	(16.0)	8.0	(1.7)
NAV	(4.7)	9.1	(4.9)	2.3	(2.8)
LIBOR +5.5%	6.3				

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. Nav returns based on NAVs with debt valued at fair value. Source: Morningstar. For information only. Performance prior to 11 February does not relate to management by Aberdeen Standard Investments. Past performance is not a guide to future results.

Find out more at **murray-intl.co.uk** and **aberdeendiversified.co.uk**

Aberdeen Standard Investments

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Bruce Stout is a Senior Investment Manager on the Global Equity Team at Aberdeen Standard Investments. Bruce joined Aberdeen in 2001, via the acquisition of Murray Johnstone. He has held a number of roles including Investment Manager on the Emerging Markets Team.

Tony Foster
Senior Investment Manager

Tony Foster is a senior investment manager in the Diversified Multi-Asset team. Tony joined Aberdeen following the SWIP acquisition in April 2014. At SWIP, he managed a number of UK equity portfolios. Prior to joining SWIP in 2000, Tony spent nearly 12 years with Baillie Gifford working in the UK and Asia Pacific equity teams.