abrdn Emerging Markets Income Equity

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is founded upon Aberdeen's long heritage of Asian and emerging market investing. Portfolio manager, Matthew Williams, is an experienced emerging markets practitioner, who has invested through many different cycles.
- "Quality" is a pre-eminent factor in their company research. Their high thresholds in this regard are deeply ingrained in their approach, as is their commitment to assessing environmental, social and governance (ESG) factors.
- The manager has created a differentiated income approach that combines bottom-up stock selection and stock specific active risk with a focus on delivering a premium and growing income stream across the cycle.

Key characteristics and expected outcome

- The fund is best described as a growth and income fund. While the aggregate fund is designed to provide a yield premium, the ability of companies to increase pay-outs is contingent upon the growth of profits and cashflows.
- The manager's pragmatism and focus on balancing portfolio risk helps the fund to navigate a wide range of market conditions. However, the innate bias towards quality companies with attractive dividend prospects means that it is likely to struggle in momentum fuelled markets or where poorer quality companies are favoured.
- Investors should expect some variability in the behaviour of the fund compared to the index, given its active share characteristics. However, its quality bias and focus upon companies with robust financials can be helpful in times of distress.
- The fund represents a well-balanced emerging markets equity income offering. As well as being used as an income product, it can also be used as a mainstay emerging market equity holding.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

SRRI scores of 5 and 6 are most common in this sector. Our analysis indicates that the fund's five-year standard deviation is towards the upper end of the 10%-15% range, and broadly in line with the benchmark. Its high active share and market-cap profile means that it has the potential for risk/return divergence compared to the index. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	13 December 2012
Manager(s) Since:	Matthew Williams (May 18)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI Emerging Markets*
IA Sector:	Global Emerging Markets

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

An emerging market equity income fund where the manager is focused upon high quality companies. The manager looks not only for attractive current dividend yields, but also for dividend growth. Within its sector, the fund features in our 'Larger-Cap, Income and Growth' category.

Investment Team

The well-resourced global emerging markets team is based in two primary locations, London and Singapore. The Emerging Markets Income Equity strategy is led by Matthew Williams and supported by the Global Equity Income portfolio construction group (pod). The pod has oversight of the construction of the fund to ensure it is run in line with the mandate. Mr Williams joined the company in 1998.

Investment Philosophy

The manager's appreciation of the compounding value of income growth underpins the fund's total return approach, while delivering a yield that is 130% of the index yield*, on a gross forward basis. He looks for quality companies and future leaders that are on attractive valuations, and believes a comprehensive assessment of environmental, social and governance (ESG) factors, combined with constructive company engagement, leads to better client outcomes.

Investment Process

The process is distinctly bottom-up, with the team's search for quality companies with under-appreciated growth potential centring upon the robust evaluation of businesses. They capture key business fundamentals through the lens of their quality assessment, using five aspects of quality. Here, they look to uncover strong business models, clear competitive advantages, and industry leaders and innovators. A quality score (Q score) is given to every company under coverage from one to five (where a score of one denotes the highest quality and a score of five, the lowest), both at an overall level and on five distinct criteria: the attractiveness of the industry in which the company operates; the strength of the business model and its economic or competitive moat; the skill and experience of the management; the resilience of the company's financials; and, the company's ESG credentials. They combine their assessment of quality with a focus on understanding what lies ahead for the business and the factors that will determine corporate value over time.

Once they understand the foundations of the business and how key drivers are changing, they focus on valuation. A wide range of valuation techniques and metrics are used to gauge the upside potential, as well as to evaluate potential downside scenarios. Using this analysis they will assign every stock under coverage: a strong buy, buy, hold, or sell. Team debate and peer review of stock insights and recommendations are a crucial stage of the research process, and these discussions support the portfolio managers in their assessments of investment candidates for their specific mandate.

Portfolio Construction and Risk Controls

The portfolio features 70-100 companies, with position sizes typically ranging from 1-5%. Smaller positions may be taken in small to medium-sized companies where liquidity and risk factors are a consideration. Approximately 50% of the fund is invested in companies where the team believes there will be strong profitable growth. These companies may have a near term yield that is less than the market average, or very low, but if this income stream is growing strongly, through the power of compounding, it should offer an attractive future yield. The other 50% of the fund is devoted to companies that they view as sustainable value opportunities, offering above market yields. This portion of the fund can be further sub-divided: 35-50% in high dividend opportunities and 0-15% in improving payout opportunities. Internal risk systems monitor and analyse all risk exposure.

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