

Fixed Income

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Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

The focus for today

The key theme

Fixed Income is not a single asset class choice. Being able to move between different parts of fixed income to take advantage of the returns that are available is crucial but in a low yield world can be expensive for fund buyers.

There are a number of themes that drive our asset allocation choices in the Strategic Bond Fund. Recently these have included;

- Central bank policy-makers influence on markets,
- What moving up in quality really means
- How we are dealing with volatility (or the lack of)
- Commodity exposure for where we are in the cycle
- Banks - the holy grail of credit?

One theme has become a dominant force in recent days. This presentation will highlight how we are positioned for further market influence from central bank policy-makers.

Themes for 2019

Finding value in a low yield world

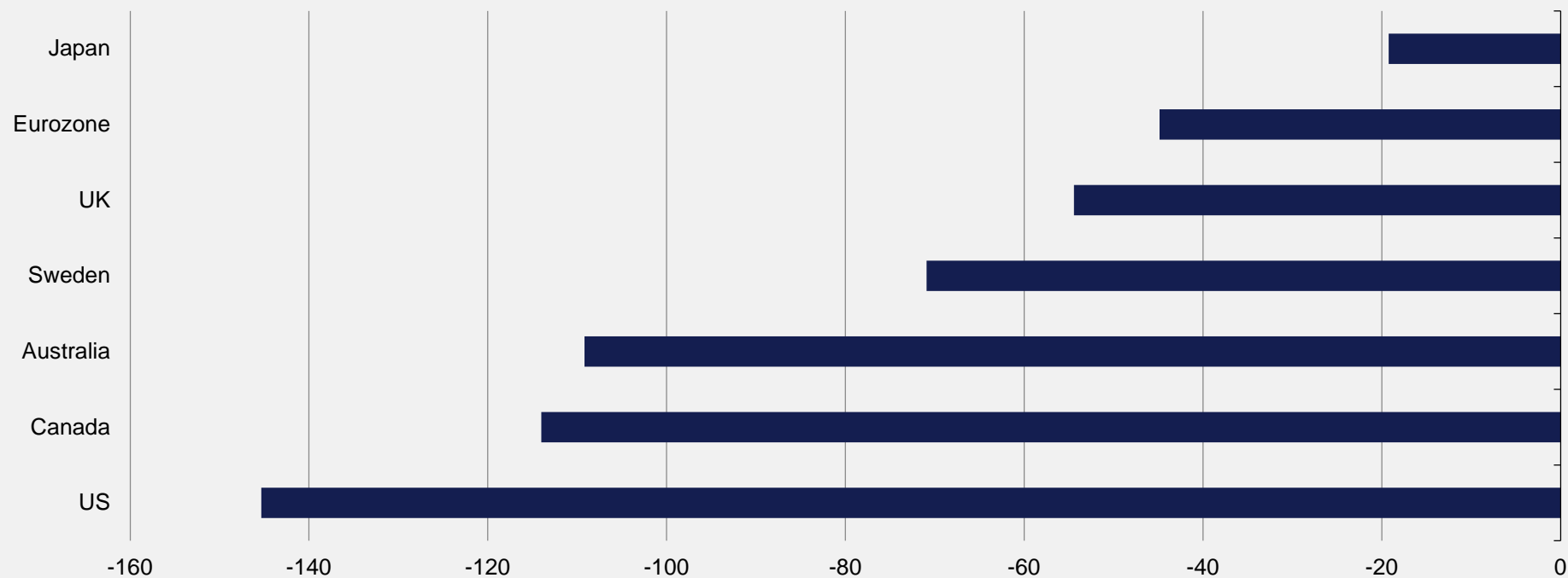
Theme	Market view	Our view
Policymaker influence	<ul style="list-style-type: none"> • Rate hiking cycle has abruptly ceased • Taper on hold • US election into view 	<ul style="list-style-type: none"> • Short easing cycle starting Q3 2019 • Stimulus now tried and tested • Fundamentals challenging
Up the quality, reduce the beta	<ul style="list-style-type: none"> • Normally expect slowdown to follow long expansion • Labour markets very tight – a risk to growth 	<ul style="list-style-type: none"> • Cycle could be even more stretched • Callable bonds offer attractive carry and limited volatility
Volatility is back	<ul style="list-style-type: none"> • Stabilisers taken off – for now • End of cycle fears cause volatility 	<ul style="list-style-type: none"> • Vol creates opportunities – markets overshoot • Rely on valuations
Commodities and EM	<ul style="list-style-type: none"> • Slower economic growth hurts commodities and EM hardest • New energy replacing old – renewable opportunities • Strong USD is consensus 	<ul style="list-style-type: none"> • Unlikely to see dramatic slowdown • Multi-year shift and oil in short supply due to low investment • Weaker USD possible with benefits for EM
Banks....a recovery	<ul style="list-style-type: none"> • Banks tarnished by 2007/2008 • Balance sheet pressures 	<ul style="list-style-type: none"> • Steady earnings growth and regulatory pressure – good for bonds • Banks have rebuilt balance sheets

Source: Aberdeen Standard Investments

Central bank rhetoric has supported risk assets

Markets have moved to aggressively price rate cuts

Market Implied Rates - Change since 17th October 2018



- U.S. market is now priced for close to 1% of rate cuts on a 1yr view
- Europe and the UK has now more than priced out any probability of cuts

Source: Aberdeen Standard Investments, Bloomberg For illustrative purposes only. No assumptions regarding future performance should be made, 19 June 2019

Where is the yield?

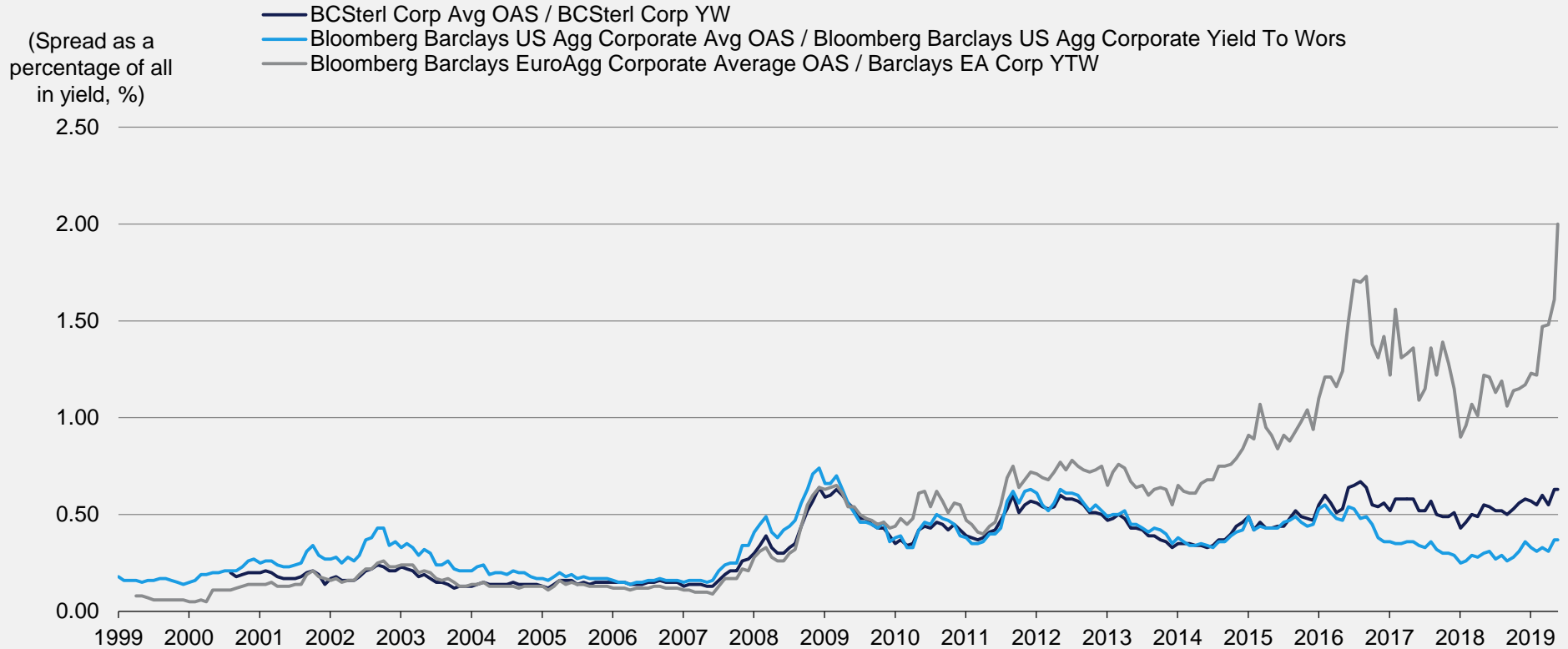
New high for negative yielding assets >\$12trn



Source: BAML, Bloomberg. For illustrative purposes only. No assumptions regarding future performance should be made, June 2019

EUR Credit potential for excess returns is high

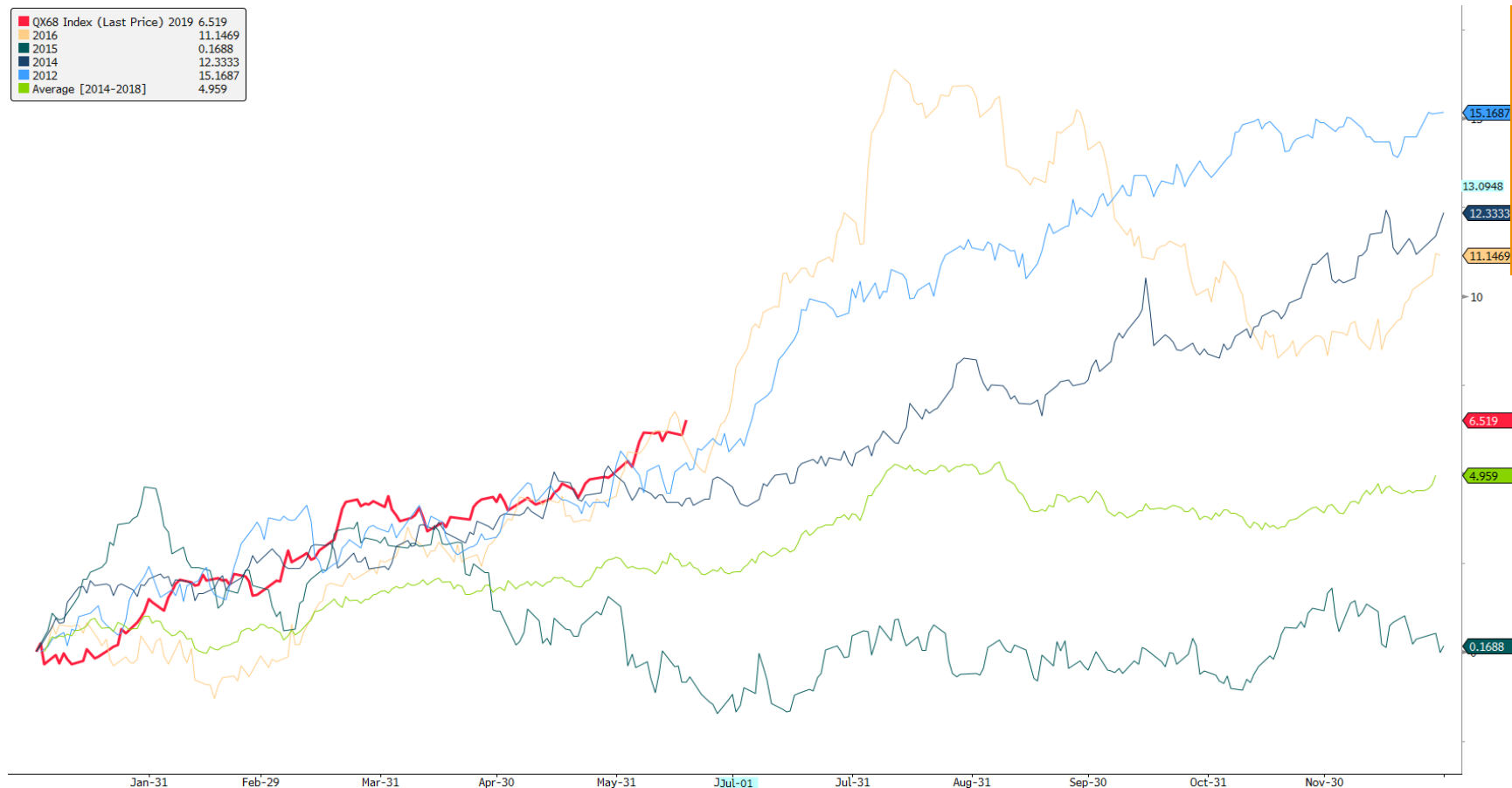
Low yield environment benefits credit spreads



Source: Deutsche Bank, Bloomberg, For illustrative purposes only. No assumptions regarding future performance should be made, 19 June 2019

Solid start to 2019 set to continue

GBP Markit iBoxx Corporate & Collateralised Index Calendar year Returns



Source: Deutsche Bank, Bloomberg, For illustrative purposes only. No assumptions regarding future performance should be made, 19 June 2019

Portfolio activity

How to benefit in this environment

- Put more duration into fund

- Buy short call hybrids from corporates and Banks/Insurance

BBVASM €6.75% Perp/Feb 20 1.77% EUR Yield = 3.16% GBP

KPN £6.875% 2073/March 2020 1.82% Yield

Virgin Money £8.75% Perp/Nov 2021 5.08% Yield

- Buy AT1 from groups we like the fundamentals

Clydesdale £8% Perp/Dec 2022 8.39% Yield

Commerzbank \$8.151% 31/June 29 4.40% USD = £3.72% Yield

- Buy Legacy bank bonds that do not qualify as we start Basel IV in Jan 2022

HSBC £5.844 Make Whole of 37.5bp to gilt yields = 10% yield to 2022

Lloyds £7.281 Make Whole of 75bp to gilt yields = 10.5% yield to 2022

- Make sure liquidity is high in fund

- Keep exposure to credit beta for now

Yields correct as at 19th June 2019

Aberdeen Strategic Bond Fund

Aberdeen Strategic Bond Fund

Overview – Fund details

Lead managers	Roger Webb, Luke Hickmore and Liam O'Donnell
Start date	June 2010
Objective	To generate income and increase capital value over the long term
Approach	Flexible approach across a diversified global bond universe, driven by strategic themes and tactical trades
IA sector	Strategic Bond
Number of issues	129
Fund AUM	£86.0m
Distribution yield*	3.25%
Average credit rating	BBB-
Duration	4.2 years
Spread duration	5.1 years

Source: Aberdeen Standard Investments, 31 May 2019

* 31 March 2019. **Past performance is not a guide to future results.**

Flexible approach, driven by strategic themes and tactical trades

Key characteristics

- Fund strategy driven by investment themes
- Strategic allocation between all asset classes within fixed income (c.40-60% of returns)
- Active bottom up fundamental stock selection from global research platform (c.20-30% of returns)
- Short term tactical allocation (c.20% of returns)
- Actively manage duration sensitivity

Key benefits

- Unconstrained, diversified portfolio that can invest across the entire fixed income universe
- Active allocation to HY and EMD when valuations are attractive
- Seeks to generate a positive return whilst minimising capital loss
- Flexible & dynamic duration management to reduce exposure to interest rate sensitivity

Aberdeen Strategic Bond Fund

Performance as at 30 April 2019

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.
Fund	1.19	2.85	2.89	2.14	4.26	3.22
Sector average	0.67	2.59	3.46	2.69	4.05	3.41
Sector ranking	18/89	32/89	56/89	57/84	29/77	39/70
Quartile	1	2	3	3	2	3

2019 to date

- Risk assets staged a strong recovery helping the fund to a consistent return
- Rates trades starting to work to protect the fund and generate returns as well
- Legacy bank bonds performing very strongly
- Energy names

Source: FE Analytics, Share Class I Acc, 30 April 2019

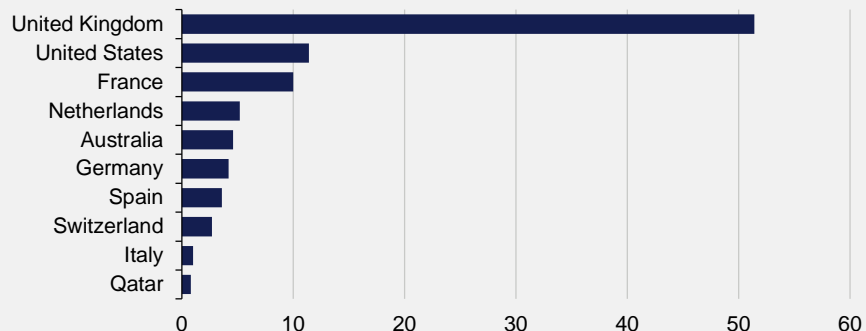
The Aberdeen Investment Funds ICVC Strategic Bond Fund was created by the transfer of the Aberdeen Investment Funds ICVC III Strategic Bond Fund into the Aberdeen Investments ICVC range on 11/09/2015. The historical track record shown prior to this date reflects that of the Aberdeen Investment Funds ICVC III Strategic Bond Fund.

These figures do not include the initial charge; if this is paid it will reduce performance from that shown. Past performance is not a guide to future results.

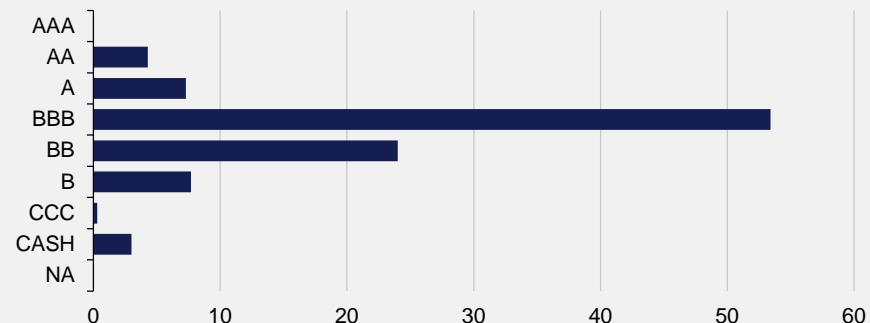
Aberdeen Strategic Bond Fund

Positioning (PV%)

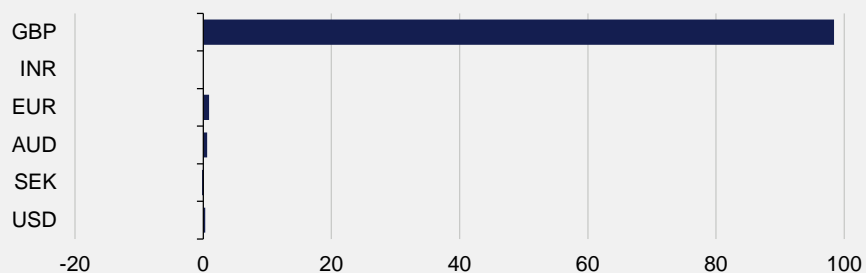
By country of risk – top 10 (PV %)



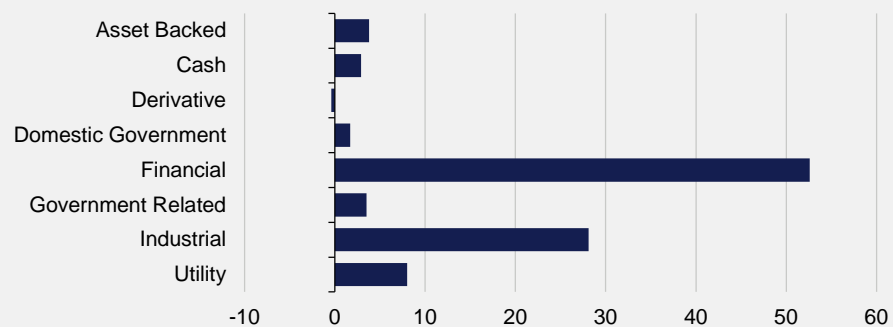
Ratings profile (PV %)



Currency (PV%)



Sector breakdown (PV %)

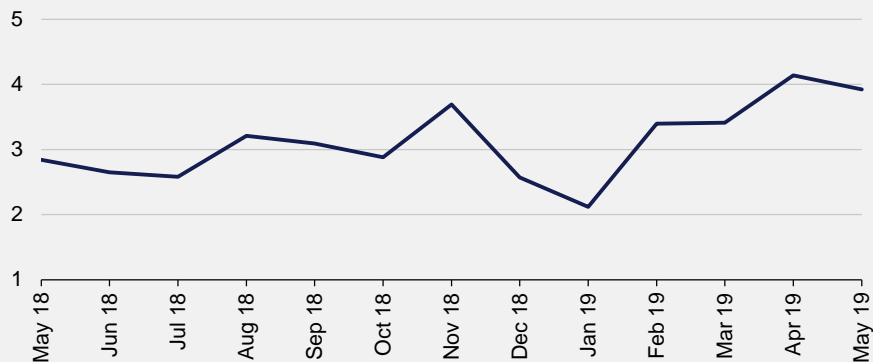


Source: Aberdeen Standard Investments, 31 May 2019

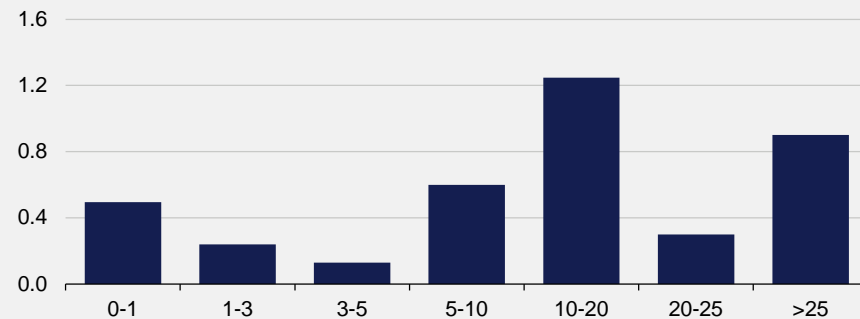
Aberdeen Strategic Bond Fund

Positioning (duration)

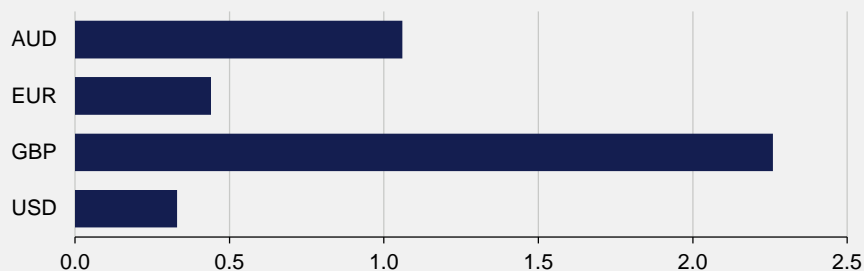
Effective duration over 1 year



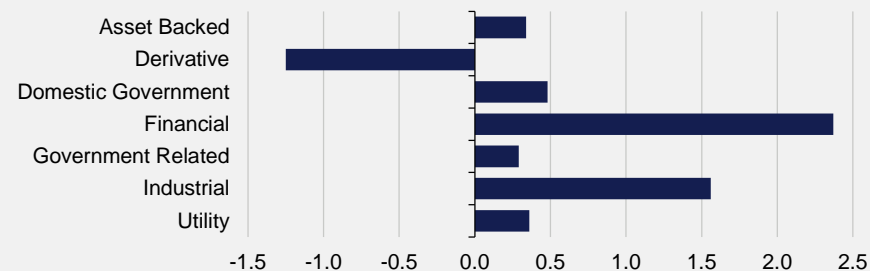
Maturity band (by duration contribution)



Currency (by duration contribution)



Sector breakdown (by duration contribution)



Source: Aberdeen Standard Investments, 31 May 2019

Why Aberdeen Standard Investments?

Aberdeen Strategic Bond Fund

- Global opportunity set
 - Fixed income coverage spanning broad range of asset classes and geographies
- Best ideas
 - Combining proven credit selection expertise with macro views
- Flexibility
 - Portfolio construction driven by themes but retain freedom to position for high conviction opportunities over short/medium term
- Volatility aware
 - Consider risk / reward balance and build diversified portfolio

Source: Aberdeen Standard Investments

A truly global and actively managed core fixed income solution

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