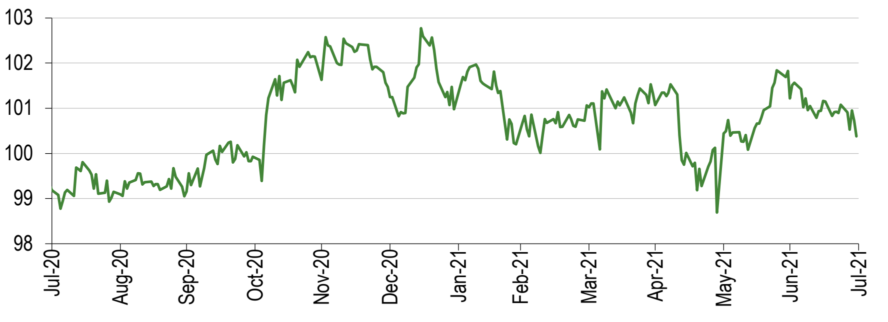
Aberdeen Latin American Income Fund

Optimism reflected in higher equity weighting

Investment companies
Latin American equities/debt

Aberdeen Latin American Income Fund's (ALAI) managers at Aberdeen Standard Investments (ASI) are encouraged by the prospects for Latin America. An economic recovery is underway and is spreading from the industrial to the service sectors as the COVID-19 vaccination programme in the region gains momentum. While inflationary pressures are building, the managers are hopeful that central banks' monetary policies will ensure that these are temporary; for example, in Brazil, interest rates have already been hiked four times this year. The managers say that the Latin American stock market is supported by a strong earnings recovery, helped by higher commodity prices and attractive valuations. Their optimism is reflected in ALAI's higher equity weighting, which now makes up around two-thirds of the fund.

NAV ahead of the benchmark over 12 months to end-July 2021



Source: Refinitiv, Edison Investment Research

The analyst's view

Latin America offers investors exposure to a region with improving economic growth, while valuations are attractive versus both historical averages and developed markets. ALAI is a differentiated fund containing both equities and government debt and its managers are able to draw on the significant resources of ASI's global investment team. They are encouraged by recent fiscal data, which suggests that public finances in Latin America are not as bad as generally perceived and corporate earnings are exceeding consensus growth expectations. ALAI has delivered strong absolute and relative returns over the last year, and the company offers an attractive dividend yield that is above the market's and those of its peers.

Scope for a narrower discount

ALAI's current 10.8% share price discount to cum-income NAV compares with the 12.0% to 13.5% range of average discounts over the last one, three and five years. There is scope for a higher valuation if investor sentiment towards Latin American equities improves, as over the last 12 months the discount narrowed to 3.1% (in March 2021), which was a five-year low. Despite lower levels of income, the company has continued to pay regular quarterly dividends, using revenue reserves when required; it currently yields 6.4%.

NOT INTENDED FOR PERSONS IN THE EEA

19 August 2021

Price		**54.8p**
Market cap		**£31.3m**
AUM		**£40.3m**
NAV*		61.4p
Discount to NAV		10.8%
*Including income. As at 17 August 2021.		
Yield		6.4%
Ordinary shares in issue		57.1m
Code/ISIN		ALAI/JE00B44ZTP62
Primary exchange		LSE
AIC sector		Latin America
52-week high/low	62.6p	46.7p
NAV* high/low	69.7p	55.8p
*Including income		
Net gearing*		14.9%
*As at 13 August 2021		

Fund objective

Aberdeen Latin American Income Fund (ALAI) aims to provide investors with a total return and an above-average yield, primarily through investing in Latin American securities. While the portfolio is constructed without reference to any benchmark, the company measures its performance against a composite index (in sterling terms): 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

Bull points

- Broad exposure to Latin America via both equities and government bonds.
- Attractive dividend yield.
- Well-resourced investment teams with consistent quality and value approach.

Bear points

- Higher political and currency risk in Latin America than in developed economies.
- Securities markets in the region can experience periods of volatility.
- Latin America is less well researched than developed markets.

Analysts

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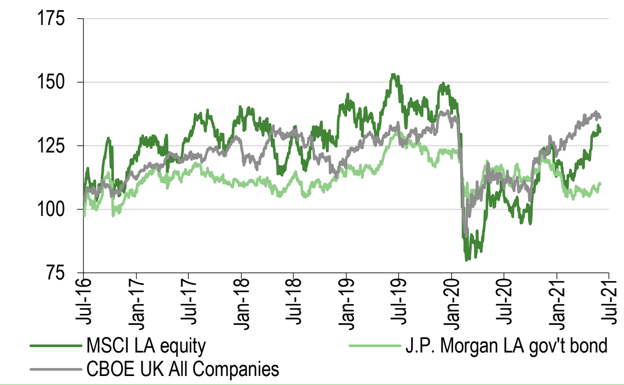
Aberdeen Latin American Income Fund is a research client of Edison Investment Research Limited

Market outlook: Supported by attractive valuations

Latin American equities (in sterling terms) have not yet fully recovered from the Q120 coronavirus-led stock market sell-off (Exhibit 1, left-hand side). However, economies in the region are improving as COVID-19 vaccine programmes gain momentum. In its July 2021 World Economic Outlook update, the International Monetary Fund GDP growth expectations for Brazil and Mexico for 2021 are +5.3% and +6.3% respectively, both figures were revised upwards from the April 2021 update (by 1.6% and 1.3% respectively). Sentiment towards Latin American equities remains subdued as shown in the valuation table below, maybe due to political uncertainty in the region. The Datastream Latin America Index is currently trading on a 10.4x forward P/E multiple, which is a 20% discount to its five-year average and an even wider c 41% discount to the Datastream World Index, which is trading on a 17.7x forward P/E multiple (the US is trading on an earnings multiple that is close to its all-time high). Given inexpensive valuations and strong corporate earnings in the region, that have surpassed 2019 pre-COVID-19 levels, along with positive estimate revisions, global investors may benefit from an allocation to Latin America.

Exhibit 1: Market performance and valuations (last five years)

Performance of indices (£-adjusted)



Datastream indices forward P/E valuations (x)

	Last	High	Low	Five-year average	Last as % of average
Latin America	10.4	15.2	9.6	12.9	80
Brazil	9.5	15.8	9.5	12.4	77
Mexico	14.2	19.1	11.4	14.6	97
US	22.2	23.8	14.2	18.8	118
UK	12.7	15.8	9.7	13.7	93
World	17.7	19.8	12.3	16.0	111

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 18 August 2021.

The fund manager: Aberdeen Standard Investments

The managers' view: Positive developments in the region

We discussed the outlook for Latin America with Viktor Szabó (a member of ASI's emerging market debt team) and Brunella Isper (a member of ASI's global emerging markets equities team). Szabó reports that the region's economies are recovering from the negative effects of the coronavirus pandemic and suggests that there is upside to H121 consensus growth expectations despite a rising number of COVID-19 cases. While lagging the progress in some parts of the world, vaccination programmes in Latin America are underway, although the pace varies between the different countries. Szabó says that in Chile and Uruguay, two-thirds of the total population is fully vaccinated, while the larger countries are less advanced; Brazil and Mexico are around 20%. Peru's level is lower than this due to political and corruption issues, while its vaccine supply has not been well organised.

The manager comments that recent data points in Latin America indicate strong economic growth in the region and inflationary pressures are now higher. The annual inflation rate in Brazil is running at c 8%, Mexico at c 6%, with the countries that typically have lower inflation (Chile, Colombia and Peru) above 3%. These levels are above central bank targets; hence, interest rates are rising. So far this year the Brazilian central bank has raised interest rates four times from 2.00% to 5.25% with scope for further hikes; the bond market is pricing in a rate of 8.50% 12 months out. The Mexican central bank raised interest rates by 25bp in June 2021 to 4.25% and the bond market is pricing in 6.00% 12 months ahead. In Chile, the central bank raised its interest rate by 25bp, there has been no change yet in Colombia, and Szabó says that Peruvian monetary policy is difficult to predict due to political uncertainty. ALAI's equity weighting has increased and now makes up around two-thirds of the fund. The manager believes that a backdrop of strong economic growth favours the prospects for equities rather than for government bonds.

Szabó explains that there have been parliamentary and presidential elections in Peru, with the outcome of the presidential election being such a close call that the result was delayed for several weeks. Pedro Castillo was elected as the new president; he is considered to be a left-wing politician who laid out populous promises during his campaign, although his views are now moderating. The mining sector is an important contributor to Peruvian economic growth, so if taxes are increased too much, this will discourage investors, while there is a question mark about who will lead the central bank if the current governor leaves, as his longstanding term has already expired, although the president has asked him to serve for a further five years.

The manager says that there was a mixed result from the election of the constitutional assembly in Chile, with a leaning towards left-wing politics; investors are concerned about a lack of sufficient centrist/right-wing representation to block any extreme initiatives. Szabó notes that there is a presidential election in Chile in November 2021, with a risk of a left-wing candidate being elected. Turning his attention to Brazil, the manager says the country always has a volatile political environment, but reforms are still progressing and are being coordinated by the chief of staff, who is a leader of a centre-right party, and a strong fiscal performance means that there are expectations for additional spending; higher-than-expected inflation is positive for Brazil's fiscal position. The Bolsa Familia support programme is being revamped; there is room for it to be expanded, but Szabó wonders if this can this occur within the Brazilian 2022 constitutional spending cap, while there are many projects contending for additional funds. He suggests that far-right President Bolsonaro's popularity could increase if the Bolsa Familia is rolled out to more of the population. The president has signed off the privatisation of the utility company Eletrobras and the manager says that there is a long list of assets that could be privatised in the next few months.

Latin American economies are benefiting from robust commodity prices, which is improving the region's fiscal position. For example, copper prices are underpinned by strong demand from a range of industries including electric vehicles and turbines, which is positive for Chile and Peru, while Colombia is a beneficiary of higher oil prices. Isper explains that commodity companies make up c 35% of the MSCI Latin America Index and are providing a positive tailwind to the region's stock market performance. Equity prices are supported by a strong earnings recovery, which are now higher than pre-COVID-19 levels; consensus earnings expectations for the MSCI Latin America Index for 2021 are 70% higher than 2019 earnings. Brazilian miner Vale is the largest index constituent, making up c 13% of the benchmark, and is benefiting from high iron ore prices; expenses are under control and the company has a high degree of operating leverage.

The manager also highlights the favourable valuations available in Latin America, noting that the MSCI Latin America Index is trading at a c 30% discount to its 10-year average (c 9x versus c 13x) and is also at a c 30% discount to the broader MSCI Emerging Markets Index. She comments that this demonstrates that Latin American equities look attractive on both an absolute and a relative basis, and the manager is very encouraged by the high level of earnings estimate upgrades.

Current portfolio positioning

Reflecting the managers' bullish outlook for Latin America, over 12 months to the end of June 2021 ALAI's equity exposure increased by 6.1pp and now makes up around two-thirds of the fund, while the fixed income exposure has declined. The total number of holdings (60) remains the same.

Exhibit 2: Current portfolio breakdown (% unless stated)

	Portfolio end-June 2021	Portfolio end-June 2020	Change
Equity exposure	66.7	60.6	6.1
Fixed income exposure	33.3	39.4	(6.1)
Number of holdings	60	60	

Source: ALAI, Edison Investment Research

ALAI's top 10 positions (six equities and four government bonds) made up 39.1% of the portfolio at the end of June, which was a lower concentration compared with 41.4% a year earlier; six holdings were common to both periods.

Exhibit 3: Top 10 holdings (as at 30 June 2021)

Company	Country	Sector	Portfolio weight %	
			30 June 2021	30 June 2020*
Vale	Brazil	Materials	5.4	N/A
Brazil (Fed Rep of) 10% 01/01/25	Brazil	Government bond	5.2	6.8
Colombia (Rep of) 9.85% 28/06/27	Colombia	Government bond	5.1	6.6
Banco Bradesco	Brazil	Financials	4.1	4.1
Grupo Financiero Banorte	Mexico	Financials	3.6	N/A
Uruguay (Rep of) 4.375% 15/12/28	Uruguay	Government bond	3.6	3.7
Mex Bonos Desarr Fix Rt 10% 20/11/36	Mexico	Government bond	3.2	3.6
Walmart de México y Centroamérica	Mexico	Retail	3.0	N/A
FEMSA	Mexico	Consumer staples	3.0	N/A
Petrobras	Brazil	Energy	2.9	3.5
Top 10 (% of portfolio)			**39.1**	**41.4**

Source: ALAI, Edison Investment Research. Note *N/A where not in end-June 2020 top 10.

There have been modest changes in ALAI's geographic exposure in the 12 months to the end of June. The most notable are a lower weighting to Peru (-3.8pp) and higher weightings to Mexico (+2.4pp) and Brazil (+2.0pp).

Exhibit 4: Total portfolio breakdown by geography (% unless stated)

	Portfolio end-June 2021	Portfolio end-June 2020	Change (pp)
Brazil	51.3	49.3	2.0
Mexico	24.3	21.9	2.4
Colombia	7.5	6.6	0.9
Uruguay	5.5	5.8	(0.3)
Chile	3.8	4.7	(0.9)
Argentina	3.0	3.7	(0.7)
Peru	2.5	6.3	(3.8)
Cash	2.1	1.7	0.4
	100.0	**100.0**	

Source: ALAI, Edison Investment Research

Isper highlights the six new equity holdings and three complete exits since our last ALAI note was published in February 2021. She comments that portfolio activity has been higher than normal in recent months due to a high number of initial public offerings (IPOs) and valuation opportunities.

Mobly is a Brazilian online furniture retailer that first listed in February. The company is benefiting from robust growth in e-commerce and has less competitive pressure as its category is not widely covered by the larger operators such as Mercado Libre and Magazine Luiza. Isper says that Mobly has a high level of product expertise (primarily private label) and unusually also owns a logistic network. Since the IPO, the company's share price has declined due to sector rotation, so the manager may use this as an opportunity to add to ALAI's position.

Grupo México is a less expensive way to gain exposure to its subsidiary Southern Copper, which is a best-in-class, low-cost producer. The manager is positive on the outlook for copper due to limited supply and robust demand helped by the growth in electrification and green energy projects. Grupo México also owns Mexican infrastructure assets including a railway.

Vesta is a leading Mexican real estate developer, which operates in a defensive sector and has good opportunities for organic growth. The company has exposure to the North Mexico manufacturing base, which is benefiting from a strong recovery in US GDP, and rising e-commerce penetration means there is a need for additional warehouse capacity.

Magazine Luíza was historically a bricks-and-mortar retailer but has developed its online operations and now has a full-service digital ecosystem; it also provides fintech services. Isper believes there is room for more than one dominant online retailer in Latin America and ALAI also has a position in Mercado Libre.

Sequoia Logistica e Transportes is a broad range logistics provider including express delivery and logistic business solutions and services. Isper says that this company provides exposure to rising e-commerce at in Brazil at a reasonable valuation.

GetNinjas was a May 2021 IPO and owns a fast-growing online services platform. The manager explains that the company operates in more than 500 categories and has received c 4m service requests over the last year; the largest number are for home renovation and technology support. GetNinjas has a first-mover advantage in Brazil and the IPO increased the company's profile, which helps to attract new talent to the platform.

The three disposals were **OdontoPrev** (a Brazilian dental benefits company – lower-conviction holding); **IEnova** (a Mexican energy company that was acquired by US parent Sempra Energy); and Grupo Aeroportuario del Sureste (**ASUR**). This is a Mexican airport operator whose share price rallied in anticipation of a post-COVID-19 increase in economic activity. Isper prefers ALAI's holding in Grupo Aeroportuario Centro Norte (OMA) on the grounds of quality and valuation.

Szabó comments that in recent months activity in ALAI's bond portfolio has been modest. Central banks have reacted to higher inflation in Latin America and markets have priced in a tightening cycle, which has put pressure on the front end of the bond yield curve. In the Andean countries the longer end of the bond yield curve has also come under pressure, as a higher political risk premium has been priced in. Within ALAI's fixed income portfolio the manager has reduced exposure to Peruvian and Mexican duration but has added to it in Brazil. The largest active duration overweight is in Uruguay, where the fund holds inflation-linked bonds, which offer some protection against the rise in inflation.

Performance: Volatile annual total returns

Exhibit 5: Five-year discrete performance data

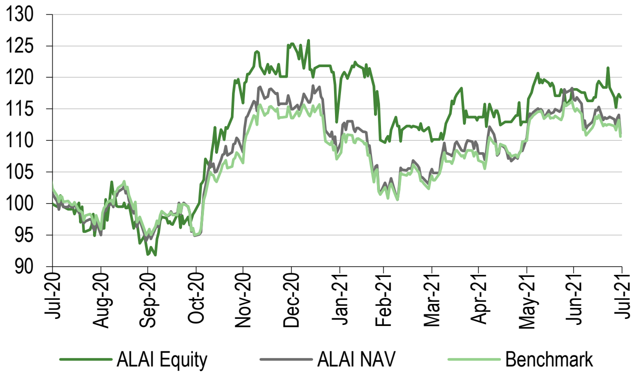
12 months ending	Share price (%)	NAV (%)	Composite benchmark (%)*	MSCI EM Latin America 10/40 (%)	JP Morgan GBI-EM Global Diversified (Latin America) (%)
31/07/17	22.6	21.1	17.8	19.3	14.9
31/07/18	(5.8)	(5.4)	0.6	1.7	(1.4)
31/07/19	20.1	20.1	17.3	16.8	17.1
31/07/20	(29.1)	(28.2)	(22.9)	(29.9)	(13.6)
31/07/21	16.9	9.4	8.1	18.1	(6.2)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Composite benchmark is 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out).

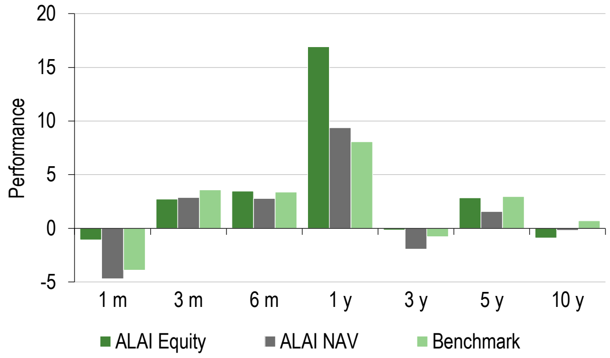
Absolute returns in Latin America over the last decade have been disappointing (Exhibit 6, right-hand side). However, over the last year they have been much better, and ALAI is ahead of its benchmark in both net asset value (NAV) and share price terms.

Exhibit 6: Investment company performance to 31 July 2021

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

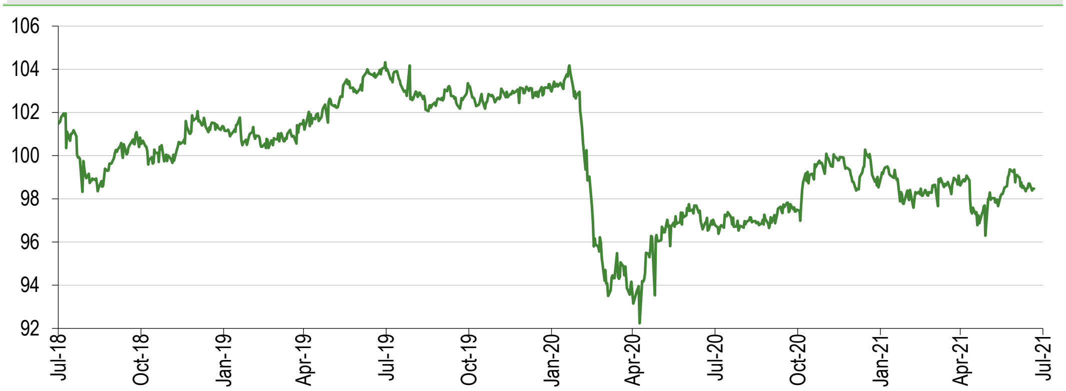
Isper explains that in H121, the performance of ALAI's equity holdings was broadly in line with that of the MSCI Latin America Index. Positive contributors to returns included not holding Credicorp (a Peruvian financial services company) along with positions in Bradespar (a Vale holding company), Arezzo Industria e Comercio (a Brazilian designer and manufacturer of women's footwear, bags and accessories), and Wilson Sons (the largest integrated port and maritime logistics operator in Brazil, which is undergoing a reorganisation). Detractors from performance include not owning Grupo México early in the year, not owning Cemex (strong infrastructure demand in the United States and rising cement prices), the holding in Parque Arauco (a Chilean shopping mall operator) and an underweight position in Brazilian oil company Petrobras.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	2.9	(0.8)	0.1	8.2	1.9	(0.7)	(14.9)
NAV relative to benchmark	(0.8)	(0.7)	(0.6)	1.2	(3.5)	(6.7)	(8.4)
Price relative to MSCI EM LA 10/40	3.6	(3.1)	(6.2)	(1.0)	3.0	(1.9)	(4.5)
NAV relative to MSCI EM LA 10/40	(0.2)	(3.0)	(6.8)	(7.4)	(2.4)	(7.8)	2.8
Price relative to JP Morgan LA gov't bond	2.0	2.9	10.6	24.6	4.8	6.9	(21.3)
NAV relative to JP Morgan LA gov't bond	(1.8)	3.0	9.8	16.6	(0.7)	0.5	(15.3)
Price relative to CBOE UK All Companies	(1.6)	0.8	(8.5)	(7.5)	(4.5)	(12.1)	(51.9)
NAV relative to CBOE UK All Companies	(5.2)	0.9	(9.1)	(13.5)	(9.5)	(17.4)	(48.3)

Source: Refinitiv, Edison Investment Research. Note: Data to end-July 2021. Geometric calculation.

Exhibit 8: NAV total return performance relative to composite benchmark over three years



Source: Refinitiv, Edison Investment Research

Peer group comparison

The two funds in the AIC Latin America sector are not directly comparable as they follow different mandates; ALAI invests in equities and government bonds, while BlackRock Latin American Investment Trust is an equity fund. ALAI's NAV total returns rank first over the last decade and second over the last one, three and five years. It is currently trading on a narrower discount, has a higher ongoing charge (as its fixed costs are spread over a smaller base), which is capped at 2.0%, and has a lower level of gearing. The company offers a dividend yield that is 1.5pp higher than its peers'. To enable a broader comparison, in Exhibit 9 we also highlight a range of open-ended equity funds that invest in Latin America. ALAI's NAV total returns are above their average return over 10 years, while lagging over one, three and five years; however, its dividend yield is significantly above all those of the open-ended funds.

Exhibit 9: Selected peer group as at 18 August 2021*

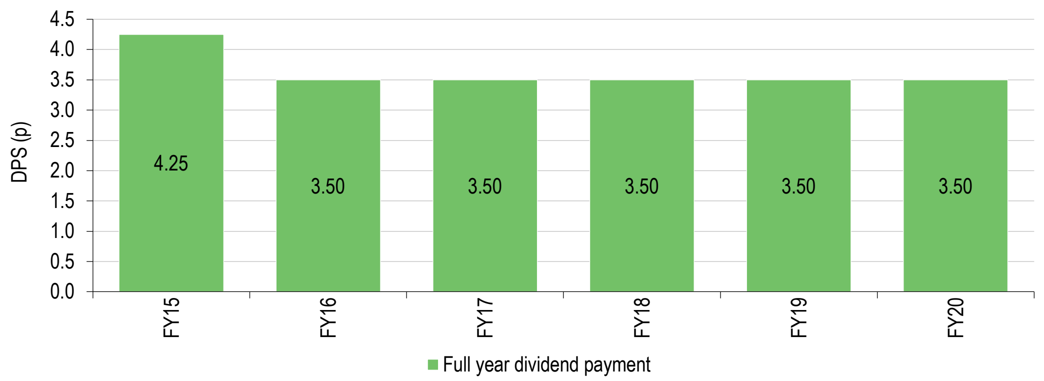
% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Aberdeen Latin American Income	31.3	10.3	(3.0)	1.8	4.7	(9.6)	2.0	No	115	6.4
BlackRock Latin American	140.5	22.8	(1.3)	8.4	(0.4)	(11.8)	1.1	No	116	4.9
Average	**85.9**	**16.5**	**(2.2)**	**5.1**	**2.2**	**(10.7)**	**1.6**		**116**	**5.6**
ALAI rank	**2**	**2**	**2**	**2**	**1**	**1**	**1**		**2**	**1**
Open-ended funds							**TER**			
ASI Latin American Equity	111.1	13.3	(3.8)	0.1	5.1		1.6			0.7
Fidelity Latin America	515.1	23.2	9.6	16.5	10.9		1.1			0.0
Schroder ISF Latin American	193.7	20.6	9.3	20.1	2.1		1.9			1.6
Templeton Latin America	529.2	13.3	(2.7)	(0.6)	(13.9)		2.3			1.1
Threadneedle Latin America	335.1	19.7	4.7	5.3	(11.2)		1.7			0.1
Average	**336.8**	**18.0**	**3.4**	**8.3**	**(1.4)**		**1.7**			**0.7**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 17 August 2021. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends

Historically, more than 60% of ALAI's income has been derived from its fixed income portfolio. Due to the depreciation of Latin American currencies, its annual dividend was rebased in FY16 from 4.25p to 3.50p per share. Acknowledging the importance of income to ALAI's shareholders, in FY20 the board maintained the annual dividend at 3.50p per share (0.6x covered). The company has sufficient revenue reserves to distribute at least 3.50p per share in FY21; however, the board has cautioned that market volatility and currency weakness may necessitate lower annual dividends in the future. So far in FY21, three quarterly dividends of 0.875p per share have been paid and based on its current share price ALAI offers an attractive 6.4% yield.

Exhibit 10: Dividend history since FY15

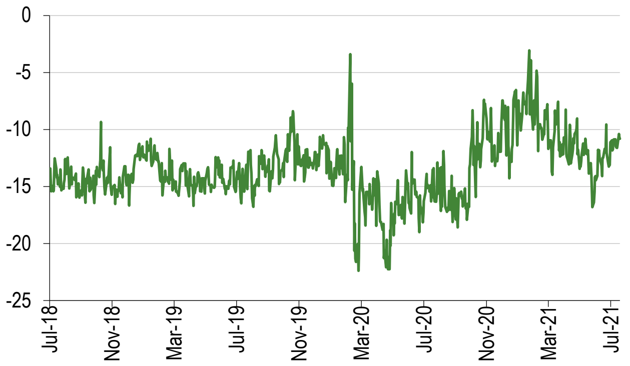


Source: Bloomberg, Edison Investment Research

Valuation: Wider discount in recent months

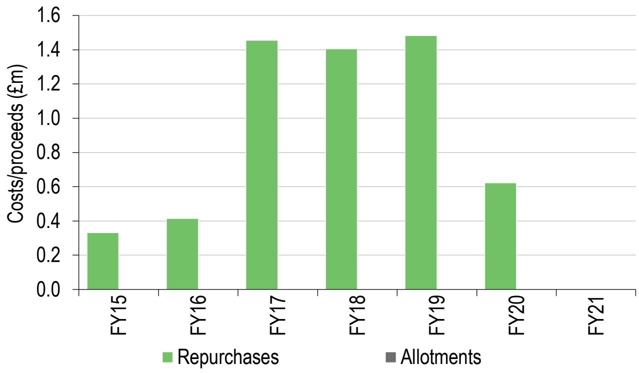
In recent months ALAI's discount has widened, perhaps reflecting lower investor sentiment towards Latin America or the potential for the company to pay a lower dividend. The current 10.8% share price discount to cum-income NAV compares with the 3.1% to 18.6% range of discounts over the last 12 months. The average discounts over the last one, three and five years are 12.0%, 13.5% and 13.3% respectively. Renewed annually, the board has the authority to repurchase up to 14.99% and allot up to 10% of issued shares to manage a discount or premium. There have been no share repurchases since March 2020, but in FY20, 887k shares (c 1.5% of the share base) were bought back at a cost of c £0.6m.

Exhibit 11: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Equity and fixed income exposure

Launched on 16 August 2010, ALAI is a Jersey-incorporated closed-end investment company and is listed on the Main Market of the London Stock Exchange. The fund is managed by ASI's global emerging markets equities and emerging market debt teams. It aims to generate a total return with an above-average yield from a diversified portfolio of Latin American securities. ALAI's performance is benchmarked against a composite index: 60% MSCI EM Latin America 10/40 Index and 40% JP Morgan Government Bond Index EM Global Diversified (Latin America carve-out); both are sterling adjusted. The benchmark is used as a measurement rather than a portfolio construction tool, so there will be periods when the performance of the fund and that of the composite index diverge. ALAI's portfolio contains equity, equity-related and fixed income securities; at the end of June 2021, it was split broadly 67:33 between equities and government bonds. In order to mitigate risk, at least 25% of gross assets must be held in equity and equity-related investments, and at least 25% in fixed income investments. At the time of investment, a maximum 15% of gross assets may be held in a single company, with up to 25% in non-investment grade government debt (rated BB+/Ba1 or lower). ALAI has no restrictions on its geographic, sector or market cap exposure. Derivatives are permitted for efficient portfolio management and to mitigate risk (up to 50% of gross assets). Gearing of 20% of net assets is permitted at the time of drawdown; as at 13 August 2021, net gearing was 14.9%.

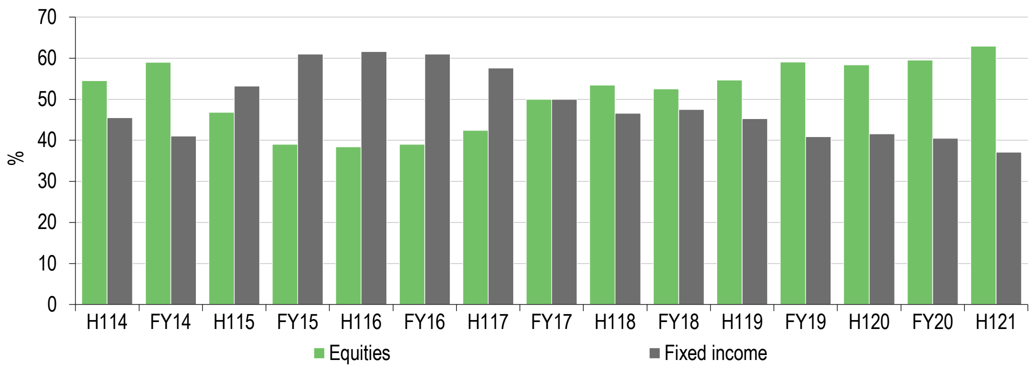
Investment process: Focus on quality and value

ALAI is managed by ASI's global emerging markets equities team and emerging market debt team, which adhere to ASI's focus on quality and value. The two teams communicate regularly to discuss the macro backdrop, findings from recent company meetings and portfolio positioning (including the level of gearing).

Stocks are selected following thorough fundamental analysis; the emerging markets equities team essentially seeks 'long-term winners'. These are high-quality companies with strong balance sheets that are cash generative and have strong management teams. An assessment of a firm's environmental, social and governance (ESG) credentials is integral to the investment process (see following section). Risk management is also an important consideration; ASI has an independent performance and risk team to ensure funds adhere to their respective guidelines and managers are aware of their risk exposures. ALAI's portfolio turnover is relatively low, generally around 15% pa, which implies an average seven-year holding period, although many equity investments have been held for considerably longer.

The emerging market debt team seeks high-quality securities that generate a sufficient level of income, so investments are biased to higher-coupon issues, ensuring that the equity team can focus on selecting companies for their total return potential rather than income. Analysis is on a bottom-up basis, with emphasis on the perceived prospects of each individual country. The team looks for relative value opportunities and builds ALAI's debt exposure accordingly. For liquidity reasons, investments are made in government or quasi-government issuers rather than corporate debt. They are generally in local rather than hard currencies, but the team can hedge or take forward currency positions. Fixed income positions are also held for the long term.

Exhibit 13: Portfolio exposure (since FY13)



Source: ALAI, Edison Investment Research

ALAI's approach to ESG

ALAI's managers embed ESG into the research of each asset class as part of the investment process. It is about active engagement, with the goal of improving the fund's performance. The managers aim to make the best possible decisions, by understanding the whole picture, before, during and after an investment is made. This includes focusing on the environmental (including climate change), social and governance risks and opportunities they present, and how these could affect the longer-term performance of investments.

ASI employs more than 1,000 investment professionals, who take ESG factors into account during their company research, stock selection and portfolio construction activities; they are supported by more than 50 ESG specialists around the world. Through engagement and exercising voting rights, the managers actively work with companies to improve corporate standards, transparency and accountability. In doing so, they aim to deliver improved financial performance over the longer term, as well as actively contributing to a fairer, more sustainable world.

Gearing

ALAI is not permitted to take out fixed long-term borrowings. In August 2021, the company entered into a two-year £6m unsecured revolving multi-currency loan facility with The Bank of Nova Scotia expiring on 14 August 2023 (£5.5m is drawn down). The board continues to monitor the level of gearing under recommendation from the manager and taking current market conditions into account. As at 13 August 2021, ALAI's net gearing was 14.9%.

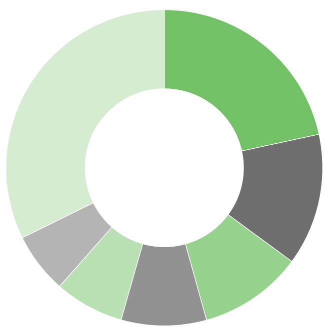
Fees and charges

ALAI pays Aberdeen Standard Capital International Limited an annual management fee of 1.0% of its NAV, which is divided 40:60 between the revenue and capital accounts respectively. This reflects the prospective split between future revenue and capital growth. The fund's ongoing charge ratio (OCR) is capped at 2.0%, with any excess fees rebated by the manager. In FY20, the OCR was 2.0%, which was in line with FY19.

Capital structure

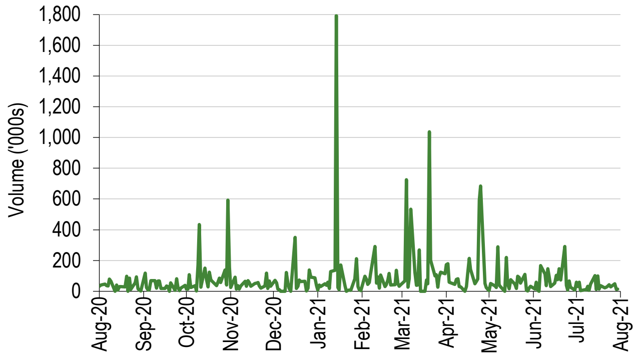
ALAI is a Jersey-registered investment company with one class of share; there are currently 57.1m ordinary shares in issue (with a further 6.1m held in treasury). Its average daily volume over the last 12 months is c 85k shares.

Exhibit 14: Major shareholders



Source: ALAI, as at 31 July 2021

Exhibit 15: Average daily volume



Source: Refinitiv, 12 months to 18 August 2021

The board

Exhibit 16: ALAI's board of directors

Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-FY20
Richard Prosser (chairman)	30 June 2010	£32,000	15,000
Hazel Adam	27 April 2018	£22,000	Nil
Heather MacCallum (audit committee chair)	24 April 2019	£25,605	Nil
Howard Myles	1 October 2020	N/A	Nil

Source: ALAI

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