Aberdeen New Dawn Investment Trust

Finding enduring quality in Asia

Investment trusts

Aberdeen New Dawn Investment Trust (ABD) is a diversified Asia-Pacific equity fund investing in companies across the region, including Australasia but excluding Japan. It follows Aberdeen's established, team-based approach to finding quality stocks at attractive prices, and its buy-and-hold strategy translates into extremely low turnover (c 6% a year). While its mandate is to seek capital growth, the focus on quality feeds in to a meaningful level of dividend income, and ABD has one of the highest yields in its sector (excluding income specialists). The trust has a solid long-term performance record and currently trades on a c 8-10% discount.

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pac ex-Jp Index (%)	MSCI World Index (%)	FTSE All-Share Index (%)
30/11/11	(13.8)	(11.8)	(10.6)	1.0	2.6
30/11/12	21.8	20.2	16.8	12.2	12.1
30/11/13	0.1	2.1	5.9	24.3	19.8
30/11/14	10.7	9.3	8.7	14.5	4.7

Source: Thomson Datastream. Note: Total return basis.

Investment strategy: Long-term buy-and-hold

Aberdeen applies a consistent investment approach across the funds it manages, focusing on assessing the quality of a business through management meetings, analysis of the competitive landscape and a focus on corporate governance and financial strength. Fair values are assessed through financial and peer group analysis. ABD employs this process to select attractively priced companies from across the Asia-Pacific (excluding Japan) region, using a team-based approach. It is a long-term buy-and-hold strategy, with average turnover of 5.9% over the past five years implying a holding period of nearly 17 years.

Market outlook: Asian story intact but volatility likely

October saw global equity markets sell off, although most falls were quickly reversed. What is significant is not so much the magnitude of the moves, but the signal that volatility may be returning. With economic indicators turning down in Japan and Europe and the end of QE in the US signalling that the next move in interest rates is likely to be upwards, short-term sentiment may turn against Asian and emerging markets. However, valuations in Asia are less stretched than elsewhere and long-term returns could favour those willing to take a contrarian view.

Valuation: Discount in line with near-term average

At 11 December ABD's shares traded at a 9.5% discount to cum-income NAV, in line with or narrower than the averages over one and three years. This is somewhat wider than the AIC Asia-Pacific ex-Japan peer group, although the sector-weighted average is skewed by the presence of three large income specialists that have tended to trade close to NAV or at a slight premium. Excluding these, ABD's discount is in line with the sector average. While performance relative to the peer group and benchmark has dipped a little over the past year, long-term returns are better, and for investors who can match Aberdeen's buy-and-hold approach, the current discount could provide a favourable entry point.

12 December 2014

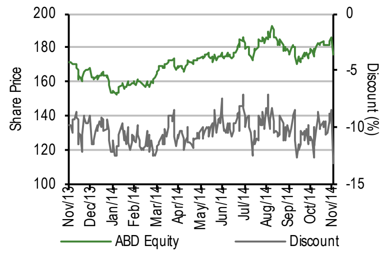
Price	**178.5p**
Market cap	**£222.3m**
AUM	**£265.3m**

NAV*	195.1p
Discount to NAV	8.5%
NAV**	197.2p
Discount to NAV	9.5%

*Excluding income. **Including income. Data at 11 December 2014.

Yield	2.0%
Ordinary shares in issue	124.5m
Code	ABD
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance*



*Including income. Negative values indicate a discount; positive values indicate a premium.

Three-year cumulative perf. graph

52-week high/low	193.0p	153.0p
NAV* high/low	208.5p	172.3p

*Excluding income.

Gearing *

Gross	9.6%
Net	8.5%

*The difference between gross assets (less cash for net gearing) and net assets, shown as a % of NAV.

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Edison profile page

Aberdeen New Dawn Investment Trust is a research client of Edison Investment Research Limited

Exhibit 1: Aberdeen New Dawn Investment Trust at a glance

Investment objective and fund background

Aberdeen New Dawn Investment Trust aims to provide shareholders with a high level of capital growth through investment in the Asia-Pacific region, including Australasia but excluding Japan. It measures its performance against the MSCI AC Asia Pacific ex-Japan Index.

Recent developments

- 7 October 2014: New loan facility of £35m (was £30m) arranged with Royal Bank of Scotland.
- 4 September 2014: Interim management statement for the three months ended 31 July. NAV TR +6.4% compared with +8.8% for benchmark MSCI AC Asia Pacific ex-Japan. Share price TR +8.6%.

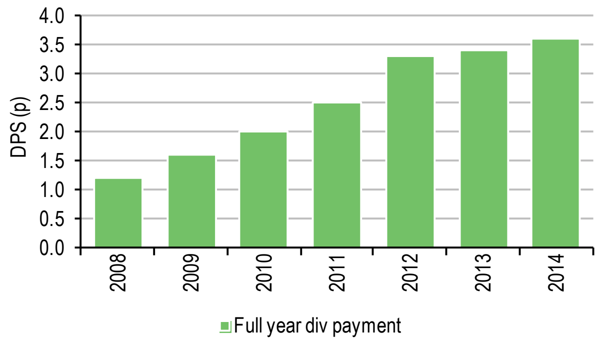
Forthcoming		Capital structure		Fund details	
AGM	September 2015	Ongoing charges	1.1%	Group	Aberdeen Asset Managers
Half-year results	December 2014	Net gearing	8.5%	Manager	James Thom
Year end	30 April	Annual mgmt fee	1.0%	Address	Bow Bells House, 1 Bread Street, London EC4M 9HH
Dividend paid	January, September	Performance fee	No		
Launch date	1989	Trust life	Indefinite	Phone	0500 00 00 40
Continuation vote	No	Loan facilities	£35m multicurrency	Website	www.newdawn-trust.co.uk

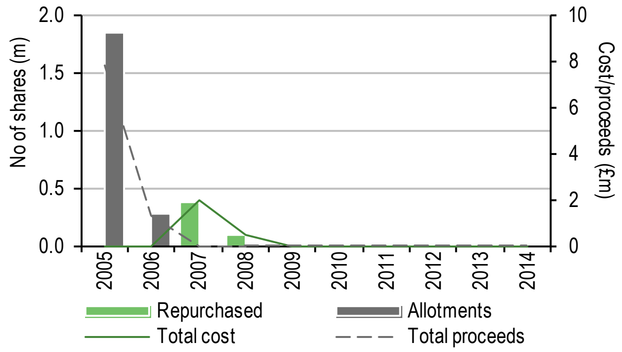
Dividend payments

Dividends paid twice yearly in January and September, although the trust aims for capital growth and there is no guarantee that dividends will be maintained.

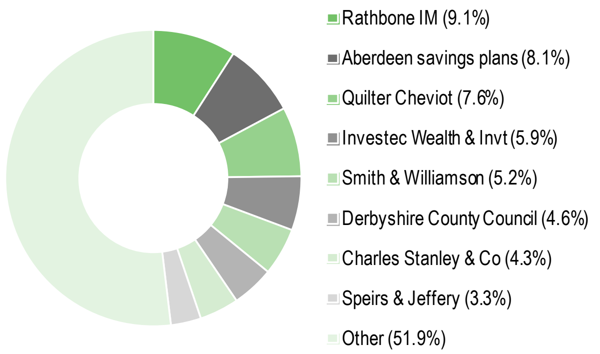
Share buyback policy and history

ABD may buyback up to 14.99% of its issued share capital and allot up to 10%, although in practice it has neither issued nor bought back shares since 2008. There was a five-for-one stock split in September 2013.

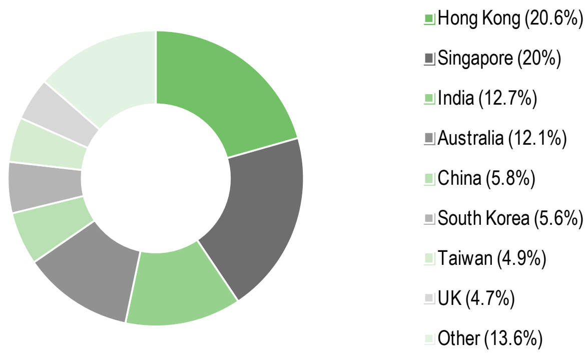




Shareholder base (as at 27 June 2014)



Geographical allocation of portfolio (as at 31 October 2014)



Top 10 holdings as at end October

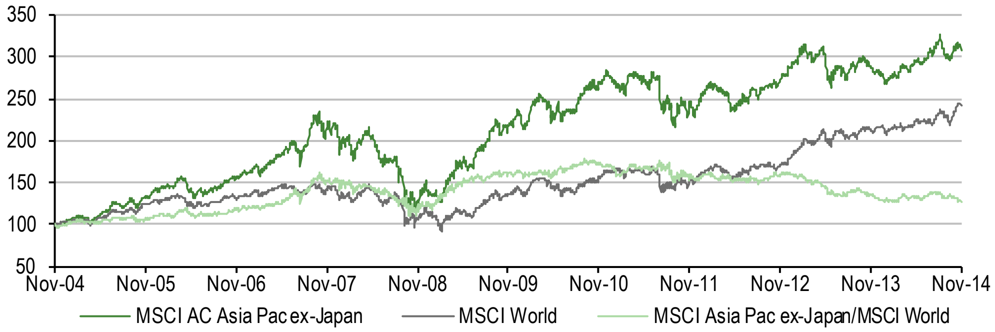
			Portfolio weight %	
Company	**Country**	**Sector**	**31 October 2014**	**30 April 2014**
Aberdeen Global - Indian Equity	India	Investment fund	11.2	11.6
Oversea-Chinese Banking Corp	Singapore	Banking	4.7	4.1
Samsung Electronics pref	Korea	Information technology	4.6	4.8
Jardine Strategic	Hong Kong	Diversified industrials	4.4	4.3
Taiwan Semiconductor	Taiwan	Information technology	3.5	3.5
HSBC	Hong Kong	Banking	3.4	3.2
BHP Billiton	Australia	Mining	3.3	3.5
Rio Tinto	Australia	Mining	3.3	3.8
United Overseas Bank	Singapore	Banking	3.2	3.1
Ayala Land	Philippines	Real estate	3.2	3.2
Top 10 (% of portfolio)			**44.8**	**45.1**

Source: Aberdeen New Dawn Investment Trust, Edison Investment Research, Morningstar, Bloomberg.

Asian outlook: Some headwinds but story still intact

Western investors have long favoured Asian equities for the access they give to the region's developing economies. Over 10 years, as shown in Exhibit 2, the MSCI AC Asia Pacific ex-Japan (total return +207%) has significantly outperformed the MSCI World Index (total return +142%). Within the long-term picture, bouts of risk-aversion have had a noticeable effect: the Asia-Pacific Index fell further than the World Index at the height of the financial crisis in 2008, even though there was little economic impact on the region (growth of 6.2% and 5.8% respectively in 2008 and 2009 compared with contractions of 0.3% and 3.8% for major advanced economies, according to the International Monetary Fund). However, Asian markets also bounced back more quickly and more strongly following the crisis, although more recently the region has underperformed the World Index (see Exhibit 2).

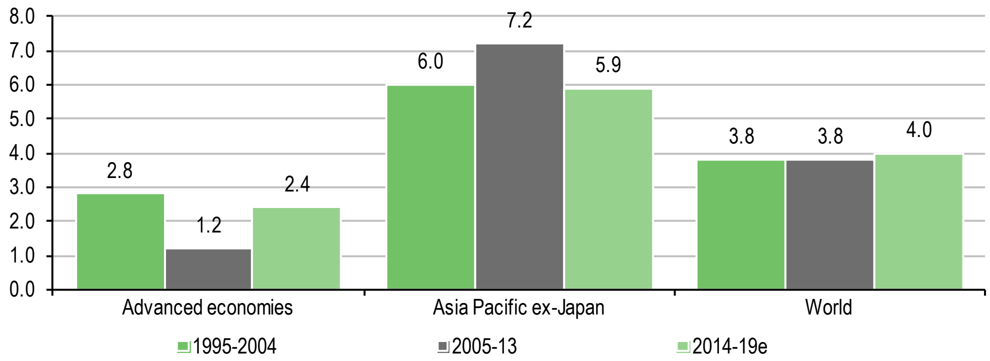
Exhibit 2: MSCI AC Asia Pacific ex-Japan and MSCI World indices over 10 years



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices.

With global market volatility having risen somewhat during the autumn, what lies ahead for investors? The US Federal Reserve has finished tapering its quantitative easing programme, meaning the next move in interest rates is likely to be upwards, although the timing of any tightening remains uncertain. Japan, still the world's third-largest economy, has slipped into a surprise recession, forcing Prime Minister Shinzo Abe to call a snap election – in effect a referendum on his 'Abenomics' policy. The eurozone is teetering on the brink of recession and/or deflation. Added to this, China – arguably the engine of global as well as regional growth in recent years – is still adjusting to a lower path of future growth. Yet, as seen in Exhibit 3, the IMF still forecasts far superior economic growth in Asia for the next five years compared with major advanced economies and the global aggregate.

Exhibit 3: Average % real GDP growth – Asia versus advanced economies and world



Source: IMF October 2014 World Economic Outlook, Edison Investment Research. Note: Asia-Pacific ex-Japan group made up of MSCI index constituents.

Away from economics, a collection of geopolitical risks include Russia's continued incursions into Ukraine, Islamic State actions in Iraq and Syria, and the Ebola crisis. Any or all of these factors could significantly affect the risk appetite of some Western investors, who may decide they prefer the marginally higher yields and lack of currency risk in their domestic bond markets to the possibility of a stake in Asian economic development.

Exhibit 4: Asia-Pacific – prospective country P/Es

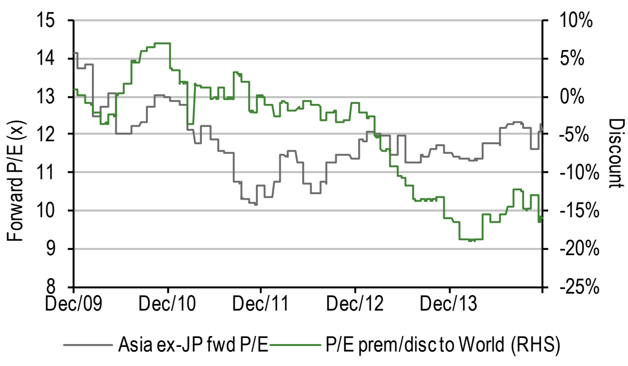
Price to earnings (forward)	Last	High	Low	10-year average	Last % of average
Australia	14.0	16.2	8.7	13.2	106%
China	10.0	36.7	8.0	14.4	69%
Hong Kong	12.7	19.6	9.2	13.5	94%
India	15.9	19.7	8.6	13.6	117%
Indonesia	15.1	15.9	7.6	13.1	115%
Korea	9.9	12.4	7.1	9.6	104%
Malaysia	15.7	16.3	10.9	14.4	109%
New Zealand	17.7	19.0	8.7	13.3	133%
Pakistan	7.9	11.7	5.3	8.2	96%
Philippines	17.4	19.0	8.7	13.3	131%
Singapore	13.7	17.1	8.5	13.5	102%
Taiwan	13.5	18.0	10.4	13.2	102%
Thailand	14.5	14.7	6.7	11.1	131%
Asia ex-Japan	12.1	16.9	8.8	12.2	99%
US	16.6	16.8	11.4	13.8	120%
UK	13.9	14.2	8.8	11.5	121%
World	14.5	14.6	10.1	12.6	115%

Source: Thomson Datastream. Note: Data at 2 December 2014. Uses Datastream indices.

On the positive side, aggregate valuations in Asia are in line with the long-term average on a forward price/earnings basis (Exhibit 4), and in most individual markets are less obviously stretched relative to history than the US, UK or world forward P/Es. As shown in Exhibit 5, the Asia ex-Japan forward P/E has moved from a 5%+ premium to the World Index in late 2010 to a c 15% discount. Looking at a broader range of valuation metrics (Exhibit 6), price/book value, dividend yield and return on equity are also all below 10-year averages. (All figures based on Datastream indices.)

In summary, faced with an uncertain political, economic and global market outlook, sentiment may turn against Asian markets in the short term, as any rise in risk-aversion is likely to see foreign money flowing out of the region. But with aggregate Asian equity market valuations looking more favourable relative to history than in many developed markets, patient investors may find that sticking with the region pays off in the long term. In this case, a diversified approach could mitigate the risk of disproportionate moves in individual markets.

Exhibit 5: Asia ex-Japan Index prospective P/E



Source: Thomson Datastream. Note: Datastream indices.

Exhibit 6: Datastream Asia ex-Japan Index metrics

	Last	High	Low	10-year average	Last % of average
P/E (12m fwd) (x)	12.1	16.9	8.8	12.2	99.3%
Price to book (x)	1.7	2.8	1.1	1.7	97.4%
Dividend yield (%)	2.5	5.1	1.7	2.6	98.4%
Return on equity (%)	12.9	17.0	9.9	14.5	89.0%

Source: Thomson Datastream. Note: Data to 2 December 2014.

Fund profile: Established Asia-Pacific specialist

ABD was launched in May 1989, making it one of the older trusts in the AIC Asia Pacific ex-Japan sector. It is one of four investment trusts in the sector managed by Aberdeen Asset Management Asia, which is headquartered in Singapore under the leadership of Managing Director Hugh Young. Aberdeen Asset Management Asia employs a team-based approach to investment and has more than 40 investment professionals in the region, with offices in Singapore, Hong Kong, Sydney, Bangkok, Kuala Lumpur and Tokyo, managing a total of c $90bn across a range of mandates.

ABD's primary objective is to achieve capital growth from listed companies across the Asia-Pacific region, including Australasia but excluding Japan. It uses an investment approach common across Aberdeen funds, with much emphasis on fundamental research and company meetings, combined with a strong valuation discipline. The investment style is long-term, buy-and-hold, with many companies having been in the portfolio for more than a decade.

The trust may use funds from within the Aberdeen stable to access certain markets, and currently gets all its exposure to India (the third-largest country weighting) via this route, as well as holding a small position in Aberdeen Asian Smaller Companies Investment Trust. Where Aberdeen-managed funds are held, there is no double charging of fees.

The fund manager: Aberdeen Asset Management Asia

The manager's view: Fundamentals and valuations still good

We spoke with Singapore-based investment team member James Thom, who says the Aberdeen team had anticipated a return of volatility to Asian markets, following an unusually stable period over most of 2014. As such the sell-off in October following the end of the US quantitative easing programme did not come as a surprise, particularly as there had been two 'dry runs' in May and August/September 2013 on fears over the tapering of QE, causing volatility and outflows from Asian equities, as investors began to factor in the likelihood of rising US bond yields.

In terms of economic and corporate fundamentals, Thom argues that little has changed, with economic growth in Asia-Pacific ex-Japan forecast at 6.0% in 2015 (IMF figures, October 2014) and high single-digit earnings growth in prospect. In aggregate, he says, the region still looks attractively valued relative both to history and to the rest of the world (see Exhibit 4), although some individual markets are more expensive. Company balance sheets are in good health, earnings growth is coming through and valuations are still compelling, and Thom says that any market reversal caused by a change in US monetary policy could present opportunities to buy stocks as they get cheaper.

Exhibit 7: Portfolio characteristics

	P/E 2013	P/E 2014	P/E 2015	Portfolio yield (%)	Debt/equity (%)	RoE (%)
Fund	14.8x	13.9x	12.9x	2.9	11.2	16.0
IBES	--	14.0x	13.2x	--	--	--
Benchmark	13.4x	13.0x	11.9x	3.0	27.3	15.4

Source: Aberdeen New Dawn Investment Trust using CLSA evaluator. Note: IBES is based on analyst estimates. All figures except 2014 and 2015 P/E ratios are historical. Debt/equity ratios exclude banks and insurance companies. Benchmark is MSCI AC Asia Pacific ex-Japan. Data at 31 October 2014.

The ABD portfolio is constructed on a bottom-up basis, but Thom says that as the team is trying to construct a diversified portfolio, the managers do take account of country and sector fundamentals. The proviso is that however much they may favour a particular market, they will not invest there if they do not find companies with the right attributes in terms of quality and price.

Political change has been a major feature of the Asian landscape this year, with new regimes elected in India (by a landslide, sparking a euphoric rally in the stock market) and Indonesia (a minority government that faces a tougher challenge than India's Narendra Modi in terms of implementing reforms). The military coup in Thailand has brought stability and a renewed focus on infrastructure investment, although Thom cautions that should the mood sour towards the unelected government, there may be a period of uncertainty regarding the resumption of democracy. In China, there are concerns over the magnitude of economic growth as well as a slowdown in the property market, but Thom says the government has plenty of levers it can pull to manage the economy. Meanwhile, pro-democracy protests in Hong Kong have dented the special administrative region in the short term, although Thom says at this point there is likely to be little impact on company fundamentals longer term.

Performance drivers for ABD year-to-date have included the large position in India, the underweight in mainland China, an overweight position in the Philippines, and stock selection in Hong Kong. The majority of activity in the portfolio has been topping and tailing existing positions, taking profits in areas that have done well, such as India, and recycling the gains into stocks with attractive fundamentals but poor short-term performance. Thom says gearing tends to be employed in weaker markets where there are opportunities to buy at attractive prices, as using gearing avoids the need to sell positions that may have underperformed. This is a likely driver of the recent increase in gearing, given the market volatility seen in October.

Asset allocation

Investment process: Team-driven approach to quality and price

Aberdeen employs a consistent investment approach across all of its active equity funds. The approach is bottom-up, based on fundamental research, with management meetings an essential part of the process of exploring the quality of a company. A long-term view is taken, with portfolio turnover generally below average. ABD's turnover has averaged 5.9% a year over the past five years, implying a holding period of nearly 17 years. Thom says many companies have been in the ABD portfolio for a decade or more.

Once a company has been added to the universe of potential investments, a valuation assessment determines whether it is bought or remains on the watch list. With new potential holdings in the Asia-Pacific region, companies are likely to be added first to Aberdeen's single-country portfolios before being considered for broader regional funds. Thom notes that substantially all the holdings in the ABD portfolio are held in one of Aberdeen's single-country funds.

All potential holdings are assessed for quality factors, including the calibre of management, the business focus (including competitive landscape and barriers to entry), the strength of the balance sheet and the firm's record on corporate governance. Companies that pass the tests of quality are then assessed on price, based on factors including key financial ratios, market peer group and business prospects. Even the best company based on the assessment of quality will not be bought at the wrong price.

All Aberdeen funds are run on a team basis. The whole Aberdeen Asia-Pacific equities team numbers more than 40 investment professionals spread across six regional offices. There is a formal forum for discussion at weekly investment meetings, where additions or changes to portfolios are debated, but Thom says the team also discusses on an informal and ad hoc basis. No strategic change is made to portfolios without a consensus view being reached across the team.

Once portfolios have been constructed, diversification is monitored, but the approach is not benchmark-driven. All portfolios are assessed by a performance and risk team independent of the investment team, although the in-depth knowledge the investment managers have of the companies in their portfolios is also an important tool in monitoring risk.

Stocks may be sold if they have performed well and valuations have risen beyond justifiable levels, or where a major governance event sparks concern. In cases where the investment case begins to look less compelling, for instance because of a change in strategic direction or the industry landscape, positions are likely to be reduced gradually and cautiously to test the robustness of the new thesis.

Current portfolio positioning

At 31 October ABD had 48 holdings, including three Aberdeen-managed funds giving exposure to an additional 100+ companies across the Asia-Pacific region. Its top 10 holdings accounted for 44.8% of the portfolio, which appears concentrated compared to the weighted sector average of 33.5%. However, it is important to note that the largest holding is a fund, Aberdeen Global – Indian Equity Fund (a position taken because investing via a fund is a more tax-efficient means of accessing the Indian equity market), which has c 35 underlying holdings. Excluding this fund, the top 10 holdings make up 36.7% of the portfolio, which is more in line with the peer group.

Exhibit 8: Portfolio split by market capitalisation

Size of company	Market cap (US$)	Portfolio (%)	Benchmark (%)
Small	< $2.5bn	7.8	3.9
Medium	$2.5-10bn	12.6	25.2
Large	> $10bn	79.6	70.9

Source: Aberdeen New Dawn Investment Trust. Note: Data at 31 October 2014. Benchmark is MSCI AC Asia Pacific ex-Japan Index.

While ABD is not an active trading fund, preferring to buy and hold companies for maximum benefit in terms of compounding returns, its positioning versus the benchmark is very active, particularly at the country level (+15.4 to -13.2 percentage points – see Exhibit 9 below). Country and sector weightings are an output of bottom-up stock selection, although there are country-specific factors that render individual companies more or less likely to be selected: for instance, the Korean *chaebols* – large conglomerates that tend to have complicated corporate structures with webs of cross-holdings – are usually seen as unattractive from a governance perspective, as are many state-owned enterprises in China, where there may be little account taken of the interests of minority shareholders.

Singapore is the largest overweight, reflecting its higher standards of transparency, professionalism and corporate governance compared with many of the less developed markets in Asia. In addition, many Singapore-listed companies have exposure to markets across the region. For instance, fourth-largest holding Jardine Strategic (listed in Singapore although classed as a Hong Kong company) has a majority stake in Indonesia's largest company, Astra International, and the three Singapore-listed banks in the portfolio, OCBC, United Overseas Bank and DBS, have broad regional operations and give exposure to markets such as Hong Kong, mainland China, Indonesia and Malaysia.

The overweight position in Hong Kong is largely a proxy for China, although again taking advantage of the better transparency and corporate governance on offer. Thom points out that many Chinese companies are still run by the first-time entrepreneurs who started them, and are yet to experience a full market cycle. In Hong Kong, by contrast, many companies have track records stretching back decades. The underweight in China is largely cancelled out by the Hong Kong overweight, although one specific area to which the trust has no exposure is Macau gaming stocks, not only because they face headwinds from the Chinese government's crackdown on corruption, but also because the team has concerns over governance and the risk that opacity might mask links with organised crime.

The overweight in India – accessed via the fund mentioned above as well as the Aberdeen New India Investment Trust, bought at an attractive discount – has been reduced since earlier in the year, as the rally in the Indian market following the landslide election victory of Narendra Modi's

BJP meant valuations had begun to look stretched. However, the team continues to favour India, which Thom says had reached a cyclical low point before the election.

Exhibit 9: Exposure by country (% unless stated)

	Portfolio end Oct 2014	MSCI Asia Pac ex JP weight	Active weight vs index (% pts)	Trust weight/ index weight (x)	Portfolio end April 2014	Change from April (% pts)
Singapore	20.0	4.6	15.4	4.3	19.4	0.6
Hong Kong	20.6	9.6	11.0	2.1	21.0	-0.4
India	12.7	6.9	5.8	1.8	12.8	-0.1
UK	4.7	0.0	4.7	n/a	5.0	-0.3
Sri Lanka	3.1	0.0	3.1	n/a	2.8	0.3
Philippines	3.2	1.2	2.0	2.7	3.2	0.0
Thailand	3.7	2.2	1.5	1.7	4.1	-0.4
New Zealand	0.0	0.4	-0.4	0.0	0.0	0.0
Malaysia	2.4	3.7	-1.3	0.6	2.5	-0.1
Indonesia	0.8	2.5	-1.7	0.3	0.9	-0.1
Taiwan	4.9	11.6	-6.7	0.4	5.0	-0.1
South Korea	5.6	13.8	-8.2	0.4	5.7	-0.1
Australia	12.1	24.5	-12.4	0.5	12.0	0.1
China	5.8	19.0	-13.2	0.3	5.5	0.3
Cash	0.4	0.0	0.4	n/a	0.1	0.3
	100.0	**100.0**	**0.0**		**100.0**	**0.0**

Source: Aberdeen New Dawn Investment Trust, Edison Investment Research. Note: Ranked by active weight.

Indonesia is not the underweight it appears, given both the Jardine Strategic and Singapore bank links mentioned above, as well as a stake in MP Evans Group, which is listed in London but is principally involved Indonesian palm-oil production.

The underweight to Australia is a feature of many funds with an Asia-Pacific mandate: Australia makes up a major part of the benchmark because it is a large, developed market, but other areas of the region offer greater growth potential and Australian companies tend to be less attractively valued relative to their growth prospects.

Thom notes that the underweight to consumer discretionary stocks (Exhibit 10) is principally a result of the trust's lack of exposure to Macau gaming or Korean automobile stocks, which together make up a significant proportion of the benchmark weighting, rather than any negative view on rising consumption across the region.

In line with ABD's low-turnover approach, only one new stock has been bought in the past 12 months: CSL, an Australian healthcare company that is the world leader in blood plasma products. This stock has been a long-term holding in Aberdeen's Australia portfolios, so it is a company the team knows well, and judged it to be the right time to add a small position to ABD in August. Singapore Airlines was sold because of deteriorating industry fundamentals, and the position in Wing Hang Bank also ended after the company was taken over by another portfolio holding, Overseas-China Banking Corporation (OCBC).

Exhibit 10: Sector allocations (% unless stated)

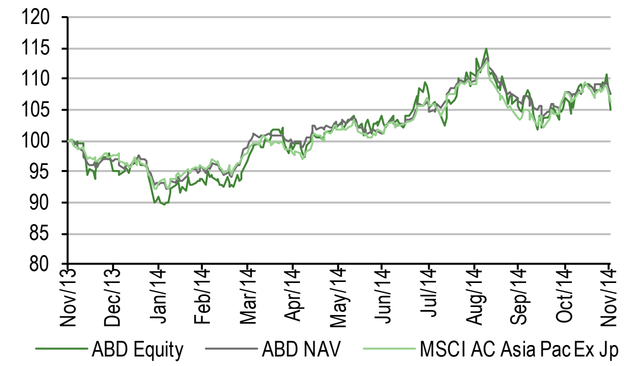
	Portfolio end Oct 2014	MSCI Asia Pac ex JP index weight	Active weight vs index (% points)	Trust weight/index weight (x)
Industrials	12.1	7.9	4.2	1.5
Materials	11.2	7.7	3.5	1.5
Financials	39.7	37.0	2.7	1.1
Consumer staples	8.2	6.3	1.9	1.3
Telecom services	7.0	5.8	1.2	1.2
Health care	1.5	2.7	-1.2	0.6
Consumer discretionary	2.6	5.5	-2.9	0.5
Utilities	0.7	3.6	-2.9	0.2
Energy	4.0	7.3	-3.3	0.5
Information technology	12.5	16.2	-3.7	0.8
Cash	0.5	0	0.5	n/a
	100.0	**100.0**	**0.0**	

Source: Aberdeen New Dawn Investment Trust, Edison Investment Research, MSCI. Note: Ranked by active weight, excluding cash. Weightings are on a look-through basis – that is, where funds are held in the portfolio, the constituents of the funds have been used to calculate the overall sector weightings.

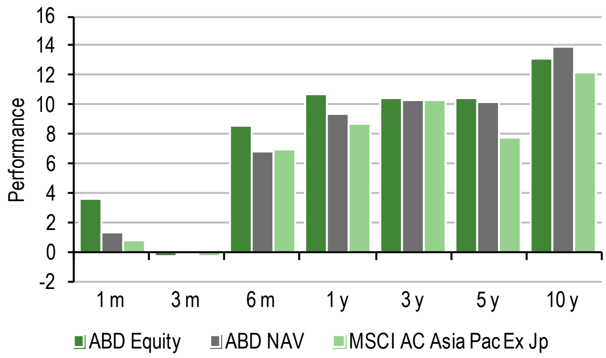
Performance: Solid longer-term record

Exhibit 11: Investment trust performance to 30 November

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *Three, five and 10-year figures annualised.

Exhibit 12: 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 MSCI AC Asia Pac Ex Jp	2.8	(0.0)	1.5	1.8	0.4	12.8	9.3
NAV relative to MSCI AC Asia Pac Ex Jp	0.5	0.1	(0.1)	0.5	(0.2)	11.5	17.3
Price relative to MSCI World	(0.5)	(5.9)	(1.0)	(3.3)	(15.5)	(9.4)	40.9
NAV relative to MSCI World	(2.8)	(5.8)	(2.6)	(4.5)	(16.0)	(10.4)	51.2
Price relative to FTSE All-Share	0.8	0.4	8.7	5.7	(4.0)	2.0	58.4
NAV relative to FTSE All-Share	(1.6)	0.5	7.0	4.4	(4.6)	0.9	70.0

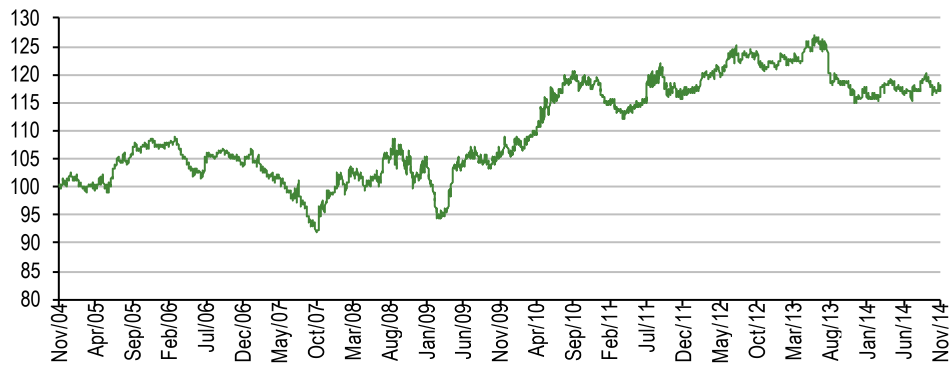
Source: Thomson Datastream, Edison Investment Research. Note: Data to end November 2014. Geometric calculation.

ABD has a strong longer-term performance record, with returns on both a share price and NAV basis comfortably ahead of the MSCI AC Asia Pacific excluding Japan benchmark over five and 10 years to 30 November, and in line with the benchmark over three years (Exhibit 11, right-hand chart and Exhibit 12). In the past year, returns have generally been ahead of the benchmark.

Asian equities have been relatively out of favour as developed markets (particularly the US) have recovered from the deep recessions sparked by the global financial crisis; this is reflected in ABD's underperformance versus the MSCI World Index over the short to medium term (Exhibit 12). However, 10-year figures relative to both the World Index and the FTSE All-Share (included for its relevance to UK investors) show solid outperformance, reflecting both generally better performance for Asian equities over this period, and the benefit of ABD's stable, low-turnover approach.

As can be seen in the chart of long-term performance relative to the MSCI AC Asia Pacific ex-Japan Index (Exhibit 13), ABD has tended to outperform the index, although its relative performance has suffered in strongly rising markets (notably the pre-crisis bull market of 2007 and the sharp post-crisis recovery in early 2009). After a strong period between 2010 and 2013, recent relative performance has been flatter.The sharp dip in relative performance during the 'taper tantrum' of autumn 2013 is largely a result of overweight positions in South-East Asia and India, both of which sold off more than other parts of the region.

Exhibit 13: NAV performance relative to MSCI AC Asia Pacific ex-Japan Index over 10 years



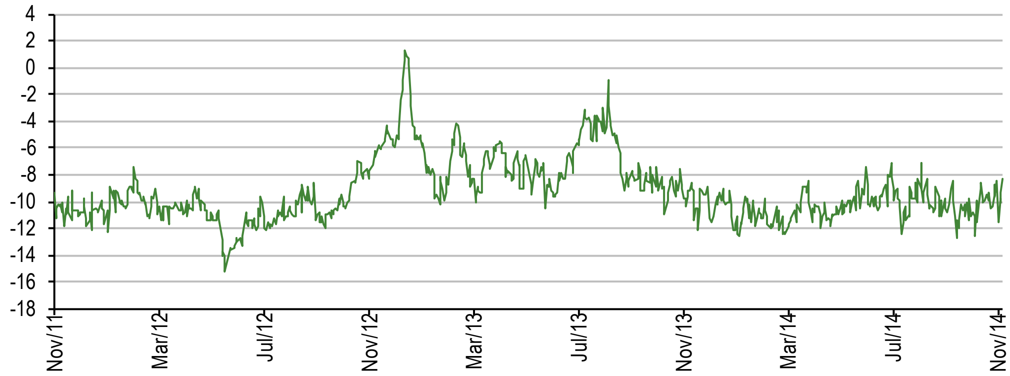
Source: Thomson Datastream, Edison Investment Research

Discount: Fairly stable at around 10% level

At 11 December ABD's shares were trading at a 9.5% discount to cum-income net asset value. In spite of some periods in the past three years where the discount has narrowed sharply (see Exhibit 14 below), the current discount is close to the averages over one, three and five years (10.3%, 9.2% and 8.6% respectively). In the past year the discount has remained in a fairly narrow band between 7% and 12%. Historically it has been more volatile, with a 10-year high premium of 1.3% achieved in January 2013, only six months after reaching a discount of 15.2%, its widest point in the past five years.

While ABD may buy back shares to manage its discount, it has not done so since early 2008 (well before the collapse of Lehman Brothers sparked the global financial crisis), when it repurchased shares into treasury at around a 13% discount.

Exhibit 14: Discount over three years (to cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

ABD is a conventionally structured investment trust with one class of share. Following a five-for-one share split in September 2013 (where each 25p share was subdivided into five 5p shares) there are 126.9m ordinary shares, of which 2.4m are held in treasury. The trust has the authority to buy back up to 14.99% of its shares and to allot up to 10%, although neither power has been used since 2008.

Gearing is via a £35m multicurrency loan facility with Royal Bank of Scotland, of which HK$154.1m, US$8.68m and £7.5m is currently drawn (in total equivalent to £25.7m at 12 December exchange rates). This represents gross gearing of approximately 9.6%, up from 7.7% at 31 October after an additional £5m of the loan was drawn in early November. Net gearing is c 8.5%. The manager would need to seek board approval to raise the net gearing above 10%.

Aberdeen Asset Management Asia receives a management fee of 1% of net asset value, calculated monthly and paid annually. The NAV on which the fee is calculated excludes any funds managed by Aberdeen. Ongoing charges for the year ended 30 April 2014 were 1.1%.

Dividend policy

ABD has a capital growth objective and the level of dividends paid is purely a function of the income received by the portfolio, and of the requirement under the investment trust rules to pay out at least 85% of net income. While there is no progressive dividend policy, in practice dividends have been maintained or increased year-on-year in every year since 1991. The manager notes that the portfolio focus on companies with strong balance sheets and cash flows tends to feed through into decent dividends from the stocks held. ABD's dividends are paid twice-yearly, in January and September. The FY14 dividend of 3.6p per share is equivalent to 2.0% of the 11 December share price of 178.5p and was a 5.8% increase on the prior year (recalculated for the share split outlined above). Dividends were more than covered by income in the 2014 financial year, and at the year-end the revenue reserve of £11.4m was equivalent to 2.5 years' dividends at the FY14 level.

Peer group comparison

There are 15 trusts with a track record of more than one year in the Association of Investment Companies' Asia Pacific – excluding Japan sector (see Exhibit 15 below). ABD ranks mid-table in terms of size. NAV total returns are below-average over one, three and five years, although if the three income specialists and two smaller companies funds are excluded, total returns over five years are broadly in line with the average. Ongoing charges are also in line with the average. ABD has one of the wider discounts to NAV in the sector, although excluding the income funds its discount is close to the sector average. Its 2% yield is in line with the average for the whole peer group, and is the second-highest if the specialist income funds are excluded.

Exhibit 15: Asia-Pacific ex-Japan investment trusts

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Aberdeen New Dawn	**225.4**	**7.3**	**28.0**	**57.5**	**1.1**	**No**	**-10.2**	**108.0**	**2.0**	**0.2**	**0.6**
Aberdeen Asian Income	396.4	4.9	37.3	88.8	1.2	No	1.3	107.0	3.9	0.1	1.0
Aberdeen Asian Smaller	355.3	9.1	67.9	153.6	1.5	No	-5.3	109.0	1.1	0.4	1.3
Asian Total Return Inv Company	141.2	13.6	25.1	31.1	0.8	Yes	-8.6	98.0	1.7	0.8	0.4
Edinburgh Dragon	544.9	10.0	29.1	62.3	1.2	No	-10.4	109.0	0.8	0.3	0.6
Fidelity Asian Values	160.1	9.7	36.1	55.7	1.5	No	-10.5	111.0	0.5	0.8	0.8
Henderson Far East Income	357.8	5.8	34.9	47.3	1.2	No	1.6	102.0	5.6	0.3	0.9
Invesco Asia	166.8	17.5	38.2	65.4	1.1	No	-11.4	102.0	1.8	1.1	0.8
JPMorgan Asian	215.1	8.4	23.2	30.0	0.8	Yes	-11.6	100.0	1.2	0.5	0.5
Martin Currie Pacific	119.5	4.9	22.1	37.9	1.3	No	-12.5	95.0	2.2	0.0	0.6
Pacific Assets	229.0	23.4	66.6	86.3	1.2	Yes	-1.6	88.0	1.4	1.8	1.7
Pacific Horizon	127.7	11.5	29.5	47.2	1.0	No	-7.5	103.0	0.8	0.9	0.7
Schroder Asia Pacific	476.9	15.4	40.5	79.1	1.1	No	-10.1	98.0	1.2	0.9	0.9
Schroder Oriental Income	428.9	11.6	50.8	100.5	0.9	Yes	-0.1	103.0	4.0	0.6	1.1
Scottish Oriental Smaller Cos	268.3	11.9	60.2	133.7	1.4	Yes	-6.7	94.0	1.4	1.1	1.4
Sector weighted average		**10.8**	**41.1**	**78.6**	**1.2**		**-6.1**	**102.6**	**2.1**	**0.6**	**0.9**
ABD rank in sector	**9**	**12**	**12**	**9**	**10**		**10**	**4**	**5**	**13**	**12**

Source: Morningstar, 2 December 2014, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

ABD has five non-executive directors, four of them independent. Chairman David Shearer has been on the board since 2007 and became chairman in 2012. Nicholas George and John Lorimer were appointed to the board in 2010. Susie Rippingall became a director in 2014. Hugh Young, managing director of Aberdeen Asset Management Asia (and hence a non-independent director), has been on the board since ABD's launch in 1989. Heather Manners stood down from the board during the current financial year. The directors have backgrounds in business, banking and fund management, in most cases with specific reference to Asia.

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