

# Aberdeen New Thai Investment Trust

## Positive market sentiment prevailing

Aberdeen New Thai Investment Trust (ANW) provides selective exposure to Thai equities. After significant weakness last year, the SET index has actually gained c 20% in 2014, despite political turmoil and the military coup, signalling confidence in the resilience of the economy. While much remains unresolved, history suggests a sanguine view can be justified and the manager is hopeful that GDP growth, after slowing in the first half, will begin to bounce back in the second half given improving consumer confidence. ANW trades at the upper end of its recent discount range and offers a peer-leading 2% yield.

12 months ending	Share price return (%)	NAV return (%)	SET Index (%)	MSCI AC Asia Ex-Japan (%)	MSCI World (%)
31/05/11	38.1	28.5	41.7	15.8	13.6
31/05/12	20.0	25.5	12.7	(11.9)	(4.3)
31/05/13	72.4	59.0	51.6	21.1	30.5
31/05/14	(27.2)	(24.4)	(21.8)	(2.8)	8.0

Source: Thomson Datastream. Note: Twelve-month rolling discrete performance. Total returns basis.

### Strategy: Bottom-up stock selection

A bottom-up investment process is followed and stock selection is considered to be the main source of added value. Companies are assessed using a range of qualitative and valuation measures and meeting management is a key part of the process. Top-down investment factors are secondary with diversification guiding stock and sector weights. There are no formal investment restrictions based on market capitalisation or sector weightings. Gearing is used selectively to leverage the portfolio to enhance returns and is restricted to a 15% maximum.

### Outlook: Confidence improving post-coup

Despite political turmoil, culminating in military intervention and the imposition of martial law in May, positive market sentiment has prevailed with domestic investor demand outweighing foreign investment outflows, and the SET index has gained c 20% in 2014. Given continuing political uncertainties, risks could be seen as weighted to the downside. However, Thai economic fundamentals appear resilient and confidence has picked up supporting expectations for a rebound in GDP growth in H214, which could help to sustain positive market sentiment. While valuations are above historical average levels they do not appear overstretched, providing scope for further appreciation.

### Valuation: Relatively wide discount, stable dividend

ANW's discount to NAV has ranged between 10% and 20% over the last three years, averaging c 15%. It has recently fluctuated from the lower to the higher end of the range, but is now at 14.2%, just below its average level, suggesting that international confidence in the resilience of the Thai economy/market is improving. ANW's 2.0% dividend yield leads the peer group.

## Investment trusts

25 June 2014

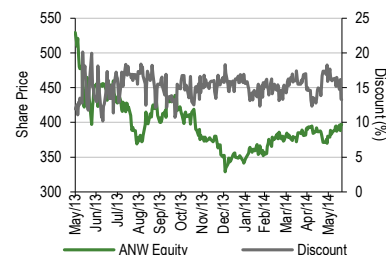
<b>Price</b>	<b>393.5p</b>
<b>Market cap</b>	<b>£82m</b>
<b>AUM</b>	<b>£97m</b>

NAV*	452.7p
Discount to NAV	13.1%
NAV**	458.7p
Discount to NAV	14.2%
Yield	2.0%

\*Adjusted for debt at market value and excluding income, as at 23 June 2014. \*\*Adjusted for debt at market value, including income, as at 23 June 2014.

Ordinary shares in issue	20.8m
Code	ANW
Primary exchange	LSE
AIC sector	Country specialists: Asia Pacific

### Share price/discount performance



### Three-year cumulative perf. graph



52-week high/low	460.0p	329.0p
NAV* high/low	527.5p	393.6p

\*Adjusted for debt at market value, excluding income.

### Gearing

Gross*	2.8%
Net*	1.2%

\*As at 31 May 2014.

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## Exhibit 1: Trust at a glance

### Investment objective and fund background

ANW's investment objective is to provide a high level of long-term, above-average capital growth through investment in Thailand. Its assets are invested in a diversified portfolio of equity shares in companies, spread across a range of industries, listed on the Stock Exchange of Thailand.

### Recent developments

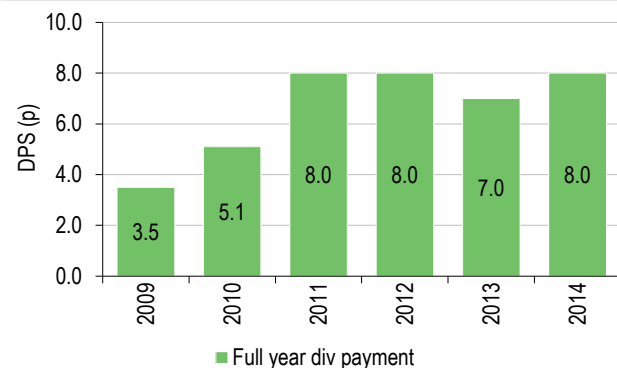
30 April 2014: Results to 28 February 2014. EPS +18% to 8.73p per share; dividend +14% to 8.0p per share.

13 December 2013: Clare Dobie appointed as independent non-executive director.

Forthcoming		Capital structure		Fund details	
AGM	26 June 2014	Ongoing charges	1.36%	Group	AAM Asia Limited
Interim results	October 2014	Net gearing	1.3%	Manager	Asian Equities Team
Year end	28 February	Annual mgmt fee	1.0% of net assets	Address	Bow Bells House, 1 Bread Street, London EC4M 9HH
Dividend paid	June	Performance fee	None	Phone	+44 (0)500 000 040
Launch date	December 1989	Trust life	Indefinite	Website	<a href="http://www.newthai-trust.co.uk">www.newthai-trust.co.uk</a>
Continuation Vote	No – see page 7	Loan facilities	£10m multi-currency facility		

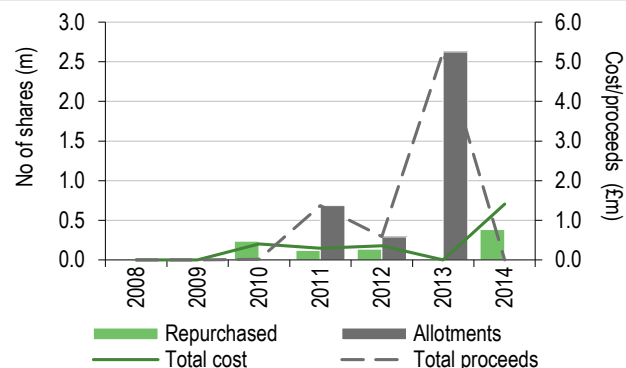
### Dividend policy and history

Annual dividend paid in June. ANW targets capital growth rather than income and dividends may fluctuate dependent on the level of income received.

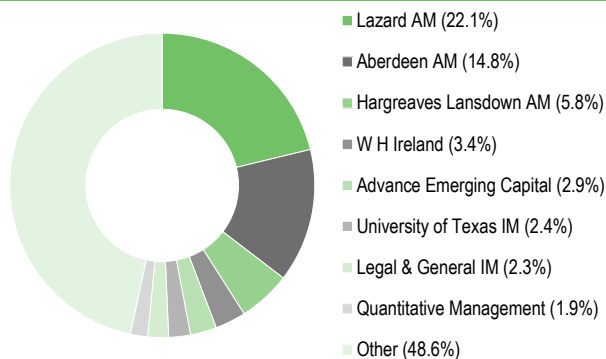


### Share buyback policy and history

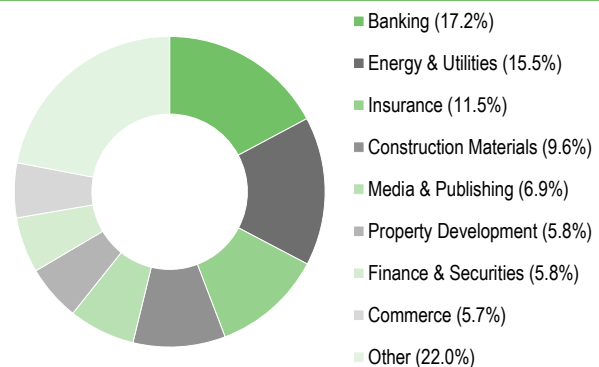
Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital.



### Shareholder base (as at 5 June 2014)



### Distribution of portfolio (as at 31 May 2014)



### Top 10 holdings (as at 31 May 2014)

Company	Country	Sector	Portfolio weight %	
			31 May 2014	31 May 2013*
Siam Commercial Bank	Thailand	Banking	6.0	5.9
Kasikornbank	Thailand	Banking	5.8	4.9
PTT Exploration and Production	Thailand	Energy & Utilities	5.7	5.1
Bangkok Insurance	Thailand	Insurance	5.7	4.6
Siam Cement	Thailand	Construction Materials	5.2	5.1
BEC World	Thailand	Media & Publishing	4.5	4.3
Big C Supercenter	Thailand	Commerce	3.8	3.7
Tisco Financial	Thailand	Banking	3.8	N/A
AEON Thana Sinsap	Thailand	Finance & Securities	3.8	3.9
Hana Microelectronics	Thailand	Electronic Components	3.7	N/A
<b>Top 10</b>			<b>48.0</b>	<b>N/A</b>
<b>Cash</b>			<b>1.6</b>	<b>2.3</b>

Source: Aberdeen New Thai Investment Trust, Edison Investment Research. Note: \*Where no figure is shown for 2013 portfolio weight, the stock was not in the top 10.

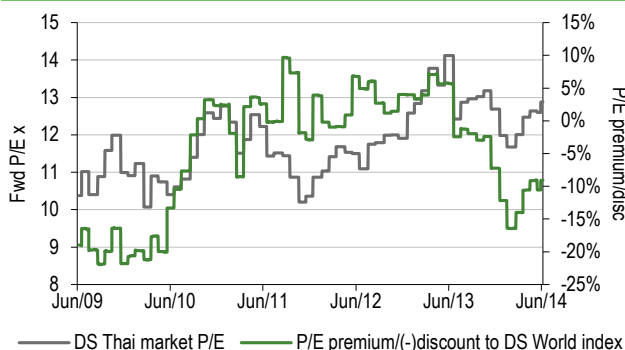
## Outlook: Consumer confidence ticks up after weakness

The Thai stock market has experienced significant swings over the last twelve months with a 37% downturn in the second half of 2013 triggered by the onset of QE tapering in the US and protests against the government in Thailand. In contrast, during 2014, the market has risen in the face of continuing political turmoil culminating in military intervention and the imposition of martial law in May. While significant foreign investment outflows dominated in 2013, domestic investment appetite remained buoyant. In 2014, domestic investor demand has outweighed declining foreign investment outflows, supporting a market recovery with the SET index gaining c 20%.

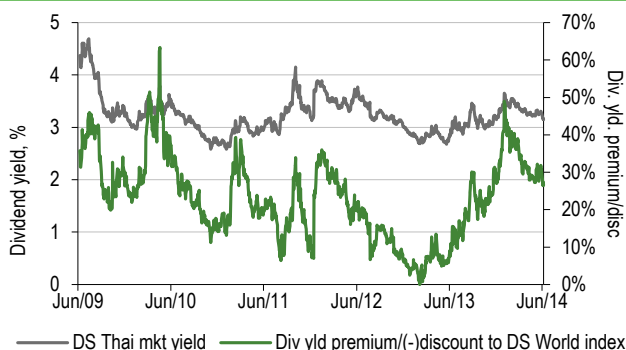
In Exhibit 2 we illustrate where current market valuation measures stand in the context of their history over the last five years. Unsurprisingly, there was something of a de-rating in the second half of 2013 with tapering fears, but market strength and corporate earnings downgrades have meant the forward price earnings multiple has risen to 12.9x this year. While above its 10-year average of 10.9x, this is still noticeably below the peak of 14.1x and a revival of economic growth could prompt earnings upgrades. The Thai market's 3.2% dividend yield remains at a premium of over 25% to the world market average 2.5% yield.

**Exhibit 2: Thai market valuation metrics**

Thai market forward P/E ratio over five years



Thai market dividend yield over five years



Source: Thomson Datastream, Edison Investment Research

After contracting by 2.1% quarter-on-quarter in Q114, economic growth of between 1.5% and 2.5% is forecast for the full year by the state planning agency and, in its April 2014 projections, the IMF looked for GDP growth to accelerate to 3.8% in 2015 and 4.5% by 2019. With the latest consumer confidence reading showing an uptick, and the coup ending the political impasse for the moment, there may be grounds for believing this positive outcome could be delivered. A number of features of the Thai economy certainly appear supportive, including unemployment below 1%, a weak currency expected to provide a boost to exporters, generally strong corporate balance sheets, government debt at c 45% of GDP and relatively modest budget and current account deficits. While political and economic risks remain, there are therefore grounds for long-term investors to take an interest in this market where growth prospects remain attractive despite the recurring cycle of military intervention.

## Fund profile: Focus on Thai equities

Launched in December 1989, ANW's investment objective is to provide a high level of long-term, above-average capital growth through investment in Thailand. It seeks to achieve this through investing in a relatively concentrated but diversified portfolio of equity securities quoted on the Stock Exchange of Thailand (SET). Performance is benchmarked against the SET index, although allocations are not driven by market weightings, and fund performance can diverge considerably from the benchmark. In addition to capital and NAV total return relative performance, the discount or

premium of the share price to net asset value and the level of ongoing charges are considered to be key performance measures. While targeting capital growth, income is not insubstantial, and the dividend yield is a distinguishing feature of the fund in comparison with its peer group. ANW is managed by the Asian Equities team of Aberdeen Asset Management Asia (AAM Asia) with day-to-day management undertaken by the Bangkok office and oversight provided from Singapore.

## **The fund managers: Asian equities team**

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### **Managers' view: Economic fundamentals remain robust**

The managers consider that there is some justification for the positive market response to the recent military intervention in Thailand, highlighting the political deadlock that has been broken by the coup and the measured approach of the military leaders to reviewing the government's planned infrastructure investment programme. In particular, they highlight the rise in consumer confidence in May and, despite a fall in reported business confidence in April 2014, recent meetings with corporates have confirmed that investment programmes are being maintained at previously planned levels. While the managers do not adopt a formal view on the Thai currency and do not undertake any hedging, they see scope for the Thai baht to remain broadly stable against the US dollar following the weakening over the last 12 months.

The managers believe the current military regime is likely to undertake a number of reforms and expect it to take around a year before there is sufficient stability for elections to be held. However, they see the potential for a relatively quick rebound in the economy in the second half of 2014. Under this scenario, they consider that the downward revision to corporate earnings forecasts has largely been completed and see scope for earnings upgrades later in the year. They comment that although valuations are higher than historical averages, this can partly be justified by the improved prospects of many Thai companies, which they believe have the potential to deliver strong earnings growth over a three- to five-year time horizon.

Given their bottom-up stock selection process and the fact that the Thai economy is not well represented by the market, the managers have not seen a significant increase in the number of investment opportunities arising over the past 12 months. They believe the focus on selecting for characteristics such as management quality and financial strength should mean portfolio companies will be well placed even in more difficult markets.

Within the portfolio the managers highlight the strong performance of Hana Microelectronics over the last six months, benefiting from the majority of its sales being made to US customers, increasing global demand for electronic components and the return to profitability of a factory damaged in the 2011 floods. In the financial sector, Bangkok Insurance (c 6% of portfolio) saw its earnings recover from the impact of the 2011 floods, while new investment Thaire Life Assurance (c 1% of portfolio) had a weaker performance as flood provisions continued to have an impact.

The managers consider that dividend prospects remain healthy with companies in the portfolio retaining strong balance sheets and the majority increased dividend payments over the last 12 months, either through higher earnings or increased payout ratios. They believe there is the broad intention across portfolio companies to at least maintain dividend payment levels in the current year and see flat dividend income as a base case scenario with the portfolio yield, similar to the market yield, still in excess of 3%.

## Asset allocation

### Investment process: Bottom-up stock selection

The manager follows a bottom-up investment process based on a disciplined evaluation of companies and stock selection is considered to be the main source of added value. Companies are assessed using a range of qualitative and valuation measures and meetings with management are an essential step in the process. Qualitative factors include management strength, business focus, balance sheet strength and corporate governance while valuation is assessed with reference to financial ratios, overall market, peer group and business prospects. Top-down investment factors are secondary in the portfolio construction process with diversification guiding stock and sector weights. There are no formal investment restrictions based on market capitalisation or sector weightings and the manager is permitted to invest up to 10% of net assets in a single stock. Gearing is used selectively to leverage the portfolio to enhance returns and is restricted to a 15% maximum.

### Current portfolio positioning

No major changes have been made to the portfolio over the 12 months to 31 May 2014 with only minor repositioning occurring in 2014. The main changes in the portfolio have been the divestment of Siam Makro in July 2013 following a tender offer and new investments in Thaire Life Assurance at IPO in September 2013 and Kiatnakin Bank in October 2013. Siam Makro was previously a top 10 holding and its disposal is the main factor in the 5.1 percentage point reduction in the commerce sector weighting during the period which, as illustrated in Exhibit 3, represented the largest change in the portfolio. Apart from increases in the banking and insurance sector weightings, which were largely the result of the new investments mentioned above, the other main movement in the portfolio was a 1.4 point increase in the energy and utilities sector weighting. This was mainly due to the relatively strong performance of PTT Exploration and Production during the period.

**Exhibit 3: Portfolio sector allocations relative to benchmark as at 31 May 2014**

	Trust weight 31 May 2014 (%)	Trust weight 31 May 2013 (%)	Change (%)	SET Index weight (%)	Active weight vs benchmark (%)	Trust weight/Index weight (%)
Banking	17.2	14.4	2.8	16.7	0.5	1.0
Energy & Utilities	15.5	14.1	1.4	17.7	-2.2	0.9
Insurance	11.5	10.6	0.9	2.2	9.3	5.2
Construction Materials	9.6	8.3	1.3	5.6	4.0	1.7
Media & Publishing	6.9	7.5	-0.6	1.9	5.0	3.6
Property Development	5.8	6.3	-0.5	6.4	-0.6	0.9
Finance & Securities	5.8	6.5	-0.7	1.1	4.7	5.5
Commerce	5.7	10.8	-5.1	8.9	-3.2	0.6
Automotive	4.2	4.5	-0.3	0.6	3.6	7.0
Electronic Components	3.7	2.7	1.0	1.2	2.5	3.1
Food & Beverages	3.4	3.8	-0.4	5.8	-2.4	0.6
Info. & Comms. Technology	3.0	3.1	-0.1	12.3	-9.3	0.2
Healthcare Services	2.4	1.6	0.8	3.7	-1.3	0.6
Property Fund	1.8	1.9	-0.1	2.0	-0.2	0.9
Packaging	1.6	1.2	0.4	0.3	1.3	5.7
Transport & Logistics	0.3	0.4	-0.1	4.8	-4.5	0.1
Petrochemicals & Chemicals	0.0	0.0	0.0	4.0	-4.0	0.0
Other	0.0	0.0	0.0	4.7	-4.7	0.0
Cash	1.6	2.3	-0.7	0.0	1.6	N/A
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>	<b>N/A</b>	<b>N/A</b>

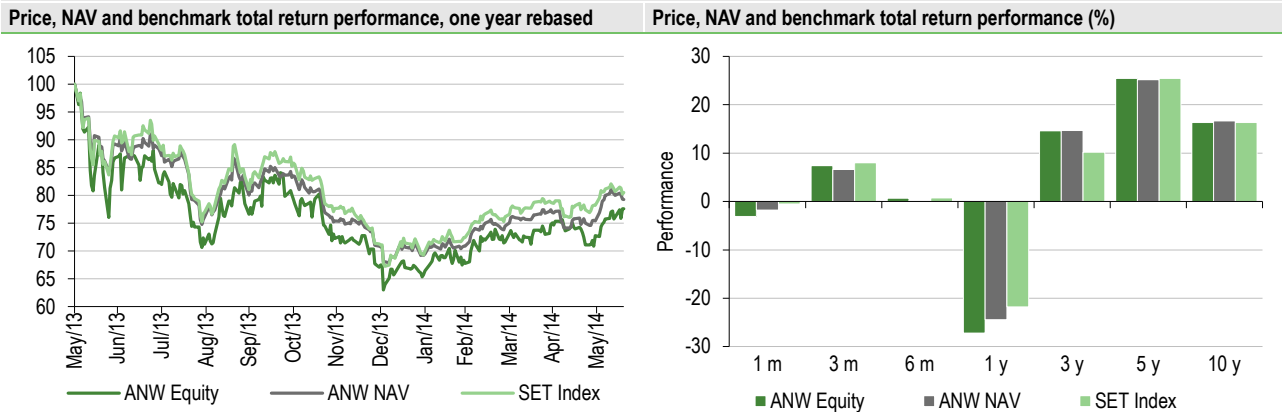
Source: Aberdeen New Thai Investment Trust, Edison Investment Research. Note: 'Other' comprises 10 sectors, each representing less than 1% of the index.

Relative to the benchmark, the largest overweight positions are in the insurance, media & publishing, and finance & securities sectors, while the largest underweight positions are in the information & communications technology, transport & logistics and petrochemicals & chemicals sectors. The active relative weightings are broadly similar to 12 months earlier with the main changes being due to the divestments and investments highlighted above.

## Performance: Outperformance over three years

ANW has outperformed its SET index benchmark in terms of price and NAV total return over three years and, marginally, over 10 years while modestly underperforming over one and five years. Relative to the MSCI All countries Asia ex-Japan and MSCI World indices, ANW has underperformed markedly over one year as a result of the broad Thai market decline while outperforming over three years and substantially outperforming over five and 10 years, benefiting from the strong medium- and long-term performance of the Thai market.

**Exhibit 4: Investment trust performance to 31 May 2014**



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

**Exhibit 5: Share price and NAV total return performance vs benchmarks (percentage points)**

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to SET Index	(2.6)	(0.6)	(0.1)	(5.5)	16.9	(0.4)	0.6
NAV relative to SET Index	(1.3)	(1.4)	(0.6)	(2.7)	17.1	(3.5)	14.1
Price relative to MSCI AC Asia Ex-Japan	(7.8)	1.6	0.1	(24.4)	47.0	151.0	127.2
NAV relative to MSCI AC Asia Ex-Japan	(6.5)	0.8	(0.4)	(21.6)	47.2	147.8	140.8
Price relative to MSCI World	(5.8)	4.1	(3.7)	(35.2)	15.7	116.3	221.4
NAV relative to MSCI World	(4.5)	3.4	(4.2)	(32.4)	15.9	113.1	234.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2014 and indices £ adjusted.

**Exhibit 6: ANW NAV total return vs benchmark over 10 years rebased**



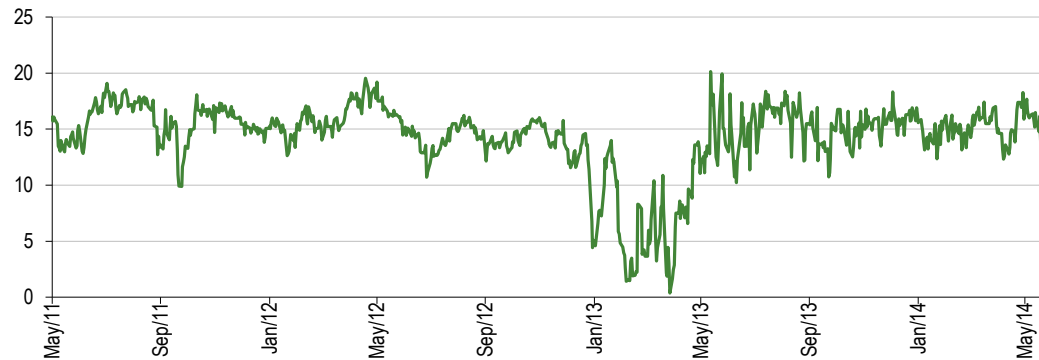
Source: Thomson Datastream, Edison Investment Research

## Discount: Steady after period of volatility

As illustrated in Exhibit 7, apart from a four-month period from the end of January 2013 to late May 2013 when there was a sharp increase in volatility and narrowing of the discount, ANW's share price discount to NAV has remained in a 10% to 20% range over the last three years and averaged 15.3%. In early May 2014, the discount narrowed towards the lower end of its range and subsequently widened towards the higher end of the range before returning to its three-year

average level. ANW operates a selective share buyback programme on an ongoing basis, cancelling any shares repurchased where this is considered to be in the best interest of shareholders. Although ANW has an indefinite life, under the articles of association, a resolution will be proposed at the AGM to wind up the company if in the 12 weeks preceding the financial year end the shares have traded at an average discount to NAV (excluding income) in excess of 15%. In the 12 weeks to 28 February 2014, the shares traded at an average discount of 13.6%.

**Exhibit 7: Share price discount to NAV (including income) over three years**



Source: Thomson Datastream, Edison Investment Research. Note: Positive values indicate a discount.

## Capital structure and fees

ANW has 20.8m ordinary shares in issue. All outstanding subscription shares were exercised prior to 28 February 2013 and no ordinary or subscription shares have been issued since this date. During the year to 28 February 2014, ANW bought back and cancelled 398,000 shares representing 1.9% of the shares outstanding at 28 February 2013. No further repurchases have been made since 28 February 2014. ANW has a two-year multi-currency revolving loan facility for £10m and as at 31 May 2014 £2.7m had been drawn-down. £1.5m cash was held at 31 May 2014 and net gearing stood at 1.2%. ANW pays a monthly management fee to AAM Asia at a rate of 1.0% pa of gross assets. No performance fee is payable.

## Dividend policy

ANW pays an annual dividend in June each year relating to the results of the preceding financial year. It pays out substantially all of its earnings leaving the dividend dependent on the level of income received from its investments and consequently the level of dividends paid to shareholders may fluctuate. While ANW targets capital growth rather than income, the board's attitude is to at least maintain the dividend to the extent that profits or revenue reserves are available for distribution. Subject to shareholder approval, a dividend of 8.0p has been declared for 2014, 14% higher than 2013 (see Exhibit 1), to be paid on 30 June 2014 (ex-dividend date: 4 June 2014). The manager sees flat dividend income as a base case scenario in the current year, which would appear to provide scope for a similar level of dividend in 2015.

## Peer group comparison

Exhibit 8 illustrates a closed-ended peer group comparison across Asia-Pacific country specialist funds. We use the AIC country specialists: Asia-Pacific sector constituents, excluding three realisation shares, as the peer group. We highlight that none of the peers replicates ANW's focus on Thailand, which needs to be considered when making performance comparisons. ANW's NAV total return performance is substantially below the peer group average over one year but

substantially ahead of the peer group averages over three, five and 10 years. Considering risk-adjusted returns, ANW's Sharpe ratio of 0.8 over three years is ahead of the peer group average and its Sharpe ratio of 1.3 over five years leads the peer group. ANW's 13.0% share price discount to NAV is similar to the 12.6% peer group average while its 1.39% ongoing charge (1.36% as stated by ANW) is below the peer group average and its 2.0% dividend yield is at the top of the peer group.

**Exhibit 8: Country specialists: Asia-Pacific sector, as at 24 June 2014**

	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 3 Year	Sharpe 5 Year	Discount (ex-par)	Ongoing charge	Perf. Fee	Net gearing	Dividend yield (%)
Aberdeen New Thai	81.6	(8.8)	57.4	209.7	402.3	0.8	1.3	(13.0)	1.39	No	101	2.0
Fidelity China Special Sits	584.5	24.1	20.1			0.2		(9.9)	1.43	Yes	124	1.1
India Capital Growth	37.3	24.2	2.6	21.1		(0.1)	0.3	(15.0)	2.95	Yes	95	
JPMorgan Chinese	115.6	10.8	7.4	61.3	253.2	0.0	0.5	(9.5)	1.31	Yes	106	1.0
JPMorgan Indian	425.1	14.6	3.0	44.0	341.7	(0.1)	0.4	(13.8)	1.47	No	99	
New India	144.5	16.2	8.8	78.3		0.0	0.6	(13.9)	1.56	Yes	98	
Pacific Alliance Asia Opps	84.9	(2.8)	13.6	35.9		1.7	1.1	(12.6)	4.86	No	91	
PXP Vietnam	43.4	6.6	88.1	60.4	187.1	1.3	0.8	(9.6)	2.58	No	100	
VietNam Holding	54.3	0.9	60.7	57.6		1.0	0.7	(22.5)	2.55	Yes	98	
VinaCapital Vietnam Opp Fund	350.5	(0.7)	28.3	50.5	202.6	1.3	1.0	(21.7)	2.17	Yes	96	
Weiss Korea Opportunity	144.9	50.3						2.6		No	100	1.0
<b>Simple average</b>		<b>12.3</b>	<b>29.0</b>	<b>68.7</b>	<b>277.4</b>	<b>0.6</b>	<b>0.8</b>	<b>(12.6)</b>	<b>2.23</b>		<b>101</b>	<b>1.3</b>
<b>Weighted average</b>		<b>15.1</b>	<b>19.8</b>	<b>60.9</b>	<b>281.9</b>	<b>0.4</b>	<b>0.7</b>	<b>(12.7)</b>	<b>1.81</b>		<b>106</b>	<b>0.5</b>

Source: Morningstar. Notes: TR=total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 36 and 60-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as a percentage of shareholders' funds.

## The board

The board comprises five non-executive directors, the majority of whom are independent of the manager. Nicholas Smith was appointed chairman in June 2013, following the retirement of Keith Falconer, and Clare Dobie was appointed as a director in December 2013. Peter Bristowe (senior independent director and director of Edison Investment Research) has served as a director since June 2005 and will be retiring from the board at the June 2014 AGM. James Robinson FCA was appointed to the board in 2006 and Hugh Young (director of Aberdeen Asset Management Asia Limited and Aberdeen Asset Management plc) has served on the board since ANW's launch in December 1989.

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