

Aberdeen New Thai Investment Trust

Changes proposed to boost shareholder returns

Aberdeen New Thai Investment Trust (ANW) is the only London-listed investment trust focused on Thailand. The manager follows a disciplined, bottom-up investment approach to find quality companies that are attractively valued. Through its investments, the trust also provides exposure to Thailand's fast-growing neighbours of Cambodia, Laos, Myanmar and Vietnam. Launched in 1989, ANW has delivered strong absolute long-term returns; since inception to end-April 2018, the trust has achieved an annualised NAV total return of 14.4%. However, in more recent years, returns have lagged the benchmark and the shares have persistently traded at a meaningful discount to cum-income NAV. On 2 May 2018, the board proposed a number of changes to address these issues.

12 months ending	Share price (%)	NAV (%)	SET Index (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)
30/04/14	(32.3)	(23.2)	(23.3)	(6.0)	8.1
30/04/15	17.5	17.6	20.0	29.9	18.7
30/04/16	(8.4)	(8.5)	(5.9)	(14.3)	1.1
30/04/17	30.2	28.5	31.5	37.5	30.6
30/04/18	13.3	13.6	20.5	16.8	6.9

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

Investment strategy: Rigorous bottom-up approach

ANW's investment objective is to generate a high level of capital growth through investing in Thai companies. The investment process is relatively unconstrained and led by stock selection to find high-quality, well-managed companies with robust balance sheets, that are attractively valued. A well-resourced and experienced Asian team, which includes four Bangkok-based investment managers, supports this rigorous process, which involves around 1,000 company visits each year. The portfolio of around 40 stocks therefore represents the manager's highest conviction ideas on a long-term investment horizon.

Recent developments: Board announces proposals

On 2 May 2018, the board announced a package of changes aiming to improve returns to shareholders. These include: the added flexibility to invest in unquoted Thai companies in the lead-up to an IPO; increasing ANW's exposure to small-cap stocks; more proactive use of gearing; allocating some costs to capital, which should improve the net earnings available to introduce a proposed interim dividend; and a reduction in the management fee from 1.0% to 0.9%. These proposals do not change the manager's investment philosophy and process.

Valuation: Scope for discount to narrow

ANW's current discount to cum-income NAV of 14.7% is below the three-year average of 15.7%. There is scope for the discount to narrow if the recently proposed changes are successful in improving the trust's performance and dividend yield, helping to retain existing shareholders and attract a broader base of new investors.

Investment trusts

21 May 2018

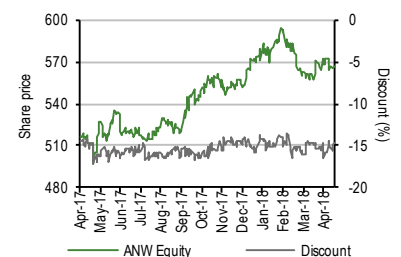
Price 567.0p
Market cap £94.9m
AUM £110.2m

NAV* 643.2p
Discount to NAV 11.8%
NAV** 664.8p
Discount to NAV 14.7%

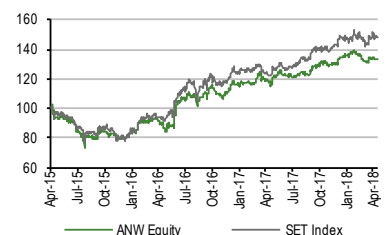
*Excluding income. **Including income. As at 17 May 2018.

Yield 2.0%
Ordinary shares in issue 16.7m
Code ANW
Primary exchange LSE
AIC sector Country Specialists: Asia Pacific
Benchmark Stock Exchange of Thailand Index

Share price/discount performance



Three-year performance vs index



52-week high/low 595.0p 496.8p
NAV** high/low 698.6p 600.7p

**Including income.

Gearing

Gross* 4.8%
Net* 3.5%

*As at 31 March 2018.

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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. The trust holds a concentrated portfolio of equities listed on the Stock Exchange of Thailand (SET). Constructed through bottom-up stock selection, ANW's portfolio is diversified across a broad range of industries, with exposures not linked to SET index allocations.

Recent developments

- 2 May 2018: Annual results to 28 February 2018. NAV total return +17.7%; SET index total return +21.6%. The company declared an ordinary dividend of 11.10p per share.
- 2 May 2018: Board proposes changes to improve returns for shareholders.
- 11 October 2017: Interim results to 31 August 2017. NAV total return +7.8%; SET index total return +7.9%.

Forthcoming

AGM	June 2018
Interim results	October 2018
Year end	28 February
Dividend paid	June 2018
Launch date	December 1989
Continuation vote	No – see page 7

Capital structure

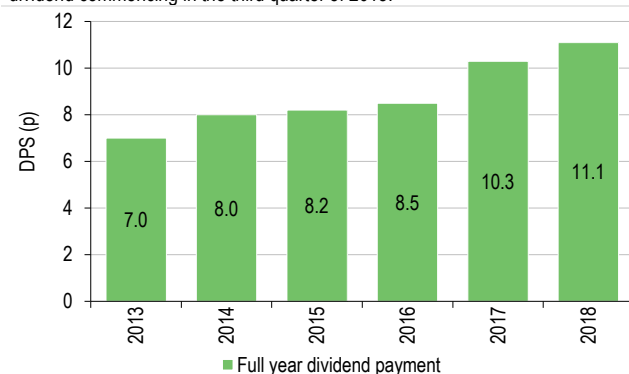
Ongoing charges	1.4%
Net gearing	3.5%
Annual mgmt fee	0.9%
Performance fee	None
Trust life	Indefinite (subject to vote)
Loan facilities	£10m multi-currency facility

Fund details

Group	AAM Asia
Manager	Asian Equities Team
Address	Bow Bells House, 1 Bread Street, London EC4M 9HH
Phone	+44 (0)500 000 040
Website	www.newthai-trust.co.uk

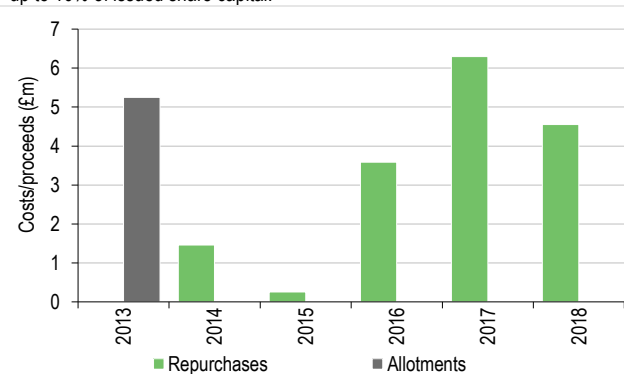
Dividend policy and history (financial years)

Annual dividend paid in June/July. Board proposes payment of an interim dividend commencing in the third quarter of 2018.

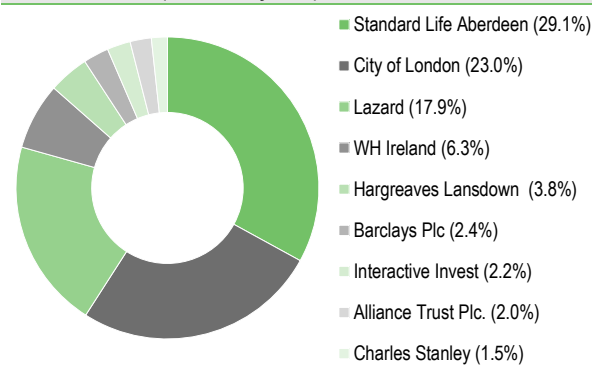


Share buyback policy and history (financial years)

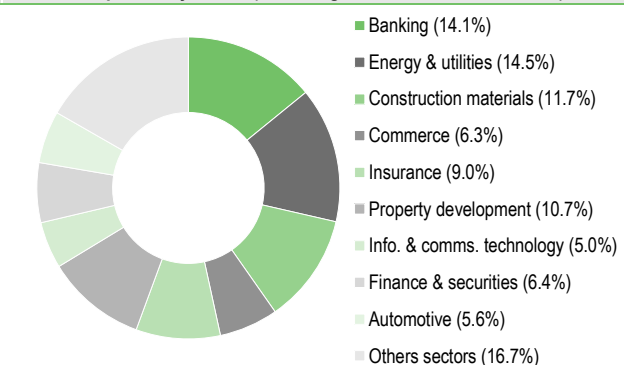
Renewed annually, the trust has authority to repurchase up to 14.99% and allot up to 10% of issued share capital.



Shareholder base (as at 08 May 2018)



Portfolio exposure by sector (excluding cash, as at 31 March 2018)



Top 10 holdings (as at 31 March 2018)

Company	Sector	Portfolio weight %	
		31 March 2018	31 March 2017*
AEON Thana Sinsap	Finance & securities	5.1	3.7
Advanced Information	Telecoms	5.0	5.3
Bangkok Insurance	Insurance	5.0	4.9
Home Product Center	Commerce	4.6	3.4
PTT Exploration and Production	Energy & utilities	4.5	3.4
Siam Cement	Construction materials	4.5	4.9
Central Pattana Public	Property development	4.3	N/A
Kasikornbank	Banking	4.0	4.7
Thai Stanley Electric	Automotive	3.5	N/A
Electricity Generating	Energy & utilities	3.1	3.6
Top 10 (% of holdings)		43.6	44.9

Source: Aberdeen New Thai Investment Trust, Edison Investment Research, Bloomberg, Morningstar, Thomson. Note: *N/A where not in March 2017 top 10.

Recent developments: Proposals to boost performance

Since the launch of the fund in 1989, ANW has delivered substantial absolute gains for investors; as shown in Exhibit 7, its NAV total return over 10 years is in excess of 287%, ranking first among its peer group. However, the trust's more recent performance has lagged the benchmark and the ordinary shares have continued to trade at a c 15% discount to cum-income NAV. The underperformance partly reflects the manager's highly selective, bottom-up investment approach, while in recent years, the Thai stock market has been buoyed by significant inflows from funds focused on larger, more liquid stocks, ahead of fundamentals.

Against this backdrop, after consultation with the manager, the board has proposed a number of changes to help improve returns over time. These changes do not represent a change to the manager's investment philosophy and process:

- **Increasing ANW's exposure to small-cap stocks.** Currently c 35% of the portfolio is invested in stocks with a market capitalisation below THB50bn (c £1.2bn). Smaller companies are less well researched and overlooked stocks often have greater potential to outperform. The manager is well-placed to identify these investments, given its local presence and highly experienced team of dedicated Thai equities specialists.
- **Allowing limited investments in unquoted Thai companies that are preparing for listing.** The manager receives requests, from time to time, to invest in unquoted companies as a 'cornerstone' participant in the period leading to flotation on the SET Index. The manager believes these opportunities, although they occur only occasionally, can generate attractive returns. The board has proposed a change to the investment policy, to be approved by shareholders at the AGM on 21 June 2018, to provide the flexibility to invest in unquoted companies, up to a maximum of 10% of net assets.
- **More proactive use of the gearing facility.** ANW has a £10m loan facility provided at competitive interest rate terms; however, traditionally, the manager has used little gearing. The ability to utilise gearing is one of the structural advantages of closed-ended structures over open-ended funds. In February 2018, the trust increased its use of this facility from £2.7m to £5.8m and, even if the facility is fully drawn, gearing would remain materially below the board-imposed limit of 15%.
- **Reallocation of certain costs to capital, and introduction of an interim dividend payment.** Historically, 100% of management fees and interest costs have been charged to revenues. The proposal is for 75% of these expenses to be charged to capital and 25% to revenues, reflecting the composition of the expected total return for the trust over the long term. This should increase the net earnings available to pay dividends, and an interim dividend can be introduced in the third quarter, addressing investors' appetite for increased yield.
- **Reducing the management fee from 1.0% to 0.9%**, backdated to 1 March 2018.

Fund profile: Thailand specialist, regional exposure

Launched in 1989, ANW continues to be the only LSE-listed investment trust specialising in Thailand. The trust's objective is to provide shareholders with a high level of long-term, above-average capital growth through investing in Thai equities. The manager follows a disciplined, bottom-up approach to identify companies that have robust business models, are well managed with healthy balance sheets that can underpin dividends, yet are attractively valued. The portfolio is relatively concentrated with around 40 holdings, representing high-conviction ideas. As a result, the trust's performance may diverge significantly from the SET Index benchmark. ANW also provides investors with indirect exposure to Thailand's fast-growing neighbours including Cambodia, Laos, Myanmar and Vietnam. Thai companies have been significant investors in these countries for some time and earnings from this region should become increasingly meaningful.

The fund manager: Asian team, Thailand presence

The manager's view: Broadening economic recovery

The manager is optimistic about prospects for the Thai economy. Economic recovery last year was driven by exports and tourism, while domestic consumption and private investments remained disappointing, in part due to a one-year period of mourning following the passing of King Bhumibol, ending late October 2017. With economic activity returning to normal, there has been increasing evidence of a broader-based recovery. Consumer confidence data for March 2018 was at its highest level since December 2014, while public spending targets are substantially higher than last year, when spending contracted. The Bank of Thailand (BOT) forecasts a 9.5% increase in public investment in 2018, and large multi-year infrastructure projects are planned. These include the US\$45bn Eastern Economic Corridor initiative, a region in much need of development. The manager is also optimistic for an increase in private investment as the business climate improves, and public investments stimulate private-sector participation. The BOT has recently upgraded its forecast for 2018 GDP growth to 4.1% (3.9% in 2017). Politics has been stable with a smooth transition to a new monarch, while Yingluck Shinawatra (the divisive former prime minister) has absconded and left the country, alleviating fears of a return to political clashes on streets. The current military regime has committed to restoring Thailand's democracy; however, elections have been delayed once again until February 2019.

Following two strong years of stock market performance, the manager believes Thai equity valuations are stretched relative to historical averages, although still reasonable compared to the Asia region. A period of consolidation may be due, which would be a favourable environment for stock-pickers, as fundamentals come back into focus. Meanwhile, the trust has ample capacity to utilise its gearing facility to take advantage of pullbacks in the market.

Asset allocation

Investment process: Led by stock-selection

The investment process is led by disciplined stock selection, to build a relatively concentrated portfolio of around 40 stocks, representing the managers' highest-conviction investment ideas. Meeting companies' management teams is an important part of the investment process and no stock can be purchased prior to that. The Asian team, including four Bangkok-based investment managers, conduct over 1,000 company meetings a year and undertake in-depth analysis of portfolio and potential investments. A company's potential worth is estimated taking into account its quality and then its valuation. The team focuses on companies with strong cash flows and solid balance sheets, where management has experience of business cycles and exhibits good corporate governance. Top-down considerations are secondary as the team seeks companies that can provide stable returns through economic cycles. Diversification considerations, rather than formal controls, help guide stock and sector weights. Exposure to any single stock is limited to 10% of net assets and gearing is permitted up to 15% of net assets.

Current portfolio positioning

The manager is benchmark-agnostic, therefore stock and sector weights in the portfolio reflect high-conviction stock selection, as well as diversification considerations. As shown in Exhibit 2, the portfolio's sector exposures as at end-March 2018 are little changed compared to a year ago. The banking weight has reduced by 2.4pp, partly due to the trimming of positions in Kasikorn Bank and Siam Commercial Bank, but also due to relative underperformance of the sector, as non-performing loans and low business activity weighed on the industry. Banking remains one of the largest

exposures as the manager maintains a positive long-term view on improvements in loan demand and asset quality. The 2.8pp reduction in the commerce sector weight largely reflects the privatisation of supermarket retailer, Big C, at a fair price in the manager's view. The media and publishing sector has suffered from a worse than expected advertising environment, and its weight has fallen by 3.5pp following the sale of Amarin Printing and significant underperformance. The largest increase in exposure is to property where, as discussed in our November 2017 report ([ANW November 2017](#)), ANW started to build a position in high-end housing developer, Land & Houses. The manager has since continued to add to holdings in property companies, including Land & Houses and LPN.

Although energy and utilities is the largest sector in the portfolio, it is underweight relative to the benchmark by 8.0pp, in large part because ANW does not hold PTT, Thailand's biggest stock by market capitalisation. The manager has concerns over the transparency of this state-owned company and its alignment of interest with minority shareholders. ANW is also meaningfully underweight transportation, largely caused by not owning Airports of Thailand, over which the manager has similar corporate governance concerns. These positions have been major detractors to ANW's performance over the past few years as the oil price appreciated and whole large fund inflows into Thailand have tended to buy the largest and most liquid stocks.

Exhibit 2: Portfolio sector exposure vs SET index benchmark (% unless stated)

	Portfolio end-March 2018	Portfolio end-March 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Energy & utilities	14.5	13.3	1.2	22.5	(8.0)	0.6
Banking	14.1	16.5	(2.4)	13.0	1.1	1.1
Construction materials	11.7	11.6	0.1	5.1	6.6	2.3
Property development	10.7	6.6	4.1	6.6	4.1	1.6
Insurance	9.0	9.6	(0.6)	0.8	8.2	11.3
Finance & securities	6.4	4.7	1.7	2.3	4.1	2.8
Commerce	6.3	9.1	(2.8)	10.1	(3.8)	0.6
Automotive	5.6	4.2	1.4	0.5	5.1	11.2
Info & comms technology	5.0	4.2	0.8	8.1	(3.1)	0.6
Healthcare services	4.4	3.8	0.6	4.4	0.0	1.0
Food & beverages	4.0	3.6	0.4	5.5	(1.5)	0.7
Electronic components	2.5	3.3	(0.8)	1.0	1.5	2.5
Property fund	1.9	2.0	(0.1)	2.0	(0.1)	1.0
Packaging	1.6	2.0	(0.4)	0.4	1.2	4.0
Media & publishing	1.0	4.5	(3.5)	1.4	(0.4)	0.7
Transportation & logistics	0.0	0.0	0.0	8.1	(8.1)	0.0
Other	0.0	0.0	0.0	8.2	(8.2)	0.0
Cash	1.3	1.0	0.3	0.0	1.3	N/A
	100.0	100.0		100.0		

Source: Aberdeen New Thai Investment Trust, Edison Investment Research

Relative to the index, the portfolio is most overweight the insurance sector (8.2pp). The largest stock in the sector and portfolio is Aeon Thana Sinsap (ATS), a subsidiary of Japan's Aeon Group. The company benefits from being able to leverage the expertise of its parent company, and has recently entered the domestic used-car insurance market, emulating a successful strategy followed by Aeon in Malaysia. ATS's management expects second-hand vehicles to become more popular in response to favourable pricing and tax conditions. The stock is also a good example of a Thai company with rapidly growing exposure to the wider Asian region. The manager believes Thai companies are particularly well-placed to benefit from the high growth of neighbouring countries, given factors such as good regional brand recognition, strong balance sheets and access to capital. ATS is expanding its retail financing network into Cambodia, Myanmar and Laos, where low penetration rates for financial products augur well for high growth over many years. These countries currently account for less than 5% of ATS's revenues, and the manager believes they could reach 10% of revenues by 2020.

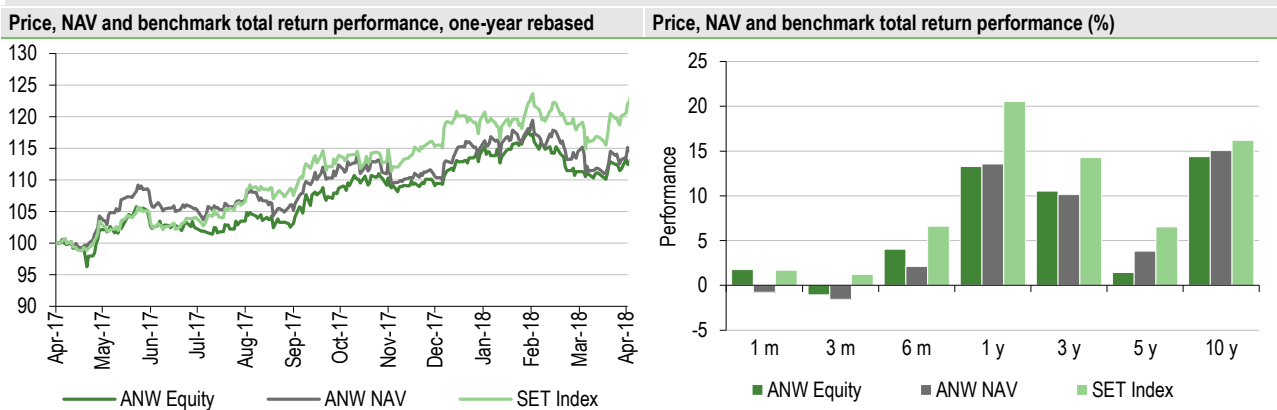
The trust is also overweight construction materials by 6.6pp. Although 2017 was a challenge for the sector due to oversupply and weak business activity, the manager is optimistic about the prospects

for cyclical improvement as the economic recovery broadens. Cement companies have also been significant investors in the neighbouring region. Overseas expansion at Siam City Cement (SCC) has helped diversify its earnings bases and a recent acquisition in Vietnam gives the company a 20% market share in the country. SCC is also the market leader in Sri Lanka and has a small but growing presence in Cambodia and Bangladesh.

Performance: Strong long-term absolute performance

As shown in Exhibits 3 and 4, ANW's NAV total return has lagged its benchmark index over one, three, five and 10 years. However, absolute performance has been strong, and since inception to end-April 2018, ANW has delivered a 14.4% annualised NAV total return. Reflecting the manager's focus on quality companies, the trust is typically less risky compared with the index (as measured by beta, where a figure below 1 indicates the portfolio is theoretically less volatile than the index). ANW's three-year and five-year betas are 0.95 and 0.91, respectively.

Exhibit 3: Investment trust performance to 30 April 2018



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

Exhibit 4: 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 SET Index	0.1	(2.2)	(2.4)	(6.0)	(9.5)	(21.8)	(14.7)
NAV relative to SET Index	(2.4)	(2.7)	(4.2)	(5.8)	(10.5)	(12.2)	(9.4)
Price relative to MSCI AC Asia ex-Japan	(0.8)	1.7	2.9	(3.0)	(1.9)	(36.1)	62.9
NAV relative to MSCI AC Asia ex-Japan	(3.2)	1.1	1.0	(2.8)	(3.0)	(28.2)	72.8
Price relative to MSCI World	(1.3)	0.9	4.1	5.9	(4.3)	(40.6)	47.8
NAV relative to MSCI World	(3.7)	0.4	2.1	6.2	(5.4)	(33.3)	56.8

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2018. Geometric calculation.

Exhibit 5: NAV total return performance relative to benchmark over 10 years

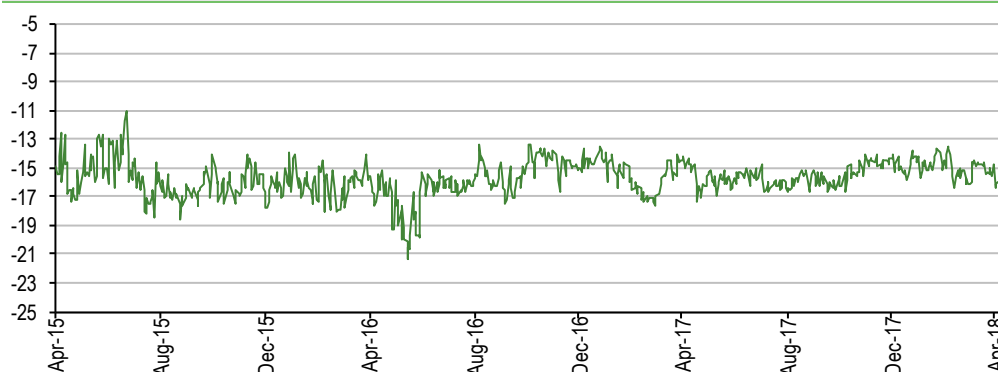


Source: Thomson Datastream, Edison Investment Research

Discount: Scope for narrowing with new changes

ANW's current 14.7% discount to cum-income NAV is below its three year average of 15.7%. Under ANW's Articles of Association, a special resolution to wind up the company will be proposed at the AGM if the shares have traded at an average discount to cum-income NAV in excess of 15% for the 12 weeks preceding the financial year-end. For FY18, this discount was 14.7% and therefore no wind up will be proposed at the June 2018 AGM. The board's proposals on 2 May 2018 aim to improve returns for shareholders, including a narrowing of the discount to NAV.

Exhibit 6: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

ANW is a conventional investment trust with one class of shares; 16.7m ordinary shares are currently in issue. During FY18, the company bought back and cancelled 1.7m shares (2017: 1.3m) at a total cost of £9.1m (2017: £6.4m), representing 9.9% of issued share capital as at 28 February 2018.

ANW has a £10m loan facility with Scotiabank, of which £5.7m was drawn as at end-March 2018, representing gross gearing of 4.8%. Annual management fees are payable to AAMAL, a wholly-owned subsidiary of Standard Life Aberdeen plc. Recent proposals by the board include a reduction in the annual management fee from 1.0% to 0.9%, backdated to 1 March 2018. Also proposed, is an allocation of this fee and interest charges in the proportion of 75%:25% to capital and revenue accounts, respectively. There are no performance-related fees.

Dividend policy and record

Historically, ANW has paid dividends annually in June/July, and it recently announced a dividend of 11.1p for FY18, representing a 7.8% increase over FY17. The board has proposed the introduction of an interim dividend, which should appeal to investors seeking regular income and help broaden ANW's shareholder base. An additional interim dividend payment, increasing the overall payout, should be comfortably accommodated by the portfolio's underlying estimated dividend yield of 3.3% (reflecting the high-quality nature of its holdings), in addition to higher net earnings available for distribution as the trust's expenses become reallocated, 75% to capital and 25% to revenues.

Peer group comparison

Exhibit 7 shows a peer group of the 9 largest closed-end Asia Pacific specialist country funds. As ANW is the only trust focused on Thailand, comparisons are less meaningful as performance is heavily influenced by individual markets, not just manager performance. ANW is one of the smaller funds. It ranks first for NAV total return performance over 10 years, eighth over five years, ninth over three years, and fifth over one year. Implementation of the board's proposed changes on 2 May 2018 should reduce ongoing charges, which are already below the peer-group average as at end-February 2018. ANW currently ranks second for dividend yield and discount to ex-par NAV. Following the board's proposed changes, the dividend yield could also increase with the introduction of an interim payment, and the discount has scope to narrow.

Exhibit 7: AIC country specialists: Asia Pacific peer group as at 17 May 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Aberdeen New Thai	94.9	12.4	39.6	16.3	287.3	(12.1)	1.4	No	104	2.0
Fidelity China Special Situations	1,392.3	29.4	61.0	214.6		(14.0)	1.16	Yes	124	1.0
India Capital Growth	108.3	(1.1)	61.3	115.0	24.0	(16.2)	2.21	No	100	0.0
JPMorgan Chinese	229.4	35.8	60.5	112.6	193.8	(14.1)	1.38	No	116	0.5
JPMorgan Indian	726.4	(1.3)	42.5	74.6	106.5	(13.6)	1.19	No	107	0.0
India Capital Growth	108.3	(1.1)	61.3	115.0	24.0	(16.2)	2.21	No	100	0.0
VietNam Holding	144.8	22.0	97.8	144.5	269.2	(12.9)	2.85	Yes	100	0.0
VinaCapital Vietnam Opp Fund	669.4	23.0	127.3	136.4	248.6	(18.4)	4.44	Yes	100	2.1
Weiss Korea Opportunity	147.6	4.5	43.5	93.0		(2.1)	1.89	No	100	1.9
Simple average	362.2	12.9	61.7	103.6	155.3	(13.9)	2.07		105	0.7
Rank	9	5	9	9	1	2	7		4	2

Source: Morningstar, Edison Investment Research. Note: *Performance data to 16 May 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board consists of four independent non-executive members. Chairman Nicholas Smith was appointed director in March 2013 and assumed his current role in June 2013. The other board members are Clare Dobie (appointed December 2013, senior independent director June 2016), Andy Pomfret (September 2014) and Sarah MacAulay (December 2016).

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