Aberdeen Diversified Income and Growth Trust

Increasing exposure to private assets accelerates

Investment trusts
Multi-asset

18 December 2020

Price	**94.8p**
Market cap	**£296.8m**
AUM	**£417.3m**

NAV*	111.9p
Discount to NAV	15.3%
NAV**	115.1p
Discount to NAV	17.6%

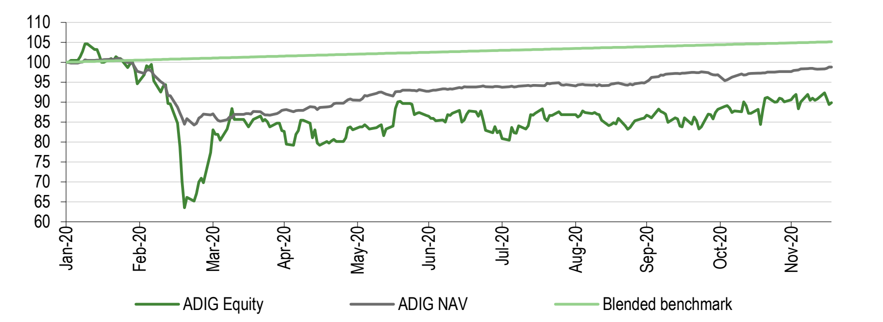
*Excluding income. **Including income. At 17 December 2020.

FY20 dividend yield	5.7%
Ordinary shares in issue	313.1m
Code	ADIG
Primary exchange	LSE
AIC sector	Flexible Investment
Benchmark***	Libor + 5.5%

***The board has proposed a new benchmark (see details below)

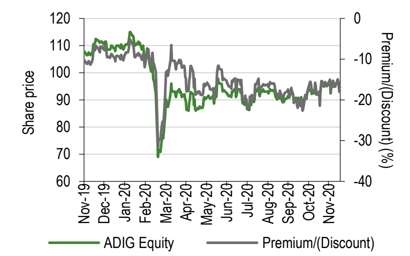
Aberdeen Diversified Income and Growth Trust (ADIG) has a diversified multi-asset approach, aiming to generate attractive long-term income and capital returns. After a strategic review in October 2020, the manager intends to increase the share of private assets in the portfolio to 45% by Q221 and to 55% over the long term (vs the previous c 43% target). ADIG's investment committee will now be led by Nalaka de Silva, head of private market solutions at Aberdeen Standard Investments (ASI). While ADIG's NAV TR performance has lagged the benchmark in recent years, the shares continue to offer an attractive FY21 yield of 5.8% (based on ADIG's dividend guidance). The manager's plan to maintain or increase dividends should be supported by the lower interest expense post the partial bond repurchase in early November 2020 and the use of revenue reserves.

ADIG's performance has been improving since the Q120 market downturn

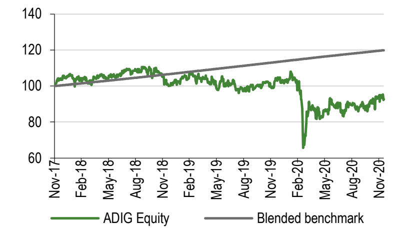


Source: Refinitiv, Edison Investment Research. Note: Benchmark is Libor+5.5% (net of fees).

Share price/discount performance



Three-year performance vs index



52-week high/low	115.0p	69.0p
NAV* high/low	122.0p	100.6p

*Including income.

Gearing

Gross gearing*	4.3%
Net cash*	4.2%

*At 30 November 2020.

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Aberdeen Diversified Income and Growth Trust is a research client of Edison Investment Research Limited

The market opportunity

COVID-19 triggered an unprecedented level of uncertainty and volatility in equity markets in an environment of ultra-low interest rates. ADIG's increasing focus on private holdings and diversified portfolio of income-generating alternative assets offers (on the successful implementation of the strategy) the prospect of uncorrelated returns and stable income and capital growth over the long term.

Why consider investing in ADIG?

- A diversified multi-asset portfolio with increasing exposure to private markets seeking uncorrelated income and capital returns.
- ADIG's long-term returns may be enhanced by full deployment of existing commitments and coupled with de-risking from the recent bond repurchase.
- Access to the best ideas from across ASI's global investment platform (c 48% of assets) along with externally managed funds (c 52%).

Trading at an attractive yield

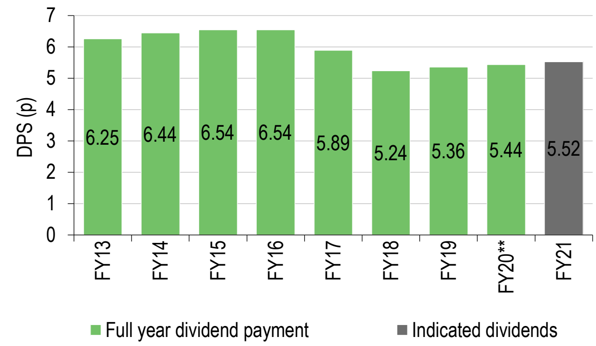
ADIG's NAV TR performance has lagged its benchmark (Libor + 5.5% pa) since the strategy change in March 2017 to an increased focus on less liquid assets. The NAV discount has widened to c 10–22% since end-March 2020 from 5% before the COVID-19 pandemic. The last 12 months (LTM) dividend yield is 5.7%, ahead of its peers. We note that in FY20 dividends were covered by earnings.

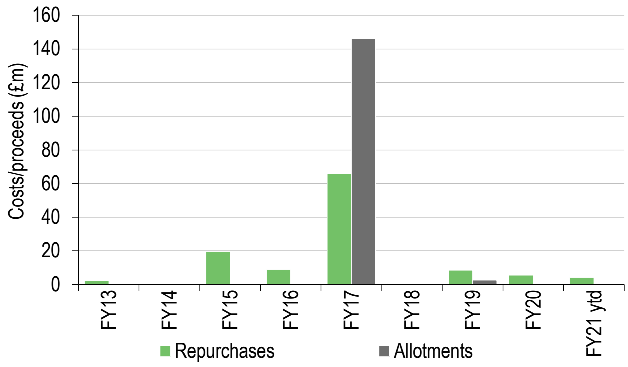
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Aberdeen Diversified Income and Growth Trust (ADIG) invests globally using a flexible multi-asset approach via quoted and unquoted investments. It aims to achieve a total portfolio return of Libor + 5.5% per year (net of fees) over rolling five-year periods, although the board has proposed a new investment objective, which is subject to shareholders' approval at AGM in 2021.	■ 17 December 2020: FY20 results announcement. ■ 2 November 2020: Repurchase and cancellation of £43.9m of the £60m 6.25% bond due in 2031. ■ 21 October 2020: Announcement of strategic review (see more details below).

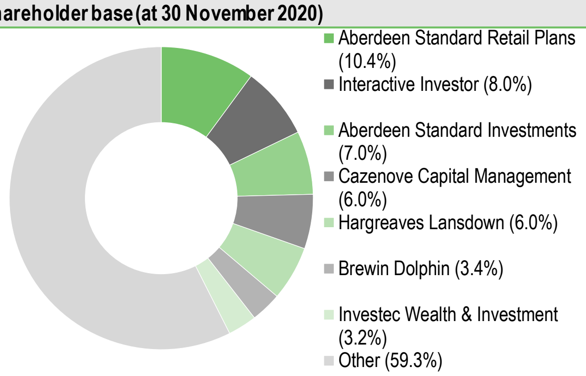
Forthcoming		Capital structure		Fund details	
AGM	February 2021	Ongoing charges	0.84% (FY20)	Group	Aberdeen Standard Investments
Interim results	June 2021	Net gearing	None*	Manager	Nalaka De Silva
Year end	30 September	Annual mgmt fee	0.50% of NAV; 0.45% over £300m	Address	1 George Street, Edinburgh, EH2 2LL
Dividend paid	Mar, Jul, Oct, Jan	Performance fee	None		
Launch date	5 January 1898	Trust life	Indefinite, subject to vote	Phone	0808 500 0040
Continuation vote	Annually	Loan facilities	£16.1m 6.25% debenture 2031	Website	www.aberdeendiversified.co.uk

Dividend policy and history (financial years)	Share buyback policy and history (financial years)
ADIG pays quarterly dividends, at a level consistent with the expected annual underlying portfolio yield. It aims to provide stable or growing dividends streams. In 2017, the dividend was reduced when the mandate moved to ASI.	ADIG has authority to repurchase up to 14.99% and allot up to 10% of its issued share capital. In April 2017, its issued 118.6m shares as part of the merger with AUKT and 53.4m shares were repurchased as part of a concurrent tender offer.

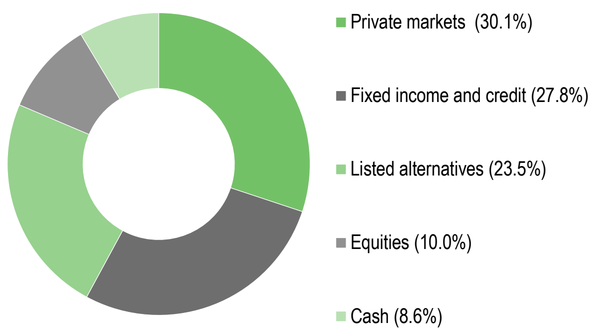




Shareholder base (at 30 November 2020)



Portfolio exposure by asset category (at 30 November 2020)



Top 10 holdings (at 30 November 2020)

Company	Asset category	Portfolio weight %	
		30 November 2020	30 November 2019***
Multifactor Global Equity Income Fund	Listed equity	10.0	17.8
TwentyFour Asset Backed Opportunities Fund	Fixed income and credit	8.6	12.5
Burford Opportunity Fund	Private markets	3.6	2.1
SL Capital Infrastructure II	Private markets	3.6	4.6
Aberdeen Global Infrastructure Partners II	Private markets	3.5	N/A
Aberdeen Property Secondaries Partners II	Private markets	3.5	3.1
Alternative Credit Investments (formerly Pollen Street Secured Lending)	Listed alternatives	3.1	N/A
Aberdeen European Residential Opportunities Fund	Private markets	3.0	N/A
BioPharma Credit	Listed alternatives	2.9	N/A
International Public Partnerships	Listed alternatives	2.7	N/A
Top 10 (% of portfolio)		**44.5**	**51.0**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research, Morningstar, Refinitiv. Note: *Net cash at end-November 2020 at 4.2%. **The fourth dividend in FY20 payable in January 2021 ***N/A where not in end-November 2020 top 10.

Fund profile: Increasing focus on private assets

ADIG was founded in 1898 as the British Assets Trust, a global equity income investment trust managed by F&C Investments (now BMO Global Asset Management). In February 2015, the mandate moved to BlackRock and the trust became BlackRock Income Strategies, a multi-asset strategy with an absolute return focus. After a period of disappointing performance, the fund undertook a strategic review, resulting in Aberdeen Asset Management (now ASI) being appointed as manager in February 2017. It was then enlarged by a merger with Aberdeen UK Tracker Trust and renamed Aberdeen Diversified Income and Growth Trust (in our initiation note we described the changes implemented in 2017 in more detail). ADIG retained a multi-asset, absolute-return approach, but started focusing more on a diverse portfolio, including longer-term, less liquid investment funds that individual investors would otherwise be unlikely or unable to access.

In October 2020 ADIG announced another strategic review, which assumes an increase of its exposure to private investments to c 45% of net asset value (NAV) by Q221 (vs 30% at end-November 2020) and 55% over the long term, which compares with its earlier long-term target of c 43%. In parallel, the board together with the manager decided to de-risk the portfolio by repurchasing up to £45m of its £60m bond, which has a coupon of 6.25% per year and matures in 2031 (more details below).

Since 31 March 2017, ADIG's investment objective is to achieve total portfolio return of Libor +5.5% per year (net of fees) over rolling five-year periods, with volatility less than half that of equities. However, due to the market transition away from Libor by 2021, the board has recently proposed amending ADIG's investment objective. The company will now seek to provide income and capital appreciation over the long term through investment in a globally diversified multi-asset portfolio, aiming to deliver a total return (defined as NAV growth plus dividends) of 6% pa over a rolling five-year period. This means it will measure its performance in absolute terms rather than relative to a benchmark. This amendment is subject to shareholders' approval at the AGM on 23 February 2021. ADIG is a member of the Association of Investment Companies' Flexible Investment sector.

The fund manager: Nalaka de Silva

As part of the strategic review, Nalaka De Silva (head of private market solutions at ASI) was appointed the chairman of ADIG's investment committee. At ADIG, Nalaka De Silva will be responsible for developing and implementing strategies across the private markets. He will work with ASI's multi-asset solutions and private market solutions teams. Nalaka De Silva has 18 years of experience in developing, implementing and managing strategies across the public and private markets, including private equity, infrastructure, real estate, natural resources and private credit. Before joining ASI in 2012, he held senior roles at Australian and European investment management companies. ADIG's investment management committee also includes Tony Foster and Emma Scott.

ASI also manages the Diversified Growth and the Diversified Income funds, which follow a similar approach to ADIG but have a slightly lower return target of Libor +4.5% pa (net of fees). This is because ADIG's closed-ended structure allows it to invest in less liquid assets and it is also able to use gearing of up to 20% of net assets. However, ADIG reduced its net gearing following the bond repurchase in early November 2020 and we understand it does not intend to introduce fixed-interest rate debt in the current economic conditions (more details below).

The manager's view: Resilience through private investments

ADIG's portfolio management team remains committed to offering its shareholders long-term investments in less accessible asset classes with different risk/return drivers and low volatility. The manager believes further increasing the share of private assets in the portfolio after the strategic review announced in October 2020 will translate into a stable income and capital appreciation over the long term. They also highlight that de-risking the portfolio and accelerated recycling of capital to private investments in coming months together with investments in unlisted holdings that it has made so far are starting to provide a level of resilience during the volatile, uncertain, complex and ambiguous environment that capital markets have been facing recently, triggered by the COVID-19 pandemic, US elections, Brexit, de-globalisation and tech bubble.

The manager expects portfolio income will be identifiable and predictable despite the portfolio evolution, supported by a £2.7m reduction of annual interest costs after the partial repurchase of the company's bond and, if necessary, by the revenue reserve the company has built up over recent years. They also expect an increasing contribution from private investments in total portfolio income in the coming years, which underpins the company's progressive dividend programme over the long term.

Asset allocation

Investment approach: Flexible allocation with long-term focus

ADIG aims to generate highly attractive long-term capital and income returns by pursuing a truly diversified multi-asset approach, using quoted and unquoted investments, with no geographical or sector restrictions. Robust risk management is embedded in the ASI team's investment approach through maintaining an appropriate level of portfolio diversification and the use of detailed due diligence, specialist quantitative risk tools, ongoing scenario analysis, liquidity stress tests and peer review of investment ideas within the team.

ASI has a global investment platform with over 1,000 investment professionals across teams specialising in quantitative and active equities, private equity, fixed income (emerging market debt, high-yield bonds, loans, government bonds and investment-grade credit), property (direct and multi-manager), infrastructure, real assets, hedge funds and other alternative asset classes. ADIG has access to these teams' expertise either via pooled funds or direct investment sub-portfolios.

Asset allocation is flexible with a focus on alternative assets, including social, renewable and economic infrastructure, farmland, property, private equity, healthcare royalties, asset-backed securities and litigation finance. The manager may also invest in liquid asset classes such as equity and emerging market bonds. ADIG is unlikely to invest in government and investment grade bonds given their low return expectations.

Post the recent strategic review, the manager will adopt a core-satellite approach across asset classes, which means that lower risk 'core' portfolio holdings will be complemented by potentially higher-return, but also higher-risk 'satellite' investments, where the latter may be held over a shorter timeframe until more attractive opportunities arise.

The split between ASI-managed funds or direct holdings and third-party managed funds was c 48/52 at end-September 2020. Non-sterling currency exposure is typically hedged back to sterling unless currency exposure is part of the investment rationale, such as for local currency emerging market bonds. The local currency emerging market bonds position, rather than being funded entirely from sterling, is funded from a basket of six currencies (A$, NZ$, C$, NOK, SEK, £). These have been carefully selected to reflect their sensitivities to economic conditions, commodity prices and debt vulnerabilities, which smooths out returns and enhances the diversification benefits of the asset class without materially affecting expected returns, according to the company. Active currency positions may be taken to enhance the portfolio's risk/return profile.

Target asset allocation: Even greater focus on private markets

In Exhibit 2, we present ADIG's portfolio allocation before and after the strategic review along with the manager's forecasts for the portfolio five-year total return (net of fees) and risk. The manager estimates the five-year expected net return of the targeted portfolio to reach c 6% pa. In the manager's view, portfolio transition will help reduce correlation of ADIG's NAV with global equities, from 0.38 at end-September 2020 to 0.12 in Q221. The last column in Exhibit 2 presents portfolio allocation at end-November 2020 following some major portfolio changes that took place in October 2020.

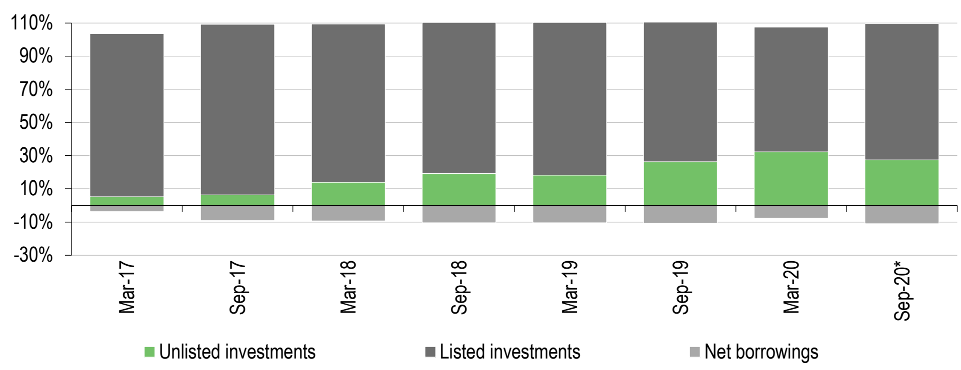
Exhibit 2: Target portfolio allocation vs current portfolio allocation

	Mid-term target portfolio allocation before the strategic review	Target portfolio allocation in Q221 post the strategic review	Portfolio allocation at 30 November 2020
Private markets	35.0%	45.0%	30.1%
Fixed income and credit	32.0%	22.6%	27.8%
Listed alternatives*	16.0%	20.0%	23.5%
Listed equity	17.0%	9.4%	10.0%
Government and investment grade fixed income	0.0%	0.0%	0.0%
Cash	0.0%	3.0%	8.6%
Total	100%	100%	100.0%
Total return pa (net of fees)	**5.4%**	**5.7%**	**N/A**
Risk**	**8.1%**	**8.5%**	**N/A**

Source: Aberdeen Diversified Income and Growth Trust. Note: *Listed alternatives allocation includes special opportunities, as well as active systemic and global risk mitigation strategies. **Defined as annual standard deviation of returns.

The main objective of the revised portfolio approach announced in October 2020 is to further increase exposure to unlisted holdings, which the manager expects will represent c 45% of the NAV in Q221 and 55% over the long term, compared to c 30% at end-November 2020 and the previous long-term target of c 43%. These investments include, among others, private equity, private credit, infrastructure, real estate, royalties and natural resources, litigation finance and diversified insurance-linked strategies. In Exhibit 3, we present ADIG's progress with recycling capital to private investments over recent years to end-September 2020 (last available data).

Exhibit 3: Portfolio breakdown by listed and unlisted investments as % of net asset value



Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *Figures at end-September 2020 as per Edison estimates based on company data.

The manager intends to finance the portfolio transition by reducing ADIG's exposure to the passive listed equity strategy from 14.1% at end-September 2020 to 9.4% in Q221 (with the end-November 2020 figure of 10% already close to target); by reducing the emerging market bonds and asset-backed securities exposure to 22.6% in Q221 (27.8%); and by recycling its current exposure to listed infrastructure into listed and other alternatives, which will include special opportunities, hedge funds and active systemic and global risk mitigation strategies. The manager expects that exposure to the latter assets will reach c 20% of NAV in Q221 (it was already at 23.5% at end-November 2020).

At end-September 2020 (last available data), ADIG had c £81m of undrawn commitments to private asset funds, representing c 19% of its gross total investments. At the same time, we understand that the increase in private markets exposure from c 30% at end-November 2020 to 45% by Q221 may require some investments in secondaries, where meaningful opportunities are under review, according to the manager. The manager also highlights that new investment opportunities across this asset class may include investments in private credit.

Current portfolio positioning

At 30 November 2020, there were 113 holdings in ADIG's portfolio, with the top 10 making up 44.5% of the total, down from 51.0% last year. The total included a sub-portfolio of direct investments in emerging market bonds (EMBs), which comprised 51 holdings at end-September 2020 (last available data). Cash represented 8.6% of ADIG's NAV at end-November 2020, down from 17.2% at end-October 2020 as the company made some notable disposals in October aimed at raising cash to finance the bond repurchase in early November 2020. We present the new breakdown of the company's portfolio allocation by asset class in Exhibit 2.

Portfolio activity within public market investments

The manager did not make any material changes to the listed portfolio in the first four months of the financial year to end-January 2020. However, during the COVID-19 outbreak, ADIG reduced its exposure to EMBs and listed equity by 4–5pp each in early March 2020 and further reduced the exposure in the former later in the month. In the manager's view, emerging markets are 'less well placed' to face the likely economic slowdown and their valuation looked less attractive relative to other assets.

The manager reinvested around half of the disposal proceeds in March, mainly in listed social and renewable infrastructure investment companies (ie HICL, INPP, 3i Infrastructure, Greencoat UK Wind and Aquila European Renewables) amid widening discounts, its existing portfolio holding BioPharma Credit (c 2.9% of the NAV at end-November 2020) and a new asset class, music royalties (ie Hipgnosis Songs Fund, c 1.2% of NAV at end-September 2020 (last available data)). In the manager's view, these will be relatively unaffected by the potential economic downturn. The manager has also increased the position in the Alternative Credit Investments (formerly Pollen Street Secured Lending, 3.1% of ADIG's NAV at end-November 2020) when the company's shares traded at a 50% discount to NAV (it subsequently narrowed to c 5% as of 17 December 2020). We note that the average share price return of the listed social and renewable infrastructure investment companies listed above was c 9% since end-March 2020 to 17 December 2020, while the Hipgnosis Songs Fund was a significant positive contributor to ADIG's performance in the listed alternatives assets category in FY20 ending 30 September 2020, according to the company.

There have been no material changes in ADIG's listed portfolio until the strategic review announced in October 2020. During the month, the manager reduced exposure to 1) the Multifactor Global Equity Income Fund to 8.1% from 14.1% at end-September 2020, 2) EMBs to 9.1% (14.7%) and 3) the TwentyFour Asset Backed Opportunities Fund to 12.4% (14.5%). ADIG used the cash raised through these transactions to finance the majority of the bond repurchase in early November 2020, as discussed above. In November, the manager further reduced its exposure to the TwentyFour Asset Backed Opportunities Fund to 8.6% and initiated new positions in Round Hill Music Royalty Partners (music royalties) and Gresham House Energy Storage Fund (listed infrastructure).

Portfolio activity within private market investments

ADIG has continued recycling capital from listed to unlisted long-term holdings in FY20. In H120 (to end-March 2020), it invested £9.7m net in longer-term funds, most notably in litigation finance, economic infrastructure (energy and transport) and private equity. Major transactions across its private markets holdings since end-March 2020 included drawdowns of existing commitments from 1) the HealthCare Royalty Partners IV and Agriculture Capital Management Fund II in April 2020, 2) the Burford Opportunity Fund (litigation finance) and Maj V (a Danish small cap private equity fund) in May 2020, 3) the Andean Social Infrastructure Fund I (a US$2.2m drawdown) in July 2020, 4) a private equity secondaries fund in August 2020, 5) the Private Equity Secondaries Fund in September 2020, 6) the Andean Social Infrastructure Fund I in October 2020 and 7) the Aberdeen Global Infrastructure Partners II in November 2020. The company reduced its outstanding commitments to £81.1m at end-September 2020 from £104.9m a year earlier. At the same time, we understand that ADIG has not made any new commitments to unlisted investment funds between end-March 2020 and end-November 2020, but the manager highlights that a number are under consideration or due diligence at present.

Major portfolio holdings

At end-November 2020, the largest exposure was the **Multifactor Global Equity Income Fund** (formerly Aberdeen Smart Beta Low Volatility Global Equity Income Fund), which represented 10.0% of the NAV. Over one year to end-June 2020 (last available data), the fund generated a negative 1.8% return vs a positive 5.8% for its benchmark. We acknowledge that the underperformance may result from the disparity between the performance of growth and value investment strategies, which has been recently close to record levels (in favour of growth stocks). This is illustrated by the gross returns of the MSCI World Value Index at 3% vs 32% for the MSCI World Growth Index over the 12 months ended 30 November 2020.

It is noteworthy that the manager plans to adopt a core-satellite approach (see more detail above) also across its listed equity position, which we understand will involve adding other thematic sub-portfolios managed by ASI teams to this asset class. The manager hopes that this will improve the balance between value and growth stocks and allow for greater exposure to companies with enhanced characteristics in areas such as sustainability and income.

At end-November 2020, the second largest exposure was the **TwentyFour Asset Backed Opportunities Fund** (c 8.6% of NAV). It has a substantial exposure to residential mortgage-backed securities (c 51% at end-July 2020) as well as collateralised loan obligations (30%), while the remaining portfolio included auto loans (6%), consumer asset backed securities (6%), commercial mortgage-backed securities (4%) and cash and equivalents (2%). At end-July 2020, 25% of its portfolio was rated at A and higher, 9% at BBB, 35% at BB, 23% at B, 2% at CCC, while 7% was not rated. ADIG's manager thinks that the default rate on medium-risk securities is currently low as many of the underlying borrowers are in areas supported by government and central banks' schemes. The fund has outperformed UK equities by over 15% since its launch in early 2017 to July 2020, exhibiting much lower volatility than equity investments, according to the manager. While its six-month performance to end-March 2020 was negative 15%, the manager highlights that structured credit markets have been recovering from weak pricing in March and April and they still discount a noticeably weaker economic outlook than equity markets and other credit investments.

Performance: Recovering after the Q120 sell-off

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	CBOE UK All Companies (%)	MSCI AC World (%)	UK Gilts All Stocks (%)
30/11/16	(19.5)	(8.4)	6.6	9.9	25.6	7.1
30/11/17	17.3	11.1	6.3	13.7	15.7	2.2
30/11/18	5.1	(0.5)	6.3	(1.8)	5.6	(0.2)
30/11/19	(4.6)	4.9	6.3	11.3	12.8	10.8
30/11/20	(6.6)	(0.7)	5.8	(11.2)	12.0	5.2

Source: Refinitiv. Note: *Blended benchmark is FTSE All-Share/FTSE World ex-UK 80:20 composite up to 26 February 2015 as provided by the trust; then UK CPI +4.0% up to 10 February 2017 and Libor + 5.5% since 10 February 2017. All % on a total return basis in pounds sterling.

ADIG's NAV total return (net of fees) and share price returns have lagged the target return of Libor + 5.5% between March 2017 (the main strategy change) to end-November 2020, with a NAV total return of 8.0% vs c 24.2% for the benchmark in the period. We believe that the major negative impact on performance came from insurance-linked securities (ILS). That said, three ILS funds from the portfolio are currently winding up and distributing capital to the fund, including the largest holding Markel CATCo Reinsurance Fund (it returned US$7.6m to ADIG in FY20 and $5.3m post period end).

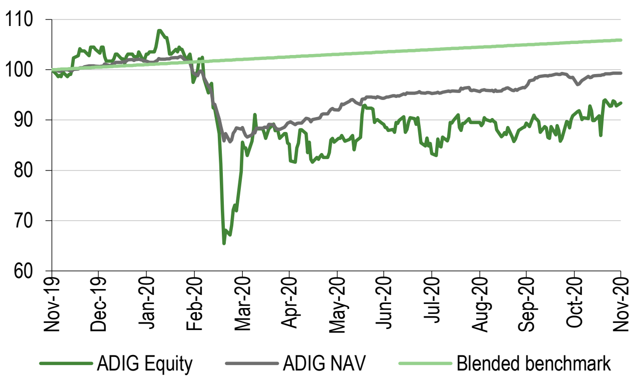
In March 2020 alone, ADIG's NAV fell by 11% amid the broader market sell-off triggered by the COVID-19 pandemic but has shown a gradual recovery since then. Consequently, over the 12 months ended 30 September 2020, ADIG delivered a NAV total return (TR) of a negative 0.8%, compared to a positive 6.1% for its benchmark, with the largest negative impact coming from fixed income and credit (-1.8%) and listed equity (-0.6%). The most notable positive contributors to NAV performance over the period were listed alternatives (+1.3%), including infrastructure (+0.8%) and royalties (+0.7%).

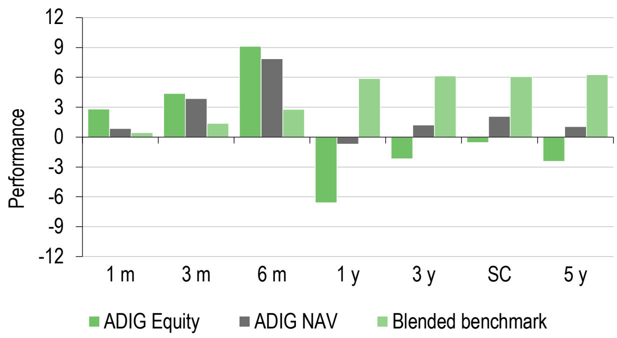
While the company's NAV performance lagged its benchmark over 12 months to end-November 2020 and since the strategy change in March 2017, its NAV TR was clearly ahead of the CBOE UK All Companies equity index in both periods (See Exhibit 6). It is worth noting that around 70% of ADIG's portfolio is priced daily and its NAV as of end-November 2020 likely reflects the valuation of at least part of its unlisted holdings as of end-September 2020, given that the manager receives valuation updates for these periodically (typically quarterly, with some minor exceptions).

ADIG's share price total return was a negative c 6.6% over the 12 months ended 30 November 2020, which we believe reflects investors' weakening sentiment towards the trust due to a somewhat disappointing performance compared to its benchmark since the change in strategy in March 2017, exacerbated recently by the COVID-19 crisis. Since the strategic review announced on 21 October 2020, ADIG's share price has risen by c 5%, which coincided with an improved broader market sentiment.

Exhibit 5: Investment trust performance to 30 November 2020

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.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Since change*	Five years
Price relative to Blended benchmark	2.3	3.0	6.2	(11.8)	(21.7)	(21.1)	(34.7)
NAV relative to Blended benchmark	0.4	2.5	5.0	(6.2)	(13.3)	(13.1)	(22.2)
Price relative to CBOE UK All Companies	(9.5)	(2.4)	2.0	5.2	(3.6)	(2.6)	(27.2)
NAV relative to CBOE UK All Companies	(11.2)	(2.9)	0.9	11.8	6.7	7.2	(13.2)
Price relative to MSCI AC World	(5.5)	(2.0)	(3.9)	(16.6)	(29.8)	(30.5)	(54.4)
NAV relative to MSCI AC World	(7.3)	(2.4)	(4.9)	(11.3)	(22.3)	(23.5)	(45.6)

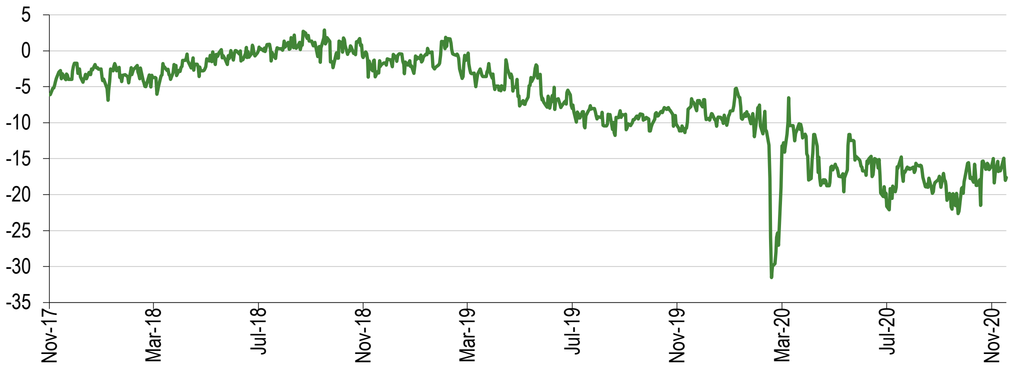
Source: Refinitiv, Edison Investment Research. Note: *Blended benchmark is FTSE All-Share/FTSE World ex-UK 80:20 composite up to 26 February 2015 as provided by the trust; then UK CPI +4.0% up to 10 February 2017 and Libor +5.5% since 10 February 2017. Data to end-October 2020. Geometric calculation.

Discount: Widening during the COVID-19 pandemic

Since the change in strategy in 2017, ADIG has been targeting a maximum discount of 5% in 'normal' market conditions. The average discount to its NAV over the 12-month period to end-February 2020 (pre-COVID-19) was 7%, slightly above the target. Consequently, in the period, the trust repurchased c 10.6m shares (or c 2.9% of the share count at the start of the period).

Market conditions have been far from 'normal' since mid-March 2020, affected by the COVID-19 crisis. Since early April 2020, the discount to ADIG's NAV has fluctuated between 10% and 20% and was c 18% at 17 December 2020. In FY20 (to end-September 2020), ADIG repurchased 5.7m shares, or c 1.5% of the share count at the start of the period. The manager highlights that the recent deleveraging though bond repurchase will provide a greater degree of cash management flexibility and should allow the company to use buybacks to limit share price volatility and discount to NAV. Since the beginning of November 2020 to 17 December 2020, ADIG bought back c 4.0m shares, or c 1% of the shares in issue at the start of the period.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

ADIG is a conventional investment trust with one class of share. On 17 December 2020 there were 313.1m ordinary shares in issue. The board has the authority to buy back up to 14.99% of the outstanding shares or allot up to 10% of the share capital annually, to manage a discount or a premium.

Gearing is permitted up to 20% of net assets. Following the asset disposals discussed above, ADIG's cash position increased to 17.2% at end-October 2020 (from 3.3% at end-September 2020), translating into a net cash position of c 5% (net gearing of 10.8%). That said, the cash position was down to c 8.6% at end-November 2020 and the net cash position was 4.2%. We believe that the decline in the former was largely due to the repurchase and cancellation of £43.9m of the company's £60.0m bond in early November 2020 as part of the strategic review. The bond was repurchased at a c 54% premium to its par value, which translated into a consideration payable of c £67.7m (not including accrued interest) and was equivalent to reduction in NAV of c 1.55p per share.

The targeted repurchase of £45.0m was aimed at reducing the net gearing of the portfolio to c 6%. The manager estimates that the repurchase will also result in an annual reduction of interest costs payable by the company by c £2.7m, which he highlights will be supportive for its progressive dividend programme. The repurchase was also aimed at increasing capital management flexibility, most notably with respect to discount management, including share buybacks. The remaining £16.1m of the bond continues to pay a coupon of 6.25% per year and is due in 2031. The board does not intend to introduce further fixed rate gearing in the current economic environment.

ASI, ADIG's investment manager, is paid an annual management fee of 0.5% of net assets up to £300m and 0.45% thereafter. Investments in ASI funds that invest directly in alternative assets, such as infrastructure or property, are charged at the lowest institutional rate, while fees charged on ASI funds that do not invest directly in alternatives are waived or rebated to ADIG. There is no performance fee. Management fees and financing costs are charged at a ratio of 60% to capital and 40% to revenue (with effect from 1 October 2018; previously 65:35). At end-FY20, ADIG's ongoing charges were 0.84%, unchanged compared to end-FY19.

During the AGM on 26 February 2020, ADIG held its first continuation vote, as agreed during the reorganisation in 2017, and subsequent continuation votes will be held each year, as planned earlier.

Dividend policy and record

ADIG aims to provide investors with a stable and growing dividend stream. The trust pays quarterly dividends (in March, July, October and January), at a level consistent with the expected annual underlying portfolio yield. In FY20, ADIG has paid three quarterly dividends of 1.36p per share each and declared the fourth quarterly dividend of the same amount (payable in January 2021), translating into 5.44p for the full year (vs 5.36p in FY19). Based on the current share price, ADIG's LTM dividend yield (excluding the fourth quarterly dividend declared recently) is 5.7%, the highest in its Association of Investment Companies (AIC) Flexible Investment peer group.

In FY21, the company intends to declare four quarterly dividends of 1.38p per share each (or 5.52p per share in total), which translates into prospective FY21 dividend yield of 5.8%. We understand that ADIG plans to keep the full-year dividend per share at least at a stable level in the coming years. The manager highlights that during the period of recycling capital to private investments following the recent strategic review, its dividend programme will be supported by lower interest costs after the bond repurchase and, if required, the revenue reserve that it has built up over previous years. At end-September 2020, ADIG had revenue reserves of £42.1m, which we estimate was equivalent to c 2.4x of its LTM dividends (excluding the fourth quarterly dividend declared recently). Over the longer term, the manager expects dividend payouts will be supported by the growing importance of unlisted holdings in the delivery of total income to ADIG's portfolio.

Peer group comparison

Exhibit 8 shows ADIG in the context of its AIC Flexible Investment peer group, excluding funds under £100m market cap. The sector contains a diverse group of funds that broadly fall into the categories of multi-asset, multi-manager or absolute return. That said, each strategy is quite distinct from the others, and as such performance can diverge markedly between funds. Over the year ended 30 November 2020, ADIG's NAV TR was negative 0.7%, which compares with the range of negative c 2% to positive c 14% for its peers in the period. NAV TR since ADIG changed its investment policy at end-March 2017 has been below the peers' median, affected by the weak performance of insurance-linked securities and litigation finance (see our previous notes for more comments). While five-year returns are also below the peers' median, we note that this partly reflects the weak performance of BlackRock Income Strategies.

ADIG's dividend yield of 5.7% is clearly ahead of the peers' median of 2.2%. Importantly, the dividend yield is presented on a LTM basis and does not fully take into account any dividend reductions announced across the peer group due to the economic downturn triggered by the COVID-19 pandemic. We note that ADIG recently declared the fourth quarterly dividend of 1.36p per share, in line with its previous plans, and increased its dividend target to a total of 5.52p per share for FY21 (from 5.44p per share in FY20). The trust's ongoing charges are lower than the sector's median and it does not charge a performance fee. ADIG's shares are currently traded at a double-digit discount to NAV, which is in line with the peer median.

Exhibit 8: Selected Flexible Investment peer group at 17 December 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR SC**	NAV TR 5 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Aberdeen Diversified Income & Growth	**296.8**	**(0.7)**	**3.7**	**8.0**	**5.5**	**0.84**	**No**	**(17.6)**	**100**	**5.7**
Caledonia Investments	1,634.1	(1.5)	13.4	19.9	43.8	0.91	No	(16.3)	100	2.1
Capital Gearing	598.1	8.9	19.4	23.1	43.4	0.70	No	2.5	100	0.9
Hansa Trust 'A'	164.0	8.4	12.5	21.6	44.3	0.31	No	(31.3)	100	1.6
Henderson Alternative Strategies Trust	105.2	(1.5)	(1.6)	2.0	24.9	1.11	No	(14.0)	100	2.6
Personal Assets	1,388.9	9.5	15.6	17.1	37.9	0.86	No	1.3	100	1.2
RIT Capital Partners	3,268.5	12.0	26.2	29.6	50.3	0.68	Yes	(3.4)	108	1.6
Ruffer Investment Company	459.2	14.5	14.6	14.3	29.3	1.08	No	(1.2)	100	0.7
Tetragon Financial Group	644.1	3.0	31.6	27.8	79.6	1.70	Yes	(58.7)	100	5.2
UIL	160.5	(0.5)	34.5	27.4	153.6	2.07	Yes	(42.0)	167	4.1
Peer group average (excl. ADIG)	**935.8**	**5.9**	**18.5**	**20.3**	**56.3**	**1.05**		**(18.1)**	**108**	**2.2**
Trust rank in peer group	**7**	**8**	**9**	**9**	**10**	**7**		**7**	**3**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 November 2020. **SC = since change of policy on 31 March 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

Following the planned retirement of the chairman, James Long, at the February 2020 AGM, ADIG's board consists of five directors. James Long has been succeeded as chairman by Davina Walter (previously senior independent director), who was appointed to the board of ADIG in February 2019. She has been succeeded as senior independent director by Julian Sinclair, who has served on the board since July 2015, and (following Long's retirement) is the only director whose appointment dates from the trust's time as BlackRock Income Strategies. Tom Challenor joined the ADIG board in April 2017, having previously been a director of Aberdeen UK Tracker Trust, while Anna Troup and Trevor Bradley were appointed with effect from 1 August 2019. The directors have backgrounds in asset management and corporate finance.

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