EDISON

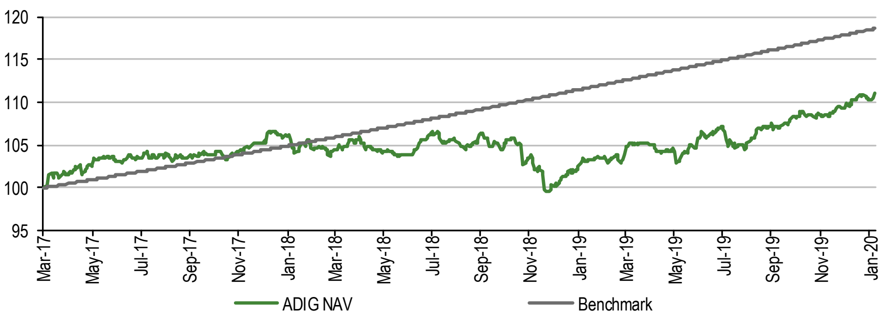
Aberdeen Diversified Income and Growth Trust

Portfolio repositioning continues

Investment trusts
Multi-asset

Aberdeen Diversified Income and Growth Trust (ADIG) aims to generate attractive long-term income and capital returns from its diversified multi-asset portfolio. In line with the March 2017 strategy change, the process of recycling capital from listed to longer-term, unlisted holdings is continuing. These should represent c 43% of NAV (vs 26% at end-September 2019) on full deployment of existing commitments. ADIG's underperformance since the strategy change reflects, among other things, ongoing portfolio repositioning, issues with its insurance-linked and litigation finance holdings and the value bias of its listed equity exposure. Since end-May 2019, the discount to NAV has been above the targeted 5%. That said, ADIG outperformed its benchmark over the last 12 months and it continues to offer an attractive prospective dividend yield of c 5.6%.

ADIG's performance vs benchmark has improved in recent months



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

The market opportunity

Equity valuations remain high, despite the uncertain economic and geopolitical outlook and the coronavirus outbreak, while government bond yields are close to all-time lows. ADIG's diversified portfolio of income-generating alternative assets offers the prospect of uncorrelated returns, with the investment manager targeting portfolio volatility half that of equities, which may appeal to investors.

Why consider investing in ADIG?

- A diversified multi-asset portfolio, with return drivers and risk characteristics that should produce attractive uncorrelated returns.
- ADIG's long-term performance should be enhanced by the full deployment of existing commitments to unlisted, less accessible holdings.
- Access to ASI global investment platform's best ideas in public/private markets.

Valuation: Offering an attractive yield

Since the strategy change in March 2017, ADIG's NAV TR performance has lagged its benchmark (Libor + 5.5%), which has resulted in a NAV discount in excess of 5% in recent months. Over the 12 months to January 2020, the NAV TR of 7.5% was ahead of the benchmark, aided by the solid performance of emerging market bonds and asset-backed securities. The last 12 months (LTM) dividend yield of 5.5% is ahead of most of its peers.

17 March 2020

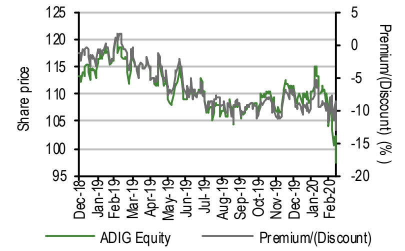
Price	**97.4p**
Market cap	**£311.6m**
AUM	**£430.6m**

NAV*	108.4p
Discount to NAV	10.2%
NAV**	111.9p
Discount to NAV	13.0%

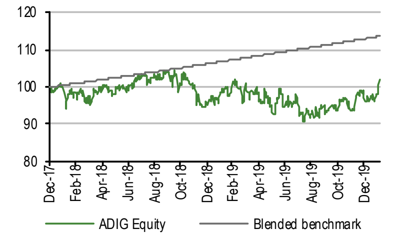
*Excluding income. **Including income. As at 12 March 2020.

Prospective FY20 yield	5.6%
Ordinary shares in issue	320.0m
Code	ADIG
Primary exchange	LSE
AIC sector	Flexible Investment
Benchmark	Libor + 5.5%

Share price/discount performance



Three-year performance vs index



52-week high/low	118.0p	97.4p
NAV* high/low	122.0p	111.9p

*Including income.

Gearing

Gross*	14.5%
Net*	12.5%

*As at 31 January 2020.

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Edison profile page

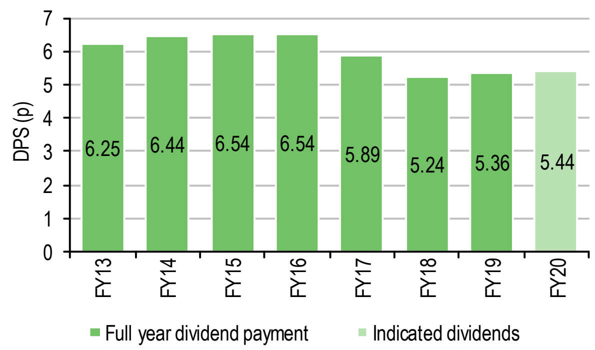
Aberdeen Diversified Income and Growth Trust is a research client of Edison Investment Research Limited

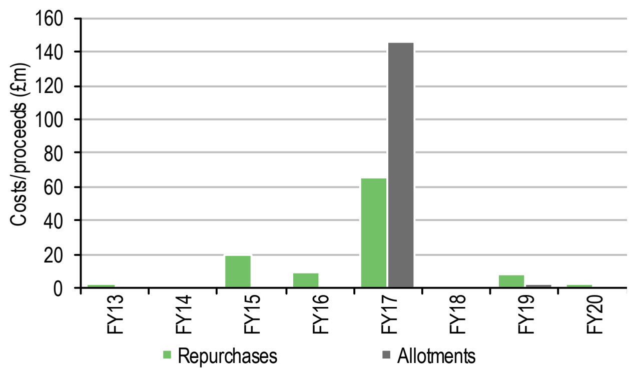
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Aberdeen Diversified Income and Growth Trust's (ADIG) investment objective is to achieve a total portfolio return of Libor + 5.5% per annum (net of fees) over rolling five-year periods by investing globally using a flexible multi-asset approach via quoted and unquoted investments.	■ 27 February 2020: 1.36p first interim dividend declared for FY20. ■ 13 December 2019: Results for the full year ended 30 September 2019. NAV TR +1.1% and share price TR -9.0% versus benchmark +6.4%.

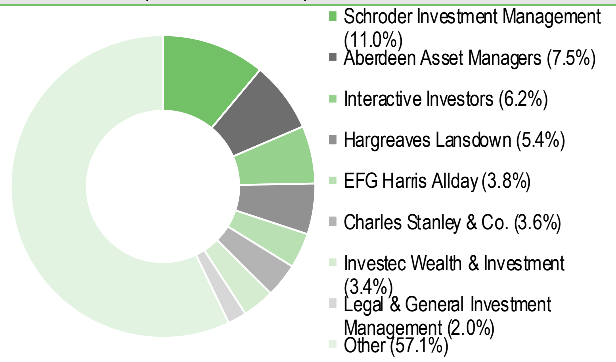
Forthcoming		Capital structure		Fund details	
AGM	February 2021	Ongoing charges	0.84% (end-FY19)	Group	Aberdeen Standard Investments
Interim results	July 2020	Net gearing	12.5% (end January 2020)	Manager	Mike Brooks, Tony Foster
Year end	30 September	Annual mgmt fee	0.50% of NAV; 0.45% over £300m	Address	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	£60m 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. The quarterly dividend was rebased by c 20% in Q317 to enable a sustainable dividend to be paid.	ADIG has authority to repurchase up to 14.99% and allot up to 10% of its issued share capital. In April 2017, 118.6m shares were issued as part of the merger with AUKT, while 53.4m shares were repurchased as part of a concurrent tender offer.

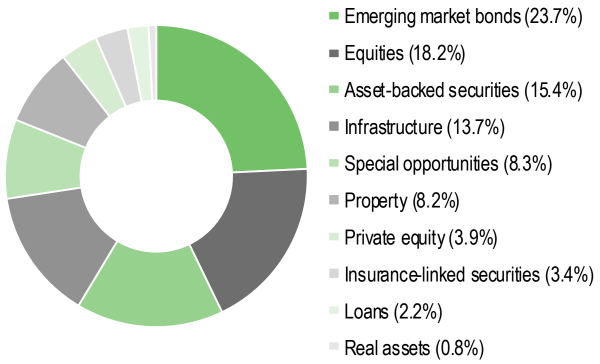




Shareholder base (as at 3 March 2020)



Portfolio exposure by asset category (as at 31 January 2020)



Top 10 holdings (as at 31 January 2020)

Company	Asset category	Portfolio weight %	
		31 January 2020	31 January 2019*
Aberdeen Smart Beta Low Volatility Global Equity Income Fund	Equities	18.2	18.5
TwentyFour Asset Backed Opportunities Fund	Asset-backed securities	12.6	12.3
SL Capital Infrastructure II	Infrastructure	4.3	N/A
Aberdeen Property Secondaries Partners II	Property	2.9	N/A
Markel CATCo Reinsurance Fund	Insurance-linked securities	2.7	3.4
Burford Opportunity	Special opportunities	2.4	N/A
Aberdeen Global Loans Fund	Loans	2.2	4.1
Aberdeen Frontier Markets Bond Fund	Emerging market bonds	2.2	2.2
BlackRock Renewable Income UK	Infrastructure	1.9	1.9
Blackstone GSO Loan Financing	Asset-backed securities	1.8	1.9
Top 10 (% of portfolio)		**51.2**	**49.8**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-January 2019 top 10.

Fund profile: Multi asset portfolio

ADIG, founded in 1898 as British Assets Trust, was a global equity income investment trust managed by F&C Investments (now BMO Global Asset Management) until February 2015. The mandate then moved to BlackRock and the trust became BlackRock Income Strategies, a multi-asset strategy with an absolute return focus. The fund undertook a strategic review after a period of disappointing performance, resulting in Aberdeen Asset Management (now Aberdeen Standard Investments) 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 describe the changes implemented in 2017 in more detail).

ADIG retains a multi-asset, absolute return approach, but now invests in a more diverse portfolio including longer-term, less liquid investment funds that individual investors would otherwise be unlikely or unable to access. Since 31 March 2017, ADIG has been targeting a total portfolio return of Libor + 5.5% per annum (net of fees) over rolling five-year periods. Libor is due to be phased out by 2021 and the manager is in the process of identifying a suitable alternative measure, following which the board will seek shareholders' approval for a change in the investment objective. ADIG is a member of the Association of Investment Companies' Flexible Investment sector.

The trust's portfolio is managed by Mike Brooks (head of Aberdeen Standard Investments' (ASI) diversified assets team) and Tony Foster, an investment director within the team. The team also manage 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 (up to 20% of net assets). ASI says the open-ended fund range has grown its assets under management from £150m when Brooks took it over in the first quarter of 2015 to c £1,535m at end-January 2020.

The fund managers: Mike Brooks and Tony Foster

The managers' view: Focus on long-term 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 managers' preference is for 'alternative assets', which improve returns and diversification of investor portfolios. They note that 'mainstream' assets appear fully valued and do not currently offer attractive medium-term return prospects. This includes developed market government bonds, corporate credit and listed equities, which the managers forecast will deliver annual returns of 0.2%, 0.6% and 3.5%, respectively, over the next five years (as at end-September 2019).

The managers are thus advancing the process of recycling capital from listed to unlisted holdings as appropriate investments are identified by the investment team. The process has been a bit slower than anticipated but overall, they have been pleased with the recent pace of investment. The managers explain that they would prefer the managers of the companies to which ADIG has committed funds to take time to identify the appropriate investments.

Asset allocation

Investment approach: Flexible with a long-term focus

ADIG aims to generate highly attractive long-term capital and income returns by pursuing a truly diversified multi-asset approach, using both quoted and unquoted investments, with no geographical or sector restrictions. The trust's focus is to provide investors with long-term investment opportunities in less accessible asset classes with different risk/return drivers. This is underpinned by robust risk management 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 investment team.

ASI's global investment platform consists of 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. In addition, Foster's many years as a manager of investment trust portfolios helps to inform third-party manager selection, particularly with regard to the listed funds.

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

At end-September 2019, c 61% of total assets were in ASI-managed funds or direct holdings, and c 39% comprised third-party managed funds, which is broadly in line with the targeted split of c 60%/40% upon full drawdown of commitments. 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 (AUD, NZD, CAD, NOK, SEK, GBP). These have been carefully selected to reflect their sensitivities to economic conditions, commodity prices and debt vulnerabilities. According to the company, this has the effect of smoothing out returns and enhancing the diversification benefits of the asset class without materially impacting expected returns. Active currency positions may be taken in order to enhance the portfolio's risk/return profile.

Current portfolio positioning

At 31 January 2020, there were 98 holdings in ADIG's portfolio, with the top 10 making up 51.2% of the total, a slight increase in concentration from 49.8% a year earlier. The total includes a sub-portfolio of direct investments in emerging market bonds, which comprised 47 holdings at end-September 2019 (last available data). In Exhibit 2, we present the current as well as target portfolio allocations for each asset class based on five-year forecasts for annual total and income returns at 31 January 2020.

Exhibit 2: Portfolio asset allocation and income and return expectations as at end-January 2020

%	Portfolio			Five-year forecasts (% pa)	Target portfolio (% pa)	
Asset category	**Target allocation***	**End-Jan 20**	**End-Jan 19**	**Total return expectations**	**Return contribution**	**Income contribution**
Emerging market debt	14.5	23.7	22.6	4.3	0.6	0.9
Listed equity	14.0	18.2	18.5	4.5	0.6	0.4
Infrastructure	16.0	13.7	11.1	11.0	1.8	0.8
Asset-backed securities	20.0	15.4	15.4	7.5	1.5	1.4
Special opportunities	16.0	8.3	6.5	11.3	1.8	1.2
Property	9.5	8.2	5.8	9.0	0.9	0.1
Private equity	8.5	3.9	3.6	10.0	0.9	0.0
Insurance-linked securities	-	3.4	4.6	-	0.0	0.0
Real assets	1.0	0.8	0.6	8.0	0.1	0.1
Global loans	-	2.2	4.1	-	-	-
Absolute return	-	0.0	2.0	-	-	-
Tactical asset allocation	0.0	0.0	0.0	0.5	0.3	0.0
Cash	0.5	2.2	5.2	0.9	0.0	0.0
Total (gross of fees)	**100.0**				**8.4**	**5.0**
Total (gross of fees and gearing)					**9.3**	
Total (net of fees)					**8.5**	
Total (net of fees, above Libor)					**7.5**	

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *Target allocations at end-January 2020.

The expected annual returns (net of fees and measured over a five-year horizon) from the target portfolio are 7.5pp above the five-year forecast Libor rate, comfortably exceeding ADIG's benchmark, ie Libor + 5.5% pa. However, the current portfolio is at or below the target weighting in the three asset classes with the highest return expectations (special opportunities, infrastructure and private equity). This is partly owing to the long-term nature of commitments to these assets, many of which are not yet fully drawn.

ADIG regularly reviews target asset allocations as performance and return expectations for each asset class change over time. Exhibit 3 shows the evolution of ADIG's target portfolio allocations compared to end-January 2019. Given that the insurance-linked securities funds ADIG has invested in are all returning cash now and the trust has not identified any new compelling investments in this asset class, it has reduced its target exposure to 0%. Other significant changes include reduction in the target allocation to emerging market bonds (to 14.5% from 18.0%), listed equity (to 14.0% from 17.0%) and absolute return (to 0% from 2.5%). At the same time, the target allocation has increased for asset-backed securities (to 20.0% from 15.0%), special opportunities (to 16.0% from 12.0%) and private equity (to 8.5% from 4.5%).

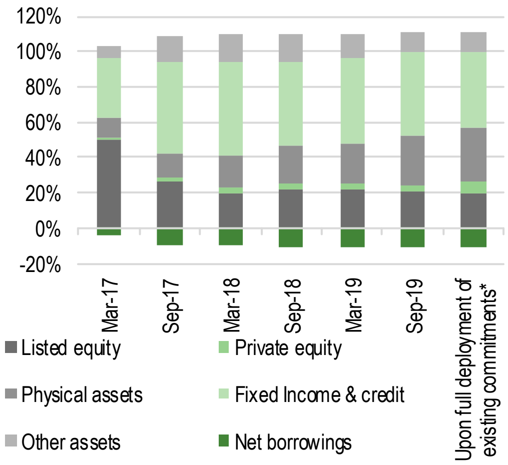
Exhibit 3: Target asset allocation changes since end-January 2019

Asset category	31 January 2020 (%)	Change (pp)	31 January 2019 (%)
Emerging market debt	14.5	-3.5	18.0
Listed equity	14.0	-3.0	17.0
Infrastructure	16.0	0.0	16.0
Asset-backed securities	20.0	5.0	15.0
Special opportunities	16.0	4.0	12.0
Property	9.5	0.0	9.5
Private equity	8.5	4.0	4.5
Insurance-linked securities	0.0	-4.0	4.0
Absolute return	0.0	-2.5	2.5
Real assets (farmland)	1.0	0.0	1.0
Global loans	0.0	0.0	0.0
Cash	0.5	0.0	0.5
Total	**100.0**	**-**	**100.0**

Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research.

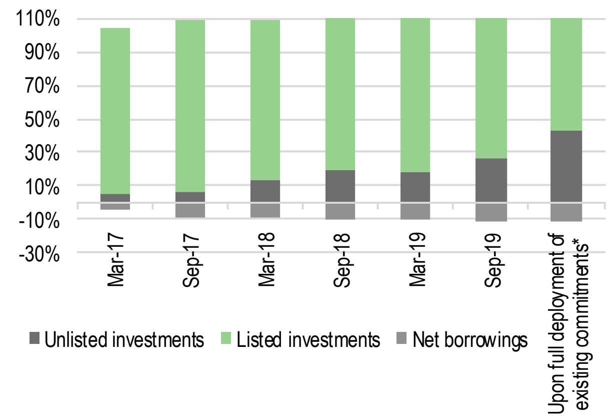
Meanwhile, ADIG has continued recycling capital from listed to unlisted long-term holdings in recent months. During FY19, the trust identified four new, longer-term investments and committed £78m to three of them, including litigation finance, healthcare royalties and social infrastructure. As a result, ADIG's portfolio at end-September 2019 included 16 long-term holdings, which translated into c 26% of the NAV (gross ie not adjusted for net borrowings) vs c 19% at end-September 2018. This represents a significant increase from 5.2% in March 2017, when the trust revised its investment objective. Moreover, we note that upon full drawdown of commitments (as disclosed as at end-September 2019), this will increase to c 43%. (see Exhibit 5).

Exhibit 4: Portfolio breakdown by asset categories as % of net asset value



Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research. Note: *As at end-September 2019, excluding insurance-linked securities.

Exhibit 5: Portfolio breakdown by listed and unlisted investments as % of net asset value



Source: Aberdeen Diversified Income and Growth Trust, Edison Investment Research Note: *As at end-September 2019, excluding insurance-linked securities.

Since end-September 2019, ADIG has continued the deployment of funds in its long-term unlisted holdings. We note that these were all drawdowns against commitments that ADIG had already made to the longer-term funds rather than new commitments. In October, it made a €4m follow-on investment (ie drawdown) in economic infrastructure fund SL Capital II, which it partly funded with position reductions in listed infrastructure companies (HICL and Greencoat UK Wind). SL Capital II will use the funds to acquire its fifth asset (transport infrastructure). Moreover, ADIG invested c US$3m in Burford Opportunities Fund (focused on litigation finance) in November 2019 at the expense of listed infrastructure companies (International Public Partnerships and Greencoat UK Wind) and a listed asset-backed securities company (Blackstone/GSO Loan Financing). In December 2019, ADIG further increased its exposure to Burford Opportunities Fund and made an initial investment in a private equity secondaries fund managed by the ASI Private Equity team, Secondary Opportunities Fund IV.

Positioning by asset class

Emerging market bonds (EMBs)

At end-January 2020, emerging market bonds (EMBs) were the largest asset class in ADIG's portfolio, representing 23.7% vs 22.6% at end-January 2019 and the target allocation of 14.5%. The increase was largely driven by the solid performance of EMBs in recent months. During FY19, ADIG has occasionally reduced its exposure to EMBs to fund its commitments in other asset classes. The trust highlights that this asset class offers yields of over 6% in countries that it finds most attractive. It is worth noting that the concentration of EMBs in ADIG's portfolio is relatively low. The largest exposure as at end-September 2019 (the last available data) was to Indonesia (3.4% of ADIG's net assets), followed by Mexico (3.2%) and Brazil (3.2%). ADIG does not hold any developed market government bonds or investment grade credit.

Listed equities

The second largest asset class in ADIG's portfolio is listed equities, with an 18.2% share of the portfolio at end-January 2020, slightly down from 18.5% at end-January 2019 but still ahead of the target allocation of 14%. At present, ADIG invests in listed equities exclusively through the Aberdeen Smart Beta Low Volatility Global Equity Income Fund, which predominantly invests in value shares and aims to outperform the MSCI AC World Index over the medium term, while targeting c 85% of the volatility and 140% of the dividend yield of the index (see more details in our Initiation).The fund's portfolio is well diversified by country, sector and position size. At end-January 2020, the largest exposure was to the US and Japan (35.2% and 24.4%, respectively). With respect to sector breakdown, healthcare represented 18.9% of its portfolio at end-January 2020, followed by utilities (14.3%) and IT (13.0%). Top 10 holdings accounted for 15.4% of the portfolio.

Other portfolio holdings

Asset-back securities represented 15.4% of ADIG's portfolio at end-January 2020. Of this amount, 12.6% was attributable to TwentyFour Asset Backed Opportunities Fund, which has a portfolio of European mortgage and loan-related investments. In the last 12 months, ADIG has not changed its exposure to the fund. Notable changes in asset allocation in the last 12 months include an increase in exposure to physical assets, ie infrastructure, property and real assets. At end-January 2020, they represented 22.7% of ADIG's portfolio compared to the current target allocation at 26.5%.This share will increase to 31% of the NAV upon full deployment of existing commitments (see Exhibit 3).

As described in our previous note, insurance-linked securities (ILS) have been the largest negative contributor to ADIG's NAV TR since the strategy change. In this respect, three ILS funds from the portfolio are currently winding up, including Markel CATCo Reinsurance Fund, the largest holding within ADIG's ILS holdings (c 2.7% of the portfolio at end-January 2020). ADIG expects that in early 2020 it will receive capital, which was on risk for 2019 (c £10m at end-September 2019, before provision for new claims since then). The remaining capital will be returned to the trust in the next two to three years. We understand that ADIG has not identified any opportunities that would offer a satisfactory risk-return combination to rebuild its exposure to ILS.

Performance: Ahead of the benchmark recently

Exhibit 6: Five-year discrete performance data

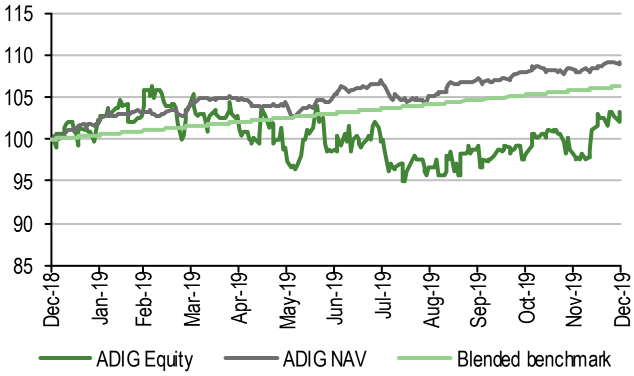
12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	CBOE UK All Companies (%)	MSCI AC World (%)	UK Gilts All Stocks (%)
31/12/15	8.0	2.3	11.4	0.9	3.8	0.6
31/12/16	(16.0)	(4.9)	6.7	16.5	29.4	10.1
31/12/17	21.2	9.1	6.1	14.0	13.8	1.8
31/12/18	(4.2)	(4.7)	6.2	(9.8)	(3.3)	0.5
31/12/19	3.3	9.1	6.3	19.3	22.4	7.0

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.

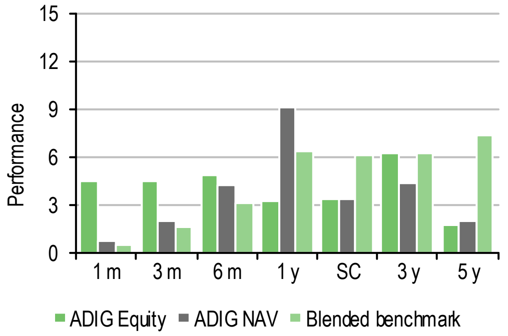
ADIG's NAV and share price total returns (net of fees) since the change in strategy have lagged the target return of Libor + 5.5% (Exhibit 7). There are two principal reasons for this: first, the time inevitably taken for the trust's commitments to higher-return long-term investments to be drawn down and invested by the managers of the underlying strategies, and second, issues with the allocations to insurance-linked securities. The latter contributed negative 5.1% to NAV TR since the strategy change to end-December 2019 (see our previous notes for more comments). At the same time, notable positive contributions in this period came from listed equity (+4.4%) and infrastructure (+4.1%), followed by emerging market bonds (+2.6%) and asset-backed securities (+1.9%).

Exhibit 7: Investment trust performance to 31 December 2019

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. SC is since change of policy on 31 March 2017.

Over the 12 months ended December 2019, ADIG delivered an NAV TR of 9.2%, which compares with 6.2% for its benchmark. Performance in the period was driven by emerging market bonds (EMBs), listed equity and infrastructure, which contributed 3.2%, 2.6% and 2.1%, respectively, to NAV TR. Major negative contributions came from special opportunities (negative 1.1%), insurance-linked securities (-0.5%) and absolute return (-0.3%).

In January 2020, ADIG's portfolio delivered NAV TR of positive 0.8% as the weak performance of listed equities was offset by solid returns of EMBs and asset backed securities, in particular ADIG's largest exposure, TwentyFour Asset Backed Opportunities Fund. ADIG's year-to-date NAV TR stands at a negative 5.3%. In this context, we note that around 75% of its portfolio is priced daily.

Given that ADIG holds c 18% of the portfolio in the Aberdeen Smart Beta Low Volatility Global Equity Income Fund, we note that the fund has generated a return of 5.2% over the 12 months ended January 2020 (vs 16.4% for its benchmark), and an annualised return of 4.5% since its inception in May 2017 (vs 9.4% for its benchmark). ADIG highlights that the underperformance results from the disparity between growth and value styles, 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 11% vs c 26% for the MSCI World Growth Index over the 12 months ended 31 January 2020.

ADIG's share price performance lagged its NAV progression over the year ended 31 January 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.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

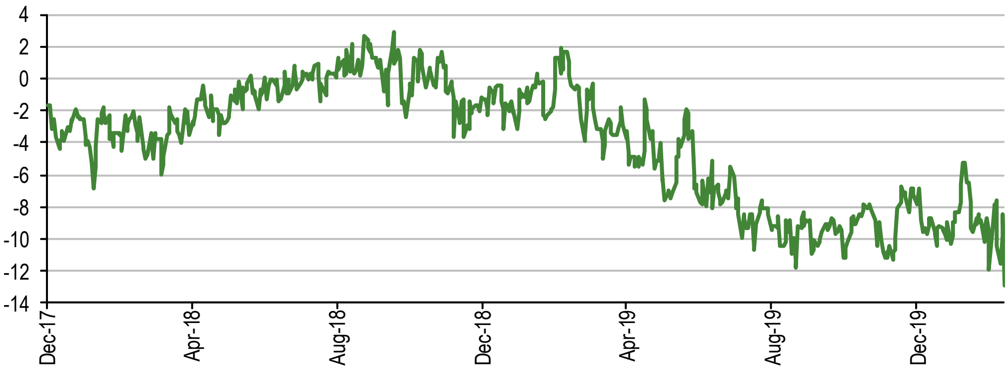
	One month	Three months	Six months	One year	Since change*	Three years	Five years
Price relative to blended benchmark**	3.9	2.9	1.7	(2.9)	(7.0)	0.1	(23.7)
NAV relative to blended benchmark**	0.2	0.4	1.1	2.6	(7.2)	(5.3)	(22.5)
Price relative to CBOE UK All Companies	1.2	0.5	(0.5)	(13.4)	(6.2)	(2.2)	(24.5)
NAV relative to CBOE UK All Companies	(2.5)	(1.9)	(1.1)	(8.5)	(6.5)	(7.4)	(23.4)
Price relative to MSCI AC World	3.3	3.0	(0.0)	(15.6)	(13.9)	(11.0)	(39.9)
NAV relative to MSCI AC World	(0.4)	0.5	(0.6)	(10.8)	(14.1)	(15.8)	(39.0)

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-December 2019. Geometric calculation.

Discount: Persisting over recent months

Since the change in strategy in March 2017, ADIG has been targeting a maximum discount of 5% in 'normal' market conditions. In March 2019, ADIG traded at a small premium but the shares de-rated markedly over the summer. The managers highlighted it was partly attributable to a sale during a quiet period of the year by a shareholder who was moving to a more overtly defensive asset allocation, and partly as a result of weakening sentiment towards the trust caused by the disappointing exposure to insurance-linked securities. As a result, the discount moved to double-digit territory in May 2019, which has triggered accelerated share repurchases. Since end-May 2019 to end-January 2020, the trust bought back 10.2m shares, or 3.1% of the share count at the start of the period. As well as acting as a marginal buyer in the market, ADIG's board sees building greater awareness of the strategy and the managers' long-term track record as key to bringing the trust's discount back into the target range. However, at 12 March 2020, ADIG's shares still traded at a 13.0% discount to NAV (including income) compared to the average discount of 7.3% over 12 months.

Exhibit 9: Share price premium/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. At 12 March 2020 there were 320.0m 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. Over the 12 months ended 31 January 2020, the trust bought back c 10.2m shares, or 3.1% of the share base at the start of the period. Since the beginning of February 2020, it has repurchased an additional 0.5m shares at a cost of £0.6m. Given that the discount to NAV remains above 5%, ADIG is likely to continue with share buybacks. Gearing is permitted up to 20% of net assets and is available via a £60m issue of bonds with a coupon of 6.25%, maturing in 2031. At 31 January 2020, the £59.5m book value of the bonds translated into gross gearing of 14.5%, while net gearing was 12.5%.

ADIG pays 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 60% to capital and 40% to revenue (with effect from 1 October 2018; previously 65:35). As at end-FY19, ADIG's ongoing charges were 0.84%, broadly stable compared with 0.85% at end-H119.

During the AGM on 26 February 2020, ADIG held its first continuation vote, as agreed during the reorganisation in 2017. ADIG's shareholders (99.7%) voted in favour of the trust's continuation. As initially planned, subsequent continuation votes will be held each year.

Dividend policy and record

ADIG rebased its dividend in FY17 as part of the strategic review in order to reflect the higher level of equity market volatility and lower yields on 'risk free' assets such as government bonds. The trust pays quarterly dividends, at a level consistent with the expected annual underlying portfolio yield. The FY19 total dividend of 5.36p was 1.1x covered by revenue returns. On 27 January 2020, it declared the first quarter dividend of 1.36p per share. In FY20, the trust intends to declare four quarterly dividends of 1.36p per share, translating into 5.44p in total. This represents a 1.5% increase on FY19, which compares with the 1.8% rate of UK consumer price inflation over the year to 31 January 2020. ADIG expects the FY20 dividend will be fully covered and highlights it has substantial revenue reserves to smooth out dividend payments in the future, if required. We estimate that at end-September 2019, ADIG had revenue reserves equivalent to 2.4x its LTM dividends. Based on the current share price, ADIG's LTM dividend yield is 5.5%, the second highest in its Association of Investment Companies Flexible Investment peer group.

Peer group comparison

Exhibit 10 shows ADIG in the context of its Association of Investment Companies 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 31 January 2020, ADIG delivered a single-digit NAV TR, in line with most of its peers. It is worth noting that funds in the Flexible Investment category tend to be only partly exposed to equities, at a time when global stock markets have bounced back strongly from the lows of Q418. Foster says that at c 18%, ADIG's equity exposure is the lowest in the peer group. 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). Five-year returns are also below the peers' median, but this partly reflects the weak performance of BlackRock Income Strategies.

ADIG's ongoing charges are lower that the sector's median, and it does not charge a performance fee. The trust uses gearing, in contrast to most of its peers. ADIG's shares continue to be traded at a discount to NAV, although it remains well below the peer group median. ADIG's dividend yield of 5.5% is ahead of the peers' median of 2.1%.

Exhibit 10: Selected Flexible Investment peer group as at 12 March 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR SC**	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Aberdeen Diversified Income & Growth	**311.6**	**7.5**	**10.2**	**14.1**	**10.4**	**0.84**	**No**	**(13.0)**	**113**	**5.5**
Caledonia Investments	1,464.1	9.2	22.0	21.3	49.8	0.95	No	(26.0)	100	2.2
Capital Gearing	471.4	8.6	16.5	16.8	38.5	0.68	No	(1.1)	100	0.6
Hansa Trust 'A'	178.5	5.9	19.5	19.1	37.2	0.62	No	(39.7)	100	1.5
Henderson Alternative Strategies Trust	104.8	0.6	7.4	7.6	28.7	0.94	No	(13.8)	100	2.8
JZ Capital Partners	166.6	(15.2)	(20.6)	(20.6)	1.4	3.22	Yes	(66.2)	100	0.0
Personal Assets	1,106.4	10.5	11.0	12.8	32.7	0.91	No	0.1	100	1.4
RIT Capital Partners	2,817.0	8.4	17.0	16.5	42.1	0.68	Yes	(9.6)	103	1.9
Ruffer Investment Company	406.8	5.2	0.9	0.8	11.8	1.13	No	(1.0)	100	0.8
Tetragon Financial Group	713.1	9.0	30.6	30.3	98.4	1.73	Yes	(60.8)	100	9.6
UIL	147.0	8.1	29.1	18.1	133.2	2.08	Yes	(40.5)	100	4.4
Peer group median (excl. ADIG)	**439.1**	**7.8**	**14.9**	**15.3**	**37.8**	**0.94**		**(19.9)**	**100.0**	**2.1**
Trust rank in peer group	**7**	**7**	**8**	**7**	**10**	**8**		**5**	**1**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 January 2020. **SC is 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

ADIG has completed its process of board refreshment. Following the retirement of chairman James Long at the February 2020 AGM, it currently has five directors. 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 in turn 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. The two newest directors are Anna Troup and Trevor Bradley, who were appointed with effect from 1 August 2019. Five directors – Ian Russell, Paul Yates, Kevin Ingram, Jim Grover and James Long – have retired from the board since 31 October 2018. The directors have backgrounds in asset management and corporate finance.

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