



# Fund Bites

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*Aberdeen Asian Strategies*

This fund bite is an update on the Aberdeen Asian Strategies.

## Introduction

We currently use the Aberdeen and First State Pacific Funds in our portfolios. Both these funds are reaching capacity levels in terms of inflows. This means at some point it is likely they will effectively close the funds to new money. The way this is normally done is by putting in place a high initial charge.

We are currently researching alternatives in the market, we have highlighted the JOHCM Asian Strategies which are Dublin Based Funds and we have also started to look at the Aberdeen and First State Closed End Funds (investment trusts).

In this review we will look at the three main offerings from Aberdeen and what the main differences are.

## The Trusts

### New Dawn and Edinburgh Dragon Trust



We have reviewed these together as they are similar. The key difference is that the New Dawn trust

can invest in Australia and invests in India via the India fund. Other than this the holdings are similar but with slightly different weightings. In fact the top ten holdings are the same.

Both trusts invest in large cap stocks with around 80% of the trust assets invested in these stocks. The New Dawn Trust is the smaller of the trusts with just under £300 million whereas Edinburgh Dragon Trust has around £600 million.

One concern is the crossover of holdings, there is a crossover which means they can hold up to 15% in any one company. This does present a risk but these are larger cap stocks and their belief is that their due diligence reduces the risk. This would need to be a consideration if we decided to invest in any of these trusts.

Both trusts have a small amount of gearing and this is fully invested.

The investment process is similar across all the trusts. There are four elements:

- Intelligent choices – they look to identify good quality securities with strong management and business models, which are attractively priced. They are benchmark agnostic and similar to Warren Buffett they avoid businesses that they don't understand
- Original research – company visits are a crucial part of the investment process. Every contact is documented in detail. It still forms part of the screening and whatever the outcome of the meeting if it fails the screening they will not own it
- Long term focus – they have a long term strategy – effectively a buy and hold strategy. They add on the dips and take profits as the price rises. They don't often pursue short term returns
- Team approach – there is no cultivation of star managers rather they work on a team basis from company visits and analysis to constructing portfolios

This process is a reason why we like Aberdeen but we remain concerned over the crossover of holdings.



Both funds are based on stock picking rather than from a macro view. They are strongly weighted towards the ASEAN economies and underweight China and Korea due to what they feel is a lack of quality re treatment of minority shareholders.

The trusts will have some UK exposure where the stocks generate at least 50% of revenue from Asia.

In summary these trusts are similar to the Asia Pacific Fund and if we were looking for a direct replacement then this would match that. The performance of the trusts is better

than the fund. Our feeling is that if we were to watch one of these it would be the New Dawn Trust which is slightly smaller and has a slightly wider remit.

### **Aberdeen Asia Smaller Companies**



We haven't considered an Asian Smaller Company Strategy in the past however

we believe going forward although the volatility will be greater as part of the overall blend this will provide the opportunity for additional long term performance.

Aberdeen does have a Dublin based fund and there is a crossover of holdings between the two funds. As with the other trusts there is a limit of 15% joint holdings, again this is an area of concern and one we would need to explore further. Understandable the performance of the trust is much stronger than the Aberdeen Asia Pacific Fund.

The process and team approach is the same as the other trusts.

It does invest in more Asian based companies as it is unlikely that a smaller company will generate more than 50% of its revenue from Asia.

From a holding perspective it is higher than the other trusts which have around 50 holdings with around 70 holdings but this is reflective of the fact that this is a smaller cap fund.

### **Conclusion**

Our view is that these trusts provide us with access to the Aberdeen investment process which we like. The performance is strong and we would possibly favour the New Dawn and Smaller Companies Trust. Our concern would be the crossover in holdings.

We will add this into the mix when we come to review the portfolios in 2014.

*The source of information in this note has been provided by Aberdeen and is correct as at 25 June. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.*