Standard Life

Standard Life Diversified Income Fund
December 2018 update

Fund	€ Performance %					
	1 mth	3 mths	Year to date	1 yr	3 yrs p.a.	Fund size (million)
Diversified Income Fund*	-2.2	-4.8	-5.0	-5.0	3.5	€167.5

* Performance Data: This data reflects the performance of the euro hedged share class of the underlying Aberdeen Global - Diversified Income Fund and is gross of the annual management charge. The investment returns will be lower after charges are deducted. The Standard Life Diversified Income Fund was launched on 02 August 2018.
Past performance is not a guide to future results

Source: Aberdeen Standard Investments. Figures as at 31 December 2018.

Portfolio changes*

Aberdeen Standard Investments (ASI) reduced their exposure to absolute return and added this to a mixture of Emerging Market debt and cash in the Income fund. The insurance linked weighting has fallen primarily due to market movements. ASI have allowed some cash to build up in the fund given current market uncertainty and the potential for more attractive opportunities in early 2019.

Fund performance*

Listed Equity

Global stock markets closed out their worst year since the financial crisis, with December the worst month of the year. Negative sentiment centred on fears that the Federal Reserve would continue raising interest rates and running down its balance sheet despite mounting concerns about slowing global growth. This was heightened by the US government shutdown towards the end of the month.

ASI's equity exposure proved to be more defensive than the global index, in large part due to the dividend futures positions which saw negligible price falls.

Infrastructure

There were several announcements in December from renewable companies acquiring assets that demonstrate increasing portfolio diversification. These included:

- The Renewables Infrastructure Group (TRIG) committed to acquire a 75% interest in an onshore wind farm in Northern Sweden (Ersträsk Wind Farm) for €190m. The asset is currently under construction and is expected to become operational in phases over 2019-2020. This represents TRIG's first investment in Sweden
- Greencoat UK Wind (UKW) acquired three wind farms in Northern Ireland and Scotland for a total of £132m
- Greencoat Renewables (GRP) acquired two onshore wind farms in Ireland (Monaincha and Garranereagh Wind Farms) for €88m
- John Laing Environmental Assets (JLEN) acquired an anaerobic digestion (AD) asset (Biogas Meden Limited) for £16m. AD now represents 21% of JLEN's portfolio

Asset-Backed Securities (ABS)

US loan and high yield markets have been weaker in December as various commentators have expressed concerns as to how rising interest rates and slowing growth might impact some weaker corporates. ASI deliberately do not have any direct exposure to loans and high yield given they share these concerns and view the relatively low spreads on offer as insufficient compensation for this risk.

However ASI have indirect exposure to loans through the CLO positions within their ABS portfolio. The higher risk tranches of this CLO exposure exhibited negative returns during the month. In general ASI view the spreads on offer from mezzanine CLO bonds as offering attractive levels of compensation for this risk but they have been selectively reducing their exposure to CLO equity. The remainder of their ABS exposure performed relatively well during the month.

Emerging Market bonds

Emerging Market Local Currency bonds delivered positive returns in December. The main positive contributor was Mexico where the new left-wing nationalist government presented its first budget during the month, vowing 'absolute commitment to fiscal and financial discipline' and a primary surplus of 1 per cent of GDP next year without any new taxes. No countries detracted significantly from performance.

This contributed to a positive quarter for the asset class** in contrast to the significant falls in equity markets. Over the whole year the asset class proved to be relatively resilient despite various negative factors (Turkey, Argentina, Russian sanctions, slowing global growth, strong US dollar, increasing trade tensions, increasing US interest rates).

** As measured by the JP Morgan GBI-EM Global Diversified index against ASI's currency funding basket

Absolute return

ASI reduced their position in the alternative risk premia strategy (ARP). The volatile market conditions during 2018 at times resulted in increased correlations between strategies within ARP and other asset classes ASI have exposure to. From a portfolio perspective ASI therefore felt it was prudent to reduce the position size.

Insurance linked securities (ILS)

CATCo Reinsurance Opportunities Fund announced higher loss reserves than the market had been expecting for 2018 events, most notably the Californian wildfires mentioned last month. In addition they announced increases to loss reserves for 2017 events.

The performance of our Diversified Income Fund since it's launch in August 2018, and in particular over the past quarter, has been adversely affected by significant losses to the funds' insurance linked holdings.

The recent losses have been compounded by share prices falling to significant discounts to NAV on negative sentiment. ASI have been engaging with the CATCo Board to encourage action to reduce the discount to NAV. Subsequent to these requests the CATCo Board announced on 19th December 2018 a share buyback programme as early as possible in 2019 and the potential for shareholders to go into a redemption share class in Q2 2019. ASI believe that there is scope for significant share price appreciation from this point as these measures are enacted.

* Source: Aberdeen Standard Investments 31 December 2018

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