

Aug  
2019

# ASI UK High Income Equity Fund



31 August 2019

To generate income and some growth over the long term (5 years or more) by investing in UK equities (company shares).

Please note: Our factsheets will be fully updated to reflect the 7 August 2019 changes to the Investment Objective and Policy, including benchmark use, shortly. In the interim, please see the KIID which can be found at <https://www.aberdeenstandard.com/en/uk/investor/fund-centre#literature> for full up to date information.

OEIC Fund

Equity Fund

Monthly

Fund Manager      Iain Pyle

Fund Manager Start      16 Apr 2018

Launch Date      1 May 1986

IA Sector      IA UK Equity Income

Benchmark      IA UK Equity Income Sector

Current Fund Size      £468.4m

Base Currency      GBP

No. of Holdings      63

This document is intended for use by individuals who are familiar with investment terminology. To help you understand this fund and for a full explanation of specific risks and the overall risk profile of this fund and the shareclasses within it, please refer to the Key Investor Information Documents and Prospectus which are available on our website – [www.standardlifeinvestments.com](http://www.standardlifeinvestments.com).

Aberdeen Standard Investments has not considered the suitability of investment against your individual needs and risk tolerance. If you are in any doubt as to whether this fund is suitable for you, you should seek advice. An adviser is likely to charge for advice. We are unable to provide investment advice.

## Fund Information \*

### Composition by Sector

	Fund %
Financials	22.5
Oil & Gas	21.0
Health Care	13.7
Consumer Goods	11.6
Consumer Services	9.5
Basic Materials	7.3
Industrials	5.6
Utilities	4.2
Telecommunications	3.7
Cash and Other	0.9

### Composition by Market Capitalisation (Ex Cash)

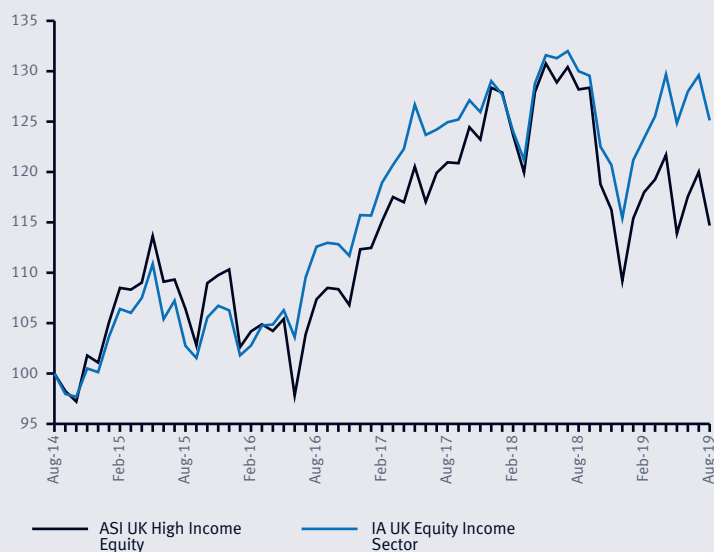
	Fund %
FTSE UK 100	68.4
FTSE UK 250	18.9
FTSE Small Cap	2.5
Not In Index	10.2

### Top Ten Holdings

Stocks	Fund %
BP	7.4
Royal Dutch Shell	6.8
GlaxoSmithKline	5.4
British American Tobacco	4.5
Vodafone	3.7
National Grid	3.5
BHP Billiton	3.3
Prudential	3.3
AstraZeneca	3.1
GVC Holdings	2.3
Assets in top ten holdings	43.3

## Fund Performance \*

### Price Indexed



The performance of the fund has been calculated over the stated period using bid to bid basis for a UK basic rate tax payer. The performance shown is based on an Annual Management Charge (AMC) of 0.75%. You may be investing in another shareclass with a higher AMC. The charges for different share classes are shown on the next page. For details of your actual charges please contact your financial adviser or refer to the product documentation.

Source: Aberdeen Standard Investments (Fund) and Morningstar (Sector)

### Year on Year Performance

Source: Aberdeen Standard Investments (Fund) and Morningstar (Sector)

	Year to 30/06/2019 (%)	Year to 30/06/2018 (%)	Year to 30/06/2017 (%)	Year to 30/06/2016 (%)	Year to 30/06/2015 (%)
Retail Fund Performance	-9.3	9.6	19.1	-11.0	11.0
Institutional Fund Performance	-8.8	10.1	19.6	-10.3	11.8
Platform One	-8.8	10.0	19.6	-10.4	11.8
IA UK Equity Income Sector	-2.5	6.2	19.4	-1.7	7.0

### Cumulative Performance

Source: Aberdeen Standard Investments (Fund) and Morningstar (Sector)

	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Retail Fund Performance	-3.0	-10.9	5.3	11.6
Institutional Fund Performance	-2.8	-10.5	6.8	14.7
Platform One	-2.8	-10.6	6.7	14.4
IA UK Equity Income Sector	1.4	-3.8	11.1	25.1

Note: Past Performance is not a guide to future performance. The price of shares and the income from them may go down as well as up and cannot be guaranteed; an investor may receive back less than their original investment.

For full details of the fund's objective, policy, investment and borrowing powers and details of the risks investors need to be aware of, please refer to the prospectus.

For a full description of those eligible to invest in each share class please refer to the relevant prospectus.

The fund does not have an index-tracking objective.

#### Definitions

Cash and Other - may include bank and building society deposits, other money market instruments such as Certificates of Deposits (CDs), Floating Rate Notes (FRNs) including Asset Backed Securities (ABSs), Money Market Funds and allowances for tax, dividends and interest due if appropriate.

Composition by Market Capitalisation - Not in index is the sum of holdings outwith the FTSE All Share. This may include new issues, AIM listed and other LSE listed stocks.

## Market Review

UK equities tumbled along with those of other equity markets during August. It was the second negative month of 2019. The FTSE All-Share Index lost 3.6%.

Global recession, trade friction and competitive currency devaluation were the themes that dominated investor sentiment. The increased likelihood of a no-deal Brexit was also prominent. The immediate effect of this was seen most clearly in the currency market as sterling weakened. There was some modest respite at month end when equities bounced on signals that the US was retreating from its latest threats of tariffs on China.

Risk aversion was demonstrated by the strong showing of safe haven assets such as gold, which reached a six-year high. Furthermore, flows of money into bond markets led to an inversion of the 2-10 year gilt yield curve – a leading indicator of economic recession. On the economic front, news was disappointing. The UK economy contracted by a higher-than-expected 0.2% in the second quarter of 2019, it was the first contraction in seven years.

Given the backdrop of rising volatility, it was companies with dependable profits and strong balance sheets that outperformed. Healthcare and consumer staples were the most in favour.

## Activity

There was limited activity in August. However, there was one notable purchase, a new position in Hutchison China MediTech. The healthcare group has an attractive portfolio of innovative oncology assets targeting China. Recent trial results should be a positive catalyst. Growth in the treatment of cancer in China offers a significant opportunity. Added attractions are an uncorrelated business with other holdings, and a

growth opportunity not constrained by income consideration as the Fund is at a significant yield premium to the market. We also diversified the mining exposure by buying Rio Tinto. The company has maintained capital discipline, with healthy cashflow at current spot commodity prices. It is also underpinned by a dividend yield of over 8%.

Mining company Glencore was trimmed to fund the Rio Tinto purchase. The company remains attractively valued but is a higher risk proposition with less resilience than other miners.

## Performance

The Fund underperformed its benchmark index.

Life insurance firm Prudential was the major detractor from performance in August. Exposure to Asia's reverberations from the US-China dispute, falling long-term interest rates and UK domestic risk created a perfect storm that weighed heavily on its share price. We expect the pressure from these issues to moderate. Prudential has significant potential to create shareholder value once it de-merges from its legacy UK business. It will be released from UK capital buffers and can focus on the more dynamic markets of its core Asian business. It also trades at a discount to peers that is unmerited in our view. Elsewhere, Wood Group underperformed. After a strong July it suffered renewed concerns about the pace of its debt reduction. Additionally, weaker crude prices weighed on its shares. Not holding defensive consumer staple companies, such as Diageo and Unilever, also dragged on the Fund's relative performance.

On the upside, Savannah Petroleum added value. The stock rallied after the Nigerian government approved its deal to acquire gas assets in the country. This helped remove the risk of the business having to raise capital. Other

notable positive contributors were online gambling business GVC, delivering good results with a lower drag from UK regulatory costs, and Kier Group, whose shares rallied after investors felt the construction group had reached its nadir.

## Outlook & Strategy

August may be the point of maximum pain for UK income investing and for fundamental analysis of UK stocks. Given the extreme positioning of asset allocators and stretched valuations of growth stocks, there is the possibility we can see a sustained rally in value stocks. This is reliant on two key issues. First, the UK government agreeing a deal with the EU – although UK domestically-focused companies appear to have priced in much of the downside of a hard Brexit. Second, global macro indicators need to stabilize – trade talks progressing and looser monetary policy.

If these events play out, there is plenty of upside for fundamental investors and the potential for yield compression for many income stocks. A report published in August showed that over \$4bn has been pulled from UK equity funds since late May and outflows since the referendum have topped \$20bn. A reversal of this would be a material positive for UK equities.

So that we can deliver a high level of income, we are naturally pulled towards value companies. Nevertheless, we ensure exposure to our best growth ideas. This leads to a balanced approach to income portfolio construction. Around 60% of the Fund is in core income stocks that should prove resilient to market turmoil. The remainder of the Fund is equally split between value holdings, with the potential for yield compression, and underappreciated growth companies, with potential for dividend growth. We believe this combination is optimal in providing resilience from income and valuation re-rating potential.

## Other Fund Information

	Retail Acc	Retail Inc	Institutional Acc	Institutional Inc
Lipper	60011537	60011536	60011535	60011534
Bloomberg	SLUKEHA LN	SLUKEHI LN	SLUKHIA LN	SLUKHII LN
ISIN	GB0004330931	GB0004330824	GB0004332978	GB0004332531
SEDOL	0433093	0433082	0433297	0433253

	Platform One Acc	Platform One Inc
Lipper	68165289	68165290
Bloomberg	SLURPLA LN	SLUKPLI LN
ISIN	GB00B7FTRJ84	GB00B558NM60
SEDOL	B7FTRJ8	B558NM6

	Interim	Annual	Valuation Point	12:00 (UK time)
Reporting Dates	31 Aug	28 (29) Feb	Type of Share	Income & Accumulation
XD Dates	31 Aug	28 (29) Feb	ISA Option	Yes
Payment Dates (Income)	31 Oct	30 Apr		

	Retail	Institutional	Platform One
Initial Charge	4.00%	0.00%	0.00%
Annual Management Charge	1.30%	0.75%	0.75%
Ongoing Charges Figure	1.32%	0.85%	0.90%

The Ongoing Charge Figure (OCF) is the overall cost shown as a percentage of the value of the assets of the Fund. It is made up of the Annual Management Charge (AMC) shown above and the other expenses taken from the Fund over the last annual reporting period. It does not include any initial charges or the cost of buying and selling stocks for the Fund. The OCF can help you compare the costs and expenses of different funds.

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