abrdn Dynamic Asset Allocation SMA's

March 2023

Understanding the Investment Objectives, Investment Philosophy and expected Portfolio behaviours

abrdn Dynamic Asset Allocation Portfolio Objectives

The three abrdn Dynamic Asset Allocation Portfolios seek to generate long term returns over inflation, specifically CPI +2%, 3.5% and 5% respectively, with commensurate risk much lower than equities. The overall objective of each portfolio is to provide optimised, diversified, and liquid portfolio construction for each return target, with a key focus on minimizing risk within agreed cost constraints, enabling the provision of efficient solutions and a consistent client experience.

Outcome Based Objectives

Multi-asset investing has evolved considerably since the Global Financial Crisis. Today's investors are looking for a more explicit focus on their own objectives, such as a cash or inflation linked return, or maybe a consistent level of income. In the past a simple blend of stocks and bonds may have delivered decent returns, but not without significant volatility. Looking forward, bond and equity markets are likely to see even more volatility as monetary and fiscal policy as well as geopolitical risks permeate across markets. Over recent years, a greater use of alternative diversifiers such as infrastructure, asset back securities, private debt and local currency Emerging Market debt combined with traditional asset classes like equity, rates and credit in developed markets has provided better expected risk adjusted portfolio returns. We expect this trend to continue over the coming decades.

abrdn Investment Beliefs

We believe that fundamentals ultimately drive asset prices and their long term return potential. However, markets are slow to react when fundamentals are undergoing, or face the prospect of, material change.

Therefore, different fundamental factors matter in different circumstances or economic environments. As a consequence, we believe that repeatable long term performance derives from portfolios that are genuinely diversified across assets classes that offer attractive return potential but also are true sources of diversification.

abrdn Investment Philosophy

Genuine Diversification

We believe that the breadth and scope of the abrdn Dynamic Asset Allocation Portfolios are critical to their ability to deliver sustainable long-term growth. It is also a valuable element of our risk management approach. We invest across asset classes that are all expected to generate appropriate returns over the long term and exhibit less sensitivity to market shocks and macroeconomic and political risks compared to traditional equity and fixed income markets.

Unconstrained and Flexible

We are not tied to a benchmark mix of assets, nor forced to hold investments that we believe are unattractive. This flexibility is a core part of our ability to target consistent long-term growth; it should also enable us to provide some downside protection in times of stress.

Focus on Risk Management

Our investment team seeks to manage the risks in the portfolio in a number of ways, starting from the principle of diversification that underpins the portfolios as a whole. Quantitative tools are a critical element to ensure that the team are able to effectively and efficiently capture the ideas and opportunities available to the Fund.

Importantly, they are used in conjunction with the managers' qualitative judgements, on-going scenario analysis and broader peer review within the firm.

Environmental, Social & Governance (ESG) Considerations

Comprehensive assessment of ESG factors in combination with constructive company engagement leads to better client outcomes. Consideration of ESG factors are therefore integrated into our philosophy and process.

We include ESG in our asset allocation process, specifically in our research into the drivers of investment returns and also seek to identify financial risks stemming from climate change awareness alongside our macro-economic scenarios. ESG factors are seen as increasingly important drivers of investment returns and risk management.

abrdn Dynamic Portfolios – Positioned for the Future

We are facing a different investment environment over the coming decades, to what we have experienced over the past 30 years. Economic growth and the performance of investment markets have, since the early 1980s, benefitted from improving demographics, increasing global trade and rising debt levels.

But demographics are now unfavourable in most major economies, with working age populations expected to decline significantly in many countries. The benefits of globalisation are not perceived to have been shared equally, leading to a risk of isolationism as populist nationalist politicians appeal to those who feel left behind. Finally, debts built up in the past cannot continue to grow forever and will need to be addressed at some point.

Against this backdrop, traditional investment markets are likely to deliver significantly lower returns than they have historically; we believe that this highlights the importance of having a truly diversified portfolio. Our approach is to seek out fundamentally attractive long-term investments, steadily evolving the asset mix to leave us best positioned for the future. We continue to see attractions in a range of asset classes with different return drivers and hence are not excessively exposed to the performance of equity markets or any other asset class.

How do the abrdn Dynamic Asset Allocation Portfolios Aim to Generate Returns?

Our multi-asset approach is differentiated by the genuinely diversified nature of our portfolios. Diversification is a core part of our philosophy because it provides a greater opportunity set to generate returns, reduces reliance on any one asset class and benefits from lower volatility enabling the portfolio's to better navigate market turbulence.

Our strategy is described as seeking to deliver long-term absolute returns from an unconstrained, actively managed portfolio of market exposures and risk premia.

We believe that active allocation, underpinned by rigorous research is the key to successful client outcomes. We believe there are 3 layers of value-add opportunity:

Strategic Asset Allocation (SAA)	Dynamic Asset Allocation and Tactical Sub-Asset Class Allocations (DAA/TAA)	Manager Skill

We believe these value-add opportunities are best delivered through collective wisdom of the abrdn investment team, and through rigorous research which is delivered through a combination of quantitative analysis and qualitative judgement.

Asset allocation ranges are generally wide (with minimum bounds usually set at zero, emphasising the ability to focus on absolute returns). We believe that enhanced risk adjusted returns can be achieved from active multi-asset investing by exploiting market inefficiencies over multiple time horizons.

Steadily over time we look to reallocate capital from expensive to cheap assets and markets, to preserve and grow capital over a strategic investment time horizon. Simultaneously, to add additional value, we look to take advantage of market inefficiencies that result from investor over and under-reaction to short-term cyclical and policy developments to add additional value. For the portfolio, this means an outcome- based strategy made possible by combining in-depth research and active asset allocation in a bespoke outcome focused portfolio construction approach.

How does abrdn Manage Risk in the Portfolios?

Risk management for each of the abrdn Dynamic Asset Allocation Portfolios is based around 4 pillars: Diversification principles, Risk models, Scenario analysis and Peer review. In addition, liquidity risk is also actively monitored, both by the team and via regular independent stress tests. We provide more details on each of the 4 pillars below.

Diversification principles

We believe that diversification is a necessary element of any robust multi-asset portfolio, reducing portfolio volatility in the short term and reducing the reliance on any one asset class over the medium to long-term.

Diversification benefits arise from the range of assets that we consider within the funds; the longer-term modelling that is used to establish the strategic framework; and they are also actively considered as part of the day to day decision making for the funds. We seek to ensure that there is not a disproportionate exposure or contribution to portfolio risk from any one asset class or investment.

Risk models

The second pillar of our risk management approach is the use of quantitative risk models. Although we acknowledge risk models can have their limitations, we believe that they are a valuable input into the broader process. In particular they can provide an efficient, clear and objective view on the portfolio's risk exposures at any given time.

Scenario analysis

While our risk models include certain historic stress test scenarios in their analysis, we believe that it is important to also consider how we might expect investments in the portfolios to behave in various hypothetical scenarios. Our scenario analysis harnesses the experience of our investment team and the broader insights from across the firm. In each case we seek to gain comfort that the potential risk of, and impact from, any given scenario is acceptable. This helps to ensure that the portfolios are resilient to the wide range of scenarios that might play out over time.

Peer review

To ensure that we are capturing our best ideas within the abrdn Dynamic Asset Allocation Portfolios, the investment processes has been designed to source expert views across abrdn Investments global business to bolster our own insights. On a formal basis our peer review process includes oversight monthly from the abrdn Diversified Multi Asset Review Group as well as abrdn Investments independent risk team and dealing desk for liquidity and stress testing analysis.

Under which Conditions are the abrdn Dynamic Asset Allocation Portfolios Expected to be Successful?

The portfolios invest in a large variety of asset classes that are all expected to generate return over the long term. In addition, many of these asset classes tend to respond to different return drivers hence provide high degrees of diversification as opposed to pure balanced funds composed of equity, fixed income and cash alone.

The portfolios diversification should enable them to deliver more consistent growth than a more narrowly positioned strategy. While a broad "pro-risk" environment would likely drive positive returns for many of the underlying investments, the diversification of the portfolios should also enable them to deliver growth during periods of, for example, general equity market weakness. The team will constantly monitor asset allocation looking at different time horizons, with the goal to reallocate capital from assets with poor returns per unit of risk to those with better risk adjusted returns.

Under which Conditions are the abrdn Dynamic Asset Allocation Portfolios Expected to lag their Objectives?

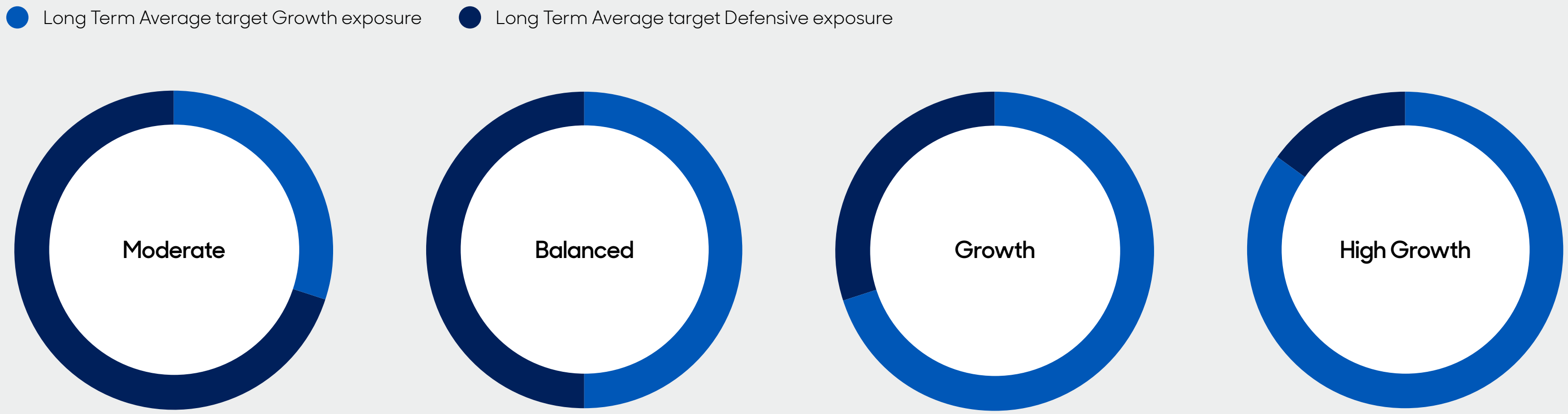
These portfolios are providing exposure to a portfolio of growth assets and, as such, we would expect them to experience drawdowns – albeit significantly below those of equity markets – during periods of extreme market stress when growth assets generically will be suffering (such as 2008).

As a result, the portfolios returns may fluctuate over time. However, by limiting the volatility of each portfolio below a pre-defined threshold that is commensurate to its return target, compressing the portfolio risk behaviour during stress scenario, and dynamically and tactically managing downside risk, we will be able to reduce the potential drawdown, and expect to generate a smooth return profile over the long run.

In general, we would expect the portfolios to achieve their stated return objectives across most market environments. However, they may underperform in an economic downturn when risk taking of all forms is penalised.

abrdn Multi Asset SMA Portfolios

Multi Asset SMA Portfolios	Moderate	Balanced	Growth	High Growth
Investment Objective	CPI plus 2% p.a.	CPI plus 3.5% p.a.	CPI plus 5% p.a.	Morningstar Aggressive Target Allocation
Investment Mgmt. Fee	**0.1743%**			
PDS Link	**https://my.hub24.com.au/Hub24/public/documents/managed-portfolio-documents?mpCode=ASI004&productType=Super**			
Investment Strategy	Each portfolio will apply dynamic asset allocation to a diversified portfolio of traditional and alternative assets, without reference to a benchmark. The portfolio may shift its investments quickly and significantly, based on valuations and expected returns, and may completely divest from a particular asset class. Portfolio volatility will be controlled through the use of dynamic asset allocation and effective diversification of assets.			
Investment Universe	The portfolio can invest in a broad range of asset classes including equities, bonds, property (listed and unlisted), hedge funds, private equity, infrastructure (listed and unlisted), commodities and currency across global emerging and developed markets.			
Long Term Average target Growth exposure	15%	50%	70%	90%
Long Term Average target Defensive exposure	85%	50%	30%	10%
Minimum suggested Timeframe	5 years	5 years	5 years	7 years
Portfolio Turnover	The aim is to keep turnover of the underlying portfolio investments to a minimum.			



About the Portfolio Manager

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