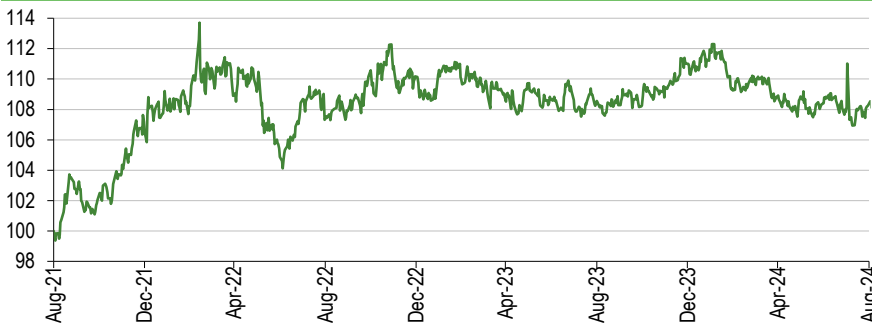


# abrdn Asian Income Fund

Core Asian fund offering income and capital growth

abrdn Asian Income Fund (AAIF) is managed by abrdn's well-established Singapore-based Asian equity team, supported by a 40-strong group of analysts based in six locations in the Asia-Pacific region. The local presence ensures strong relationships with corporates and relevant organisations, which can be an advantage in identifying opportunities that other investors may overlook. AAIF has outperformed the MSCI AC Asia Pacific ex Japan Index (the reference index) over the last three and five years. The fund offers the prospects of both income and capital growth from a diversified portfolio of quality Asia-Pacific equities, and AAIF is on course for a 16-year record of delivering higher dividends, ensuring its position on the AIC's list of next-generation dividend heroes.

## NAV outperformance versus the reference index over three years



Source: LSEG Data & Analytics, Edison Investment Research

## Why consider AAIF?

AAIF can be considered as a core fund for investors seeking exposure to Asia-Pacific companies, which in aggregate have stronger balance sheets than businesses in developed markets. The region is the largest contributor to global growth, and investors may not appreciate that dividends make up more than 50% of Asia-Pacific total returns. Also, valuations in the Asia-Pacific region are attractive on both an absolute and relative basis.

AAIF's managers seek quality companies that operate in structural growth areas, with strong balance sheets that can deliver reliable earnings and sustainable dividends. This in turn supports AAIF's growing dividends, which have been achieved even during weak markets such as during the COVID-19 pandemic. The fund's dividend yield is more than double that of the reference index, while it has a higher operating margin and return on equity compared with the index.

Although AAIF's portfolio is actively managed, investments are made for the long term. The fund has overweight exposures to the high-yielding Taiwanese and Singaporean markets, while its largest sector allocation is to technology stocks.

AAIF's discount, which is wider than its historical averages, appears unwarranted given its investment approach and performance record. The company also has one of the lowest valuations in the AIC Asia Pacific Equity Income sector despite above-average total returns over the last one, three and five years, and an attractive 5.6% dividend yield.

**NOT INTENDED FOR PERSONS IN THE EEA**

Investment companies  
Asia Pacific Equity Income

9 September 2024

**Price** 210.0p  
**Market cap** £328m  
**Total assets** £398m

NAV\* 236.0p  
Discount to NAV 11.0%

\*Including income. At 5 September 2024.

Yield 5.6%

Shares in issue 156.4m

Ticker/ISIN AAIF/GB00B0P6J834

Primary exchange LSE

AIC sector Asia Pacific Equity Income

Financial year end 31 December

52-week high/low 220.0p 185.0p

NAV\* high/low 252.8p 216.6p

\*Including income.

## Gearing

Net gearing at 30 August 2024 7.8%

## Fund objective

The investment objective of abrdn Asian Income Fund is to provide investors with a total return primarily through investing in Asia-Pacific securities, including those with an above-average yield. Within its overall investment objective, the company aims to grow its dividends over time.

## Bull points

- An unwavering focus on high-quality companies should ensure less performance risk over the long term.
- Proprietary ESG research has been an integral part of the research process for many years.
- Long-term approach results in low portfolio turnover.

## Bear points

- Improved investor sentiment could favour capital growth rather than income strategies.
- Due to its large underweight exposure, AAIF's relative performance is likely to struggle if Chinese stocks rally significantly.
- Discount is persistently wider than the AIC Asia Pacific Equity Income sector average.

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## AAIF: Diversified high-quality Asian equity portfolio

AAIF's managers aim to invest in the most successful and promising, reasonably priced, dividend paying Asian companies across the market cap spectrum. They can draw on the deep knowledge base (built up over more than 30 years) of abrdn's in-house team of around 40 analysts based in six locations in the Asia-Pacific region. This resource provides a competitive advantage, as the local team can identify attractive smaller-cap opportunities that may be overlooked by AAIF's peers. Investee businesses are easy to understand, they operate in structural growth areas and have reliable earnings, sustainable dividends and strong balance sheets. AAIF's quality portfolio with its yield bias means that the company should be resilient during periods of share price weakness, but is likely to lag a strong equity market.

### Highlights from AAIF's H124 report

- **Performance** – AAIF's NAV and share price total returns of +6.8% and +6.9% respectively did not keep pace with the MSCI AC Asia Pacific ex Japan Index, which delivered a +9.6% total return. However, AAIF has outperformed the index over the last three and five years.
- **Dividends** – revenue per share was 5.73p versus 6.28p in H123 (-8.8%), due to special dividends in H123 and some companies having moved from paying semi-annual dividends to a single annual distribution. So far in FY24, two interim dividends of 2.55p per share have been declared, which are a 2% increase year-on-year. The board intends to pay another higher annual dividend in FY24, which would mean AAIF retains its position as an AIC next-generation dividend hero, with a 16-year record of dividend growth.
- **Charges** – management fees have been reduced. With effect from 1 January 2024, they are based on the lower of market cap and net assets: 0.75% per year up to £300m and 0.60% above £300m. The FY24 estimated ongoing charges ratio of 0.86% is 14bp lower than 1.00% in FY23.
- **Share buybacks** – c 7.9m shares (4.7% of the share base) were repurchased at an average discount of 12.6%, which added 0.58% to NAV per share.

### Perspectives on the investment backdrop

One of AAIF's managers, Yoojeong Oh, provides some perspectives about the Asia-Pacific investment backdrop. She highlights major consumption potential in the region, which should support economic growth and enable Asia to account for more than half of global growth by 2025. The manager suggests that favourable demographic trends in China and India, for example, and dynamic growth in South-East Asian economies including Indonesia and Thailand are not fully appreciated. Dividends are becoming a more important feature in the Asia-Pacific region, where more than 50% of index constituents are now yielding more than 2.5%. Oh believes that there is a low risk of dividend cuts in Asia due to robust free cash flow coverage and strong balance sheets, which can support growing dividends.

In aggregate, valuations in the Asia-Pacific region continue to look very attractive in both absolute and relative terms (Exhibit 1). However, there are wide country differences; for example, at the end of August 2024, the MSCI India Index was trading on a 24.2x forward P/E multiple, while China, which has faced economic headwinds, was trading on a single-digit 8.9x multiple.

**Exhibit 1: MSCI index valuation multiples (at 31 August 2024)**

	Forward P/E (x)	Price/book (x)	Dividend yield (%)
MSCI AC Asia Pacific ex-Japan	13.1	1.8	2.6
MSCI AC Asia Pacific ex-Japan High Dividend Yield	9.3	1.2	5.3
MSCI AC World	17.7	3.1	1.9
MSCI USA	21.6	5.0	1.3

Source: MSCI

## Current portfolio positioning and activity

The high-quality nature of AAIF's portfolio is illustrated by its higher profitability, superior return on equity and higher dividend yield versus the reference index. Positions are held for the long term; annual portfolio turnover has averaged 15–35% over the last three years, which implies a three- to seven-year holding period. The fund's active share is above 70% (0% is full index replication and 100% is no commonality with the reference index).

There are a series of themes represented in the portfolio, which are listed here along with examples of investee companies: Aspiration – AIA Group and Midea Group; Building Asia – Bank Mandiri and Mirvac Group; Digital future – Samsung Electronics and Sunonwealth Electric Machine Industry; Going green – DBS Group Holdings and Power Grid Corporation of India; and Technology enablers – Accton Technology and TSMC.

abrdn believes that ESG factors are financially material and can affect corporate performance. AAIF has an 'A' MSCI ESG score, and higher ratings in all areas compared with its reference index: ESG quality score (August 2024) 7.0 versus 6.3; environmental 5.9 versus 5.6; social 5.5 versus 5.1; and governance 5.9 versus 5.2.

### Top 10 holdings

At the end of July 2024, AAIF's top 10 holdings made up 42.0% of the portfolio, which was a higher concentration compared with 38.5% 12 months earlier; eight names were common to both periods. There were 58 positions in the portfolio, which was four less than 62 at the end of July 2023.

Exhibit 2: Top 10 holdings (at 31 July 2024)				
Company	Country	Sector	Portfolio weight %	
			31 July 2024	31 July 2023*
Taiwan Semiconductor Manuf Co (TSMC)	Taiwan	Information technology	11.8	6.9
Samsung Electronics	South Korea	Information technology	6.5	5.6
Power Grid Corp of India	India	Utilities	4.0	3.2
DBS Group Holdings	Singapore	Financials	3.7	3.6
Oversea-Chinese Banking Group	Singapore	Financials	3.3	3.5
BHP Group	Australia	Materials	2.8	3.4
United Overseas Bank	Singapore	Financials	2.7	3.6
Taiwan Mobile	Taiwan	Telecom services	2.6	N/A
Accton Technology	Taiwan	Information technology	2.4	N/A
Venture	Singapore	Information technology	2.2	2.7
<b>Top 10 (% of holdings)</b>			<b>42.0</b>	<b>38.5</b>

Source: AAIF, Edison Investment Research. Note: N/A where not in end-July 2023 top 10.

### Geographic breakdown

In keeping with AAIF's dividend growth focus, the fund is over or market weight the three highest yielding countries in the Asia-Pacific region: Taiwan, Singapore and Australia. These countries are the largest weightings, making up around 60% of AAIF's portfolio. Oh explains that Singapore is home to good-quality businesses that are expanding overseas, such as banks, which are increasing their operations in China, while growing their wealth management and digital businesses.

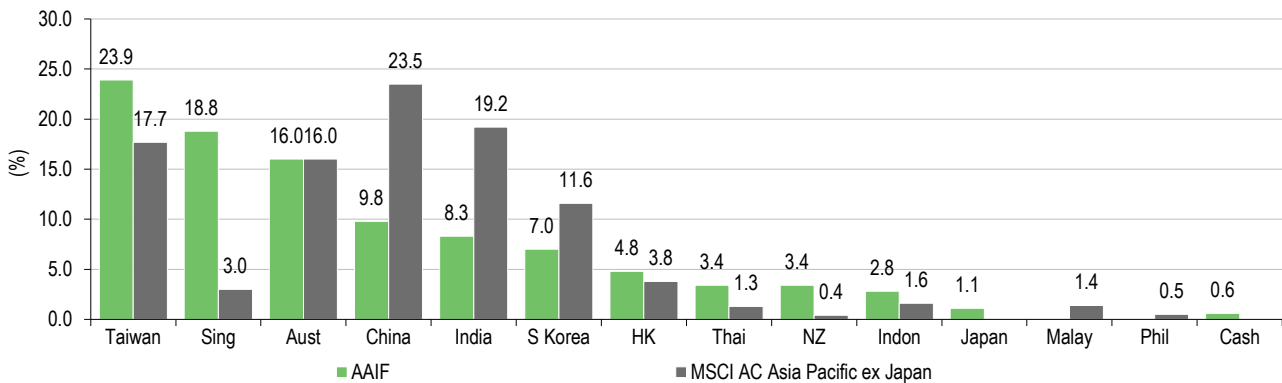
AAIF has underweight exposures to the growth markets of India and China. In India, companies generally use their free cash flow to grow their businesses rather than return cash to shareholders. The managers have been adding to AAIF's China exposure as some companies are changing their attitudes towards paying dividends. However, investments are selective as some of the high-yielding Chinese companies do not pass abrdn's quality hurdles; instead, the managers seek businesses with resilient earnings and dividend growth, that are trading on reasonable valuations.

**Exhibit 3: Portfolio geographic exposure versus index (% unless stated)**

	Portfolio end- July 2024	Portfolio end- July 2023	Change (pp)	Active weight vs index (pp)
Taiwan	23.9	19.5	4.4	6.2
Singapore	18.8	21.6	(2.8)	15.8
Australia	16.0	15.9	0.1	0.0
China	9.8	10.8	(1.0)	(13.7)
India	8.3	6.2	2.1	(10.9)
South Korea	7.0	8.0	(1.0)	(4.6)
Hong Kong	4.8	6.4	(1.6)	1.0
Thailand	3.4	5.6	(2.2)	2.1
New Zealand	3.4	4.2	(0.8)	3.0
Indonesia	2.8	0.0	2.8	1.2
Japan	1.1	0.9	0.2	1.1
Malaysia	0.0	0.0	0.0	(1.4)
Philippines	0.0	0.0	0.0	(0.5)
Cash	0.6	0.9	(0.3)	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		

Source: AAIF, Edison Investment Research. Note: Numbers subject to rounding.

**Exhibit 4: AAIF geographic exposure versus MSCI AC Asia Pacific ex Japan Index at 31 July 2024**



Source: AAIF, Edison Investment Research

## Sector breakdown

AAIF is overweight technology stocks, which is the largest sector in the reference index, holding companies with a broad range of market caps including TSMC at TW\$23.8tn versus Sunonwealth Electric Machine Industry at TW\$24.8bn. Oh says that there are many good-quality, dominant global technology companies in Asia that have cash on their balance sheets and strong free cash flow. There is an above-index allocation to real estate stocks, which generally offer attractive dividend yields. AAIF is underweight some of the traditional high-yielding sectors including healthcare. Within Asia, rather than major pharma companies, healthcare companies tend to be generic drug or contract research organisations, which are capital intensive, commoditised businesses that do not pay dividends. AAIF also has a notable underweight exposure to the consumer discretionary sector.

## H124 new positions and complete disposals

Within the technology sector, AAIF's managers sold AEM Holdings and Hana Microelectronics, using the proceeds to invest in other hardware businesses that they consider have better business outlooks. This includes a new position in SK Hynix, which is one of the largest global suppliers of high-bandwidth memory chips that are used to power AI servers.

Other new holdings are Mirvac Group, which is a high-quality Australian property group, and Australian toll-road operator Transurban Group. Taiwanese media company momo.com and ASX, the Australian Stock Exchange operator, were sold as their valuations were no longer considered attractive. Meanwhile, Chinese automotive company SAIC Motor was sold with the proceeds

reinvested in new holdings in other Chinese businesses that the managers consider have attractive yield prospects: Fuyao Glass Industry, the number two global player in the automotive glass industry; Inner Mongolia Yili Industrial, the country's largest dairy brand, with an economic moat and growing free cash flow; and PICC Property & Casualty, which is the largest property and casualty insurer on the Chinese mainland.

## Performance: Ahead of index over one and three years

AAIF is the third largest of five funds in the AIC Asia Pacific Equity Income sector (Exhibit 5). Its NAV total returns are above average over the last one, three and five years, ranking second, second and third respectively. Despite this creditable relative performance, AAIF has the second-widest discount in the sector, where one fund is trading at a premium. Due to the recent fee reduction, AAIF now has the joint second-lowest ongoing charge. It has the highest level of gearing. AAIF's dividend yield is second only to Henderson Far East Income (HEFL), which is expected to continue with its progressive dividend policy.

Some income managers take a barbell approach of investing in businesses with a high yield and others that do not pay a dividend. In contrast, all of AAIF's portfolio companies contribute to the fund's overall dividend yield, with exceptions made for IPOs or a spin-off company that is committed to future dividend payments.

**Exhibit 5: AIC Asia Pacific Equity Income sector at 5 September 2024\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
abrdn Asian Income Fund	328.4	9.0	4.3	25.0	70.5	(11.0)	0.9	No	109	5.6
Henderson Far East Income	369.5	3.6	(6.2)	(9.8)	31.3	3.2	1.0	No	108	11.5
Invesco Asia Trust	204.6	2.6	1.2	37.7	114.6	(12.3)	1.0	No	101	3.9
JPMorgan Asia Growth & Income	278.3	3.0	(7.1)	18.1	113.3	(9.3)	0.8	No	103	4.0
Schroder Oriental Income Fund	638.8	13.6	13.3	36.9	113.7	(6.3)	0.9	Yes	105	4.2
<b>Simple average (five funds)</b>	<b>363.9</b>	<b>6.4</b>	<b>1.1</b>	<b>21.6</b>	<b>88.7</b>	<b>(7.1)</b>	<b>0.9</b>		<b>105</b>	<b>5.8</b>
<b>AAIF rank in peer group</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>2=</b>		<b>1</b>	<b>2</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 5 September 2024 based on ex-par NAV. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Morningstar classifies three members of the AIC Asia Pacific Equity Income sector as large-cap blended funds: AAIF, JPMorgan Asia Growth & Income (JAGI) and Invesco Asia Trust (IAT). The other two – HFEL and Schroder Oriental Income Fund (SOI) – are classified as large-cap value funds. Looking at market cap breakdowns, unlike its peers who generally hold more than 90% in large-cap stocks, AAIF has a notable 25% exposure to small- and mid-cap companies. In terms of cyclicity, AAIF's breakdown between cyclical (c 40%), sensitive (c 55%) and defensive (c 5%) sectors is not that dissimilar to those of its peers.

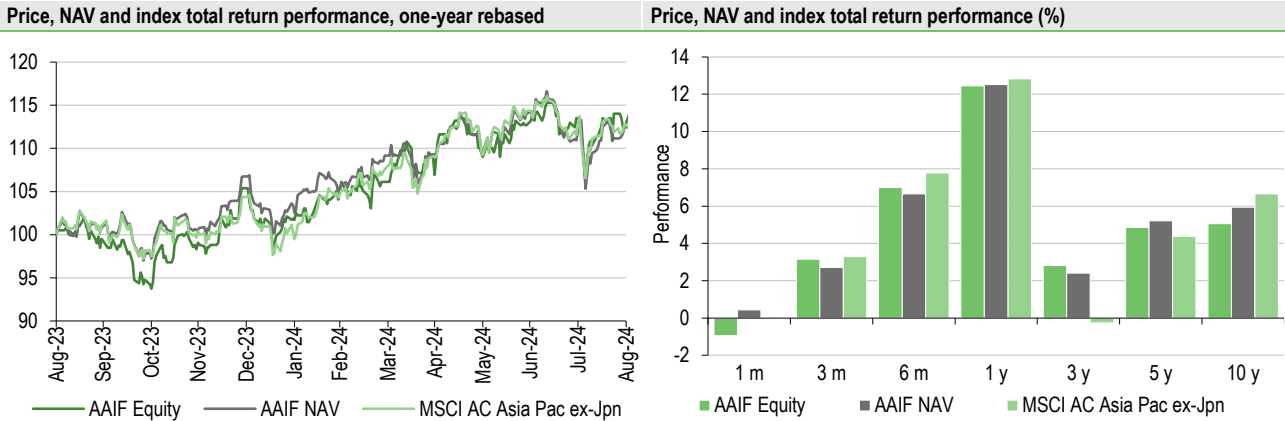
Exhibit 6 shows AAIF's relative returns. It has outperformed the MSCI AC Asia Pacific ex Japan Index over the last three and five years in both NAV and share price terms.

**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC Asia Pac ex-Jpn	(1.0)	(0.1)	(0.7)	(0.3)	9.5	2.2	(14.1)
NAV relative to MSCI AC Asia Pac ex-Jpn	0.4	(0.6)	(1.0)	(0.3)	8.3	4.0	(6.5)
Price rel to MSCI AC Asia Pac ex-Jpn HDY*	(2.5)	0.8	(2.2)	(4.7)	(11.3)	(3.7)	(14.4)
NAV rel to MSCI AC Asia Pac ex-Jpn HDY*	(1.2)	0.3	(2.5)	(4.7)	(12.3)	(2.0)	(6.9)
Price relative to CBOE UK All Companies	(1.8)	0.6	(4.7)	(4.2)	(13.7)	(8.5)	(9.8)
NAV relative to CBOE UK All Companies	(0.4)	0.2	(5.0)	(4.1)	(14.7)	(6.9)	(1.9)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end-August 2024. Geometric calculation. \*HDY is high dividend yield.

### Exhibit 7: Investment company performance to 31 August 2024



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

In H124, AAIF's NAV and share price total returns of +6.8% and +6.9%, respectively, trailed the MSCI AC Asia Pacific ex Japan Index's +9.6% total return (currency adjusted). AAIF suffered from its underweight exposure to some of the growth markets, such as China and India, which performed relatively strongly. However, over the longer term, a below-index Chinese weighting has proved beneficial. Due to economic headwinds, the Chinese stock market has been in a downtrend since the beginning of 2022.

### Exhibit 8: Five-year discrete performance data

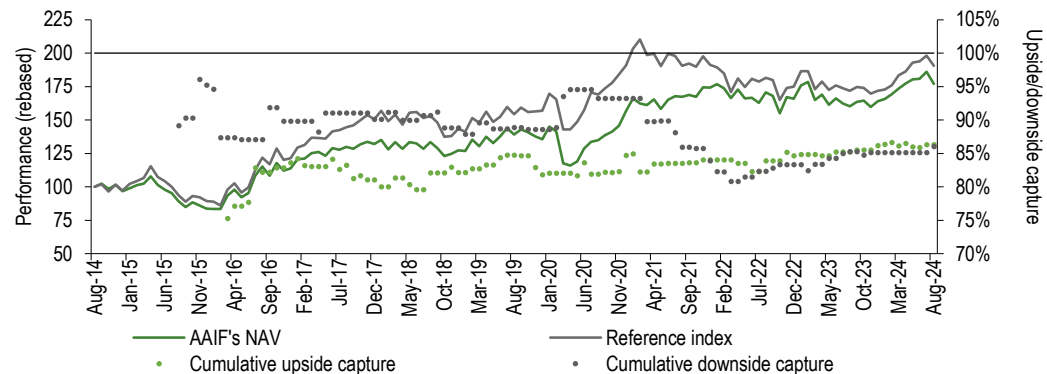
12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pac ex-Japan (%)	MSCI AC Asia Pac ex-Japan HDY (%)	CBOE UK All Companies (%)
31/08/20	(6.9)	(5.0)	7.9	(8.6)	(13.5)
31/08/21	25.2	26.4	15.8	17.5	27.1
31/08/22	0.9	2.2	(4.8)	5.2	1.8
31/08/23	(4.2)	(6.6)	(7.6)	(1.3)	5.5
31/08/24	12.4	12.5	12.8	18.0	17.3

Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling.

### AAIF's upside/downside analysis

The low beta nature of AAIF's portfolio is highlighted by its upside/downside analysis, where the capture rates are less than 100. Over the last decade, its cumulative upside capture of 86.3% is very similar to its downside capture of 86.0%, implying that the fund should move around 15% less than the MSCI AC Asia Pacific ex-Japan Index during both rising and falling markets.

### Exhibit 9: AAIF's upside/downside capture over the last 10 years



Source: LSEG Data & Analytics, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

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