CREDO WEALTH

Aberdeen

Market Capitalisation	£3.9bn
Asset Under Management	£307.3bn
Operating Margin	44.7%
Net Cash	£245m
Regulatory Capital Surplus	£221m
Rating	BBB

Aberdeen Asset Management is a global investment management group which is a member of the FTSE 100 with a market capitalisation of £3.9bn. The group is based in 26 countries with 36 offices, employs over 750 investment professionals and around 2,700 staff overall. Aberdeen manages investments across multiple jurisdictions and asset classes, with a bias to Emerging Markets and has £307.3bn assets under management (AuM). It is known for its focus on bottom up stock picking, looking for high quality companies over a long term horizon.

Given its bias towards Emerging Markets within the business, with Emerging Market and Asia Pacific equity funds accounting for c.54% of total revenues, Aberdeen has experienced significant AuM volatility over recent quarters. In the recent update from management they announced net outflows of £9.9 billion during the quarter. This outflow figure was inflated by some restructuring by a major client and it is expected some of these assets will be reinvested in the coming period. Additionally, total AuM reduced by a total of £23.3bn, £6.8bn as a result of market performance and £6.6bn due to FX movements. Performance within these regions has been very volatile, in line with their respective markets, and the active management has not added value over the shorter term. However, Aberdeen's flagship Emerging Market Equity fund remains in its respective top quartile over a long term horizon.

Aberdeen has historically been looking to diversify its range, as illustrated by its 2013 purchase of Scottish Widows Investment Partnership for £650m or the recent purchase of a company that gives online access to risk-rated fund portfolios, as it seeks to enhance its offering in the fast-growing area of digital investment services.

Despite its desire to diversify, Aberdeen follows a relatively traditional asset management business model, with a simplified and strong balance sheet and high operating margin.

The revenue earned is a function of AuM via management and transactional fees. The blended average management fee is 0.37%, reduced significantly by the fixed income division as well as Aberdeen Solutions. Aberdeen Solutions has three underlying divisions; Investment Solutions, providing tailored multi-asset and multi-manager solutions, Alternatives and Quantitative Investments. Operating margin has remained relatively steady over the last 4 years in excess of 40%, with approximately 60% of its costs being staff costs.

The balance sheet assets are predominately made up of cash and goodwill & intangible assets. With regard to the latter the majority of these balances have arisen from acquisitions and is tested annually for impairments. The main outstanding liability is the bond recommended within the Credo Income Plus portfolios. Aberdeen is in a robust fundamental position with £245m of net cash. It retains a strong Regulatory Capital Surplus of £221m which significantly grew in recent results from £115m at the end of 2014.

In addition to the £250m paid out in dividends, the company has recently announced a stock buyback programme of £100m, which illustrates significant confidence in the business but this is likely to deplete the cash reserves.

As a result of the financial security, despite the dark cloud that continues to hover over Emerging Markets with the impending Federal Reserve rate rise, this is an attractive investment grade, 7% perpetual bond, pricing close to par, with a call in January 2018 and a yield to call of 6.2%. It is important to note that there is no step up in the coupon rate after the call date. However, we do not see securing 7% into perpetuity as a disadvantage and we would expect the bond to remain around par if not called. This is a unique opportunity to take advantage of the weakness in emerging market sentiment, which has led to the recent fall in the bond price; it was yielding just 4.2% in August.

INCOMEPLUSPORTFOLIOS

The Credo Income Plus portfolios ("CIP") are three high conviction bond portfolios across 2 currencies, each with a minimum targeted annual return that we would expect to achieve over the life of the portfolios, assuming bonds are held to maturity.

Investment Process

Investment Universe

- Primary market is Eurobonds in various currencies
- $150m or £100m minimum issue size

Screening

- Both quantitative and qualitative
- Eliminate bonds that offer inadequate compensation or have significant risks

Analysis

- Balance sheet strength
- Cash flow
- Profitability
- Reputation of issuer
- Terms of debt
- Interest rate sensitivity
- Debt maturity

Portfolios Construction

- Aim to achieve diversity across both industry and maturity
- Portfolios of typically 7-12 high conviction holdings

Ongoing monitoring and analysis

Execution

Unlike the equity world, bonds are generally traded telephonically and 'best price' is not always shown on data sources such as Bloomberg. It is important, therefore, to have a large network of trusted broker-dealers and intermediaries to ensure that bonds are traded at the best possible levels. We have a wide network of market contacts and counterparties making Credo a very attractive house through which to purchase these instruments.

Liquidity

The corporate bond market can become illiquid especially during times of financial stress. In addition certain bonds have large minimum dealing sizes that may be in excess of an individual client's position. It is therefore possible that an investor who wishes to redeem bonds before the stipulated redemption date may not be able to sell as and when required at the reported price if indeed at all. We will endeavour to aid liquidity for sellers.

Portfolios

Low Volatility

Appropriate for the more cautious investor. Bias towards high quality short dated senior investment grade bonds. The portfolio takes little risk in terms of credit and sensitivity to interest rates. A relatively low level of volatility can be expected.

Medium Volatility

This portfolio will take on a little more risk but should still not exhibit significant volatility. We may invest in longer dated bonds and subordinated debt. Some holdings may further not be investment grade. The portfolio is likely to contain more financial exposure but an emphasis on quality will be maintained.

High Volatility

For the more adventurous investor, this portfolio will contain significant exposure to financial paper, longer dated bonds and special situations. The portfolio is likely to experience significantly more volatility than the others. A material part of the portfolio will nonetheless be investment grade.

CREDO WEALTH

Current Portfolios

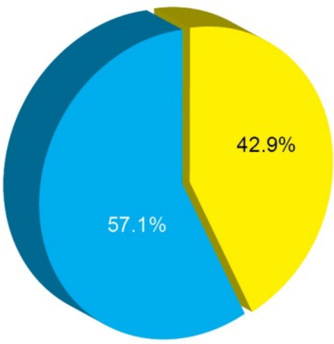
GBP	Target	Yield*
Low Volatility	2% +	2.69%
Medium Volatility	3% +	4.75%
High Volatility	5% +	5.71%

USD	Target	Yield*
Low Volatility	2% +	2.58%
Medium Volatility	3% +	5.14%
High Volatility	5% +	5.84%

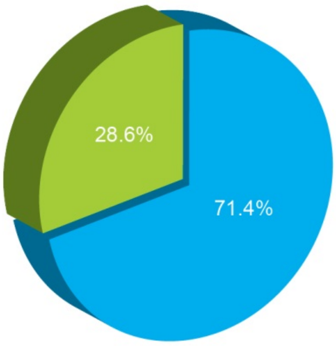
(*) For the annual yield we have estimated the most conservative likely outcome for investors.

Risk Ratings

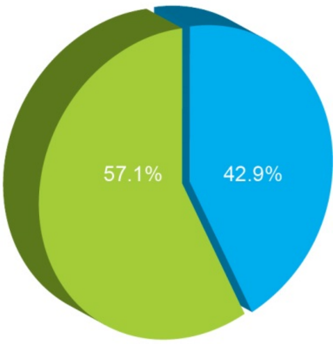
GBP



Low Volatility

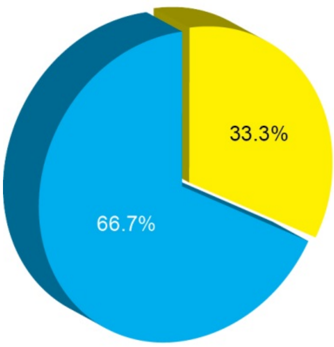


Medium Volatility

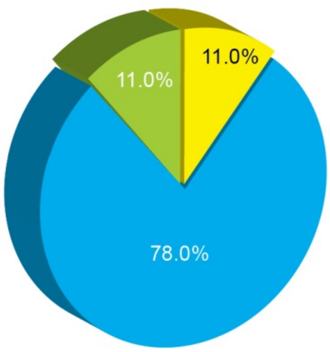


High Volatility

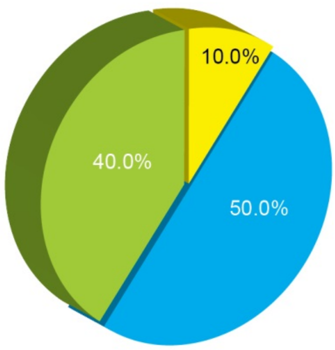
USD



Low Volatility



Medium Volatility



High Volatility

A rated and above | Investment grade | High yield

Investment Terms

Minimum Investment: £100,000 or US$150,000

Implementation

Investors should note that the minimum lot sizes of specific bonds that trade in the market are all different, with some as low as £1,000 and others as high as £200,000. Against this background, there may at times be some delay in aggregating orders. In some cases where we do not reach the minimum lot size within a suitable time frame, we may select alternative bonds.

Important Notice

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Investors are warned that past performance is not necessarily a guide to future performance, income is not guaranteed and security prices may go up or down and if you invest in CIPs you may not get back your original capital invested. The value of your investments may also rise or fall due to changes in tax rates and rates of exchange if different to the currency in which you measure your wealth. Companies in the Credo Group and their respective directors, members and employees may have positions in the companies and may have given advice in relation to the companies in the last twelve months.

Investors should note that annual yields shown are before any charges or fees are levied and are indicative as at 30 September 2015.

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