# abrdn Phoenix Fund

(formerly Aberdeen Standard Capital Phoenix Fund)

Annual Report
For the year ended 31 July 2022

abrdn.com

# Contents



* Collectively, these items comprise the Manager’s Report for the purposes of the rules contained in the Collective Investment Schemes Sourcebook (‘the Sourcebook’).

# Report of the Authorised Fund Manager

The abrdn Phoenix Fund (formerly Aberdeen Standard Capital Phoenix Fund) (the "fund") is an authorised unit trust, established under the Trust Deed and is authorised and regulated by the Financial Conduct Authority. The effective date of the authorisation order for the fund made by the Financial Services Authority (the predecessor of the FCA) was 10 April 1996. The fund's FCA Product Reference Number is 177993.

## Appointments

| Fund Information | | |
|---|---|---|
| **Manager** | **Registered Office** | **Correspondence Address** |
| abrdn Fund Managers Limited<br>(formerly Aberdeen Standard Fund Managers Limited) | Bow Bells House<br>1 Bread Street<br>London<br>EC4M 9HH | PO Box 12233<br>Chelmsford<br>Essex<br>CM99 2EE |
| **Investment Adviser** | **Sub-Adviser** | **Registrar** |
| abrdn Investment Management Limited<br>1 George Street<br>Edinburgh<br>EH2 2LL | abrdn Capital Limited<br>1 George Street<br>Edinburgh<br>EH2 2LL | SS&C Financial Services<br>Europe Limited<br>SS&C House<br>St Nicholas Lane<br>Basildon<br>Essex<br>SS15 5FS |
| **Trustee** | **Registered Office** | **Independent Auditor** |
| Citibank UK Limited | Citigroup Centre<br>Canada Square<br>Canary Wharf<br>London<br>E14 5LB | KPMG LLP<br>St Vincent Plaza<br>319 St Vincent Street<br>Glasgow<br>G2 5AS |

The investment adviser has full authority to make all investment decisions on behalf of the manager concerning the scheme property of the fund which is managed by it. The Investment Management Agreement gives the investment adviser the discretion to appoint specialist asset management companies either from within or out with the abrdn group as investment managers in order to benefit from their expertise and experience. The manager also employs the investment adviser to perform certain activities involving valuation, pricing, dealing and other back office functions. The investment adviser is permitted to sub-delegate these functions to other persons. The investment adviser has sub-delegated responsibility for strategic asset allocation, tactical asset allocation, portfolio construction and implementation to abrdn Capital Limited (formerly known as Aberdeen Standard Capital Limited). abrdn Capital Limited is authorised and regulated by the Financial Conduct Authority.

The Manager of the fund is abrdn Fund Managers Limited, which is a private company limited by shares incorporated on 7 November 1962. It's ultimate holding company is abrdn plc.

Financial details and Fund Managers' reviews of the fund for the year ended 31 July 2022 are given in the following pages of this report.

The fund operates as a single priced scheme, calculated with reference to the net asset value of the fund.

The daily price for each fund appears on the Investment Adviser's website at **abrdn.com**.

The investment objective of the fund is disclosed within the Fund Profile and the investment activities are disclosed within the Investment Report.

Unitholders in the fund are not liable for the debts of the fund.

# Report of the Authorised Fund Manager

## Continued

### Significant Events

On the 24th February 2022 Russia launched a military offensive against Ukraine resulting in widespread sanctions on Russia and heightened security and cyber threats.

Market disruptions associated with the geopolitical event have had a global impact, and uncertainty exists as to the implications. Such disruptions can adversely affect assets of funds and performance thereon, specifically Russian and Ukrainian assets.

The Management Company has delegated various tasks to abrdn's Investor Protection Committee (IPC). The IPC is responsible for ensuring the fair treatment of investors.

The IPC undertakes regular reviews of the following:

- Market liquidity across each asset class and fund;
- Asset class bid-offer spread monitoring;
- Review of fund level dilution rate appropriateness;
- Review of daily subscriptions/redemptions to anticipate any potential concerns to meet redemption proceeds;
- Any requirement to gate or defer redemptions;
- Any requirement to suspend a fund(s);
- Any fair value price adjustments at a fund level.

abrdn's Valuation and Pricing Committee (VPC) also continue to review the valuation of assets and the recoverability of income from those assets making appropriate adjustments where necessary. The VPC is made up of a wide range of specialists across abrdn with a wide range of experience in asset pricing.

The Management Company has also evaluated, and will continue to evaluate, the operational resilience of all service providers. The Company's key suppliers do not have operations pertaining to the Company in Ukraine or Russia.

As at 28 November 2022, abrdn Phoenix Fund has not been suspended and based on the Manager's assessment of the factors noted above, has adequate financial resources to continue in operation.

### Developments and Prospectus Updates Since 1 August 2021

- On 1 August 2021 the way that fund expenses are applied to the fund was amended to be a single General Administration Charge covering common fund costs (e.g. fund pricing functions) whereas fund specific costs are applied directly to the fund (e.g. the cost of holding the specific assets of the fund at the custodian). This change did not increase the on-going charge figure ("OCF") of the fund but created consistency of expense methodology across the Aberdeen Standard Fund Managers Limited range of funds. All investors received a communication regarding this change and OCF values continue to be available within the Key Investor Information Document (KIID). For further details see the fund prospectus which is available at www.abrdn.com.
- On 1 October 2021, the fund added a risk in relation to investing in China "A" shares through the Stock Connect platform.
- On 1 October 2021, as a result of the discontinuation of the London Inter Bank Offer Rate ("LIBOR"), the Investment Objective and Performance Target of the ASC Phoenix were updated. All investors received a communication at this time.
- On 24 October 2021, as a result of UK regulatory changes brought about by the UK's decision to leave the European Union, the Trustee of the funds changed from Citibank Europe PLC, UK Branch to Citibank UK Limited. There was no impact to the funds as a result of this change.
- On 5 November 2021, Mr. Robert McKillop resigned as a director of Aberdeen Standard Fund Managers Limited.
- On 10 November 2021, Mrs. Emily Smart was appointed as a director of Aberdeen Standard Fund Managers Limited.
- On 10 November 2021, Mrs. Denise Thomas was appointed as a director of Aberdeen Standard Fund Managers Limited.
- On 29 November 2021 the Investment Manager changed its name from Standard Life Investments Limited to abrdn Investment Management Limited.
- On 4 January 2022, Mrs. Rowan McNay was appointed as a director of Aberdeen Standard Fund Managers Limited.
- On 5 January 2022, Mrs. Claire Marshall resigned as a director of Aberdeen Standard Fund Managers Limited.
- On 24 February 2022, Mr. Adam Shanks was appointed as a director of Aberdeen Standard Fund Managers Limited.
- The list of funds managed by the Manager was updated, where appropriate.
- Performance and dilution figures were refreshed, where appropriate.
- The list of sub-delegates was refreshed, where appropriate.
- The list of eligible markets was refreshed, where appropriate.
- The list of sub-investment advisors to the funds was refreshed, where appropriate.

# Report of the Authorised Fund Manager

## Continued

- The risk disclosures in relation to the funds were refreshed, where appropriate.
- On 1 August 2022 the Fund changed its name from Aberdeen Standard Capital Phoenix Fund to abrdn Phoenix Fund. Additionally, the Manager of the Fund changed its name from "Aberdeen Standard Fund Managers Limited" to "abrdn Fund Managers Limited". Further details and a list of the renaming can be found at https://www.abrdn.com/en/uk/investor/fund-centre/investor-communications.

### Assessment of Value

In 2017 the Financial Conduct Authority (FCA) published the final Asset Management Market Study. This introduced (among other reforms) new governance rules with the aim of enhancing duty of care and ensuring the industry acts in investors' best interests. The rules were outlined in the FCA policy statement PS18/8 and came into effect from 30 September 2019. As a result, abrdn Fund Managers Limited is required to perform a detailed annual assessment, determining whether our funds are "providing value to investors". The resulting findings will be published on a composite basis throughout the year, and can be found on the 'Literature' pages of our website.

# Statement of Manager’s Responsibilities

The Collective Investment Schemes sourcebook published by the FCA, (“the COLL Rules”) require the Manager to prepare financial statements for each interim and annual accounting period which give a true and fair view of the financial position of the fund and of the net revenue and net capital gains or losses on the property of the fund for the period.

In preparing the financial statements the Manager is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- following UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- complying with the disclosure requirements of the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association in May 2014;
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- assessing the fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to liquidate the fund or to cease operations, or have no realistic alternative but to do so;
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- taking reasonable steps for the prevention and detection of fraud and irregularities.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, the Prospectus and the COLL Rules.

The Manager is responsible for the maintenance and integrity of the corporate and financial information included on the fund’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Manager’s Statement

In accordance with the requirements of the COLL Rules as issued and amended by the Financial Conduct Authority, we hereby certify the report on behalf of abrdn Fund Managers Limited, the Authorised Fund Manager.

**Aron Mitchell**
Director
28 November 2022

**Denise Thomas**
Director
28 November 2022

# Statement of the Trustee's Responsibilities in Respect of the Scheme and Report of the Trustee to the Unitholders of abrdn Phoenix Fund for the year ended 31 July 2022

The Trustee is responsible for the safekeeping of all property of the fund which is entrusted to it and ensuring proper registration of tangible moveable property, and for the collection of income arising from all such scheme property.

It is the duty of the Trustee to take reasonable care to ensure that the fund is managed and operated in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook ("the Sourcebook"), the Financial Services and Markets Act 2000, as amended, and the Trust Deed and the Prospectus of the fund, concerning: the pricing of and dealing in fund Units; the application of income of the scheme; and the fund investment portfolio and borrowing activities.

Having carried out procedures and enquiries considered duly necessary to discharge our responsibilities as Trustee of the scheme, based on information and explanations provided to us, we believe that, in all material respects, the Manager:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with the Sourcebook, the Trust Deed and Prospectus;

(ii) has observed the investment and borrowing powers and restrictions applicable to the scheme; and

(iii) has, otherwise, ensured the proper operation of the fund.

**Citibank UK Limited**
28 November 2022

# Independent Auditor's Report to the Unitholders of abrdn Phoenix Fund ("the fund")

## Opinion

We have audited the financial statements of the fund for the year ended 31 July 2022 which comprise the Statement of Total Return, the Statement of Change in Unitholders' Funds, the Balance Sheet, the Related Notes and Distribution Tables for the fund and the accounting policies set out on pages 31 to 33.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the financial position of the fund as at 31 July 2022 and of the net revenue and the net capital losses on the property of the fund for the year then ended; and
- have been properly prepared in accordance with the Trust Deed, the Statement of Recommended Practice relating to Authorised Funds, and the COLL Rules.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the fund in accordance with, UK ethical requirements including the FRC Ethical Standard.

We have received all the information and explanations which we consider necessary for the purposes of our audit and we believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The Manager has prepared the financial statements on the going concern basis as they do not intend to liquidate the fund or to cease their operations, and as they have concluded that the Fund's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Manager's conclusions, we considered the inherent risks to the Fund's business model and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Manager's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the fund will continue in operation.

## Fraud and breaches of laws and regulations – ability to detect

### Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Fund's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Assessing the segregation of duties in place between the Manager, the Trustee, the Administrator and the Investment Adviser;
- Reading board minutes.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue is principally non-judgemental and based on publicly available information, with limited opportunity for manipulation. We did not identify any additional fraud risks.

We evaluated the design and implementation of the controls over journal entries and other adjustments and made inquiries of the Administrator about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We substantively tested all material post-closing entries and, based on the results of our risk assessment procedures and understanding of the process, including the segregation of duties between the Manager and the Administrator, no further high-risk journal entries or other adjustments were identified.

# Independent Auditor's Report to the Unitholders of abrdn Phoenix Fund ("the fund")

## Continued

**Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Manager and the Administrator (as required by auditing standards) and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the fund is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related authorised fund legislation maintained by the Financial Conduct Authority) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the fund is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: money laundering, data protection and bribery and corruption legislation recognising the Fund's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and the Administrator and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

**Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### Other information

The Manager is responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information; and
- in our opinion the information given in the Manager's Report for the financial year is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the fund have not been kept; or
- the financial statements are not in agreement with the accounting records.

### Manager's responsibilities

As explained more fully in its statement set out on page 6, the Manager is responsible for: the preparation of financial statements that give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the fund or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report to the Unitholders of abrdn Phoenix Fund ("the fund")

## Continued

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Fund's unitholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Conduct Authority under section 247 of the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the Fund's unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the fund's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Grant Archer**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
28 November 2022

# Fund Profile and Investment Report

## Manager: Ben Ward

### Launch Date

10 April 1996

### Investment Objective

To generate growth over the long term (5 years or more) by investing in a diversified portfolio of equities (company shares and investment companies) and bonds (loans to governments or companies).

Performance Target: To exceed the return of the ARC Private Client Indices (PCI) Balanced Asset Index per annum ARC Balanced Composite (after charges), ARC Private Client Indices (PCI) Balanced Asset Index per annum, evaluated over rolling three year periods (after charges). The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target.

The manager believes this is an appropriate target for the fund since it reflects the risk and return profile that private clients expect and aligns with the investment policy of the fund.

### Investment Policy

#### Portfolio Securities

- The fund invests at least 70% in global equities (company shares and investment companies), and bonds including government bonds (loans to a government) and investment grade corporate bonds (loans to a company) issued anywhere in the world.
- The fund's equity holdings may include for example investments in companies operating in infrastructure, energy, property and commodities.
- The fund's bond holdings may include for example investment in sub sovereign debt, sub-investment grade and convertible issued anywhere in the world.
- The fund has flexibility to seek returns from currencies.
- The fund may also invest in other funds (including those managed by abrdn), money-market instruments, and cash.

#### Management Process

- The management team use their discretion (active management) to identify holdings and derivatives based on an analysis of global economic and market conditions (for example, interest rates and inflation) and analysis of a company's prospects and creditworthiness compared to that of the market.
- They focus on selecting company shares, bonds and derivatives, and ensuring that the allocation of assets meets the fund's objectives.
- The team also seek to reduce the risk of losses and the expected change (as measured by annual volatility) in the value of the fund, is not ordinarily expected to exceed 12%.

#### Derivatives and Techniques

- The fund may routinely use derivatives to reduce risk, to reduce cost and/or generate extra income or growth consistent with the risk profile of the fund (often referred to as 'Efficient Portfolio Management'), and for investment purposes.
- Derivatives include instruments used to manage expected changes in interest rates, companies share prices, currencies or creditworthiness of corporations or governments.
- The fund may also invest in other funds which may use derivatives extensively although these investments shall be in line with fund's overall risk profile.

| Reporting dates | |
|---|---|
| Interim | 31 January |
| Annual | 31 July |

| Distribution record dates | |
|---|---|
| Interim | 31 January |
| Annual | 31 July |

| Payment dates | |
|---|---|
| Interim | 24 March |
| Annual | 23 September |

### Keeping you Informed

You can keep up to date with the performance of your investments by visiting our website **abrdn.com.**

Alternatively, if you would rather speak to us, please call 0345 113 6966 (+44 (0) 1268 445 488 if outwith the UK) between 8:30am and 5:30pm Monday to Friday.

### Market Commentary

The recovery from the COVID-19 crisis continued through the first 4-5 months of the period, with global activity exceeding its pre-pandemic peak and risk assets continuing their upward trend. However, this rapid rebound triggered supply constraints in many sectors and economies, leading to a surge in global inflation. Demand-supply imbalances broadened out over many areas of the economy and while some are starting to ease, it is hard to escape the conclusion that COVID-19 has left a permanent mark on the supply side of the global economy.

# Fund Profile and Investment Report

## Continued

The remainder of the period was marked by high levels of volatility and steep losses on equity markets around the world. Rising global inflation, Russia's invasion of Ukraine and increasingly aggressive action by central banks combined to create one of the most challenging opening six-month periods for investors in decades.

Driven by spikes in oil and gas prices as well as supply-chain constraints, inflation in many developed countries has continued to surpass historical levels in recent months, raising the question of whether central bankers had taken the threat of soaring prices seriously enough over the past year. Indeed, in early March, Federal Reserve (Fed) chair Jerome Powell During said he expected inflation, which was then running at a rate of 6%, to "decline over the course of the year". (For reference, the gauge of price rises for the world's largest economy ended the first half of the year at 8.6% - it has subsequently moderated but remains at a historically high level.)

After making that statement, the Fed raised rates four times, the last being a hike of 75 basis points (bps) in July. On the back of such moves, bond yields continued to creep up, with the benchmark 10-year US Treasury yield nearing 3.5% before dropping down below 3% before the end of the period.

Markets quickly began to take note of the Fed's growing hawkishness as investor worries over central bank policy error dragged US and global indices down. Technology and small cap stocks bore the brunt of investor selling, with the tech-heavy NASDAQ 100 Index experiencing its biggest monthly fall since 2008 in April. The root cause of the losses could be found in the US Federal Reserve's (Fed) signal of a more aggressive path to higher interest rates. The implications of higher interest rates, fundamental to valuation, caused investors to rotate from richly valued growth stocks to areas of the economy perceived to benefit from higher rates such as financials and even more materially to energy stocks, as these were seen as good value and set to benefit from attractive supply-and-demand dynamics. The picture improved when companies reported earnings as many of these growth stocks continued to evidence growth and an ability to digest higher input prices, for now at least. Most highlight caution in terms of outlook.

In the UK, the Bank of England (BoE) began raising rates again at the end of 2021 and continued throughout the period since then, raising a total of 6 times, most recently at the August meeting. The institution forecast domestic price rises could hit 13% by the autumn on the back of soaring energy costs. Meanwhile, the European Central Bank was also expected to increase interest rates in the Eurozone for the first time in more than a decade at its July meeting.

Supply-chain constraints became increasingly difficult for many areas of the economy to digest as the year went on. In the spring, Chinese authorities introduced a series of strict 'zero-COVID-19' measures, most notably in the cities of Shanghai and Beijing, effectively locking down nearly 60 million people. With workers unable to leave their homes in both China's main port and financial district, factories and docks in the 'workshop of the world' have remained largely uninhabited or are operating with a reduced workforce. With the west re-emerging from the pandemic and many consumers also benefitting from rising wages, something of a supply-demand disconnect emerged.

The conflict in Ukraine drove oil and gas prices higher, in particular in major European economies such as Germany and the UK. Over the course of the first half of 2022, higher oil prices translated into bigger profits for energy majors. With the cost-of-living crisis really starting to bite, the UK government was pushed into introducing a windfall tax on oversized profits in order to fund a £15 billion package to aid under pressure households. Despite this, the energy-heavy FTSE 100 has outperformed overseas indices for much of the period, benefitting also from the rotation into value stocks.

The UK Government Bond index fell 14.1% over the period as yields rose to reflect a more aggressive path for interest rates and the market factored in inflation data that continued to surprise. Likewise, credit fell 11.8%, as both duration and a deteriorating outlook hit prices.

With the year seeing such a harsh rotation in markets against a deteriorating backdrop, it could be argued that it makes more sense than ever to have a well-diversified portfolio to weather the storm. We continue to focus on equities that have pricing power, companies for which we understand how they will achieve earnings growth over the long term - as beneficiaries of structural growth trends. We believe that as inflation subsides over the next year, fundamentals will once again drive share prices, and share performance will start to reflect the growth and quality characteristics of these companies. In addition, we continue to diversify risk with exposure to listed alternatives, specifically economic and renewable infrastructure and fixed-income assets, which are becoming more attractive as yields rise.

### Performance

abrdn Phoenix Fund ended the period down 6.2% (net of fees), which was behind its performance objective of -3.8% and the ARC Balanced Asset peer group estimate of -4.4%.

As inflation rose, the expectation of an accelerated path to higher interest rates caused a sharp increase in yields. This not only impacted fixed interest assets which fell in value but also the discount rate by which equity stocks are valued. This caused a steep sell-off in equity markets, especially for growth stocks, which are typically valued over a long term time horizon and therefore more vulnerable to the rise in discount rate. As a result positive returns were hard to come by for the fund during the period with negative returns from both fixed income (bonds) and equities only partially offset by positive returns from some of its alternative asset holdings.

Equity returns were determined by the significant declines in financial markets in January 2022. The Energy, Healthcare and telecommunications sectors were the only sectors which provided a positive return in the period whilst returns from the financials, industrials and property sectors were the most costly.

Our Energy holdings benefitted from rising commodity prices with Shell, BP and Total all benefitting from enhanced cash flows generated. This has been reflected in their share prices and resulted in extraordinary benchmark returns for this sector. As long term investors focused on quality beneficiaries of structural growth, the fund's exposure to these sectors is considered in the context of their approach to climate change and energy transition. All holdings in these areas have adopted decarbonisation policies that are targeting net zero emissions, with milestone commitments along the way. Renewable Energy company SolarEdge was the strongest of our energy holdings as its range of Solar products continued to be dominant in a growing US market.

The financial sector investments lost material value in the period with asset managers Amundi and Ashmore losing around 30%. Market falls placed doubts on Amundi's ability to grow AUM whilst Ashmore's exposure to emerging market debt was a weakness as allocators shunned the asset class. Private Equity managers Petershill Partners and Bridgepoint Group were also very weak as the market feared the environment for exiting holdings and raising new capital would be a challenge in a recessionary environment. Life insurance was also poor with holdings Ping An Insurance and Prudential both weak as COVID-19 continued to provide disruption in Asia whilst a risk of a global recession also weighed heavily.

The industrials sector was negative for the fund. A number of high-growth companies, particularly small-cap names, detracted the most: these included Generac, Schneider and DS Smith. The reason for this weakness was predominantly the derating of growth stocks that triggered steep declines in January and then April. The faster pace of interest-rate rises translated into a higher discount rate by which long-term stocks are valued. This resulted in a sharp devaluation of companies generating growth over a long-term period as opposed to a company dependent on a shorter-term economic outlook. While growth companies continue to generate revenue and earnings growth, the perception of their value in terms of forward-looking cash flows was diminished by a higher-than-expected rate of inflation and, therefore, a higher discount rate. As disappointing as the year-to-date performance has been, it is important to consider it in the context of longer-term returns. These companies are still benefitting from structural growth opportunities and we retain conviction.

We suffered losses from all the fixed income sub-asset classes we invested in. Developed market government bonds issued by the UK, US and Canada all produced negative returns however it was Emerging Market Debt that fared worst as COVID-19 continued to hinder those economies more than the developed world, whilst the Russia/Ukraine conflict also caused further uncertainty, with the world moving towards a global recession the outlook for this asset class looks challenged and as a result we reduced holdings. Corporate bonds outperformed government bonds but not enough to produce positive returns at either investment grade or lower quality issues.

The allocation to listed alternatives, specifically social and renewable energy, also added to performance. These holdings offer good inflation resilience, as renewable infrastructure assets (wind, solar and energy storage) have exposure to the power price and social infrastructure assets (roads, schools, hospitals and so on) have inflation protection written into their contracts. In addition, the lower-beta nature of these holdings meant they proved less volatile in the risk-off market.

### Activity

Within the equity portfolio we have reduced exposure to high-growth areas of the market; increased defensives, such as telecommunications and staples; and increased our exposure to sectors that are economically sensitive while also generating strong free cash flow and are trading at low valuations – such as the energy and basic materials sectors.

We exited the holding in Ping An Insurance due to concerns about the business model (specifically its agent reform program). In addition, the heightened Chinese regulatory scrutiny and faltering confidence in Chinese real estate have been unexpected headwinds that are likely to cause weakness. Similarly, Tencent and Alibaba were sold as conviction waned on the threat of further unpredictable Chinese regulation as the state increasingly takes action to implement its 'prosperity for all' strategy. We also exited lower conviction positions in Medtronic, Alstom, Comcast, Visa, Abcam, Alstom, Countryside Partnerships, Woodside Energy Group and JD.com. Woodside and JD.com had been spun out of other holdings earlier in the year.

We diversified our banking exposure by initiating a position in Singaporean Bank DBS. DBS is a beneficiary of the rising middle class in Asia, with a very high-quality digital proposition and wealth management operation. It should also profit from rising rates.

We initiated a position in Autodesk. Autodesk is a leading provider of design software for the construction and manufacturing industries, including the flagship program AutoCAD. This company offers exposure to some of the more cyclical and least digitalised end markets within software. We believe that a growing focus on the sustainability and efficiency of these industries will provide strong long-term structural support to overall increased software adoption. The company has an attractive business model of high margin recurring subscription revenues and a strong moat driven by best-in-class products, leading market share and sticky customer base.

Other additions included payments firm Ayden, Watches of Switzerland and Reckitt Benckiser, while we also added to positions in oil majors Shell and BP in advance of Russia's invasion of Ukraine.

Within fixed income, the large issuance of government bonds is expected to weigh on the longer end of the gilt curve (government bonds that are due to mature in 30 years or more). Therefore , we shifted part of the government bond exposure to the middle of the curve (10 year maturity), which we believe more accurately reflects the interest rate outlook.

Within alternatives we participated in the listings of Pantheon Infrastructure and Petershill Partners whilst we exited our remaining small gold ETF position. Within property we added Supermarket Income REIT, the UK Supermarket landlord has attractive inflation linkages within its long leases, with a less stable backdrop we sold lower conviction property companies Tag Immobillien and Omega Healthcare Investors.

## Outlook

With the BoE predicting UK inflation may hit 13% by the autumn, the economic environment could well become more difficult before it improves. We expect interest rates and prices to reach their highest point during the third quarter this year before starting to subside as we head into 2023. We also expect the labour market to begin to cool as rate hikes begin to bite employers.

As previously mentioned, the BoE is not alone in its desire to rein in inflation, with tighter monetary policy outlined by central bank governors from the US, across Europe and even as far away as Japan. This large-scale collaborative tightening (which is as aggressive in some geographies as any policy since the early 00s) to curb imbalances within the global economy is fraught with risks. The raising of interest rates is a blunt but very effective way for central banks to curb excess demand. However, the likelihood of a policy mistake in an environment of high inflation and full employment aligned with high energy costs -- driven in part by military conflict -- is not insignificant. Our scenario analysis suggests that there is a non-trivial chance that the current approach could lead the global economy into recession over the next 18 months.

However, there are reasons to be optimistic about the battle against the consistently strong inflation we have seen in 2022. One of the main contributors to rapid price increases throughout the year has been the persistent supply bottlenecks: these look to be easing as China reopens after several COVID-19-induced lockdowns. COVID-19 cases in the world's second-largest economy are now starting to fall at a rapid rate, with some shops and factories opening their doors once again, which should lead to a welcome pickup in supply across the world.

There are clearly multiple economic and political challenges that markets are looking to navigate at present. We continue to monitor these developments closely and will act proactively to take advantage of opportunities within our portfolio as they present themselves.

Our quality, sustainable-growth approach maintains our focus on companies underpinned by long-term structural growth themes. We seek to identify businesses that will benefit from shifting trends while avoiding those where change will be detrimental. Experience has taught us that companies that have strong balance sheets and the ability to create value by generating cash flow exceeding their operational requirements tend to generate stronger and more sustainable returns. They are also usually better positioned to reinvest in their operations and distribute earnings to shareholders. We believe these types of companies merit long-term positions in portfolios regardless of shorter-term sentiment.

**August 2022**

# Fund Profile and Investment Report

## Continued

### Risk and Reward Profile

The Risk and Reward Indicator table demonstrates where the fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the fund. The table below shows the fund's ranking on the Risk and Reward Indicator.

**Typically lower rewards, lower risk** ← → **Typically higher rewards, higher risk**

| 1 | 2 | 3 | **4** | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

Risk and reward indicator table as at 31 July 2022.

The fund is rated as 4 because of the extent to which the following risk factors apply:

- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The fund invests in emerging market equities and/or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

All investment involves risk. This fund offers no guarantee against loss or that the fund's objective will be attained.

The price of assets 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.

Inflation reduces the buying power of your investment and income.

The value of assets held in the fund may rise and fall as a result of exchange rate fluctuations.

The fund could lose money if an entity (counterparty) with which it does business becomes unwilling or unable to honour its obligations to the fund.

In extreme market conditions some securities may become hard to value or sell at a desired price. This could affect the fund's ability to meet redemptions in a timely manner.

The fund could lose money as the result of a failure or delay in operational processes and systems including but not limited to third party providers failing or going into administration.

# Comparative Tables

| B Accumulation | 2022<br>pence per unit | 2021<br>pence per unit | 2020<br>pence per unit |
|---|---|---|---|
| **Change in net assets per unit** | | | |
| Opening net asset value per unit | 256.13 | 232.19 | 224.74 |
| Return before operating charges* | (10.75) | 26.47 | 9.88 |
| Operating charges | (3.17) | (2.53) | (2.43) |
| Return after operating charges* | (13.92) | 23.94 | 7.45 |
| Distributions | (4.10) | (4.28) | (4.54) |
| Retained distributions on accumulation units | 4.10 | 4.28 | 4.54 |
| Closing net asset value per unit | 242.21 | 256.13 | 232.19 |
| * after direct transaction costs of: | 0.16 | 0.07 | 0.12 |
| | | | |
| **Performance** | | | |
| Return after charges | (5.43%) | 10.31% | 3.31% |
| | | | |
| **Other information** | | | |
| Closing net asset value (£'000) | 102 | 108 | 601 |
| Closing number of units | 41,925 | 41,925 | 258,974 |
| Operating charges | 1.27% | 1.06% | 1.07% |
| Direct transaction costs | 0.07% | 0.03% | 0.05% |
| | | | |
| **Prices** | | | |
| Highest unit price | 262.7 | 256.7 | 235.9 |
| Lowest unit price | 231.0 | 232.8 | 198.5 |

The closing net asset value (£'000) divided by the closing number of units may not calculate to the closing net asset value per unit (p) due to rounding differences. The published closing net asset value per unit (p) is based on unrounded values and represents the actual price.
The return after charges figures are based on the accounting NAV, as the financial statements are produced at a valuation point that is different from the published daily NAV.
Operating charges are expenses associated with the maintenance and administration of the fund on a day to day basis that are actually borne by the unit class.
Highest and Lowest prices are based on official published daily NAVs.
Due to new guidance that came into force from 30 June 2022, the charges for underlying Closed Ended Funds held on the fund have now been included in the Operating Charges.

# Comparative Tables

## Continued

| B Income | 2022<br>pence per unit | 2021<br>pence per unit | 2020<br>pence per unit |
|---|---|---|---|
| **Change in net assets per unit** | | | |
| Opening net asset value per unit | 175.09 | 161.41 | 159.35 |
| Return before operating charges* | (7.35) | 18.41 | 6.93 |
| Operating charges | (2.08) | (1.75) | (1.70) |
| Return after operating charges* | (9.43) | 16.66 | 5.23 |
| Distributions | (2.79) | (2.98) | (3.17) |
| Closing net asset value per unit | 162.87 | 175.09 | 161.41 |
| * after direct transaction costs of: | 0.11 | 0.05 | 0.08 |
| | | | |
| **Performance** | | | |
| Return after charges | (5.39%) | 10.32% | 3.28% |
| | | | |
| **Other information** | | | |
| Closing net asset value (£'000) | 223 | 21 | 199 |
| Closing number of units | 137,070 | 12,198 | 123,239 |
| Operating charges | 1.27% | 1.06% | 1.07% |
| Direct transaction costs | 0.07% | 0.03% | 0.05% |
| | | | |
| **Prices** | | | |
| Highest unit price | 179.6 | 177.3 | 165.7 |
| Lowest unit price | 156.9 | 161.8 | 139.4 |

The closing net asset value (£'000) divided by the closing number of units may not calculate to the closing net asset value per unit (p) due to rounding differences. The published closing net asset value per unit (p) is based on unrounded values and represents the actual price.
The return after charges figures are based on the accounting NAV, as the financial statements are produced at a valuation point that is different from the published daily NAV.
Operating charges are expenses associated with the maintenance and administration of the fund on a day to day basis that are actually borne by the unit class.
Highest and Lowest prices are based on official published daily NAVs.
Due to new guidance that came into force from 30 June 2022, the charges for underlying Closed Ended Funds held on the fund have now been included in the Operating Charges.

# Comparative Tables

## Continued

| Z (Net Accumulation) | 2022 pence per unit | 2021 pence per unit | 2020 pence per unit |
|---|---|---|---|
| **Change in net assets per unit** | | | |
| Opening net asset value per unit | 82.29 | 74.01 | 71.08 |
| Return before operating charges* | (3.63) | 8.33 | 2.98 |
| Operating charges | (0.22) | (0.05) | (0.05) |
| Return after operating charges* | (3.85) | 8.28 | 2.93 |
| Distributions | (1.96) | (1.99) | (2.00) |
| Retained distributions on accumulation units | 1.96 | 1.99 | 2.00 |
| Closing net asset value per unit | 78.44 | 82.29 | 74.01 |
| * after direct transaction costs of: | 0.05 | 0.02 | 0.04 |
| **Performance** | | | |
| Return after charges | (4.68%) | 11.19% | 4.12% |
| **Other information** | | | |
| Closing net asset value (£'000) | 169,150 | 113,533 | 99,920 |
| Closing number of units | 215,641,021 | 137,963,697 | 135,010,137 |
| Operating charges | 0.27% | 0.06% | 0.07% |
| Direct transaction costs | 0.07% | 0.03% | 0.05% |
| **Prices** | | | |
| Highest unit price | 84.48 | 82.47 | 75.19 |
| Lowest unit price | 74.74 | 74.31 | 63.10 |

The closing net asset value (£'000) divided by the closing number of units may not calculate to the closing net asset value per unit (p) due to rounding differences. The published closing net asset value per unit (p) is based on unrounded values and represents the actual price.
The return after charges figures are based on the accounting NAV, as the financial statements are produced at a valuation point that is different from the published daily NAV.
Operating charges are expenses associated with the maintenance and administration of the fund on a day to day basis that are actually borne by the unit class.
Highest and Lowest prices are based on official published daily NAVs.
Due to new guidance that came into force from 30 June 2022, the charges for underlying Closed Ended Funds held on the fund have now been included in the Operating Charges.

# Comparative Tables

## Continued

| Z (Net Income) | 2022 pence per unit | 2021 pence per unit | 2020 pence per unit |
|---|---|---|---|
| **Change in net assets per unit** | | | |
| Opening net asset value per unit | 64.45 | 59.42 | 58.66 |
| Return before operating charges* | (2.84) | 6.66 | 2.44 |
| Operating charges | (0.17) | (0.04) | (0.04) |
| Return after operating charges* | (3.01) | 6.62 | 2.40 |
| Distributions | (1.53) | (1.59) | (1.64) |
| Closing net asset value per unit | 59.91 | 64.45 | 59.42 |
| * after direct transaction costs of: | 0.04 | 0.02 | 0.03 |
| **Performance** | | | |
| Return after charges | (4.67%) | 11.14% | 4.09% |
| **Other information** | | | |
| Closing net asset value (£'000) | 86,743 | 61,378 | 55,932 |
| Closing number of units | 144,798,907 | 95,233,024 | 94,122,845 |
| Operating charges | 0.27% | 0.06% | 0.07% |
| Direct transaction costs | 0.07% | 0.03% | 0.05% |
| **Prices** | | | |
| Highest unit price | 66.17 | 65.51 | 61.22 |
| Lowest unit price | 57.89 | 59.67 | 51.38 |

The closing net asset value (£'000) divided by the closing number of units may not calculate to the closing net asset value per unit (p) due to rounding differences. The published closing net asset value per unit (p) is based on unrounded values and represents the actual price.
The return after charges figures are based on the accounting NAV, as the financial statements are produced at a valuation point that is different from the published daily NAV.
Operating charges are expenses associated with the maintenance and administration of the fund on a day to day basis that are actually borne by the unit class.
Highest and Lowest prices are based on official published daily NAVs.
Due to new guidance that came into force from 30 June 2022, the charges for underlying Closed Ended Funds held on the fund have now been included in the Operating Charges.

# Portfolio Statement

## As at 31 July 2022

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| **Bonds (19.72%)** | | **48,316** | **18.86** |
| **Australian Dollar Denominated Bonds (2.09%)** | | **3,639** | **1.42** |
| **Government Bonds (2.09%)** | | **3,639** | **1.42** |
| | | | |
| less than 5 years to maturity | | | |
| 2,609,000 | Australia (Commonwealth of) 2.25% 2022 | 1,496 | 0.58 |
| 3,441,000 | Australia (Commonwealth of) 4.75% 2027 | 2,143 | 0.84 |
| | | | |
| **Canadian Dollar Denominated Bonds (1.45%)** | | **2,561** | **1.00** |
| **Government Bonds (1.45%)** | | **2,561** | **1.00** |
| | | | |
| between 5 and 10 years to maturity | | | |
| 4,124,000 | Canada (Govt of) 2% 2028 | 2,561 | 1.00 |
| | | | |
| **Euro Denominated Bonds (2.13%)** | | **3,408** | **1.34** |
| **Corporate Bonds (2.13%)** | | **3,408** | **1.34** |
| | | | |
| less than 5 years to maturity | | | |
| 500,000 | Banco Bilbao Vizcaya Argentaria 3.5% 2027 | 429 | 0.17 |
| 425,000 | Intertrust 3.375% 2025 | 346 | 0.14 |
| 465,000 | Intrum 3.5% 2026 | 334 | 0.13 |
| 424,000 | Lincoln Financing 3.625% 2024 | 348 | 0.14 |
| 400,000 | Schaeffler 2.875% 2027 | 313 | 0.12 |
| 400,000 | Verisure 3.25% 2027 | 294 | 0.11 |
| | | | |
| between 5 and 10 years to maturity | | | |
| 400,000 | Nomad Foods Bondco 2.5% 2028 | 281 | 0.11 |
| 800,000 | Volkswagen International Finance 3.75% 2027 | 711 | 0.28 |
| | | | |
| Perpetual | | | |
| 412,000 | LeasePlan 7.375% fixed to floating Perpetual | 352 | 0.14 |
| | | | |
| **Sterling Denominated Bonds (9.24%)** | | **25,297** | **9.88** |
| **Corporate Bonds (8.34%)** | | **13,948** | **5.45** |
| | | | |
| less than 5 years to maturity | | | |
| 351,000 | America Movil 5% 2026 | 375 | 0.15 |
| 350,000 | Bellis Acquisition 3.25% 2026 | 283 | 0.11 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| 730,000 | BMW Finance 0.875% 2022 | 730 | 0.28 |
| 301,000 | Close Brothers 2.75% 2023 | 299 | 0.12 |
| 350,000 | Garfunkelux Holdco 3 7.75% 2025 | 303 | 0.12 |
| 425,000 | Iceland Bondco 4.625% 2025 | 354 | 0.14 |
| 233,000 | Lloyds Bank 7.625% 2025 | 254 | 0.10 |
| 200,000 | Lloyds Banking 2.25% 2024 | 195 | 0.08 |
| 78,000 | National Grid Gas 4.1875% Index-Linked 2022 | 158 | 0.06 |
| 319,000 | NatWest 5.125% 2024 | 332 | 0.13 |
| 350,000 | Premier Foods Finance 3.5% 2026 | 316 | 0.12 |
| 140,000 | Scottish Widows 5.5% 2023 | 141 | 0.06 |
| 300,000 | Severn Trent Utilities Finance 3.625% 2026 | 306 | 0.12 |
| 400,000 | TalkTalk Telecom 3.875% 2025 | 353 | 0.14 |
| 423,000 | Thames Water Kemble Finance 4.625% 2026 | 372 | 0.15 |
| 382,000 | Verizon Communications 4.073% 2024 | 388 | 0.15 |
| 512,000 | Virgin Money UK 3.125% fixed to floating 2025 | 499 | 0.19 |
| | | | |
| between 5 and 10 years to maturity | | | |
| 149,000 | Assura Financing REIT 1.5% 2030 | 127 | 0.05 |
| 154,000 | Assura Financing REIT 3% 2028 | 150 | 0.06 |
| 449,000 | AT&T 4.375% 2029 | 469 | 0.18 |
| 350,000 | Bank of America 7% 2028 | 421 | 0.16 |
| 539,000 | Close Brothers Finance 1.625% 2030 | 463 | 0.18 |
| 622,000 | Digital Stout REIT 3.75% 2030 | 592 | 0.23 |
| 203,000 | Experian Finance 3.25% 2032 | 200 | 0.08 |
| 451,000 | HSBC 5.75% 2027 | 473 | 0.18 |
| 200,000 | Shaftesbury Chinatown 2.348% 2027 | 190 | 0.07 |
| 750,000 | Tesco Corporate Treasury Services 2.75% 2030 | 673 | 0.26 |
| 425,000 | Virgin Media Secured Finance 4.25% 2030 | 366 | 0.14 |
| | | | |
| between 10 and 15 years to maturity | | | |
| 200,000 | Aviva 6.125% fixed to floating 2036 | 210 | 0.08 |
| 450,000 | Barclays 3.25% 2033 | 410 | 0.16 |
| 500,000 | GlaxoSmithKline Capital 5.25% 2033 | 604 | 0.24 |
| 295,000 | Vodafone 5.9% 2032 | 349 | 0.14 |
| | | | |
| between 15 and 25 years to maturity | | | |
| 200,000 | Legal & General 5.375% fixed to floating 2045 | 204 | 0.08 |
| 170,000 | Tesco Property Finance 3 5.744% 2040 | 169 | 0.07 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| greater than 25 years to maturity | | | |
| 253,000 | Bromford Housing 3.125% 2048 | 225 | 0.09 |
| 138,000 | M&G 5.56% fixed to floating 2055 | 131 | 0.05 |
| 385,000 | NGG Finance 5.625% fixed to floating 2073 | 368 | 0.14 |
| | | | |
| Perpetual | | | |
| 800,000 | BP Capital Markets 4.25% fixed to floating Perpetual | 738 | 0.29 |
| 375,000 | Credit Agricole 7.5% fixed to floating Perpetual | 378 | 0.15 |
| 425,000 | National Express 4.25% fixed to floating Perpetual | 380 | 0.15 |
| | | | |
| **Government Bonds (0.90%)** | | **11,349** | **4.43** |
| | | | |
| between 5 and 10 years to maturity | | | |
| 4,508,500 | UK (Govt of) 0.25% 2031 | 3,916 | 1.53 |
| | | | |
| between 10 and 15 years to maturity | | | |
| 5,610,800 | UK (Govt of) 0.625% 2035 | 4,590 | 1.79 |
| | | | |
| between 15 and 25 years to maturity | | | |
| 2,520,500 | UK (Govt of) 3.25% 2044 | 2,843 | 1.11 |
| | | | |
| **US Dollar Denominated Bonds (4.81%)** | | **13,411** | **5.22** |
| **Corporate Bonds (2.40%)** | | **7,122** | **2.77** |
| | | | |
| less than 5 years to maturity | | | |
| 850,000 | Activision Blizzard 3.4% 2026 | 701 | 0.27 |
| 800,000 | Carrier Global 2.242% 2025 | 634 | 0.25 |
| 687,000 | Teva Pharmaceutical Finance Netherlands III 3.15% 2026 | 507 | 0.20 |
| | | | |
| between 5 and 10 years to maturity | | | |
| 330,000 | BPCE 3.5% 2027 | 255 | 0.10 |
| 197,000 | Broadcom 4.15% 2030 | 154 | 0.06 |
| 843,000 | EOG Resources 4.375% 2030 | 720 | 0.28 |
| 449,000 | Ford Motor 9.625% 2030 | 441 | 0.17 |
| 1,433,000 | Home Depot 1.875% 2031 | 1,026 | 0.40 |
| 621,000 | Iron Mountain REIT 5.25% 2028 | 492 | 0.19 |
| 666,000 | NRG Energy 3.375% 2029 | 474 | 0.18 |
| 800,000 | Sprint Spectrum 5.152% 2028 | 666 | 0.26 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| between 10 and 15 years to maturity | | | |
| 24,000 | Abi Sab 6.625% 2033 | 23 | 0.01 |
| 25,000 | Broadcom 3.187% 2036 | 16 | 0.01 |
| 265,000 | Broadcom 4.926% 2037 | 207 | 0.08 |
| 663,000 | CCO 4.25% 2034 | 441 | 0.17 |
| | | | |
| greater than 25 years to maturity | | | |
| 453,000 | Vodafone 6.25% fixed to floating 2078 | 365 | 0.14 |
| | | | |
| **Government Bonds (2.41%)** | | **6,289** | **2.45** |
| | | | |
| between 15 and 25 years to maturity | | | |
| 365,000 | JobsOhio Beverage System 2.833% 2038 | 257 | 0.10 |
| 2,870,700 | US Treasury 0.75% Index-Linked 2045 | 2,850 | 1.11 |
| 4,734,000 | US Treasury 2% 2041 | 3,182 | 1.24 |
| | | | |
| **Equities (68.71%)** | | **157,311** | **61.41** |
| **European Equities (15.26%)** | | **35,173** | **13.74** |
| **Denmark (0.55%)** | | **1,706** | **0.67** |
| | | | |
| 17,866 | Ørsted | 1,706 | 0.67 |
| | | | |
| **France (2.57%)** | | **5,861** | **2.29** |
| | | | |
| 34,070 | Amundi | 1,510 | 0.59 |
| 1,305 | Hermes International | 1,457 | 0.57 |
| 11,396 | Schneider Electric | 1,284 | 0.50 |
| 38,625 | TotalEnergies | 1,610 | 0.63 |
| | | | |
| **Germany (1.23%)** | | **1,946** | **0.76** |
| | | | |
| 40,709 | Mercedes-Benz | 1,946 | 0.76 |
| | | | |
| **Ireland (3.51%)** | | **7,351** | **2.87** |
| | | | |
| 5,637 | Accenture 'A' | 1,419 | 0.55 |
| 39,734 | CRH | 1,246 | 0.49 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| 3,188,469 | Greencoat Renewables++ | 3,233 | 1.26 |
| 57,833 | Keywords Studios++ | 1,453 | 0.57 |
| | | | |
| **Italy (0.64%)** | | **1,520** | **0.59** |
| | | | |
| 369,496 | Enel | 1,520 | 0.59 |
| | | | |
| **Luxembourg (1.17%)** | | **2,889** | **1.13** |
| | | | |
| 1,617,413 | BBGI Global Infrastructure | 2,889 | 1.13 |
| | | | |
| **Netherlands (2.27%)** | | **6,753** | **2.64** |
| | | | |
| 850 | Adyen | 1,242 | 0.48 |
| 3,497 | ASML | 1,627 | 0.64 |
| 189,984 | CTP | 1,996 | 0.78 |
| 699,927 | Koninklijke KPN | 1,888 | 0.74 |
| | | | |
| **Spain (0.78%)** | | **2,557** | **1.00** |
| | | | |
| 70,012 | Cellnex Telecom | 2,557 | 1.00 |
| | | | |
| **Switzerland (2.54%)** | | **4,590** | **1.79** |
| | | | |
| 29,617 | BB Biotech | 1,462 | 0.57 |
| 18,750 | Nestle | 1,883 | 0.74 |
| 4,574 | Roche (Participating certificate) | 1,245 | 0.48 |
| | | | |
| **Japanese Equities (1.79%)** | | **3,126** | **1.22** |
| | | | |
| 2,910 | Canadian Solar Infrastructure Fund REIT | 2,177 | 0.85 |
| 6,934 | Shimano | 949 | 0.37 |
| | | | |
| **Middle East Equities (0.00%)** | | **2,201** | **0.86** |
| **Israel (0.00%)** | | **2,201** | **0.86** |
| | | | |
| 7,442 | SolarEdge Technologies | 2,201 | 0.86 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| **North American Equities (17.48%)** | | **34,942** | **13.65** |
| **United States (17.48%)** | | **34,942** | **13.65** |
| 19,363 | Activision Blizzard | 1,272 | 0.50 |
| 16,220 | Alphabet 'A' | 1,550 | 0.60 |
| 12,403 | Amazon.com | 1,375 | 0.54 |
| 31,664 | Ameresco 'A' | 1,484 | 0.58 |
| 7,711 | American Tower REIT | 1,717 | 0.67 |
| 8,795 | Autodesk | 1,563 | 0.61 |
| 35,051 | Boston Scientific | 1,182 | 0.46 |
| 152,612 | Burford Capital++ | 1,343 | 0.52 |
| 9,430 | Eli Lilly | 2,554 | 1.00 |
| 3,452 | Equinix REIT | 1,996 | 0.78 |
| 5,919 | Estee Lauder 'A' | 1,328 | 0.52 |
| 10,281 | First Republic Bank | 1,375 | 0.54 |
| 7,098 | Generac | 1,562 | 0.61 |
| 44,557 | Hannon Armstrong Sustainable Infrastructure Capital REIT | 1,321 | 0.52 |
| 3,462 | Intuit | 1,298 | 0.51 |
| 6,051 | Mastercard 'A' | 1,760 | 0.69 |
| 7,428 | Microsoft | 1,714 | 0.67 |
| 29,981 | NextEra Energy | 2,082 | 0.81 |
| 15,614 | Procter & Gamble | 1,783 | 0.70 |
| 21,488 | Prologis REIT | 2,341 | 0.91 |
| 4,452 | West Pharmaceutical Services | 1,257 | 0.49 |
| 26,007 | YETI | 1,085 | 0.42 |
| **Pacific Basin Equities (3.80%)** | | **6,804** | **2.65** |
| **Australia (1.23%)** | | **2,480** | **0.96** |
| 55,118 | BHP | 1,239 | 0.48 |
| 22,148 | Rio Tinto | 1,241 | 0.48 |
| **China (1.31%)** | | **-** | **-** |
| **Hong Kong (0.62%)** | | **1,280** | **0.50** |
| 154,920 | AIA | 1,280 | 0.50 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| **Singapore (0.00%)** | | **1,715** | **0.67** |
| | | | |
| 91,700 | DBS | 1,715 | 0.67 |
| | | | |
| **Taiwan (0.64%)** | | **1,329** | **0.52** |
| | | | |
| 18,287 | Taiwan Semiconductor Manufacturing ADR | 1,329 | 0.52 |
| | | | |
| **UK Equities (30.38%)** | | **75,065** | **29.29** |
| **Basic Materials (0.62%)** | | **-** | **-** |
| | | | |
| **Consumer Discretionary (1.43%)** | | **2,791** | **1.09** |
| | | | |
| 62,940 | RELX | 1,526 | 0.60 |
| 142,650 | Watches of Switzerland | 1,265 | 0.49 |
| | | | |
| **Consumer Staples (0.00%)** | | **1,421** | **0.55** |
| | | | |
| 21,384 | Reckitt Benckiser | 1,421 | 0.55 |
| | | | |
| **Energy (0.00%)** | | **4,514** | **1.76** |
| | | | |
| 481,687 | BP | 1,926 | 0.75 |
| 118,788 | Shell | 2,588 | 1.01 |
| | | | |
| **Financials (21.59%)** | | **50,628** | **19.75** |
| | | | |
| 886,091 | 3i Infrastructure | 2,964 | 1.16 |
| 1,516,537 | Apax Global Alpha | 2,560 | 1.00 |
| 2,538,928 | Aquila European Renewables Income Fund | 2,127 | 0.83 |
| 2,411,600 | Bluefield Solar Income Fund | 3,244 | 1.27 |
| 435,910 | Bridgepoint | 1,111 | 0.43 |
| 2,307,958 | Cordiant Digital Infrastructure | 2,458 | 0.96 |
| 2,547,574 | Digital 9 Infrastructure | 2,879 | 1.12 |
| 2,051,136 | Greencoat UK Wind | 3,157 | 1.23 |
| 2,146,549 | Gresham House Energy Storage Fund | 3,424 | 1.34 |
| 1,617,413 | HICL Infrastructure | 2,801 | 1.09 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| 2,394,105 | Hipgnosis Songs Fund | 2,638 | 1.03 |
| 1,826,532 | International Public Partnerships | 2,974 | 1.16 |
| 41,500 | NB Distressed Debt Investment Fund | 25 | 0.01 |
| 1,805,675 | Pantheon Infrastructure | 1,887 | 0.74 |
| 517,572 | Petershill Partners | 1,209 | 0.47 |
| 125,788 | Prudential | 1,265 | 0.49 |
| 2,307,528 | Renewables Infrastructure | 3,180 | 1.24 |
| 2,872,881 | Round Hill Music Royalty Fund | 2,314 | 0.90 |
| 2,403,605 | Schiehallion Fund 'C' | 1,383 | 0.54 |
| 2,181,922 | Sequoia Economic Infrastructure Income Fund | 1,916 | 0.75 |
| 2,430,142 | Tufton Oceanic Assets | 2,436 | 0.95 |
| 2,489,026 | VH Global Sustainable Energy Opportunities | 2,676 | 1.04 |
| | | | |
| **Health Care (2.10%)** | | **3,310** | **1.29** |
| | | | |
| 20,149 | AstraZeneca | 2,185 | 0.85 |
| 30,544 | Dechra Pharmaceuticals | 1,125 | 0.44 |
| | | | |
| **Industrials (0.74%)** | | **1,105** | **0.43** |
| | | | |
| 379,598 | DS Smith | 1,105 | 0.43 |
| | | | |
| **Real Estate (3.90%)** | | **11,296** | **4.42** |
| | | | |
| 3,572,333 | Assura REIT | 2,452 | 0.96 |
| 1,653,615 | Primary Health Properties REIT | 2,439 | 0.95 |
| 175,379 | Segro REIT | 1,920 | 0.75 |
| 2,004,991 | Supermarket Income REIT | 2,576 | 1.01 |
| 968,477 | Tritax Big Box REIT | 1,909 | 0.75 |
| | | | |
| **Exchange Traded Funds (0.55%)** | | **-** | **-** |
| | | | |
| **Collective Investment Schemes (6.63%)** | | **13,426** | **5.24** |
| | | | |
| 7,731,650 | ASI Active Overlay Fund ICAV Z Acc+ | 7,861 | 3.07 |
| 796,123 | Neuberger Berman Emerging Markets Debt Local Currency Fund I4 Inc | 5,565 | 2.17 |

# Portfolio Statement

## As at 31 July 2022 continued

| Holding | Investment | Market value £'000 | Percentage of total net assets |
|---|---|---|---|
| **Derivatives (0.11%)** | | **274** | **0.09** |
| **Exchange Traded Options (0.13%)** | | **144** | **0.05** |
| 440 | Buy PUT FTSE 100 INDEX 16/09/2022 | 183 | 0.07 |
| 56 | Buy PUT S&P 500 INDEX 15/09/2022 | 34 | 0.01 |
| (220) | Sell PUT FTSE 100 INDEX 16/09/2022 | (60) | (0.02) |
| (28) | Sell PUT S&P 500 INDEX 15/09/2022 | (13) | (0.01) |
| **Forward Currency Contracts (-0.02%)** | | **130** | **0.04** |
| | Buy GBP 3,786,384 Sell AUD 6,750,059 08/09/2022 | (83) | (0.03) |
| | Buy GBP 2,963,172 Sell CAD 4,643,392 08/09/2022 | (12) | - |
| | Buy GBP 706,402 Sell EUR 828,950 08/09/2022 | 11 | - |
| | Buy GBP 3,770,842 Sell EUR 4,356,557 08/09/2022 | 113 | 0.04 |
| | Buy GBP 643,519 Sell USD 768,944 08/09/2022 | 12 | - |
| | Buy GBP 18,491,420 Sell USD 22,414,762 08/09/2022 | 89 | 0.03 |
| Total investment assets and liabilities | | 219,327 | 85.60 |
| Net other assets | | 36,891 | 14.40 |
| **Total Net Assets** | | **256,218** | **100.00** |

All investments (excluding OTC derivatives) are listed on recognised stock exchanges and are approved securities, regulated collective investment schemes or approved derivatives within the meaning of the FCA rules.
The percentage figures in brackets show the comparative holding as at 31 July 2021.
+ Managed by subsidiaries of abrdn plc.
++ AIM listed.

# Financial Statements

## Statement of Total Return

### For the year ended 31 July 2022

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Income: | | | | | |
| Net capital (losses)/gains | 3 | | (16,553) | | 13,246 |
| Revenue | 4 | 5,964 | | 4,658 | |
| Expenses | 5 | (34) | | (42) | |
| Interest payable and similar charges | | (8) | | (4) | |
| Net revenue before taxation | | 5,922 | | 4,612 | |
| Taxation | 6 | (545) | | (375) | |
| Net revenue after taxation | | | 5,377 | | 4,237 |
| **Total return before distributions** | | | **(11,176)** | | **17,483** |
| Distributions | 7 | | (5,377) | | (4,237) |
| **Change in net assets attributable to unitholders from investment activities** | | | **(16,553)** | | **13,246** |

## Statement of Change in Net Assets Attributable to Unitholders

### For the year ended 31 July 2022

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Opening net assets attributable to unitholders** | | **175,040** | | **156,652** |
| Amounts receivable on the issue of units | 104,252 | | 25,414 | |
| Amounts payable on the cancellation of units | (10,441) | | (23,094) | |
| | | 93,811 | | 2,320 |
| Dilution adjustment | | 40 | | 20 |
| Change in net assets attributable to unitholders from investment activities (see above) | | (16,553) | | 13,246 |
| Retained distribution on accumulation units | | 3,880 | | 2,802 |
| **Closing net assets attributable to unitholders** | | **256,218** | | **175,040** |

# Financial Statements

## Continued

### Balance Sheet

**As at 31 July 2022**

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | **Notes** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Assets:** | | | | | |
| **Fixed assets:** | | | | | |
| Investment assets | | | 219,495 | | 167,813 |
| **Current assets:** | | | | | |
| Debtors | 8 | 1,000 | | 792 | |
| Cash and bank balances | 9 | 38,382 | | 7,744 | |
| | | | 39,382 | | 8,536 |
| **Total assets** | | | **258,877** | | **176,349** |
| | | | | | |
| **Liabilities:** | | | | | |
| Investment liabilities | | | (168) | | (265) |
| Provisions for liabilities | 10 | | (7) | | (1) |
| Creditors | 11 | (1,262) | | (170) | |
| Distribution payable | | (1,222) | | (873) | |
| | | | (2,484) | | (1,043) |
| **Total liabilities** | | | **(2,659)** | | **(1,309)** |
| **Net assets attributable to shareholders** | | | **256,218** | | **175,040** |

# Notes to the Financial Statements

## For the year ended 31 July 2022

## 1 Accounting Policies

### a. Basis of preparation

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by the Investment Management Association in May 2014 (IMA SORP 2014), FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Manager has considered the impact of the emergence and spread of COVID-19 and potential implications on future operations of the fund of reasonably plausible downside scenarios. The Manager has undertaken a detailed assessment, and continues to monitor, the fund's ability to meet its liabilities as they fall due, including liquidity, declines in global capital markets and investor redemption levels. Based on this assessment, the fund continues to be open for trading and the Manager is satisfied the fund has adequate financial resources to continue in operation for the next 12 months and accordingly it is appropriate to adopt the going concern basis in preparing the financial statements.

### b. Valuation of investments

Investments have been valued at fair value as at the close of business on 31 July 2022. The SORP defines fair value as the market value of each security, in an active market, this is generally the quoted bid price.

Unlisted, unapproved, illiquid or suspended securities are valued at the Managers best estimate of the amount that would be received from an immediate transfer at arm's length. The Manager has appointed a Fair Value Pricing committee to review valuations.

Collective Investment Schemes are valued by reference to their net asset value. Dual priced funds have been valued at the bid price. Single priced funds have been valued using the single price.

Any open positions in derivative contracts or forward foreign currency transactions at the year-end are included in the Balance Sheet at their mark to market value.

### c. Foreign Exchange

Assets and liabilities denominated in foreign currencies are translated into Sterling at the prevailing exchange rates as at the close of business on the reporting date.

Foreign currency transactions are translated at the rates of exchange ruling on the date of such transactions. Exchange differences on such transactions follow the same treatment as the principal amounts.

### d. Dilution

In certain circumstances (as detailed in the Prospectus) the Manager may apply a dilution adjustment on the issue or cancellation of units, which is applied to the capital of the fund on an accruals basis. The adjustment is intended to protect existing investors from the costs of buying or selling underlying investments as a result of large inflows or outflows from the fund.

### e. Revenue

Dividends on equities and preference stocks are recognised when the securities are quoted ex-dividend, or in the case of unquoted securities when the dividend is declared.

Overseas dividends are grossed up at the appropriate rate of withholding tax and the tax consequences are shown within the tax charge.

Revenue from collective investment schemes is recognised when the investments are quoted ex dividend.

Accumulation distributions from shares held in collective investment schemes are reflected as revenue and form part of the distribution.

Equalisation received from distributions or accumulations on units or shares in underlying investments is treated as capital and deducted from the cost of the investment.

Revenue from offshore funds is recognised when income is reported by the offshore fund operator.

Interest on bank deposits is recognised on an accruals basis.

Interest on debt securities is recognised on an accruals basis.

Interest from debt securities is recognised as revenue using the effective interest method. The purchase price of the asset, the yield expectation and scheduling of payments, are all part of this calculation. Callable bonds are calculated on a yield to worst expectation generally, which may not match other calculations.

Stock dividends are recognised as revenue when they are quoted ex dividend. In the case of enhanced stock dividends, the value of the enhancement is recognised as capital.

Special dividends may be treated as repayments of capital or as revenue dependent on the facts of the particular case. Where receipt of a special dividend results in a significant reduction in the capital value of the holding, then the special dividend will be recognised as capital so as to ensure that the matching principle is applied to gains and losses. Otherwise, the special dividends are recognised as revenue.

Underwriting commission is taken to revenue and recognised when the issue takes place, except where the fund is required to take up all or some of the shares underwritten in which case an appropriate proportion of the commission received is deducted from the cost of the relevant shares.

For dividends received from US Real Estate Investment Trusts ("REITs"), on receipt of the capital/revenue split from the REITs, the allocation of the dividend is adjusted within the financial statements.

**f. Expenses**

All expenses other than those relating to the purchase and sale of investments are charged against revenue on an accruals basis in the Statement of Total Return.

Expenses relating to the purchases of investments are charged to the cost of investment and expenses relating to the sales of investments are deducted from the proceeds on sales.

**g. Taxation**

Provision is made for corporation tax at the current rate on the excess of taxable income over allowable expenses.

Overseas dividends are disclosed gross of any foreign tax suffered and the tax element is separately disclosed in the taxation note.

The tax accounting treatment follows that of the principal amount, with charges or reliefs allocated using the marginal basis regardless of any alternative treatment that may be permitted in determining the distribution.

Any windfall overseas tax reclaims received are netted off against irrecoverable overseas tax and therefore the irrecoverable overseas tax line in the taxation note may be negative.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Any liability to deferred tax is provided at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Deferred tax assets are only recognised to the extent that it is regarded more likely than not that there will be taxable profits against which the reversal of underlying timing differences can be offset.

**h. Distributions**

All of the net revenue available for distribution at the year end will be distributed. Where the fund has income unitholders, this will be paid.

Gains and losses on non-derivative investments and currencies, whether realised or unrealised, are taken to capital and are not available for distribution. Cash flows associated with derivative transactions are allocated between the revenue and capital property of the fund according to the motives and circumstances of the particular derivative strategy. The investment manager articulates the motives and circumstances underlying the derivative strategy and the Manager assesses these in association with financial reporting constraints enshrined within the SORP to allocate the cash flows accordingly.

**i. Equalisation**

Equalisation appears within the fund report as part of the distribution. This represents the net revenue in the fund's unit price attached to the issue and cancellation of units. It will form part of any distributions at the period end attributable to unitholders.

**j. Derivatives**

The fund may enter into permitted transactions such as derivative contracts or forward foreign currency transactions. Where the transactions are used to protect or enhance revenue, the revenue and expenses are included within net revenue in the Statement of Total Return. Where the transactions are undertaken to protect or enhance investments, the gains/losses are treated as capital and included within gains/losses on investments in the Statement of Total Return.

## 2 Risk management policies

Generic risks that the abrdn range are exposed to and the risk management techniques employed are disclosed below. Numerical disclosures and specific risks, where relevant, are disclosed within the financial statements.

The Financial Conduct Authority (FCA) Collective Investment Schemes Sourcebook (COLL) and FCA Funds Sourcebook (FUND) rules require the Management Company to establish, implement and maintain an adequate and documented Risk Management Process (RMP) for identifying the risks they manage, or might be, exposed to. The RMP must comprise of such procedures as are necessary to enable abrdn to assess the exposure of each fund it manages to market risk, liquidity risk, counterparty risk, operational risk and all other risks that might be material.

abrdn functionally and hierarchically separates the functions of risk management from the operating units and portfolio management functions, to ensure independence and avoid any potential or actual conflicts of interest. The risk management function has the necessary authority, access to all relevant information, staff and regular contact with senior management and the Board of Directors of the Company. The management of investment risk within abrdn is organised across distinct functions , aligned to the well-established 'three lines of defence' model.

1. Risk ownership, management and control.
2. Oversight of risk, compliance and conduct frameworks.
3. Independent assurance, challenge and advice.

The risk management process involves monitoring funds on a regular and systematic basis to identify, measure and monitor risk and where necessary escalate appropriately, including to the relevant Board, any concerns and proposed mitigating actions.

The risk team, in line with client expectations and the investment process, develops the risk profiles for the funds in order to set appropriate risk limits. Regulatory limits as well as those agreed, are strictly enforced to ensure that abrdn does not inadvertently (or deliberately) breach them and add additional risk exposure. In addition, there is an early warnings system of potential changes in the portfolio risk monitoring triggers. Where possible, these are coded into the front office dealing system, in a pre-trade capacity, preventing exposures or breaching limits before the trade is actually executed.

**Risk Definitions & Risk Management Processes**

**i)** **Market Risk** is the risk that economic, market or idiosyncratic events cause a change in the market value of Client assets. Market Risk can be broadly separated into two types:

(1) Systematic risk stems from any factor that causes a change in the valuation of groups of assets. These factors may emerge from a number of sources, including but not limited to economic conditions, political events or actions, the actions of central banks or policy makers, industry events or, indeed, investor behaviour and risk appetite.

(2) Specific or Idiosyncratic Risk, which is the part of risk directly associated with a particular asset, outside the realms of, and not captured by Systematic Risk. In other words, it is the component of risk that is peculiar to a specific asset, and may manifest itself in various guises, for example: corporate actions, fraud or bankruptcy.

Portfolios are subject to many sub-categories of market risk. Many of these risks are interlinked and not mutually exclusive. Examples of these types of investment risk include: Country risk; Sector risk; Asset-class risk; Inflation/deflation risk; Interest rate risk; Currency risk; Derivatives risk; Concentration risk; and Default risk. Factors that cause changes in market risks include: future perceived prospects (i.e. changes in perception regarding the future economic position of countries, companies, sectors, etc.); shifts in demand and supply of products and services; political turmoil, changes in interest rate/inflation/taxation policies; major natural disasters; recessions; and terrorist attacks.

There are several ways in which to review and measure investment risk. The risk team recognises that each method is different and has its own unique insights and limits, and applies the following measurements for each fund, where relevant:

- **Leverage:** has the effect of gearing a fund's expected performance by allowing it to gain greater exposure to underlying investment opportunities (gains and losses). The higher the leverage the greater the risk (potential loss).
- **Value-at-Risk (VaR) and Conditional VaR (CVaR):** VaR measures with a degree of confidence the maximum the fund could expect to lose in any given time frame. Assuming a normal (Gaussian) distribution, this is a function of the volatility of the fund's returns. The higher the volatility, the higher the VaR, the greater the risk. CVaR calculates the expected tail loss, under the assumption that the VaR has been reached.
- **Volatility, Tracking Error (TE):** Volatility measures the size of variation in returns that a fund is likely to expect. The higher the volatility the higher the risk. TE measures the expected magnitude of divergence of returns between the fund and benchmark over a given time.
- **Risk Decomposition:** Volatility, tracking error and VaR may be broken down to show contribution from market related factors ("Systematic" Risk) and instrument specific (Idiosyncratic Risk). This is not a different measure as such, but is intended to highlight the sources of volatility and VaR.
- **Concentration Risk:** By grouping the portfolio into various different exposures (e.g. country, sector, issuer, asset, etc.), we are able to see where, if any, concentration risk exists.
- **Stress Tests and Scenario Analysis:** This captures how much the current portfolio will make or lose if certain market conditions occur.
- **Back Testing:** This process helps to assess the adequacy of the VaR model and is carried out in line with UCITS regulatory requirements (FCA COLL 6.12). Excessive levels of overshoots and the reasons behind them are reported to the Board.

To generate these risk analytics the risk team relies on third party calculation engines, such as APT, Bloomberg PORT+, RiskMetrics and Axioma. Once the data has been processed, it is analysed by the risk team, generally reviewing absolute and relative risks, change on month and internal peer analysis. Any issues or concerns that are raised through the analysis prompt further investigation and escalation if required. Breaches of hard limits are also escalated immediately. All client mandated and regulatory risk limits are monitored on a daily basis.

Stress tests are intended to highlight those areas in which a portfolio would be exposed to risk if the current economic conditions were likely to change. An economic event may be a simple change in the direction of interest rates or return expectations, or may take the form of a more extreme market event such as one caused through military conflict. The stress test itself is intended to highlight any weakness in the current portfolio construction that might deliver unnecessary systematic exposure if the market were to move abruptly.

Stress testing is performed on a regular basis using relevant historical and hypothetical scenarios.

**ii) Liquidity risk** is defined as the risk that a portfolio may need to raise cash or reduce derivative positions on a timely basis either in reaction to market events or to meet client redemption requests and may be obliged to sell long term assets at a price lower than their market value. Liquidity is also an important consideration in the management of portfolios: Portfolio Managers need to pay attention to market liquidity when sizing, entering and exiting trading positions.

Measuring liquidity risk is subject to three main dimensions:

- Asset Liquidity Risk – how quickly can assets be sold.
- Liability Risk - managing redemptions as well as all other obligations arising from the liabilities side of the balance sheet.
- Contingency Arrangements or Liquidity Buffers – utilising credit facilities etc.

**Liquidity Risk Management Framework**

abrdn has a liquidity risk management framework in place applicable to the funds and set out in accordance with its overall Risk Management Process, relative to the size, scope and complexity of the funds. Liquidity assessment and liquidity stress testing is typically performed monthly, monitoring both the asset and liability sides. Asset side stressed scenarios are considered based on the nature of different asset classes and their liquidity risks to demonstrate the effects of a market stress on the ability to sell-down a fund. Liability side analysis includes stress scenarios on the investor profile as well as liabilities on the balance sheet. Any particular concerns noted or liquidity risk limit breaches are escalated to the relevant Committees and Boards, if material.

**iii)** **Counterparty credit risk** is the risk of loss resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow. Credit risk falls into both market risk and specific risk categories. Credit risk is the risk that an underlying issuer may be unable (or unwilling) to make a payment or to fulfil their contractual obligations. This may materialise as an actual default or, or to a lesser extent, by a weakening in a counterparty's credit quality. The actual default will result in an immediate loss whereas, the lower credit quality will more likely lead to mark-to-market adjustment.

Transactions involving derivatives are only entered into with counterparties having an appropriate internal credit rating that has been validated by the credit research team and approved by the relevant credit committee. Appropriate counterparty exposure limits will be set and agreed by these committees and the existing credit exposures will be assessed against these limits.

**iv)** **Operational Risk**

Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes the breakdown of processes to comply with laws, regulations or directives.

**Operational Risk Management**

An Operational Risk Management Framework is in place to identify, manage and monitor appropriate operational risks, including professional liability risks, to which the Management Company and the funds are or could be reasonably exposed. The operational risk management activities are performed independently as part of one of the functions of the Risk Division.

abrdn plc (the "Group") Risk Management Framework is based upon the Basel II definition of operational risk which is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

The Group's management of operational risk is therefore aimed at identifying risks in existing processes and improving existing controls to reduce their likelihood of failure and the impact of losses. The Group has developed a framework that embodies continuous improvement to internal controls and ensures that the management of risk is embedded in the culture of the Group.

The identification, management, monitoring and resolution of events, risks and controls are facilitated via the Group's risk management system, Shield. The system is designed to facilitate the convergence of governance, risk and compliance programmes and automate a comprehensive review and assessment of operational risks.

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

## 3 Net Capital (Losses)/Gains

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Non-derivative securities | (13,401) | 14,059 |
| Derivative contracts | (750) | (1,738) |
| Forward currency contracts | (2,588) | 983 |
| Other gains/(losses) | 198 | (50) |
| Transaction charges | (12) | (8) |
| **Net capital (losses)/gains** | **(16,553)** | **13,246** |

## 4 Revenue

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Bank and margin interest | 130 | 8 |
| **Income from Overseas Collective Investment Schemes** | | |
| Franked income | 62 | 106 |
| Unfranked income | 359 | 294 |
| Interest on debt securities | 1,185 | 978 |
| Overseas dividends | 1,355 | 1,081 |
| Overseas REIT | 315 | 162 |
| UK dividends | 2,355 | 1,891 |
| UK REIT | 203 | 138 |
| **Total revenue** | **5,964** | **4,658** |

## 5 Expenses

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Payable to the Manager, associates of the Manager and agents of either of them:** | | |
| Manager's periodic charge | 2 | 3 |
| General administration charge* | 22 | - |
| Registration fees** | - | 1 |
| | 24 | 4 |
| **Payable to the Trustee or associates of the Trustee, and agents of either of them:** | | |
| Safe custody fees | 10 | 8 |
| Trustee fees** | - | 19 |
| | 10 | 27 |

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Other:** | | |
| Audit fee** | - | 11 |
| | - | 11 |
| **Total expenses** | **34** | **42** |

Irrecoverable VAT is included in the above expenses.
* The fixed general administration charge was introduced from 1 August 2021. The fee is paid to the Manager and covers fees payable to facilitate payment of certain common fund costs inclusive of the ongoing registration and general administration expenses of the fund. This is exclusive of the Manager's periodic charge. The fund may additionally pay out of its scheme property other fees and expenses including those incurred by the Custodian.
The audit fee for the year, including VAT, was £11,100 (2021: £10,982).
** These figures represent the charges to 31 July 2021, which have now been replaced by the fixed general administration charge.

## 6 Taxation

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **(a) Analysis of charge in year** | | |
| Corporation tax | 423 | 302 |
| Double taxation relief | (32) | (21) |
| Adjustments in respect of prior periods | - | (46) |
| Overseas taxes | 148 | 139 |
| Total current tax | 539 | 374 |
| Deferred tax (note 6c) | 6 | 1 |
| **Total taxation (note 6b)** | **545** | **375** |

**(b) Factors affecting current tax charge for the year**

The tax assessed for the year is less than (2021: less than) the standard rate of corporation tax in the UK for authorised unit trusts (20%).
The differences are explained below:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Net revenue before taxation | 5,922 | 4,612 |
| Corporation tax at 20% (2021: 20%) | 1,184 | 922 |
| Effects of: | | |
| Revenue not subject to taxation | (752) | (616) |
| Overseas taxes | 148 | 139 |
| Double taxation relief | (32) | (21) |
| Adjustments in respect of prior periods | - | (46) |
| Revenue taxable in other periods | (9) | (3) |
| Deferred tax | 6 | - |
| **Total tax charge for year (note 6a)** | **545** | **375** |

Authorised Unit Trusts are exempt from tax on capital gains in the UK. Therefore, any capital gain is not included in the above reconciliation.

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **(c) Deferred tax** | | |
| Deferred tax provision at the start of the year | 1 | - |
| Deferred tax charge in statement of total return for year (note 6a) | 6 | 1 |
| **Provision at the end of the year** | **7** | **1** |

**(d) Factors that may affect future tax charge**

At the year end there are no surplus expenses and therefore no deferred tax asset in the current or prior year.

## 7 Distributions

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interim distribution | 2,428 | 1,843 |
| Final distribution | 3,567 | 2,467 |
| | 5,995 | 4,310 |
| Add: Income deducted on cancellation of units | 86 | 111 |
| Deduct: Income received on issue of units | (704) | (184) |
| **Total distributions for the year** | **5,377** | **4,237** |

Details of the distribution per unit are set out in this fund's distribution tables.

## 8 Debtors

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Accrued revenue | 685 | 655 |
| Amounts receivable from the Manager for the issue of units | 267 | 118 |
| Overseas withholding tax recoverable | 48 | 19 |
| **Total debtors** | **1,000** | **792** |

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

## 9 Liquidity

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Cash and bank balances** | | |
| Cash at bank | 2,538 | 934 |
| Cash at broker | - | 7 |
| Deposits with original maturity of less than 3 months | 35,844 | 6,803 |
| | **38,382** | **7,744** |
| **Net liquidity** | **38,382** | **7,744** |

## 10 Provisions for Liabilities

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| The provisions for liabilities comprise: | | |
| Overseas capital gains tax | 7 | 1 |
| **Total provisions for liabilities** | **7** | **1** |

## 11 Creditors

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Accrued expenses payable to the Manager | 2 | - |
| Accrued expenses payable to the Trustee or associates of the Trustee | 4 | 5 |
| Amounts payable to the Manager for cancellation of units | 1,053 | 11 |
| Corporation tax payable | 203 | 143 |
| Other accrued expenses | - | 11 |
| **Total creditors** | **1,262** | **170** |

## 12 Related Party Transactions

abrdn Fund Managers Limited, as Authorised Fund Manager, is a related party and acts as principal in respect of all transactions of shares in the fund.

The aggregate monies received through issue and paid on cancellation of units are disclosed in the statement of change in net assets attributable to unitholders.

Any amounts due from or due to abrdn Fund Managers Limited at the end of the accounting year are disclosed in notes 8 and 11.

Amounts payable to abrdn Fund Managers Limited, in respect of expenses are disclosed in note 5 and any amounts due at the year end in note 11.

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

### 13 Portfolio Transaction Costs

There are no transaction costs associated with the purchases or sales of bonds and derivatives during the year, or in the prior year.

Bonds are dealt on a spread agreed between buyer and seller with reference to the expected cashflows and current credit profiles.

Collective investments operate within the terms of the offer document or prospectus. Typically we do not invest into funds that require an initial charge to be made. The underlying price may contain an estimation of cost known as a dilution levy which is applied from time to time.

Derivatives are dealt on a spread agreed between buyer and seller with reference to the underlying investment.

| | Purchases | | Sales | |
|---|---|---|---|---|
| **Trades in the year** | **2022 £'000** | **2021 £'000** | **2022 £'000** | **2021 £'000** |
| Bonds | 23,939 | 4,907 | 5,884 | 5,595 |
| Equities | 61,824 | 26,488 | 16,371 | 22,701 |
| Collective investment schemes | 5,480 | 3,757 | 4,572 | 559 |
| Corporate actions | 649 | 815 | - | - |
| **Trades in the year before transaction costs** | **91,892** | **35,967** | **26,827** | **28,855** |
| **Commissions** | | | | |
| Equities | 28 | 10 | (7) | (16) |
| Collective investment schemes | 1 | - | (3) | - |
| **Total commissions** | **29** | **10** | **(10)** | **(16)** |
| **Taxes** | | | | |
| Equities | 99 | 24 | (2) | - |
| **Total taxes** | **99** | **24** | **(2)** | **-** |
| **Total transaction costs** | **128** | **34** | **(12)** | **(16)** |
| **Total net trades in the year after transaction costs** | **92,020** | **36,001** | **26,815** | **28,839** |

| | Purchases | | Sales | |
|---|---|---|---|---|
| | **2022 %** | **2021 %** | **2022 %** | **2021 %** |
| **Total transaction costs expressed as a percentage of asset type cost** | | | | |
| **Commissions** | | | | |
| Equities | 0.05 | 0.04 | 0.04 | 0.07 |
| Collective investment schemes | 0.02 | - | 0.07 | 0.01 |
| **Taxes** | | | | |
| Equities | 0.16 | 0.09 | 0.02 | - |

| | 2022 % | 2021 % |
|---|---|---|
| **Total transaction costs expressed as a percentage of net asset value** | | |
| Commissions | 0.02 | 0.02 |
| Taxes | 0.05 | 0.01 |

At the balance sheet date the average portfolio dealing spread (i.e. the spread between bid and offer prices expressed as a percentage of the offer price) was 0.37% (2021: 0.29%), this is representative of the average spread on the assets held during the year.

### 14 Units in Issue Reconciliation

| | Opening shares 2021 | Creations during the year | Cancellations during the year | Conversions during the year | Closing units 2022 |
|---|---|---|---|---|---|
| B Accumulation | 41,925 | 8,344 | (8,344) | - | 41,925 |
| B Income | 12,198 | 147 | (313,868) | 438,593 | 137,070 |
| Z (Net Accumulation) | 137,963,697 | 83,078,715 | (5,401,391) | - | 215,641,021 |
| Z (Net Income) | 95,233,024 | 59,948,414 | (9,192,913) | (1,189,618) | 144,798,907 |

### 15 Fair Value Hierarchy

The three levels of the fair value hierarchy under FRS 102 are described below:

Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for the identical unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for asset or liability that are not based on observable market data (unobservable inputs).

| Fair value of investment assets | 2022 £'000 Level 1 | 2022 £'000 Level 2 | 2022 £'000 Level 3 | 2021 £'000 Level 1 | 2021 £'000 Level 2 | 2021 £'000 Level 3 |
|---|---|---|---|---|---|---|
| Bonds | 20,199 | 28,117 | - | 8,063 | 26,450 | - |
| Equities | 157,311 | - | - | 119,189 | - | - |
| Collective Investment Schemes | - | 13,426 | - | 2,042 | 11,604 | - |
| Derivatives | 217 | 225 | - | 293 | 172 | - |
| **Total investment assets** | **177,727** | **41,768** | **-** | **129,587** | **38,226** | **-** |
| | | | | | | |
| **Fair value of investment liabilities** | | | | | | |
| Derivatives | (73) | (95) | - | (65) | (200) | - |
| **Total investment liabilities** | **(73)** | **(95)** | **-** | **(65)** | **(200)** | **-** |

## 16 Risk Management Policies and Disclosures

The risks inherent in the fund's investment portfolio are as follows:

### Foreign currency risk

Fluctuations in the foreign exchange rates can adversely affect the value of a portfolio. The following table details the net exposure to the principal foreign currencies that the fund is exposed to including any instruments used to hedge against foreign currencies, if applicable.

| Currency | Net foreign currency exposure 2022 £'000 | Net foreign currency exposure 2021 £'000 |
|---|---|---|
| Australian Dollar | 1,074 | 1,171 |
| Canadian Dollar | (405) | (131) |
| Danish Krone | 1,715 | 973 |
| Euro | 25,027 | 19,014 |
| Hong Kong Dollar | 1,280 | 2,637 |
| Japanese Yen | 3,193 | 3,181 |
| Singapore Dollar | 1,715 | - |
| Swiss Franc | 4,591 | 4,449 |
| US Dollar | 41,129 | 38,001 |
| **Total** | **79,319** | **69,295** |

### Interest rate risk

Interest rate risk is an unfavourable change in interest rates that can affect the price of a security, which in turn results in the portfolio experiencing a loss. Interest rate changes not only affect fixed income products but have material impacts on funding arrangements and other asset types.

The following table shows separately the value of investments at fixed interest rates, at variable rates and those that are non-interest bearing instruments.

The interest rate risk profile of the fund's investments at the year end consists of:

| 2022 | Floating rate financial assets £'000 | Fixed rate financial assets £'000 | Financial assets/ (liabilities) not carrying interest £'000 | Total £'000 |
|---|---|---|---|---|
| **Currency** | | | | |
| UK Sterling | 36,030 | 25,139 | 115,730 | 176,899 |
| Australian Dollar | 31 | 3,639 | (2,596) | 1,074 |
| Canadian Dollar | - | 2,561 | (2,966) | (405) |
| Danish Krone | - | - | 1,715 | 1,715 |
| Euro | 648 | 3,408 | 20,971 | 25,027 |
| Hong Kong Dollar | - | - | 1,280 | 1,280 |
| Japanese Yen | - | - | 3,193 | 3,193 |

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

| 2022 | Floating rate financial assets £'000 | Fixed rate financial assets £'000 | Financial assets/ (liabilities) not carrying interest £'000 | Total £'000 |
|---|---|---|---|---|
| Singapore Dollar | – | – | 1,715 | 1,715 |
| Swiss Franc | – | – | 4,591 | 4,591 |
| US Dollar | 4,681 | 10,560 | 25,888 | 41,129 |
| **Total** | **41,390** | **45,307** | **169,521** | **256,218** |

| 2021 | Floating rate financial assets £'000 | Fixed rate financial assets £'000 | Financial assets/ (liabilities) not carrying interest £'000 | Total £'000 |
|---|---|---|---|---|
| **Currency** | | | | |
| UK Sterling | 6,966 | 16,021 | 82,758 | 105,745 |
| Australian Dollar | 28 | 3,656 | (2,513) | 1,171 |
| Canadian Dollar | – | 2,536 | (2,667) | (131) |
| Danish Krone | – | – | 973 | 973 |
| Euro | 658 | 3,721 | 14,635 | 19,014 |
| Hong Kong Dollar | – | – | 2,637 | 2,637 |
| Japanese Yen | – | – | 3,181 | 3,181 |
| Swiss Franc | – | – | 4,449 | 4,449 |
| US Dollar | 2,938 | 5,733 | 29,330 | 38,001 |
| **Total** | **10,590** | **31,667** | **132,783** | **175,040** |

### Other price risk

The fund's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Adviser in pursuance of the investment objectives and policies. Adherence to investment guidelines and to investment and borrowing powers mitigate the risk of excessive exposure to any particular type of security or issuer.

An increase or decrease in market values will therefore have a direct effect on the value of the investment assets in the portfolio and therefore a proportionate effect on the value of the fund.

### VaR

The table below indicates the VaR of the fund, measured as the maximum one month loss in value from adverse changes in market risk factors (e.g. equity prices, interest rates, inflation rates and foreign currency exchange rates) that is expected with a 99 percent level of confidence. Calculated on this basis, the VaR indicates that the net asset value of the fund could be expected to fall over a one-month period by more than the corresponding VaR in 1% of cases, assuming the fund does not alter its positioning over that period.

| 2022 | Minimum | Maximum | Average |
|---|---|---|---|
| VaR 99% 1 Month | 5.42% | 6.45% | 5.98% |

| 2021 | Minimum | Maximum | Average |
|---|---|---|---|
| VaR 99% 1 Month | 5.24% | 6.47% | 5.88% |

At the year end date, there was a 1% chance of the fund's net asset value falling (or rising) more than 5.96%, £15,174,000 (2021: 6.29%, £10,539,000) in a one month period.

This calculation is generally determined by the use of an industry recognised medium term risk model, typically based on 3-5 year history. The method assumes normal market conditions and that the portfolio remains unchanged.

### Counterparty risk

#### Credit quality of debt security investment assets

The following table shows the credit quality of the part of the investment portfolio that is invested in debt securities.

| 2022 | Market value £'000 | Percentage of total net assets % |
|---|---|---|
| Investment grade securities | 40,043 | 15.63% |
| Below investment grade securities | 8,083 | 3.15% |
| Unrated securities | 190 | 0.07% |
| **Total value of securities** | **48,316** | **18.85%** |

| 2021 | Market value £'000 | Percentage of total net assets % |
|---|---|---|
| Investment grade securities | 27,603 | 15.77% |
| Below investment grade securities | 6,708 | 3.84% |
| Unrated securities | 202 | 0.11% |
| **Total value of securities** | **34,513** | **19.72%** |

Investment grade information used in the above table is based on credit ratings issued by market vendors.

#### Financial derivatives instrument risk

These types of transaction can introduce market exposure greater than the market value of the instrument. These transactions exchange benefits with a third party at a future date creating both counterparty and concentration risk. The Investment Adviser's policies for managing these risks are outlined in the fund's prospectus.

At the balance sheet date the fund had the following exposures:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Leveraged instruments | Market exposure £'000 | Market value £'000 | Market exposure £'000 | Market value £'000 |
| Exchange traded options | 67,679 | 144 | 37,430 | 228 |
| Forward currency contracts | 30,232 | 130 | 20,649 | (28) |
| Total market exposure | 97,911 | 274 | 58,079 | 200 |

The total market exposure is the sum of the notional derivative contracts on a gross basis with no offsetting.

The fund uses the commitment method to calculate global exposure. Leverage is not significant in this context.

### Counterparty risk

Where the fund enters market transactions this creates concentration risk where a clearing broker operates on an exchange. Where the clearing broker is not solvent the market exposure can be transferred. Exposure is reduced by the daily exchange of margin by both parties held in the name of the trustee. At the year end the fund had the following clearing broker exposure.

# Notes to the Financial Statements

## For the year ended 31 July 2022 continued

| 2022<br>Broker or exchange exposure | Market value of derivatives<br>£'000 | Market value of cash<br>£'000 | Market value of stock<br>£'000 | Total<br>£'000 | Percentage of total net assets<br>% |
|---|---|---|---|---|---|
| Goldman Sachs | 144 | – | – | 144 | 0.06% |
| | **144** | **-** | **-** | **144** | **0.06%** |

| 2021<br>Broker or exchange exposure | Market value of derivatives<br>£'000 | Market value of cash<br>£'000 | Market value of stock<br>£'000 | Total<br>£'000 | Percentage of total net assets<br>% |
|---|---|---|---|---|---|
| Goldman Sachs | 228 | 7 | – | 235 | 0.13% |
| | **228** | **7** | **-** | **235** | **0.13%** |

### Bilateral agreements

Where the fund enters bilateral agreements this introduces counterparty risk. Where a counterparty defaults on their obligation, exposure is reduced by the collateral held/pledged by both parties.

Certain derivatives are conducted on a master ISDA (International Swaps and Derivatives Association) agreement. Positions are collateralised daily in line with the agreement including a right of termination at fair value and a right of recall/substitution on any stock collateral within 24 hours.

At the balance sheet date the fund had the following positions.

| | | Collateral (held)/pledged | | |
|---|---|---|---|---|
| **2022**<br>**Counterparties** | **Forwards**<br>**£'000** | **Cash**<br>**£'000** | **Stock**<br>**£'000** | **Net exposure**<br>**£'000** |
| Barclays | 225 | – | – | 225 |
| Lloyds Bank | (83) | – | – | (83) |
| BNP Paribas | (12) | – | – | (12) |
| **Total** | **130** | **-** | **-** | **130** |

| | | Collateral (held)/pledged | | |
|---|---|---|---|---|
| **2021**<br>**Counterparties** | **Forwards**<br>**£'000** | **Cash**<br>**£'000** | **Stock**<br>**£'000** | **Net exposure**<br>**£'000** |
| Barclays | 36 | – | – | 36 |
| Lloyds Bank | 106 | – | – | 106 |
| UBS | (170) | – | – | (170) |
| **Total** | **(28)** | **-** | **-** | **(28)** |

### Liquidity risk

All of the fund's financial liabilities are payable on demand or in less than one year, 2022 £2,659,000 (2021: £1,309,000).

# Distribution Tables

## For the year ended 31 July 2022 (in pence per unit)

### Interim dividend distribution

Group 1 – units purchased prior to 1 August 2021
Group 2 – units purchased between 1 August 2021 and 31 January 2022

| | Revenue | Equalisation | Distribution paid 24/03/22 | Distribution paid 24/03/21 |
|---|---|---|---|---|
| **B Accumulation** | | | | |
| Group 1 | 1.6890 | – | 1.6890 | 1.6435 |
| Group 2 | 1.6890 | – | 1.6890 | 1.6435 |
| **B Income** | | | | |
| Group 1 | 1.1549 | – | 1.1549 | 1.1296 |
| Group 2 | 0.6872 | 0.4677 | 1.1549 | 1.1296 |
| **Z (Net Accumulation)** | | | | |
| Group 1 | 0.8777 | – | 0.8777 | 0.8361 |
| Group 2 | 0.2925 | 0.5852 | 0.8777 | 0.8361 |
| **Z (Net Income)** | | | | |
| Group 1 | 0.6875 | – | 0.6875 | 0.6713 |
| Group 2 | 0.1778 | 0.5097 | 0.6875 | 0.6713 |

### Final dividend distribution

Group 1 – units purchased prior to 1 February 2022
Group 2 – units purchased between 1 February 2022 and 31 July 2022

| | Revenue | Equalisation | Distribution paid 23/09/22 | Distribution paid 23/09/21 |
|---|---|---|---|---|
| **B Accumulation** | | | | |
| Group 1 | 2.4095 | – | 2.4095 | 2.6364 |
| Group 2 | 1.9389 | 0.4706 | 2.4095 | 2.6364 |
| **B Income** | | | | |
| Group 1 | 1.6321 | – | 1.6321 | 1.8474 |
| Group 2 | 1.0084 | 0.6237 | 1.6321 | 1.8474 |
| **Z (Net Accumulation)** | | | | |
| Group 1 | 1.0872 | – | 1.0872 | 1.1541 |
| Group 2 | 0.6127 | 0.4745 | 1.0872 | 1.1541 |
| **Z (Net Income)** | | | | |
| Group 1 | 0.8422 | – | 0.8422 | 0.9169 |
| Group 2 | 0.4693 | 0.3729 | 0.8422 | 0.9169 |

#### Equalisation

This applies only to units purchased during the distribution period (group 2 units). It is the average amount of revenue included in the purchase price of group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

# Remuneration

## abrdn Remuneration Policy

The abrdn plc Remuneration Policy applies with effect from 1 January 2021. The purpose of the abrdn plc Remuneration Policy (the "Policy") is to document clearly the remuneration policies, practices and procedures of abrdn. It has been approved by the abrdn plc Remuneration Committee and is subject to the Remuneration Committee's annual review. The Policy applies to employees of the abrdn group of companies ("abrdn").

The Remuneration Committee of abrdn plc adopted a UCITS V Remuneration Policy to ensure that the requirements of the Undertakings for Collective Investment Transferrable Securities V Directive (UCITS V) are fully adhered to by the group. This policy is available on request.

### Remuneration Principles

abrdn applies Group wide principles for remuneration policies, procedures and practices ensuring that remuneration design and the basis for awards will be clear, transparent and fair, in line with business strategy, objectives, culture, values and long term interests of abrdn. Remuneration policies, procedures and practices should be consistent with and promote good conduct which includes sound and effective risk management and not encourage risk taking that exceeds the level of tolerated risk of abrdn. Total variable remuneration will be funded through pre-agreed distribution metrics. Where abrdn's financial performance is subdued or negative, total variable remuneration should generally be contracted, taking into account both current remuneration and reductions in pay-outs of amounts previously granted and having regard for abrdn's long term economic viability.

In addition to applying the abrdn wide principles above, the following principles are also applied when determining remuneration for employees:

a) Remuneration should be competitive and reflect both financial, non-financial and personal performance;

b) Our remuneration design will align the interests of employees, shareholders and importantly our clients/customers;

c) Our remuneration structure will reward delivery of results over appropriate time horizons and will include deferred variable compensation at an appropriate level for the employee's role;

d) We will provide an appropriate level of fixed remuneration to balance risk and reward.

### Governance and Regulatory Compliance

The Remuneration Committee is made up of independent non-executive directors and makes recommendations to the Board of abrdn plc (the "Board") to assist it with its remuneration related duties. The Chief People Officer of abrdn is responsible for ensuring the implementation of the Policy in consultation with the Remuneration Committee as well as other members of the Executive Team ("Executive Body") (as defined by the Board), if appropriate.

## Financial and non-financial criteria

Variable remuneration is based on a rounded assessment of Group, Divisional and individual performance. When assessing individual performance, financial as well as non-financial criteria are taken into account. Individual performance is based on the individual's appraisal, which includes an employee's compliance with controls and applicable company standards including the Group's Code of Ethics, including Treating Customers Fairly and Conduct Risk.

## Conflicts of interest

The Conflicts of Interest Policy is designed to avoid conflicts of interest between abrdn and its clients. This Policy prohibits any employee from being involved in decisions on their own remuneration. Furthermore, all employees are required to adhere to abrdn's Global Code of Conduct, which encompasses conflicts of interest.

The Policy should, at all times, adhere to local legislation, regulations or other provisions. In circumstances or in jurisdictions where there is any conflict between the Policy and local legislation, regulations or other provisions, then the latter will prevail.

# Remuneration

## Continued

### Remuneration Framework

Employee remuneration is composed principally of fixed and variable elements of reward as follows:

a) Fixed reward (fixed remuneration: salary (and cash allowances, if appropriate); and Benefits (including pension).

b) Variable reward (bonus, a proportion of which may be subject to retention or deferral depending on role and regulatory requirements) and senior employees may also be awarded a long-term incentive award).

Appropriate ratios of fixed: variable remuneration will be set to as to ensure that:

a) Fixed and variable components of total remuneration are appropriately balanced and

b) The fixed component is a sufficiently high proportion of total remuneration to allow abrdn to operate a fully flexible policy on variable remuneration components, including paying no variable remuneration component.

| | |
|---|---|
| **Fixed Remuneration** | Base salary provides a core reward for undertaking the role, where appropriate, and depending on the role, geographical or business market variances or other indicators, additional fixed cash allowances may make up a portion of fixed remuneration. |
| **Benefits** | Benefits are made up of: core benefits, which are provided to all employees; and extra voluntary benefits that may be chosen by certain employees and which may require contribution through salary sacrifice or other arrangements. Extra voluntary benefits are designed to support the health and wellbeing of employees through enabling individual selection based on lifestyle choices. abrdn will ensure that the core and voluntary employee benefits policies are in line with relevant market practice, its views on managing its business risk objectives, culture and values and long-term interests and local requirements. |
| **Pension** | abrdn's pension policies (which consist of defined contribution plans and legacy defined benefit plans) are in line with legislative requirements, governance structures and market practice, and reflect abrdn's long-term views on risk and financial volatility, its business objectives, culture and values and long-term interests and local requirements. In certain circumstances, abrdn may offer a cash allowance in lieu of any pension arrangement. |
| **Annual Performance Bonus Awards** | Employees who have been employed during a performance year (1 January to 31 December) may be eligible to be considered for an annual bonus in respect of that year. Eligibility criteria for an annual bonus are set out in the rules of the relevant bonus plan and/or contract of employment, as appropriate. The bonus plan in place is designed to reward performance in line with the business strategy, objectives, culture and values, long term interests and risk appetite of abrdn. All Executive Directors are awarded bonuses under a abrdn bonus plan as detailed in the Directors' Remuneration Report. |
| **Other variable Pay Plans** | Selected employees may participate in other variable pay plans, for example, performance fee share arrangements, where it is appropriate for their role or business unit. These plans operate under the overarching remuneration principles that apply across the group and, where appropriate, are also subject to specific principles governing incentives and are compliant with the requirements of any applicable regulatory standards. |

### Clawback/Malus

A clawback/malus principle applies to the variable pay plan. This enables the Remuneration Committee to seek to recoup the deferred amount of any unvested variable pay, in the exceptional event of misstatement or misleading representation of performance; a significant failure of risk management and control; or serious misconduct by an individual.

### Guaranteed Variable Remuneration

Guaranteed variable remuneration is exceptional, occurs only in the context of hiring new staff and is limited to the first year of service.

### UCITS V Identified Staff

Staff considered UCITS V Identified Staff are those categories of staff whose professional activities have a material impact on the decision making profiles of the Management Company or the UCITS Funds that the Management Company manages.

UCITS V identified staff will include; Senior Management; Decision makers, Staff engaged in control functions; and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and decision makers, and whose professional activities have a material impact on the risk profiles of the Company or the Funds that the Company manages.

# Remuneration

## Continued

### Control Functions

abrdn adheres to the principles and guidelines of regulations that apply to abrdn in defining control functions. control functions include, but are not necessarily limited to, Risk, Compliance, Internal Audit and Actuarial functions or roles.

abrdn will ensure that, as appropriate, senior employees engaged in a control function:

a) Are independent from the Business Units they oversee;

b) Have appropriate authority, and

c) Their remuneration is directly overseen by the Remuneration Committee.

This is achieved by the main control functions being outside the business, and a material proportion of their annual incentives being subject to a scorecard based on the performance of the control function. Performance against the scorecard is reviewed by the relevant independent governing committee (either Risk & Capital Committee, or Audit Committee). abrdn's People Function reviews the remuneration of employees in control functions and benchmarks with the external market to ensure that it is market competitive and adequately reflects employees' skills and experience.

### Personal Hedging

UCITS V Identified Staff are not permitted to undermine the risk alignment effects of the UCITS V Remuneration Code. Personal hedging strategies; or remuneration-related insurance; or liability-related insurance is not permissible on remuneration.

The table below provides an overview of the following:

- Aggregate total remuneration paid by Aberdeen Standard Fund Managers Limited to its entire staff; and
- Aggregate total remuneration paid by Aberdeen Standard Fund Managers Limited to its UCITS 'Identified Staff'.

The 'Identified Staff' of Aberdeen Standard Fund Managers Limited. are those employees who could have a material impact on the risk profile of Aberdeen Standard Fund Managers Limited or the UCITS Funds it manages. This broadly includes senior management, decision makers and control functions. For the purposes of this disclosure, 'Identified Staff' includes employees of entities to which activities have been delegated.

Amounts shown reflect payments made during the financial reporting period in question. The reporting period runs from 1 January 2021 to 31 December 2021 inclusive.

| | Headcount | Total Remuneration £'000 |
|---|---|---|
| **Aberdeen Standard Fund Managers Limited**[1] | **1,150** | **166,147** |
| of which | | |
| Fixed remuneration | | 128,662 |
| Variable remuneration | | 37,485 |
| **Aberdeen Standard Fund Managers Limited 'Identified Staff'**[2] | **165** | **50,818** |
| of which | | |
| Senior Management[3] | 61 | 25,011 |
| Other 'Identified Staff' | 104 | 25,807 |

[1] As there are a number of individuals indirectly and directly employed by Aberdeen Standard Fund Managers Limited this figure represents an apportioned amount of abrdn's total remuneration fixed and variable pay, apportioned to the Management Company on an AUM basis, plus any carried interest paid. The Headcount figure provided reflects the number of beneficiaries calculated on a Full Time Equivalent basis.

[2] The Identified Staff disclosure relates to UCITS MRTs and represents total compensation of those staff of the Management Company who are fully or partly involved in the activities of the Management Company

[3] Senior management are defined in this table as Management Company Directors and members of the abrdn plc Board, together with its Executive Committee, Investment Management Committee and Group Product Committee.

# Further Information

## Documentation

Copies of the current Prospectus and Key Investor Information Documents (KIIDs) for the fund, daily prices, together with the latest Annual (and if issued later the interim) Report and Accounts for the fund, are available to download at **www.abrdn.com/discretionary**. A paper copy of the Report and Accounts is available on request from the Manager.

## Notices/Correspondence

Please send any notices to abrdn Fund Managers Limited, PO Box 12233, Chelmsford, CM99 2EE. Any notice to the Manager will only be effective when actually received by the Manager. All notices will be sent to the investor at the address set out in the Application form or the latest address which the investor has notified to the Manager, and will be deemed to have been received three days after posting. Events detailed in these terms and conditions will be carried out on the dates specified, unless the dates are a non-business day, when they will be carried out on the next business day.

## Complaints and Compensation

If you need to complain about any aspect of our service, you should write to the Complaints Team, abrdn, PO Box 12233, Chelmsford, CM99 2EE, who will initiate our formal complaints procedure. If you prefer, you may call the Complaints Team on 0345 113 6966 or email **complaints@abrdn.com** in the first instance. Alternatively if you have a complaint about the Company or fund you can contact the Trustee directly. A leaflet detailing our complaints procedure is available on request.

We will endeavour to respond to your complaint as soon as possible and will notify you of our outcome within 8 weeks. If the complaint is not resolved by us to your satisfaction then you may have the right take your complaint to the Financial Ombudsman Service (FOS). To contact the FOS Service you should write to The Financial Ombudsman Service, Exchange Tower, London, E14 9SR, email **complaint.info@financial-ombudsman.org.uk** or telephone 0800 023 4567 (free for landlines and mobiles) or 0300 123 9123 (calls cost no more than calls to 01 and 02 numbers) or +44 20 7964 0500 (available from outside the UK - calls will be charged).

We are covered by the Financial Services Compensation Scheme, which means if we become insolvent, you may be entitled to compensation. The level of compensation will depend on the type of business and the circumstances of your claim. Investments are covered up to £85,000 for claims against firms that fail on or after 1 April 2019. Details are available from the FSCS Helpline on 0800 678 1100 or 020 7741 4100 and on the FSCS website: www.fscs.org.uk.

## UCITS

The fund was certified under the Undertaking for Collective Investment in Transferable Securities (UCITS) directive, which allows the Manager to market the fund in member States of the European Union subject to relevant local laws, specifically marketing laws.

**Important Information**



Issued by abrdn Fund Managers Limited (the manager of the fund). Authorised and regulated by the Financial Conduct Authority in the United Kingdom.
abrdn Capital Limited, registered in Scotland (SC317950) at 1 George Street, Edinburgh EH2 2LL.
abrdn Capital Limited is authorised and regulated by the Financial Conduct Authority.