

# Sterling Aberdeen Standard CPI+ Multi-Asset Portfolios

Understanding the Investment Objectives,  
Investment Philosophy and expected Portfolio  
behaviours



## Sterling Aberdeen Standard Portfolio Objectives

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

## Outcome Based Objectives

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

## Sterling Aberdeen Standard Investment Beliefs

We believe that fundamentals ultimately drive asset prices and their long term return potential. However, markets are slow to react when fundamentals are undergoing, or face the prospect of, material change. Therefore, different fundamental factors matter in different circumstances or economic environments. As a consequence, we believe that repeatable long term performance derives from portfolios that are genuinely diversified across assets classes that offer attractive return potential but also are true sources of diversification.

## Sterling Aberdeen Standard Investment Philosophy

### Genuine Diversification

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

### Unconstrained and Flexible

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

### Focus on Risk Management

Our investment team seeks to manage the risks in the portfolio in a number of ways, starting from the principle of diversification that underpins the portfolios as a whole. Quantitative tools are a critical element to ensure that the team are able to effectively and efficiently capture the ideas and opportunities available to the Fund. Importantly, they are used in conjunction with the managers' qualitative judgements, on-going scenario analysis and broader peer review within the firm.

## Sterling Aberdeen Standard Portfolios – Positioned for the Future

We are facing a different investment environment over the coming decades, to what we have experienced over the past 30 years. Economic growth and the performance of investment markets have, since the early 1980s, benefitted from improving demographics, increasing global trade and rising debt levels. But demographics are now unfavourable in most major economies, with working age populations expected to decline significantly in many countries. The benefits of globalization are not perceived to have been shared equally, leading to a risk of isolationism as populist nationalist politicians appeal to those who feel left behind. Finally, debts built up in the past cannot continue to grow forever and will need to be addressed at some point.

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

## How do the Sterling Aberdeen Standard Portfolios Aim to Generate Returns?

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

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

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

- Strategic Asset Allocation (SAA);
- Tactical Asset and Sub-Asset Class Allocation (TAA); and
- Manager Skill.

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

Asset allocation ranges are generally wide (with minimum bounds usually set at zero, emphasising the ability to focus on absolute returns). We believe that enhanced risk adjusted returns can be achieved from active Multi Asset investing by exploiting market inefficiencies over multiple time horizons. Steadily over time we look to reallocate capital from expensive to cheap assets and markets, to preserve and grow capital over a strategic investment time horizon. Simultaneously, to add additional value, we look to take advantage of market inefficiencies that result from investor over and under-reaction to short-term cyclical and policy developments to add additional value. For the

portfolio, this means an outcome-based strategy made possible by combining in-depth research and active asset allocation in a bespoke outcome focused portfolio construction approach.

## How does Sterling Aberdeen Standard Manage Risk in the Portfolios?

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

### Diversification principles

We believe that diversification is a necessary element of any robust multi-asset portfolio, reducing portfolio volatility in the short term and reducing the reliance on any one asset class over the medium to long-term. Diversification benefits arise from the range of assets that we consider within the funds; the longer-term modelling that is used to establish the strategic framework; and they are also actively considered as part of the day to day decision making for the funds. We seek to ensure that there is not a disproportionate exposure or contribution to portfolio risk from any one asset class or investment.

### Risk models

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

### Scenario analysis

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

### Peer review

To ensure that we are capturing our best ideas within the Sterling Aberdeen Standard Portfolio's, the investment process has been designed to source views from across the Aberdeen Standard Investments business and reflect back our own insights. On a formal basis our peer review process includes oversight monthly from the Aberdeen Standard Diversified Multi Asset Review Group as well as Aberdeen Standard Investments' independent risk team and dealing desk for liquidity and stress testing analysis.

## Under which Conditions are the Sterling Aberdeen Standard Portfolios Expected to be Successful?

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

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

## Under which Conditions are the Sterling Aberdeen Standard Portfolios Expected to lag their Objectives?

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

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

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

## ABOUT THE PORTFOLIO MANAGER

### Aberdeen Standard Investments Australia Limited

Aberdeen Standard Investments Australia Limited ('Aberdeen Standard Investments') is the Australian subsidiary of the Standard Life Aberdeen PLC group. The investment arm of the group operates as Aberdeen Standard Investments.

Aberdeen Standard Investments is a global asset manager dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons.

The Australian business, which began operations in December 2000, manages assets for global and domestic clients, including managed investment schemes and segregated mandates.



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AU-061020-130616-1