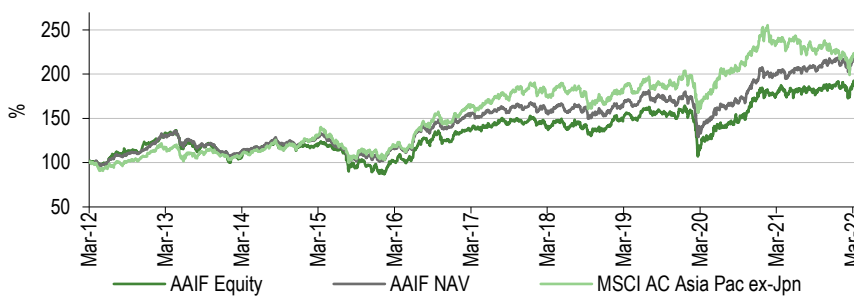


abrdn Asian Income Fund

A core option for Asian income and capital growth

abrdn Asian Income Fund (AAIF) is a core option for investors seeking a combination of higher income and growing capital and income from Asian equities. abrdn uses its long-established investment process to structure a portfolio of high-quality companies that it considers to be undervalued and that in aggregate pay a premium and grow income. This process has provided investors with good long-term total returns.

Ten-year performance



Source: Refinitiv, Edison Investment Research. Note: Total returns in sterling.

Why invest in Asian equity income now?

Asia has some of the world's leading companies across a variety of countries and sectors and has an established and developed dividend culture that has historically contributed around half of total investor returns. The Asia-Pacific ex-Japan region suffered an 18% decline in dividends in 2020 versus 2019, but rebounded strongly by 31.7% in 2021 to create a record \$163bn of payouts in 2021. This trend looks set to continue, derived from strong earnings growth as the region recovers from COVID-19, providing investors with strong tailwind for ongoing dividend growth. In addition, aggregate valuations in the region are also attractive compared to the United States and developed Europe.

The analyst's view

abrdn brings extensive resource and a proven investment process to the management of AAIF. The focus on dividends, quality (in terms of balance sheet strength) and valuation lends this strategy an element of balance, which should level out some of the more pronounced peaks and troughs that can affect more polarised income strategies. Within the peer group, AAIF remains a core option for investors seeking to globally diversify their sources of income via exposure to a range of fast-growing high quality Asian companies.

Valuation: At a discount

AAIF sits at a current discount of 11% compared with a five-year average of 9%. Demand for income generating assets has been exceptionally robust since the global financial crisis and the subsequent low interest environment, but more recently the discussion has turned to a possible inflection point in the interest rate cycle as inflation spikes. The current discount looks anomalously wide within the peer group for a high-quality portfolio of growing assets.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts Asia-Pacific equity income

3 May 2022

Price 222p
Market cap £379m
AUM £474m

NAV* 249.5p
Discount to NAV 11.0%

*Including income. As at 26 April 2022.

Yield 4.3%
Ordinary shares in issue 170.5m

Code/ISIN AAIF/GB00B0P6J834
Primary exchange LSE
AIC sector Asia Pacific Equity Income
52-week high/low 236.0p 211.0p
NAV* high/low 267.8p 243.0p

*Including income

Net gearing* 9.4%

*As at 22 April 2022

Fund objective

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

Bull points

- Extensive regionally based investment resource.
- Tried, tested and successful investment process.
- Strong ESG credentials.

Bear points

- AAIF's style can go in and out of favour.
- Discount continues to drift wider.
- Currently a modestly uncovered dividend.

Analysts

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[Edison profile page](#)

abrdn Asian Income Fund is a research client of Edison Investment Research Limited.

Market outlook: Inflation a risk

Inflationary pressures remain moderate in many parts of Asia compared to parts of the western world. While there are pressures in the energy market, food prices currently remain subdued, which can be attributed to the high levels of domestic food production and the effect that regional lockdowns continue to have on economic activity. Because of the current inflationary outlook there is less possibility of central bank policy errors. However, where there are pockets of inflation – such as in India – then the focus for investors becomes even more about identifying pricing power and having strong balance sheets to maintain investment, profit margins and dividend payments.

In aggregate Asian companies have an attractive combination of earnings growth and less debt than western corporates, which is supportive of dividends, which have grown by 11.8% on average per annum since the end of 2003 compared with 7.6% for developed markets as a whole. Payout ratios have remained historically stable at around 50% of earnings, but according to abrdn there is scope for this figure to potentially rise, which when added to earnings growth could see a higher yielding market in aggregate.

The fund manager: Yoojeong Oh

The manager's view: Macro risks but valuation and earnings support

Macro uncertainties abound with concerns over the war in Ukraine and COVID-19, its possible mutations and how governments respond to these in Asia (particularly China and Hong Kong). There are some inflationary pressures and the continued repercussions from Chinese regulatory tightening are having an impact upon certain sectors specifically and causing weakening investor sentiment more generally. There are positives in that Asian countries as a whole have stronger current account balances (and corporates are less indebted) with better growth prospects than in the western world, and there is scope for policy rates to be cut if growth slows, most especially in China. Most importantly, valuations in aggregate are supportive for Asian equities with the consensus 12-month forward price to earnings ratio for Asia Pacific ex Japan standing at 12.4X versus 15.7X for global equities in aggregate.

The region has been slower than expected to emerge from lockdowns (and in some cases day to day activity remains tightly controlled) but as and when these are lifted, then economic activity has the potential to rebound strongly. Higher energy prices have hit the region as elsewhere, but food price inflation has been subdued given the local nature of production. Rising raw material and energy costs are supportive for commodity net exporters such as Australia, Indonesia and Malaysia. These considerations are factored into the AAIF team's individual stock analysis, but if interest rates do rise and the cost of capital increases then it could put further scrutiny on a company's balance sheet, debt profile and ability to pass through higher input costs. Overall, these characteristics of strong balance sheets and higher quality are evident through the portfolio, which should allow it to perform in a less benign interest rate environment.

The war in Ukraine, while being a humanitarian disaster, does not have a direct impact upon AAIF's portfolio in terms of exposure to earnings or operations in Russia or Ukraine, but there is a threat of further supply chain disruptions, rising energy prices and general investor risk aversion.

Since the fund's year end in December 2021 there has been positive corporate news from several of the holdings: the acquisition of Australian energy company AusNet Services was successfully completed and there have been good recent numbers reported by Commonwealth Bank of Australia, ASX, Spark New Zealand and Indonesia's Bank Rakyat. A number of portfolio companies have announced robustly growing dividends, led by BHP, which declared the biggest dividend

globally in 2021. A number of other companies announced a significant recovery in their payouts, and overall Asian companies have now exceeded their pre-pandemic payouts in aggregate.

Asset allocation: Seeking secular tailwinds

Current portfolio positioning

abrdn focuses the majority of its time on stock-specific analysis rather than country or sector considerations. There are however some common themes that the firm has identified across Asian equities that it feels provide structural long-term thematic support for certain elements of the market. These include Aspiration, Building Asia, Digital future, Going green, Health and wellness and Tech enablers. Not all of these themes can be extensively played via an income strategy according to abrdn given the paucity of dividend payments in some sectors such as healthcare (Health & wellness); however, many of the others are well represented currently in AAIF's portfolio. In stocks considered to be in the "Aspiration" theme the trust holds AIA, which protects accrued wealth via insurance products, and MOMO, an online retailer catering to consumers' developing tastes. The "Aspiration" and "Digital future" trends are also addressed via online banking platforms meeting the demand from the growing middle class across the region for financial products and services. "Building Asia" can be seen via the banks that finance infrastructure, such as Bank Rakyat Indonesia, and telcos such as Singapore Telecommunications that are building out the 5G network across the region. "Digital future" is addressed via Venture, which provides manufacturing services to electronics companies (and also within the Health and wellbeing space through its diagnostics and genome sequencing machines), and DBS Group, which is a well-positioned digital bank in Singapore. "Going green" includes such names as LG Chem, a leading electric vehicle (EV) battery manufacturer, and Hon Hai, which is supplying the growing demand for EVs, while Power Grid is building renewable based energy generation facilities to reduce the reliance on oil in India. "Tech enablers" include hardware component producers Samsung and Taiwan Semiconductor Manufacturing (TSMC), both of which are sizeable positions in AAIF's portfolio (Exhibit 1).

From a country perspective the fund has a relatively low weighting in Chinese companies and instead has a significant overweight in Singapore (Exhibit 2). Within sectors, technology, financials and real estate are overweight positions, with consumer, healthcare and energy the most underweight areas relative to the index (Exhibit 3).

Exhibit 1: Top 10 holdings (as at 31 March 2022)

Company	Country	Sector	Portfolio weight %		Index weight	Active weight vs benchmark
			31 March 2022	31 March 2021*		
TSMC	Taiwan	Information technology	7.3	8.7	6.6	0.7
Samsung Electronics	South Korea	Information technology	6.5	10.5	3.5	3.0
BHP Group	Australia	Mining	4.0	2.8	2.5	1.5
DBS Group	Singapore	Financials	3.8	2.5	0.6	3.2
Oversea-Chinese BC	Singapore	Financials	3.2	3.2	0.4	2.8
Venture Corporation	Singapore	Information technology	3.0	3.6	0.1	2.9
Infosys	India	Information technology	2.6	N/A	1.1	2.5
United Overseas Bank	Singapore	Financials	2.6	N/A	0.4	2.2
Rio Tinto	Australia	Mining	2.4	N/A	0.4	2.0
Tisco Financial	Thailand	Financials	2.2	N/A	0.0	2.2
Top 10 (% of holdings)			37.6	31.3		

Source: AAIF, Edison Investment Research. Note: *N/A where not in end-March 2021 top 10.

Exhibit 2: Portfolio country exposure vs MSCI Asia Pacific ex Japan index (% unless stated)

	Portfolio end-March 2022	Portfolio end-March 2021	Change (pp)	Index weight	Active weight vs index (pp)
Singapore	19.8	16.3	3.5	3.1	16.7
Australia	18.4	16.2	2.2	17.0	1.4
Taiwan	17.4	16.9	0.5	15.3	2.1
Korea	8.6	13.1	(4.5)	11.9	(3.3)
China	7.4	11.5	(4.1)	28.4	(21.0)
Thailand	7.1	6.3	0.8	1.8	5.3
India	7.0	5.6	0.7	12.4	(5.4)
Hong Kong	5.7	4.6	1.0	6.0	(0.3)
New Zealand	4.3	4.5	(0.2)	0.4	3.9
Japan	1.6	2.2	(0.6)	0.0	1.6
Others	3.9	2.8	1.1	3.8	0.1
Total	100.0	100.0		100.0	

Source: AAIF, Edison Investment Research

Exhibit 3: Portfolio sector exposure vs MSCI Asia Pacific ex Japan index (% unless stated)

	Portfolio end-March 2022	Portfolio end-March 2021	Change (pp)	Index weight	Active weight vs index (pp)
Financials	27.1	20.0	7.1	22.8	4.3
Information technology	26.1	30.1	(4.0)	20.8	5.3
Real estate	14.1	13.8	0.3	4.4	9.7
Materials	9.7	8.8	0.9	9.0	0.7
Communication services	6.1	8.0	(1.9)	8.7	2.6
Consumer discretionary	4.9	5.8	(0.9)	12.1	(7.2)
Industrials	4.5	4.8	(0.3)	6.2	(1.7)
Utilities	4.2	4.7	(0.5)	2.7	1.5
Consumer staples	0.8	0.6	0.2	4.8	(4.0)
Energy	0.0	0.9	(0.9)	3.5	(3.5)
Healthcare	0.0	0.0	0.0x	5.1	(5.1)
Cash + other	2.6	2.5			
Total	100.0	100.0		100.0	

Source: AAIF, Edison Investment Research

Performance: Building momentum

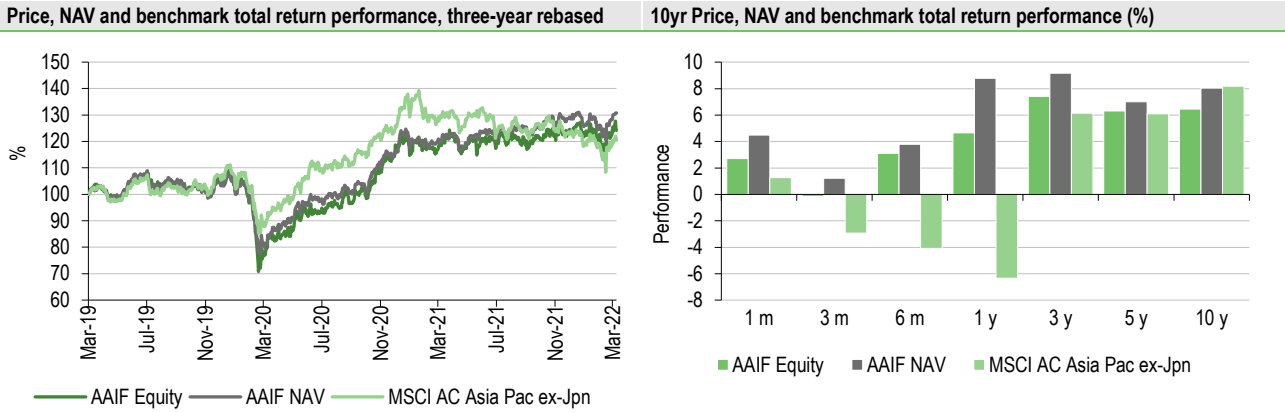
AAIF's net asset value (NAV) increased by 11% in FY21, materially outperforming the MSCI Asia Pacific ex-Japan Index return of -1.8%, the MSCI Asia Pacific ex-Japan High Dividend Yield Index return of 8.1% and the universe of Asia Pacific ex Japan Income strategies as defined by Morningstar, which returned 4.1%. The share price return was 5.2% as the company ended the year on a discount to NAV of 12.1% (FY20: 6.9%). Returns were driven by good stock selection, while the increase in gearing from 7% to 10% at the year end was also accretive.

Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI AC Asia Pac ex-Jpn (%)	MSCI AC Asia Pac ex-Jpn HDY (%)	CBOE UK All Companies (%)
31/03/18	2.6	2.5	7.9	7.1	1.2
31/03/19	6.7	5.2	4.2	4.9	6.2
31/03/20	(22.9)	(18.4)	(10.7)	(12.5)	(19.1)
31/03/21	53.6	46.5	42.9	23.6	26.6
31/03/22	4.7	8.8	(6.3)	3.4	13.2

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

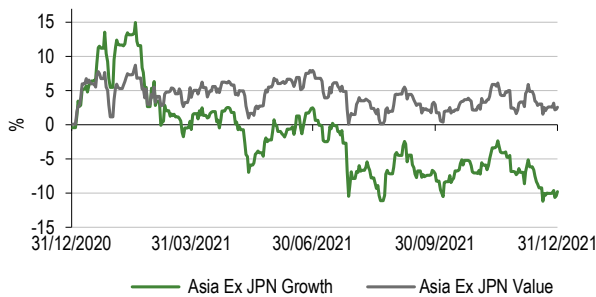
Exhibit 5: Investment trust performance to 31 March 2022



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

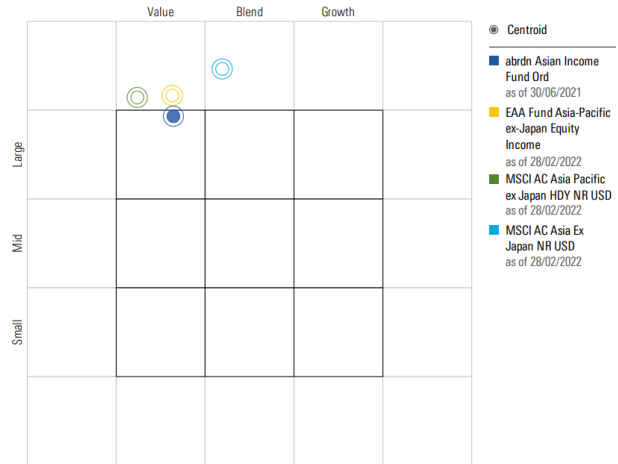
During 2021 growth underperformed value as expectations for rising interest rates globally gathered pace (Exhibit 6). This supported interest rate sensitive sectors such as banking, which is an overweight sector position for AAIF and the largest absolute sector weighting. Technology saw continued demand from secular trends such as remote working, AI and the metaverse and Technology is AAIF’s second largest absolute sector weighting and is a substantial sector overweight (Exhibit 3).

Exhibit 6: Growth underperformed value through 2021



Source: Morningstar

Exhibit 7: AAIF has a bias to quality companies at attractive valuations



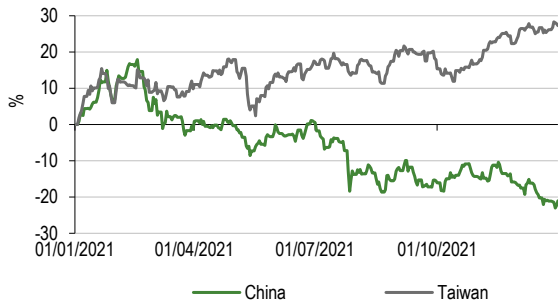
Source: Morningstar

Technology was again a driver of returns, with TSMC delivering good earnings as demand remained strong for semiconductor chips. Indian IT services provider Infosys was likewise in demand for similar reasons. Infosys has a net-cash balance sheet and has been paying growing dividends. Financial stocks were volatile, but AAIF’s holdings in three Singapore banks, DBS, OCBC and UOB, were positive for returns. As elsewhere in the world, local regulators had prohibited banks from paying dividends while the pandemic was at its height; this restriction was lifted and all three reinstated dividends to pre-COVID-19 levels. Banks may also be able to benefit from an upward-sloping yield curve, in part due to interest rate and inflation expectations, as they are able to borrow money at lower rates and lend at higher rates in the future, generating a higher margin on their loan books.

Later in 2021, mining performed strongly on the global reflation theme, and as discussed above, BHP on the back of high materials prices was able to declare a record dividend in 2021. BHP and

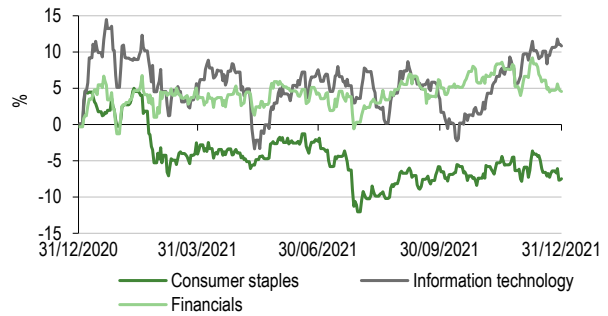
Rio Tinto are top 10 positions in the fund (Exhibit 1) and have diversified mining revenue streams and crucially a low cost of extraction, providing a very cash flow rich environment.

Exhibit 8: Significant country dispersion in FY21



Source: Morningstar

Exhibit 9: Technology and financials outperforming



Source: Morningstar

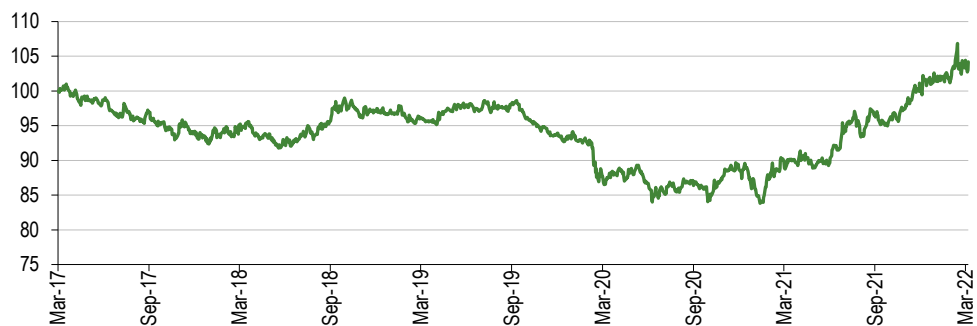
Exhibit 10: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price rel to MSCI Asia Pac ex-Jpn	1.4	2.9	7.5	11.7	3.6	1.0	(14.9)
NAV rel to MSCI Asia Pac ex-Jpn	3.2	4.3	8.2	16.2	8.8	4.4	(1.2)
Price rel to MSCI Asia Pac ex-Jpn HDY	1.7	(2.3)	(1.3)	1.2	10.8	8.0	(5.9)
NAV rel to MSCI Asia Pac ex-Jpn HDY	3.5	(1.0)	(0.7)	5.2	16.3	11.6	9.2
Price rel to MSCI Asia Pac ex-Jpn	1.3	(1.1)	(1.8)	(7.6)	6.8	8.9	(6.3)
NAV rel to MSCI Asia Pac ex-Jpn	3.1	0.2	(1.2)	(3.9)	12.2	12.5	8.7

Source: Refinitiv, Edison Investment Research. Note: Data to end-March 2022. Geometric calculation.

Specifically, good stock selection, together with sector overweight positions in technology, real estate and utilities have been accretive to the portfolio's outperformance over 5 years. Long-held positions in GlobalWafers, China Resources and AusNet respectively within these sectors have outperformed.

Exhibit 11: NAV performance versus benchmark over five years



Source: Refinitiv, Edison Investment Research

Peer group comparison: Wider than average discount

Exhibit 12: AIC Asia Pacific Income peer group as 18 April 2022*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
abrdn Asian Income Fund	386.4	2.9	23.2	39.4	111.1	1.0	No	(11.0)	109	4.3
Henderson Far East Income	453.9	(0.1)	4.5	20.6	91.5	1.1	No	(1.0)	102	7.9
Invesco Asia Trust	221.6	(9.2)	25.7	49.9	174.1	1.0	No	(8.6)	100	4.6
JPMorgan Asia Growth & Income	354.6	(14.7)	12.3	48.9	142.9	0.8	No	(9.2)	99	5.3
Schroder Oriental Income	700.8	(1.0)	22.4	43.1	159.0	0.9	Yes	(5.1)	103	3.9
Simple average (5 funds)	423.5	(4.4)	17.6	40.4	135.8	0.9	10.0	(7.0)	102.9	5.2
AAIF rank in peer group	2	1	2	4	4	4	N/A	5	1	4
MSCI AC Asia Pac ex JPN		(10.7)	12.9	33.5	110.4					
MSCI AC Asia Pacific ex Japan HDY		5.0	12.9	28.0	93.2					

Source: Morningstar, Edison Investment Research. Note: *Performance as at 18 April 2022 based on cum-fair NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

AAIF is around average in terms of net assets within the Association of Investment Companies (AIC) peer group and marginally above average in terms of fees charged. Currently the highest geared, it has performed well over recent years and is ahead of its benchmark over three, five and 10 years, but behind the HDY index over one year. It currently yields 4.3%, which is a substantial premium over the mainstream Asia Pacific ex-Japan Index (2.6% yield) and somewhat below the high dividend yield index (5.5%). AAIF has increased its dividend in each of the last 13 years.

Exhibit 13: AIC peer group selected country comparison (%)

	Portfolio date	Australia	China	Hong Kong	India	Singapore	South Korea	Taiwan	Thailand
Abrdn Asian Income Fund	Feb 2022	16.8	7.8	5.6	6.8	19.2	9.2	18.5	7.3
Henderson Far East Income	Feb 2022	24.0	15.1	5.5	3.7	8.6	17.0	14.0	3.0
Schroder Oriental Income	Feb 2022	14.4	10.2	11.8	0.0	14.5	12.7	23.3	2.0
Invesco Asia Trust	Jan 2022	2.2	35.0	7.2	14.0	3.5	13.2	16.0	2.0
JPMorgan Asia Growth & Income	Feb 2022	0.9	35.2	7.8	10.2	5.5	15.8	15.4	1.5
Asia Pacific ex Jpn Equity Income PG	Feb 2022	15.8	18.4	9.3	6.1	10.7	10.9	18.5	2.0
MSCI AC Asia Pac ex Jpn	Mar 2022	16.8	28.2	5.6	12.4	3.2	11.9	15.2	1.8
MSCI AC Asia Pac ex Jpn HDY	Mar 2022	27.3	21.3	8.3	3.1	5.4	6.5	20.7	0.7

Source: Morningstar, AAIF

AAIF is less weighted to China compared with its peers and the benchmarks. Conversely the portfolio is more exposed to Singapore versus comparators, with bigger positions in financials such as OCBC and DBS, as well as Venture, a mid-cap tech component manufacturer.

Exhibit 14: AIC peer group selected sector comparison (%)

	Portfolio date	Basic materials	Communication services	Cons cyclicals	Real estate	Technology	Energy	Financials
Abrdn Asian Income Fund	Mar 2022	9.7	6.1	4.9	14.1	26.1	0.0	27.1
Henderson Far East Income	Feb 2022	12.4	18.3	3.4	6.9	13.1	9.9	28.0
Schroder Oriental Income	Feb 2022	12.2	10.0	1.3	17.1	29.4	1.0	25.8
Invesco Asia Trust	Jan 2022	2.9	11.1	21.7	5.5	21.7	0.0	25.0
JPMorgan Asia Growth & Income	Feb 2022	1.3	11.2	15.0	3.5	24.8	3.0	28.3
Asia Pacific ex Jpn Equity Income PG	Feb 2022	8.1	9.7	5.7	9.8	26.9	2.6	23.5
MSCI AC Asia Pac ex Jpn	Mar 2022	8.9	8.8	11.7	4.3	20.8	3.7	22.9
MSCI AC Asia Pac ex Jpn HDY	Mar 2022	21.3	2.6	4.4	7.6	16.5	2.4	26.9

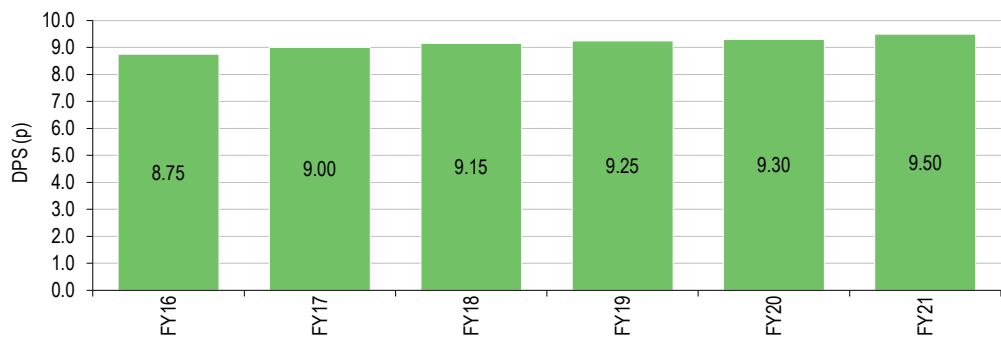
Source: Morningstar, AAIF

From a sector perspective AAIF differentiates itself with its high weighting to technology, which is mostly via its 15% exposure collectively to TSMC and Samsung, although Venture and Infosys are also top 10 positions as at February 2022 (Exhibit 1). There is a higher weighting to real estate also compared with peers, via REITs such as Digital Core REIT and Centuria REIT. The portfolio is less exposed to communication services, healthcare and energy due to a combination of what the management consider to be unattractive valuations, lack of dividends and volatile spot prices.

Dividends: An AIC next-generation dividend hero

AAIF pays dividends quarterly, in May, August, November and February with the first three interims equal in size and a larger fourth interim dividend. For FY21 the board declared dividends per share of 9.5p (FY20: 9.3p) on revenues per share of 8.95p (FY20: 7.41p). Reserves of £0.9m or 0.5p per share were used to augment the dividend compared with a utilisation of £3.3m or 1.9p per share for FY20. After the payment of the final dividend the company had revenue reserves of £6.9m or c 4p per share (FY20: £7.7m). Dividend cover after the final payment was 0.94x (FY20: 0.80x). The board has also guided to annual dividends of at least 9.75p for FY22 and FY23. AAIF has a current dividend yield of 4.2%, broadly in line with its informal target yield of 4.5%, and is an AIC 'next generation dividend hero', having increased its dividend for more than 10 but fewer than 20 consecutive years.

Exhibit 15: Dividend history since FY16

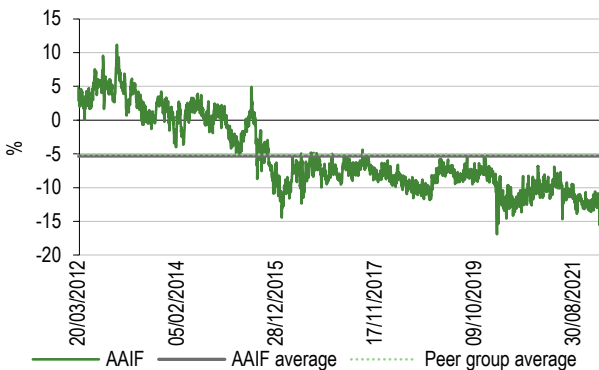


Source: Bloomberg, Edison Investment Research

Discount: Anomalously wide within the peer group

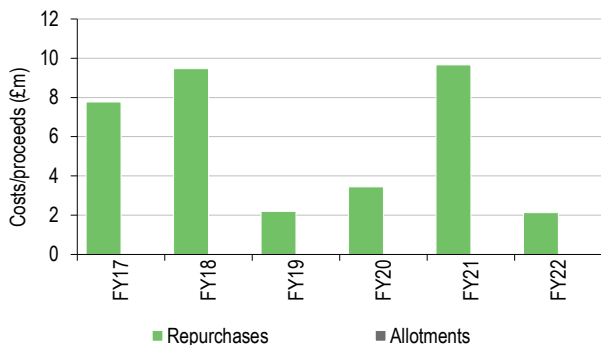
AAIF does not have a fixed life and, in line with the board's policy to buy back shares when the discount to the underlying NAV (exclusive of income) at which the trust's shares trade exceeds 5%, it has continued to buy back its shares into treasury. During FY21 the company bought back 4.3m shares (2020: 1.7m) at a discount to NAV, and so far in FY22 a further 763,391 shares have been bought back into treasury. Given the high-quality pool of assets managed in AAIF, the potential for capital growth and continued demand for reliable income, the current discount looks incongruous (Exhibit 16) and provides investors with a potentially attractive entry point, or opportunity to top up holdings.

Exhibit 16: Discount over 10 years



Source: Refinitiv, Edison Investment Research

Exhibit 17: Buybacks and issuance



Source: Morningstar, Edison Investment Research

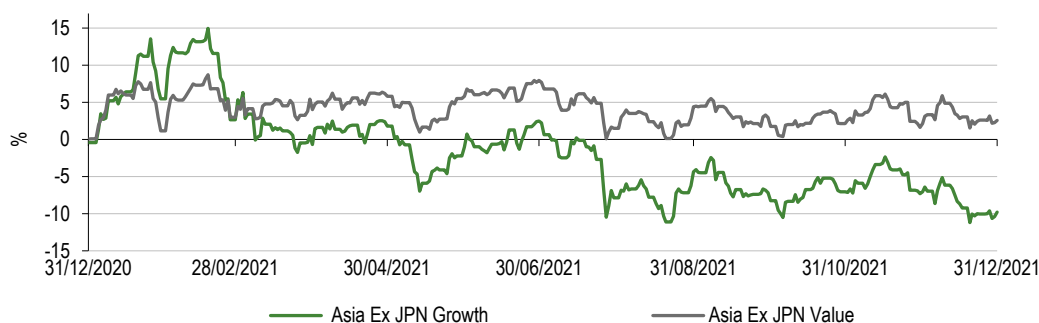
Fund profile: Above-average income

AAIF was launched in December 2005 as a Jersey-incorporated, London-listed closed-end investment company. It aims to achieve total returns from income (c 4.5% pa target dividend yield, paid quarterly, funded solely from portfolio income) and capital growth, by investing principally in listed companies across the Asia-Pacific region, although it also holds some high-yielding fixed-income securities issued by companies whose equities do not offer an attractive dividend yield.

AAIF is managed according to abrdn Asia's well-established, quality-focused investment process. It measures its performance with reference to the MSCI AC Asia Pacific ex-Japan Index (although it may invest in Japan). However, the bottom-up investment process and AAIF's focus on well managed companies with attractive dividend yields means portfolio weightings may diverge widely from those of the index. At June 2021 AAIF had an active share versus the MSCI AC Asia Pacific ex Japan Index of 79% (100 would indicate complete difference while 0% would indicate complete overlap). AAIF is a member of the AIC Asia Pacific – Excluding Japan sector. The fund has a flexible approach to gearing (up to a working limit of c 15% of net assets), and actively manages its discount to NAV through share buybacks. Shareholders gave approval at an extraordinary general meeting on 8 September 2021 to move the tax residency to the UK from Jersey, effective January 2022 (although AAIF continues to be registered in Jersey). This has the potential to reduce the amount of withholding tax paid. The board has estimated that the company would have received an extra £290,000 pa over the past five financial years if it had been UK tax resident.

Below we take a brief look at the differences between the two indices against which AAIF measures its performance. In 2021 growth significantly underperformed value (Exhibits 6 and 18) likely due to expectations for tightening interest rates globally. AAIF has a value bias (Exhibit 7), as has the MSCI AC Asia ex-Japan High Yield Index when compared with the mainstream MSCI AC Asia ex-Japan Index.

Exhibit 18: Asia High Dividend Yield outperformed through FY21



Source: Morningstar

These characteristics are further illustrated in Exhibit 19 with the high yield index standing at a significant discount to the mainstream index in terms of P/E and P/B.

Exhibit 19: Financial valuation metric characteristics

	Portfolio date	Equity style box	Average market cap (£m)	P/B ratio	P/E ratio	P/FCF ratio
MSCI Asia Pac Ex JPN	31/03/2022	Large blend	35,129	1.8	13.5	26.0
MSCI Asia Pacific ex Japan HDY	31/03/2022	Large value	26,897	1.3	9.2	16.9

Source: Morningstar

Exhibit 20: Sector weightings (%)

	Basic materials	Comm services	Consumer cyclical	Consumer defensive	Healthcare	Industrials	Real estate	Tech	Energy	Financials	Utilities
MSCI AP Ex Jpn	9.0	8.7	12.1	4.8	5.1	6.2	4.4	20.8	3.5	22.8	2.7
MSCI AP ex Jpn HDY	21.1	2.5	4.2	8.2	1.5	3.4	7.6	17.0	2.4	26.2	5.8
Difference	12.1	(6.2)	(7.9)	3.5	(3.6)	(2.8)	3.3	(3.7)	(1.1)	3.4	3.1

Source: Morningstar, February 2022

Finally, there are significant divergences between the two indices in terms of country and sector positioning (Exhibits 20 and 21), with significant differences in basic materials and consumer cyclicals and Australia and China at the country level.

Exhibit 21: Country weightings (%)

	Australia	China	Hong Kong	India	Taiwan	Singapore	South Korea	Other
MSCI AP Ex Ja	17.0	28.4	6.0	12.4	15.3	3.1	11.9	5.9
MSCI AP ex Ja HDY	27.4	21.3	8.6	N/A	20.7	N/A	6.5	15.5
Difference	10.4	(7.2)	2.6	N/A	5.4	N/A	(5.4)	(5.4)

Source: MSCI. March 2022. N/A = not listed by MSCI.

Investment process: Quality dividends at the right price

AAIF is managed from abrdn Asia's Singapore office, the firm's Asia-Pacific regional hub, which is led by chairman Hugh Young and Head of Equities Flavia Cheong. Yoojeong Oh and Christina Wong are senior investment managers on the AAIF team and co-manage the fund supported by Young and Cheong. abrdn Asia has six offices in Asia ex-Japan, with more than 40 fund managers running a variety of regional and single-country mandates.

abrdn Asia follows a well-established, research-intensive investment process, centred on identifying quality companies that the managers believe are undervalued. To assess quality, they look at a company's management team, its track record of execution, ESG framework and corporate governance factors such as how it treats minority shareholders. The process looks for companies with strong enough balance sheets to support them through a business cycle – so that, for example, they can weather periods of falling demand for their products or services.

Companies that pass the quality tests form the universe of stocks from which the team constructs its portfolios. Portfolio managers in offices around the Asia-Pacific region feed ideas back to the Singapore office for potential inclusion in regional funds. Each stock is analysed to gauge if it represents good value at its current share price. Those that are deemed expensive are placed on a watchlist and regularly reviewed. The assessment of price is based on factors such as key financial ratios, stock market conditions, the peer group and business prospects. Because of its income focus, AAIF's managers also seek companies that are supported by an attractive dividend yield. However, stocks that do not currently pay a dividend may be included if there is a plan in place to introduce or reinstate dividends in the very near future.

abrdn Asia will not invest in a company until it has met its management, and this process continues after an investment is made, with company meetings at least twice a year. Between meetings, the managers follow company results and newsflow, with information entered into an in-house database that all the regional offices can access. Oh says the database has more than 10 years of information, and is a key advantage in terms of being able to track what companies have said and to monitor execution of strategy. The long-term relationships that abrdn have with corporates in Asia built up over decades is also a competitive advantage.

As well as equities, the portfolio may include fixed income securities. All the bonds that AAIF owns are issued by companies in which abrdn Asia is an equity investor, so the team knows the balance sheet and the management. Bonds are held for yield enhancement, so tend to offer high coupons, and are typically issued by companies that are outside AAIF's remit because they do not pay

attractive dividends. Historically the allocation to bonds has been very modest (sub-1% at March 2022); the focus here is on equity investment.

Portfolio construction

AAIF's managers build a portfolio of c 40–70 holdings from an investable universe of c 150–200 stocks. At the end of February 2022 AAIF had 60 positions (including an ICICI bank corporate bond holding), with another c 10–15 good-quality companies with a dividend tilt on its watchlist. In order to ensure all holdings can contribute meaningfully to returns, new positions tend to come in at c 0.5% of net assets, with a view to building to 1.0% within a few months. Oh says a 2.0% position would symbolise good conviction on a company's growth potential and the sustainability of its income. Some higher-conviction positions have a higher weight – for example, TSMC and Samsung are both over 7% – although holdings above 5% are rare and may be trimmed above this point in order to maintain portfolio balance. While there are no top-down or index-based constraints on geography, industry or company size, the managers seek to hold a diversified portfolio.

abrdn Asia's portfolios are conservatively run, with an emphasis on 'buy and hold'. However, Oh points out that, while complete exits may be relatively infrequent, the AAIF team actively manages position size, particularly where a stock has had a good run, as a higher share price usually means a lower dividend yield. Portfolio turnover is low, at typically c 14–15% a year, implying an average holding period of six to seven years. The managers would not delay a sale if it was on the grounds of concern over a company's prospects, but would otherwise weigh up whether to wait for a dividend if a payment date was approaching. Oh says the team would be less likely to time a purchase around a regular dividend payment, although they 'try to angle for the big events', such as disposals of non-core assets that would result in a capital return to shareholders.

Subsequent to the May 2018 AGM shareholders gave authorisation for the managers to boost portfolio income via the use of derivatives (for example, by writing options over stocks it wishes to sell at a certain price, which generates income in the form of premiums). Covered options are used to modestly enhance revenue, although their use has been insignificant, particularly over the past year as the risk/reward on option premiums were not favourable during covid uncertainty. YTD 2022 the managers have written one covered put option.

AAIF's approach to ESG

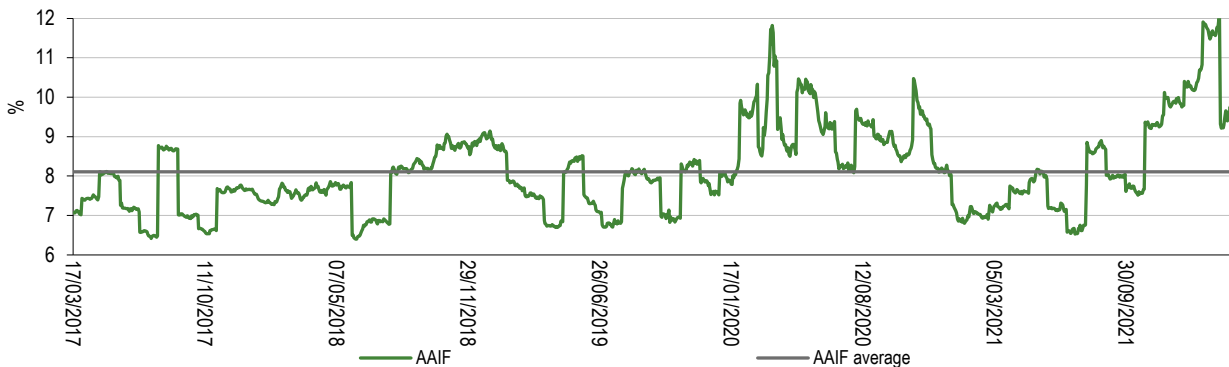
abrdn has long integrated ESG into its investment process as a way to potentially increase investor returns and to avoid areas of risk. Companies with a robust ESG framework, that willingly look for ways to enhance and improve their operations on key ESG factors, will be the companies to back over the long run. According to abrdn ESG investment culture has perhaps not made as deep inroads into the Asian investment psyche, so AAIF's managers have made particular attempts to liaise with company management teams to advocate improvements to governance on a practical basis. Viewing the fund through the Sustainalytics lens, the portfolio scores a maximum five stars on ESG measures.

Gearing: Flexible and active

AAIF may use gearing, with a normal ceiling of 15% and a hard limit of 25%, although net gearing has over the past five years been within a range of 6% to 12% (Exhibit 22). Gearing is applied when the managers feel there are attractive opportunities that will provide returns in excess of the cost of borrowings. AAIF does not have structural gearing; instead it solely utilises unsecured bank loans and in March 2021 it renewed its three-year £10m term facility and one-year £40m revolving credit facility with Bank of Nova Scotia. The managers have the option to increase the revolving credit facility from £40m to £60m. Currently £10m has been drawn down under the term facility and fixed

for three years at an all-in rate of 1.53%. Within the revolving credit facility, HK\$73.5m, US\$19m and £4.9m is drawn down at all-in rates of 1.29%, 1.30% and 1.26% respectively. Taking account of both loans, AAIF's current net gearing is 9.4%.

Exhibit 12: Five-year gearing



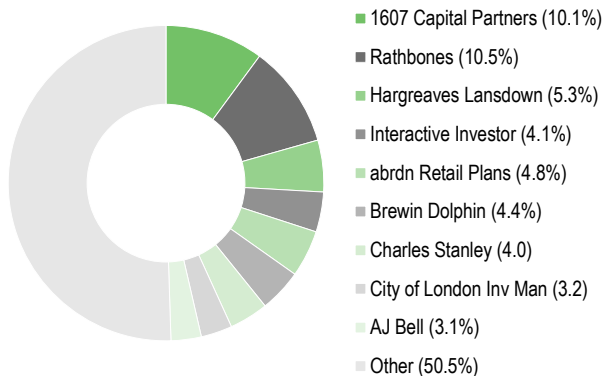
Source: Morningstar

Fees and charges: Reduced rates

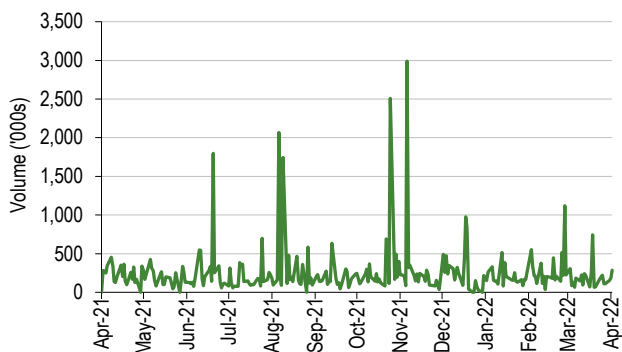
With effect from 1 January 2022, abrdn Asia is entitled to receive a lower tiered annual management fee of 0.80% (previously 0.85%), paid quarterly and based on the rolling monthly average NAV, reducing to 0.60% (previously 0.65%) on average values above £350m. AAIF currently has net assets of over £400m so investors are benefiting from economies of scale as the trust's assets move into the lower tier of fees. Fees are charged 40% to revenue and 60% to capital, in line with the expected split of returns. There is no performance fee. For FY21 ongoing charges were 1.01% (FY20: 1.1%).

Capital structure: Strong commitment to buy back

AAIF is a Jersey-registered, London-listed investment trust with one class of share. At 22 April 2022, it had 170.5m ordinary shares in issue, with an additional 24.4m held in treasury. Renewed annually, the board has the authority to repurchase up to 14.99% of the shares in issue, or allot shares up to c 10%, to manage a discount or a premium. Shares may be repurchased when the discount to NAV exceeds 5%, and the board aims to avoid large fluctuations in the discount/premium to NAV relative to other similar investment companies investing in the region. Over FY21, 4.45m shares (2.4% of the total) have been bought back into treasury, at a cost of £9.1m. After the end of FY21, the company purchased a further 0.96m shares into treasury at a consideration of £2.2m.

Exhibit 23: Top 10 shareholders


Source: Bloomberg. Note: As at 1 January 2022.

Exhibit 24: Average daily volume


Source: Refinitiv. Note: 12 months to April 2022.

The board: Relevant skills and experience

Exhibit 25: AAIF's board of directors

Board member	Date of appointment	Remuneration (FY21)	Shareholdings
Ian Cadby (chairman)	May-16	£28,000	7,000
Mark Florance (audit comm chair)	May-17	£33,000	12,789
Krystyna Nowak (SID)	May-15	£29,000	17,797
Robert Kirkby	Nov-21	4,666	16,937
Nicky McCabe	May-18	£28,000	5,121
Hugh Young	Nov-05	n/a	27,500
Charles Clarke*		£40,500	

Source: AAIF. Note: *Retired as chairman on 31 December 2021.

The board consists of six people and meets four times a year. Tenures range from almost 17 years to less than six months, with an average of a little over six years. Leaving aside the longest serving director, the average board tenure reduces to under four-and-a-half years. Relatively unusually, the board includes a prominent member of the investment manager and chairman of the Asian equity business at abrdn. Hugh Young has been a member of the board since launch in December 2005. He does not sit in on discussions regarding the manager and waives his board fee.

Previous chairman Charles Clarke stood down from the board at the end of FY21 and was replaced by Ian Cadby. Ian Cadby is an experienced wealth and asset manager including roles in Asia. He also has extensive experience in risk management and board strategy via his former role as group CEO at Ermitage. Mark Florance is based in Singapore and has over 30 years' experience in equity/debt markets, corporate finance advisory, mergers and acquisitions and debt restructuring via his work in Asia with NM Rothschild & Sons. Nicky McCabe brings wide-ranging experience from her previous roles at Fidelity including as head of product and investment trusts, where she was involved with back-office operations, the investment team, proprietary investment, distribution and product management. Krystyna Nowak is a partner at Ridgeway Partners and former managing director of the Board Practice at Norman Broadbent. She also previously worked at Citibank in London, Hong Kong and Singapore. Hugh Young lives in Singapore, is MD Asia for abrdn and sits on a number of abrdn-managed Asian investment trust boards. Robert Kirby is the latest addition to the board. He is an accountant and former advisory partner at KPMG Channel Islands.

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