

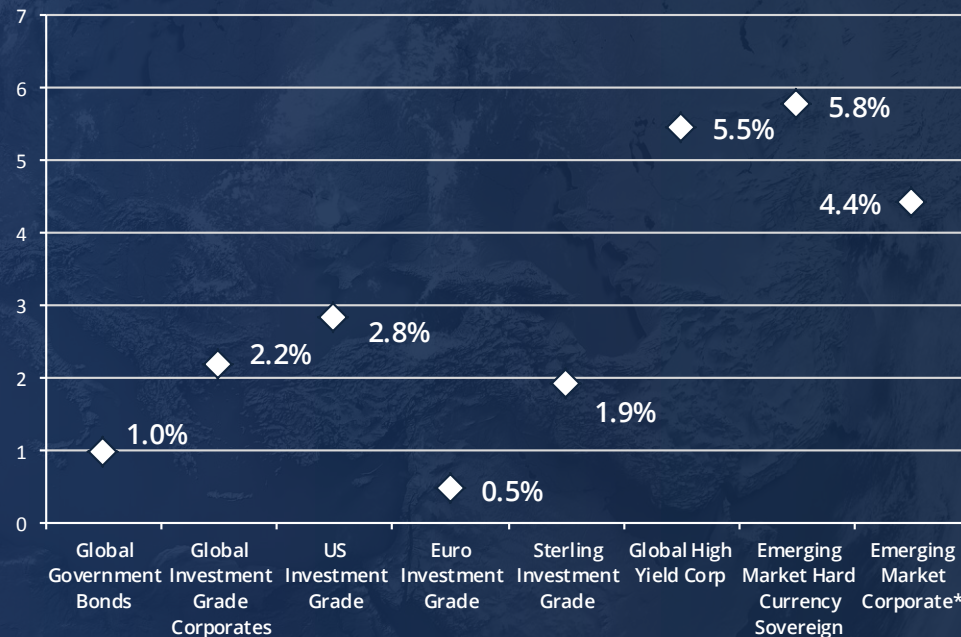
Navigating the fixed income landscape

Craig MacDonald,
Global Head of Fixed Income

Strong returns but this has suppressed yields

Total Return (%) (USD Hedged)									
	Global Govt.	Global IG	US IG	Euro IG	Sterling IG	Global HY	EMD HC	EMD Sov	EMD Corps
2019	7.3	12.5	14.5	9.4	12.8	14.3	13.3	13.0	
2018	2.8	-1.0	-2.5	1.5	-0.6	-1.9	-4.2	-2.0	
2017	2.1	5.7	6.4	4.4	5.9	8.0	9.3	7.9	
2016	3.9	6.2	6.1	6.3	12.8	15.5	9.3	10.2	
2015	1.4	-0.2	-0.7	-0.2	0.0	-2.8	1.5	0.6	
2014	8.1	7.6	7.5	8.4	12.1	2.9	7.2	3.9	
2013	0.1	0.1	-1.5	2.5	1.5	7.5	-6.0	-0.7	
2012	4.5	10.9	9.8	13.9	15.3	18.5	18.0	18.9	
2011	5.5	4.8	8.1	1.1	6.5	3.2	8.7	-4.0	
2010	3.6	7.2	9.0	4.8	8.8	15.3	12.3	n/a	

Yield to Maturity (%) (local Currency)



Total Returns presented in USD hedged terms, Yield to Maturity presented in local currency terms

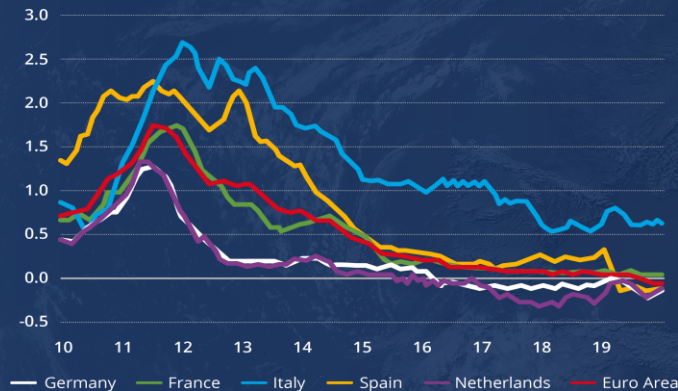
* Total Returns covering the period December 2010 to December 2019

Source: Aberdeen Standard Investments, Barclays

Ripple effect of negative interest rates continues

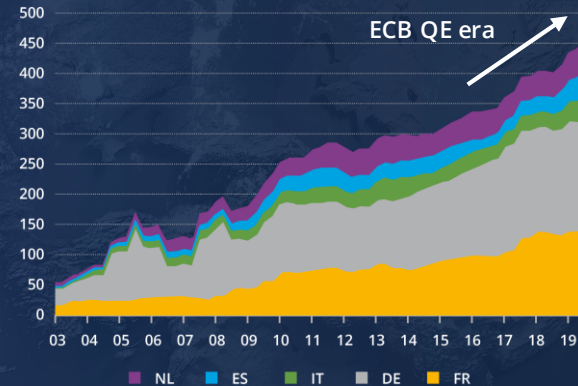
Negative deposit rates for Corporate and Private Wealth clients supportive for flows into EUR IG

Corporate deposit rates: now negative in Germany, Spain and Netherlands (<1yr deposits, average rates %)



Source: BofA, Aberdeen Standard Investments, December 2019

Corporate cash levels (Eur bn) – no signs of a slowdown in cash accumulation, especially since QE. Companies still not keen to spend



Source: BofA Global Research, Bloomberg, Cumulative total cash for large sample of Euro IG issuers

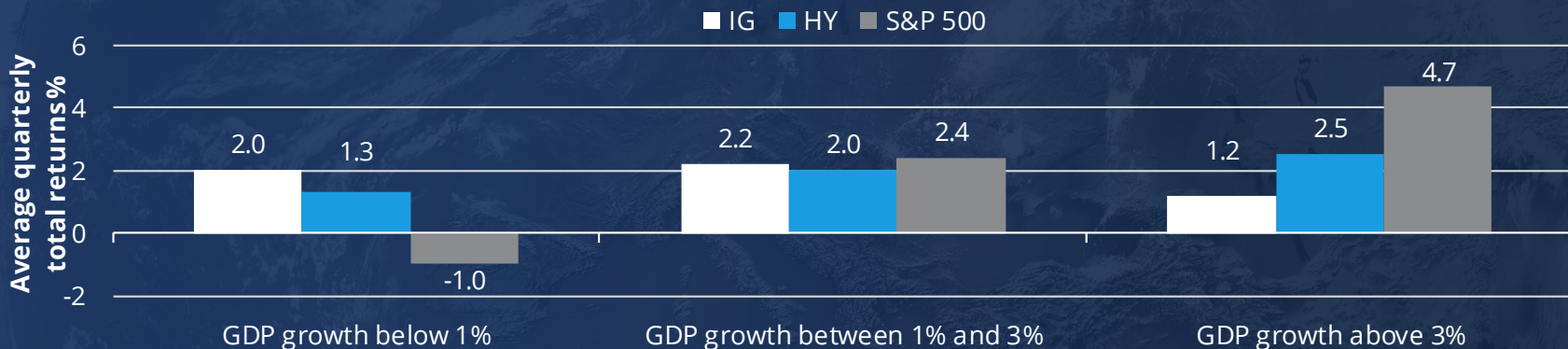
- Banks in Europe have started to pass through negative rates to end clients that have on average larger deposits with the bank (typically deposits of 100k and more affected, sub-100k deposits more immune given fears of voter backlash).
- 70% of counties reduced interest rates in 2019 and some have restarted forms of QE

Source: BofA, Aberdeen Standard Investments, December 2019

Not too hot or cold...but limited room for error

GDP growth around 2% is supportive for IG Credit

Total returns for IG, HY and S&P 500 in different GDP growth ranges



ASI Economic Forecasts

United States	2020	2021
GDP (%)	1.4	1.7
CPI (%)	1.9	2.0
Fed Funds (%)	1.4	1.4

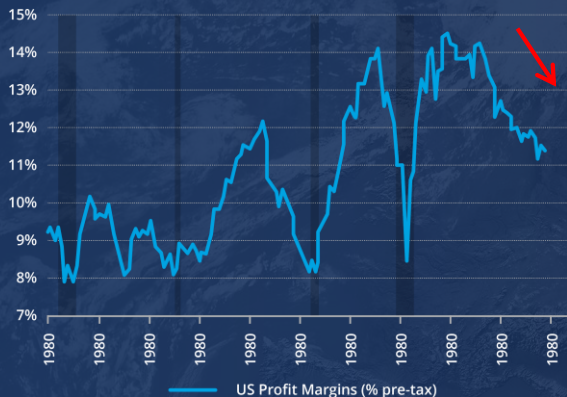
Eurozone	2020	2021
GDP (%)	1.2	1.2
CPI (%)	1.2	1.3
ECB Depo Rate (%)	-0.60	-0.70

Forecasts are offered as opinion and are not reflective of potential performance. Forecasts are not guaranteed and actual events or results may differ materially

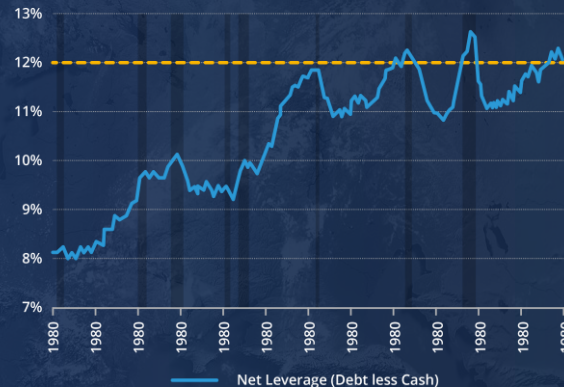
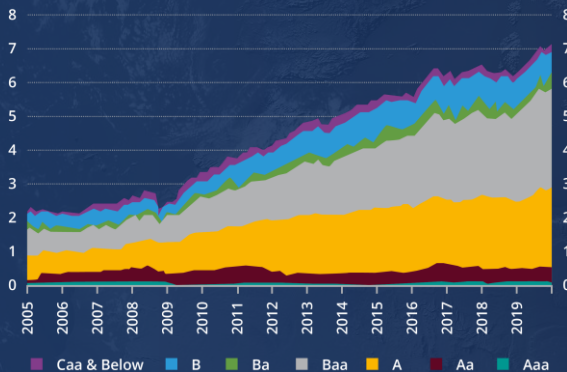
Source: Aberdeen Standard Investments, Deutsche Bank, January 2020

Are \$ BBBs worth the risk?

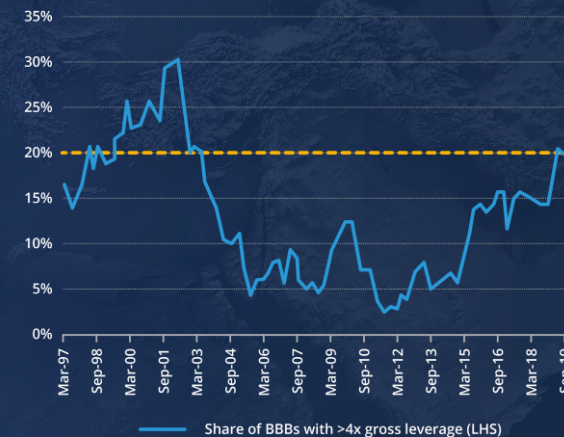
In a world of declining profit margin



With a large BBB universe...



...and high debt level



...Who are on average reasonably indebted

Selectively Yes - some BBBs are worth the risk?

Positives

- Slow but positive extended economic cycle
- profit pressures felt more by smaller domestically focused companies
- BBB Curve is steep
- Some corporates actively addressing too high debt (see graph)
- In 2019, rising stars outnumbered fallen angels by \$30bn
- Average European corporate balance sheet stronger

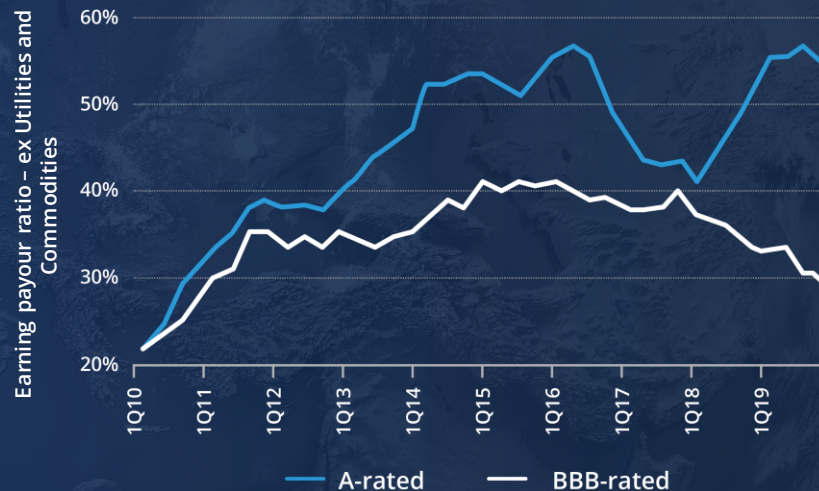
Negatives

- BBBS with greater than average leverage will be vulnerable if the economy is weaker than base case
- Some stretched business models make downgrades inevitable
- Short duration BBB bonds are expensive so value is in longer end which will be volatile
- Gross amount of BBB debt is at record levels and dwarfs the BB universe, risking material indigestion when there are lots of fallen angels

Our Portfolio Positioning

Top Picks	Top Pans
CVS	Ford
Fox	Walgreens
Kraft-Heinz	Kroger
Anheuser-Bush	AT&T
Verizon	General Electric
	Marks and Spencer

The earning payout ratio for BBBs is at its lowest level since 2010, reflecting a focus on deleverage over equity returns

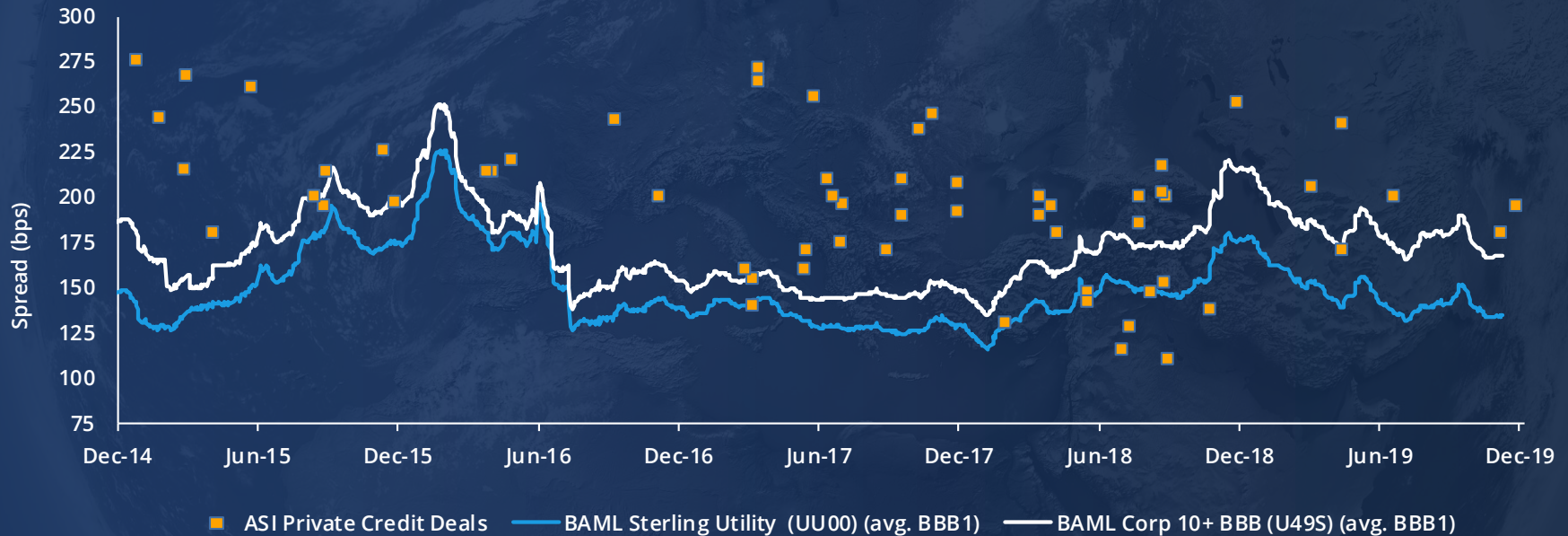


Source: Aberdeen Standard Investments, BofA research, JP Morgan

Securities selected for illustrative purposes only to demonstrate investment management style and not as an investment recommendation or indication of future performance.

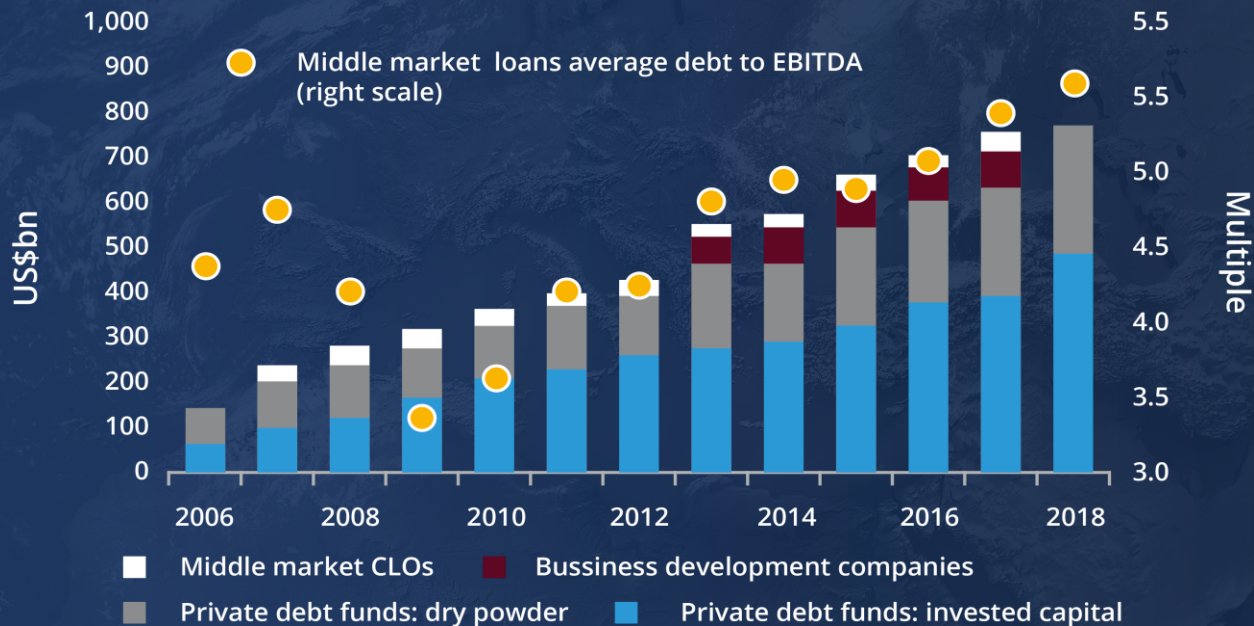
What about private credit and direct lending?

ASI private IG credit deals in comparison to corporate bond market spreads...Liquidity premium there for smaller deals



What about private credit and direct lending?

US Middle Market and Private Credit Assets under Management and Leverage - yields lower-credit profiles much worse

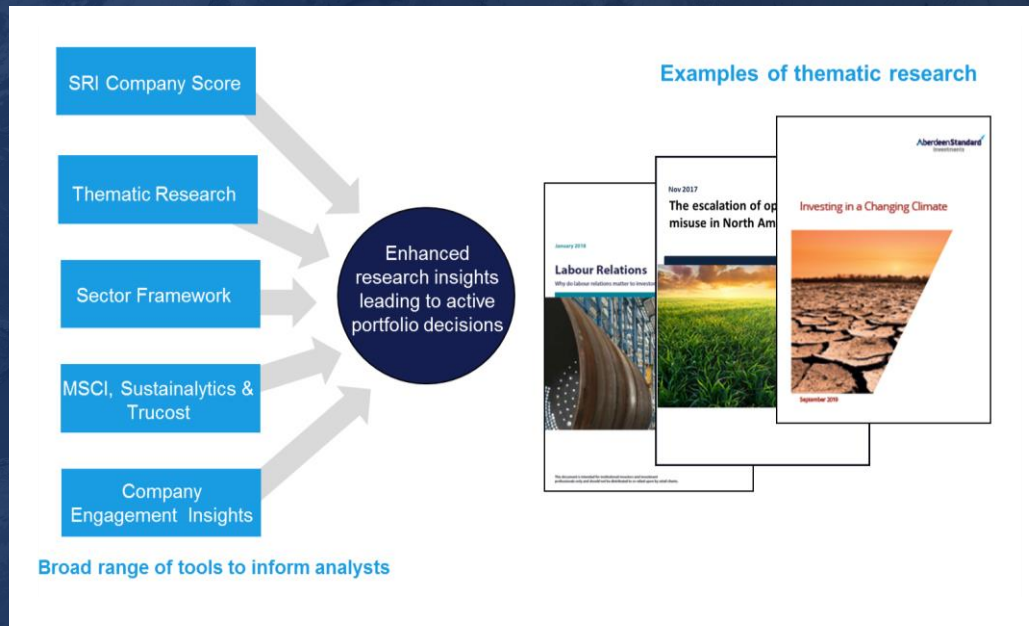


ESG integration

Comprehensive approach to ESG within Fixed Income

Research and Portfolio Construction

- ESG Risk Rating – proprietary indicator used to assess Environmental, Social and Governance factors when establishing the credit risk of an issuer
- Integrated in research template
- Toolkit of ESG inputs



ESG integration

Comprehensive approach to ESG within Fixed Income

Engagement

E.On

Issue: Energy Transition – Strategy & Targets

E.ON SE operates as an international and privately owned energy supplier. The company's main segments are renewable, developing and operating renewable assets, energy networks, power and gas distribution business, and customer solutions which develops energy solutions.



Engagement on the progress made in setting climate related targets

Engagement detail:

- We are lead investors on engaging with E.On as part of Climate Action 100+, a collaborative initiative to engage the highest emitters globally.
- The purpose was to seek insight on E.On's Paris aligned strategy, how that will achieve it, encourage them to link remuneration to targets and be aligned with TCFD.

Our requests:

- Set a Paris aligned net zero strategy that includes Scope 3 emissions and links remuneration to climate related targets
- Report on climate change in line with TCFD, include climate scenario analysis

Outcome:

- E.On have set a net zero target in 2019 which includes Scope 3 upstream emissions (from their suppliers), but not yet downstream from their products (gas sales)
- They have committed to publishing a TCFD report in 2020 and have working groups in place to look at climate risks, targets and scenario analysis

Next steps:

- We will continue to engage with E.On to encourage them to be ambitious about their climate targets and how they incentivise management to achieve these targets
- We will also follow up with E.On once more detail on their approach is available in their TCFD report.

Comprehensive approach to ESG within Fixed Income

Research and Portfolio Construction

- ESG Risk Rating – proprietary indicator used to assess Environmental, Social and Governance factors when establishing the credit risk of an issuer
- Integrated in research template
- Toolkit of ESG inputs

Engagement

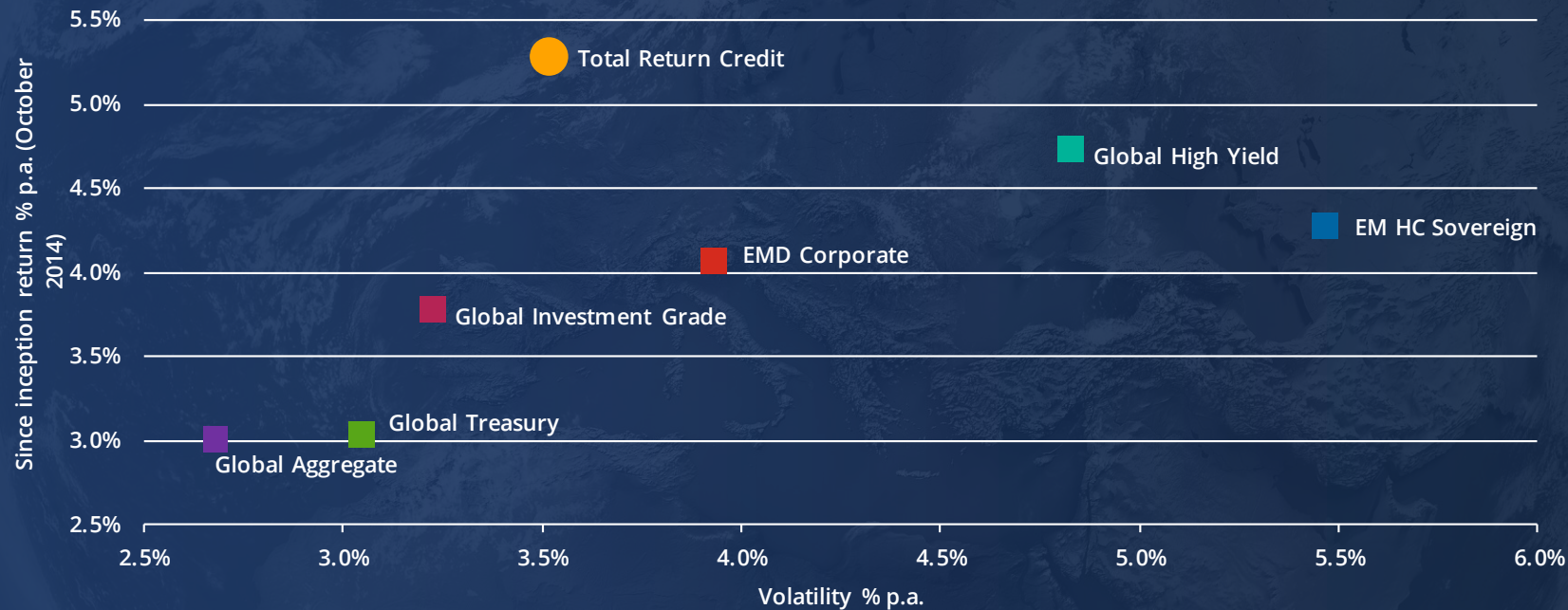
- Forward looking insights in ESG risk and opportunities
- Encourage best practice of the management of ESG issues
- Examples

Products

- Sustainable and Responsible Investment: Ratings are awarded to both sectors and issuers. Where companies which operate in sectors classified as medium or high risk and are awarded a lower than average rating, such companies will be excluded from the investment universe.
- Ethical: We seek to invest in companies that have strong corporate responsibility practices and that contribute positively to society and the environment, while excluding those that fail to meet our ethical criteria.
- EMD – Environmental, Social, Governance and Political: Screening Emerging Market Countries utilising indicators of institutional stability and governance that have traditionally proven necessary for sustainable development in emerging markets.
- Climate Transition (in development): Unconstrained Global Credit Portfolio, delivering consistent returns whilst allocating capital to projects, companies and countries that are addressing the causes of climate change or preparing their business/ country for consequences of climate change.

Unconstrained investing – can still add value

Potential to enhance returns with lower volatility



Source: Aberdeen Standard Investments, Barclays Indices: Global Aggregate, Global Aggregate Corporate, Global Treasury, Global High Yield Corporate, Emerging Market USD Aggregate: Sovereign, Emerging Market Corporate (10% country capped), gross returns hedged to GBP, 31 December 2019
Performance is shown gross of fees and does not reflect investment management fees. Had such fees been deducted, returns would have been lower
Past performance is not a guide to future results

For professional clients only – Not for public distribution

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

The views expressed in this presentation should not be construed as advice or an investment recommendation on how to construct a portfolio or whether to buy, retain or sell a particular investment. The information contained in the presentation is for exclusive use by professional customers/eligible counterparties (ECPs) and not the general public. The information is being given only to those persons who have received this document directly from Aberdeen Asset Managers Limited or Standard Life Investments Limited (together "Aberdeen Standard Investments") and must not be acted or relied upon by persons receiving a copy of this document other than directly from Aberdeen Standard Investments. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of Aberdeen Standard Investments.

The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life Aberdeen*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

- Standard Life Aberdeen means the relevant member of Standard Life Aberdeen group, being Standard Life Aberdeen plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited. Registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority.

GB-220120-108207-1