

The InvestingTimes *opportunities*

The independent Newsletter
for the self-directed investor

ABERDEEN INTERNATIONAL EQUITY FUND

Welcome to another Investing Times – Opportunity. We have launched this product driven review service for our existing subscribers. As good opportunities arise, we will profile a new product in the market, and try to negotiate special offers, discounts, reduced entry hurdles and fees on your behalf.

What the fund does?

So you've heard China is booming and India is not far behind, Japan looks to be on the rebound, and you would like to take advantage of these opportunities to realise greater capital growth. However when managing your own investments the tax rules, local laws and many other factors make owning direct shares in overseas markets unrealistic. Therefore, to gain exposure to overseas shares, investors are confined to investing through managed funds. However, in which fund or which combination of funds should you invest?

The bulk of international managed funds on the market 'chase' the MSCI World Index¹, that is, they invest in a basket of shares that strongly correlate with the MSCI World Index. This results in returns that are very similar to the index and once management fees are accounted for leave very little for investors to be satisfied with. In this case investors should simply invest in an index fund, achieving similar returns for a lower fee structure.

Investing Times has sought to identify fund managers who ignore the herd mentality and are not prone to chasing benchmarks. Previously *Investing Times* has recommended Platinum Asset Management, Hunter Hall, K2, PM Capital, MFS Global Equity Fund and Walter Scott and *Investing Times* sees the **Aberdeen International Fund (the Fund)** in a similar vein. Aberdeen are inherently active managers who don't follow or chase index returns, but rather employ their regional analysts to search the world for shares that are trading below their value and attempt to exploit mispriced securities. The Aberdeen International Equity Fund offers investors the opportunity to exploit gains in the large emerging markets of China, India and Brazil but consolidates these 'riskier' markets with more traditional share markets in the US, UK and Japan.

Investment Team

The Aberdeen international equity team is based in the UK. From this base Aberdeen employs the expertise of their analysts located in each of the regions in which they invest. This approach generates first-hand knowledge of regional specific information allowing the Aberdeen team to develop a portfolio of quality companies for the International Equity Fund.

¹ MSCI World Index (ex Australia) – an index comprising approximately 1,700 shares listed on exchanges of the 22 most developed nations

Style

Aberdeen under normal circumstances aims to be predominantly invested into international securities. However, Aberdeen maintains the flexibility to adjust this approach under prevailing market conditions. This could see part of the fund invested into Australian shares either directly or indirectly through another Aberdeen product (no additional management fees will be charged) and/or hold a larger proportion of funds in cash.

Aberdeen maintains this flexibility in the event that the international markets do not present any profitable opportunities, allowing the Fund to earn a return elsewhere whilst the team waits for more attractive opportunities.

Investment Process

Aberdeen are active portfolio managers and construct their portfolio based on a bottom-up process. They see a company's fundamentals of primary concern and investigate this employing high quality first-hand research. Aberdeen state that "No stock is bought without Aberdeen's fund managers having first met the company's management, and detailed company visit notes then written". From this stage Aberdeen estimate a company's quality and price. Quality refers to management, business focus, balance sheet and corporate governance. Price is calculated using financial ratios, the market, peer comparison and business prospects. This two stage approach assists in deciding whether a company is trading below, at or above their value.

Aberdeen views top-down factors (that is, macro-economic factors) to be secondary in portfolio construction, with diversification rather than formal controls guiding geographical and sector weights. Little regard is paid to stock size, other than to ensure liquidity. Aberdeen's portfolios are generally conservatively run, with an emphasis on traditional buy-and-hold, with profit-taking (selling a portion of securities holdings to "take profits") and topping up (buying to "top up" existing securities holdings) transactions preferred to outright trades, resulting in low turnover. Typically Aberdeen's portfolios of investments have higher return on equity/assets and lower debt to equity than the market average.

Risk Management

Investing internationally carries additional risks, such as the following:

- differences between countries relating to accounting, auditing, financial reporting, government regulation, securities exchanges and transactional procedures.
- foreign markets may have different levels of liquidity, pricing availability, settlement and clearance procedures, and
- actions of foreign governments, exchange controls, default on government securities, political and social instability.

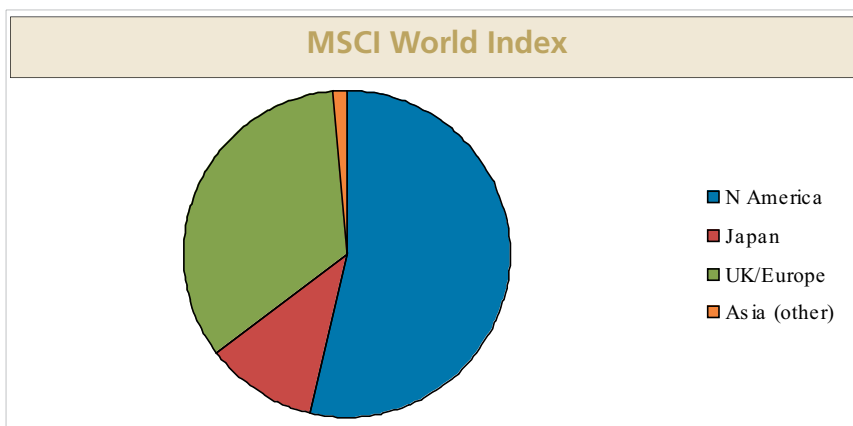
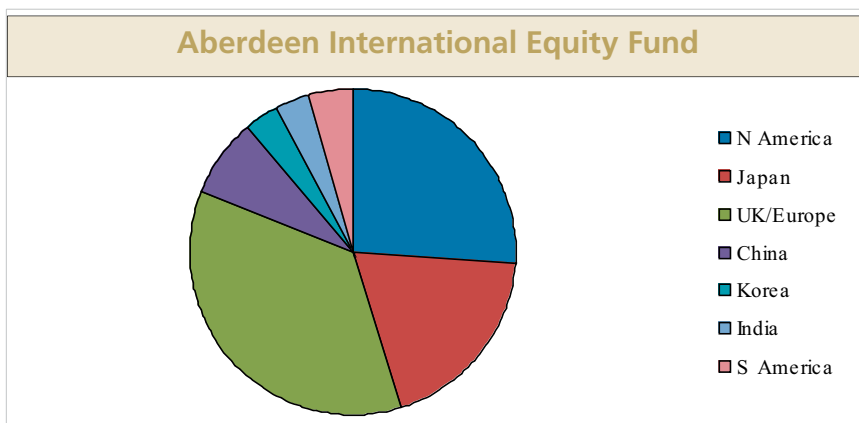
Risk management strategy: Aberdeen aims to manage this risk by having experienced fund managers based within the region where the companies are located. Aberdeen considers that these fund managers are best suited to research and analyse such companies in the particular region/country.

Overview

The Fund is invested in a diverse geographic and industry spread. This geographic diversification allows investors to be able to realise significant capital growth from the dynamic economies such as China, India and Brazil, but does not limit investors to the risks inherent in developing economies. The Fund is also coupled with more traditional markets such as the US, UK and Japan, markets that are expected to perform solidly into the future. Similarly, the industry diversification allows investors to hold companies in high growth industries to take advantage of extra capital return, but couples these holdings with companies in more mature and robust industries.

Investors may be unaware of the name Aberdeen, but our counterparts in Europe are certainly not, with a recent acquisition of Deutsche Banks Fund Management arm, Aberdeen Asset Management are a household name across much of the Western World. Whilst the current funds under management for the Fund in Australia are only AUS\$18.8M, these funds are pooled into a much larger international chest; investors therefore should not be concerned by the perceived small size of the fund.

Performance of the Fund



The Fund has performed significantly better than the MSCI All Countries World Index (ex. Australia) from a 1-3 year perspective, as of April 2007. This highlights a key attraction of the Aberdeen International Equity Fund; it does not chase the MSCI index.

The above pie charts compare the country holdings of the Fund compared with the index, it illustrates why investors should not expect returns that chase the index, holdings are fundamentally different.

The Aberdeen International Equity Fund took management control of the Fund in 2001. Therefore, we have omitted the performance of the fund prior to this period.

	1 Year %	3 Years %	5 Years %
International Equity Fund	9.71	19.75	6.84
MSCI AC World Acc. Index	6.94	12.8	3.6
Out / Under Performance	2.77	6.95	3.24

How has the Fund been rated?

Research House	Rating
Morning Star	★★★★
Standard & Poor's Rating	★★★★
InvestorWeb Rating	★★★★★

The fund is well rated in the US, along with the above ratings from Australian research houses. We believe Aberdeen is well placed to continue this trend into the medium-term for investors willing to invest their funds for a period above five years. The minimum investment into the fund is AUD\$20,000.

Many of the DIY investors in the Australian market are overweight in Platinum Asset Management International equity investments. Whilst we strongly recommend Platinum, it is important that as with all investments, investors are properly diversified and Aberdeen provides a wonderful opportunity for DIY investors to do exactly that. It has been some time since Investing Times last gave a strong recommendation for an international managed investment such is the belief in Aberdeen to provide strong long-term earnings to investors.

The Aberdeen International Equity Fund charges no entry or exit fees and no trailing commissions to financial planners – we believe this is a fair and reasonable fee structure. Access to this Fund is low minimum of \$20,000. Therefore Investing Times is satisfied that the fund is a professional product.

How to get a prospectus?

To download a prospectus go to: www.investingtimes.com.au - Click on the Investing Times Opportunities link which is located on the left menu bar and download the Aberdeen Product Disclosure Statement (pds). If you would like Investstone to lodge the investment application on your behalf, you must also print out and complete the No-Advice Lodgement Form and return with the completed Aberdeen application form to PO Box 422, Toowong, Qld 4066. If you do not have internet access, you can request a copy by mail by phoning 1300 131 526.

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