MERCER

Research note

Manager:	Aberdeen Asset Management			
Title:	Global Equity Review			
Author:	Deb Clarke			
Peer reviewer:	Rich Dell			
Strategies reviewed in this note:				
Product group/ category	**Strategy name**	**Current rating**	**Recommended rating (*)**	**ESG rating (**)**
International Equity - Global Equity - Core	**Global Equity**	B (T)	B+	ESG3
International Equity - World ex US/EAFE Equity - Core	**EAFE Only Equity**	B (T)	R	ESG3
International Equity - World ex US/EAFE Equity - Core	**EAFE Plus Equity**	B (T)	B+	ESG3

(*)*The recommended ratings in this document may be subject to an approval process and may be subject to change. For the most recent approved ratings please refer to your consultant or to GIMD as appropriate.*

(**) For more information on ESG ratings please refer to your consultant or to the 'Guide to Mercer Ratings' on GIMD as appropriate.

Details of research meeting(s) covered by this note:		
Date	**Location**	**On-site?**
1 February 2012	London	No
Manager attendees:		
Stephen Docherty , Head of Global Equity Neil Hegarty, Consultant Relations		
Mercer attendees:		
Deb Clarke Jonathan Marshall		

Rationale for change in recommended rating

We are proposing an upgrade for the Global and EAFE plus strategies. We have monitored the strategies for several years and acknowledge the strong performance. In the past we have been unable to gain sufficient comfort with the regional teams. The changes in the US and European team over the last couple of years and subsequent stronger adherence to the Aberdeen philosophy and process gives us confidence that the global team has a high quality list of companies from the regions on which to do further analysis and include in the final portfolio. The philosophy and process will define the performance and there will be periods of time when the style, predominantly quality, is out of favour and will most likely lag the benchmark.

We are recommending B+ as we have greater confidence in other strategies with similar philosophies.

We are told that the main focus of the team is on the EAFE plus strategy, which has the bulk of the assets. We are therefore proposing an R for the EAFE core strategy.

We are also proposing the removal of the T assignation. Both strategies have ex-post tracking errors which have been below that of the universe average, see charts in the performance section, and we no longer feel a T assignation is appropriate.

Mercer Evaluation Summary

International Equity - Global Equity - Core - Global Equity

International Equity - World ex US/EAFE Equity - Core - EAFE Plus Equity

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	+	Aberdeen's philosophy to investing is sound and provides a solid starting point for this strategy. The global team themselves are all experienced in the Aberdeen approach and has been stable over time. The starting point for idea generation is the regional analyst teams, which is well resourced, and we have gained greater confidence in this input over time, albeit we only formally rate the Asian and GEM strategies. The global team undertake further research to assess the businesses from a global perspective, and they appear to know their stocks well - however it is hard to assess where the accountability for stocks lies between the global team and the regional teams. They have a pragmatic, if relatively simplistic, approach to valuation companies across markets. Overall there is little that is unique in their approach, but it is sensible and "buy-in" to the strong philosophy is complete across the team.
Portfolio Construction	+	This is a relatively concentrated portfolio. Little attention is paid to the benchmark, and sector and regional constraints are broad. However Docherty clearly pays attention to ensuring the portfolio is adequately diversified at an industry and sector level, and this is reflected in the portfolios. Positions sizes are regularly monitored, and reflect the attractiveness of the valuation. All portfolios, including EAFE plus, originate from a model global portfolio to limit the discrepancy between accounts.
Implementation		Assets are relatively high, although we don't believe capacity is currently an issue for the global team. It is worth noting that Aberdeen manage a significant asset base using a common investment philosophy; asset levels in Asian and GEM equities have been raised as an area of concern in our assessment of the regional strategies. The global team use a central order system for posting trades, and deals are picked up by either the London or Singapore team, both comprising experienced dealers.
Business Management	+	Management appear supportive of this team and of their approach, which they see as making the best use of the resources they have. Remuneration is structured so as to complement and support the team approach to investment. The global team has been relatively immune to Aberdeen’s past acquisitions, , partly due to being based in the Edinburgh office. Hugh Young, as Head of Equities, provides strong support for the equity team in periods of acquisitions such that the impact is limited to just taking on the assets and not the investors; recognising the issues around integrating teams with different philosophy’s.

Overall Rating (A, B+, B or C) **B+ (T)** **Subject to IRRC approval**	Whilst this is an experienced and stable team of fund managers, the strategy relies on the output of the regional teams to produce a buy-list for the global team. We rate some of the regional teams highly (GEM and Asia in particular) but other regions are not rated; albeit we have gained more confidence that they are consistent in their application of the Aberdeen philosophy and process. The global team has a high level of communication with the regions, which ensures they are on top of the new and changing ideas before they emerge, although we sense they have little control over the analytical resource. We have in the past struggled to identify what value the global team add to research undertaken at the regional level, but they do appear to be able to take a more holistic approach and an ability to take the regional team ideas and place them in a global context.
Additional Observations	Portfolios are benchmark agnostic. Whilst they will manage to customised benchmarks they believe their skill set is in unconstrained global and EAFE mandates. Global Equity Portfolios will generally have some exposure to emerging market stocks (up to 20% at times), and a bias to quality and (at times) value measures. There has been a persistent bias away from US stocks. EAFE Plus equity Portfolios will generally have a bias to quality and (at times) value measures.

Key product details

	International Equity - Global Equity - Core - Global Equity	International Equity - World ex US/EAFE Equity - Core - EAFE Plus Equity
Inception Year	2003	1990
Assets under management in strategy	£18.7bn as at 31 December 2011	£2.7bn as at 31 December 2011
Estimated capacity*	None given although they claim they are close to capacity in segregated mandates	None given although they claim they are close to capacity in segregated mandates
Open/Closed	Open	Open
Most suitable benchmark index for strategy	MSCI World	MSCI AC World ex US
Outperformance target (% per annum) - Manager's estimate	3.0	3.0
Expected tracking error range (%) - Manager's estimate	3-9	3-9

* Whilst close to closing for segregated accounts their pooled funds will remain open. The split of pooled versus segregated assets is approximately 2/3:1/3.

Issues to watch

Docherty talks about them being close to capacity; they intend to close to new segregated accounts ‘very soon’. Will they be able to stem flows in to their pooled funds?

Docherty made several references to the work he does with the graduates and he clearly has a passion for this. Whilst this may be a positive in terms of him having more time given they have reduced their marketing efforts, we would not like to see him becoming distracted from managing the strategies?

Highlights

The team has been stable over the last 10 years. They apply a firmwide philosophy and process; their style has provided them with a strong tailwind over the last two or three years in particular. Having said that they have demonstrated, over a long period, an ability to outperform, particularly in down markets which is what they are looking to achieve. There is always a risk with managers who have had a long period of strong performance to become arrogant. We do not sense that with Docherty and his team, they recognise that they are likely to go through tough periods and that when their style is out of favour they will most likely lag the benchmark.

Docherty described their research work as ‘starting from scratch’, albeit only on the list of recommended companies from the regional teams ‘buy’ lists; it is the first time we have heard it described that way. He is confident that quality has been screened for in the regional teams and in the past has talked about doing some additional work to put ideas in to a global context e.g. select the best consumer stock globally. He implied that the reason they have been doing more of their own research is because they have more time, as they are doing less business development. We found this a curious comment and, given they now manage a global small cap strategy, we find it difficult to believe they have much spare time.

Although Aberdeen is a quoted company and has grown by acquisition, the investment teams and their strong philosophy and process have been protected. We credit Hugh Young, Head of Equities, with that, given his stance of not taking on people when there is an acquisition but rather just taking on the assets and managing them in line with the Aberdeen process.

We have been encouraged with the increased stability in the European and US teams. The US had been an area where, following the Nationwide acquisition in 2007, there were some conflicts in applying the process and the performance was not what might be expected given the Aberdeen approach. Aberdeen appointed Shahreza Yusof in August 2007 and he remained in that position until March 2010 when it was felt he was not delivering what was expected from a head of region in terms of his research responsibilities; it was felt he was delegating too much. He was replaced by Paul Atkinson who is seen as embracing the Aberdeen culture and who has built up a team, including a number of graduates who have come through the system and whom are all well versed in the Aberdeen philosophy and process. Although described as not the finished article it does appear that the US team is moving in the right direction. The European team is now under the leadership of Jeremy Whitley and they show every sign of being well embedded in the Aberdeen culture with performance reflecting what you would expect from an Aberdeen portfolio.

We have generally held a high opinion of the Emerging and Asian equity strategies; although both have been downgraded from A (T) to B+ (T) over time due to concerns about capacity – see notes on GIMD. Those strategies are managed by teams for whom we have a high regard and who have been strong advocates of the Aberdeen philosophy, process and culture. However we feel that they allowed their asset base to grow too large before closing to new business; albeit performance has continued to be positive helped by their style being in favour over the last 2 years. Part of the issue around capacity is the strong retail business Aberdeen has and the difficulty of closing pooled funds to new business. We are encouraged to see Aberdeen take steps recently to stem the flow of assets in to their GEM pooled funds.

Profile

Firm background and history

Aberdeen Asset Management plc (AAM) is an independent investment company listed on the London stock exchange. AAM is head quartered in Aberdeen, Scotland and also has investment offices in Chicago, Connecticut, Fort Lauderdale (covering Latin America), London, Edinburgh and Asia. The group was founded in 1876 and has concentrated on investment management since 1982. In 1991, it was listed on the London Stock Exchange. In 2000, AAM acquired the Scottish fund manager, Murray Johnstone, and EquitiLink, an Australian based fund manager. In 2003, AAM acquired Edinburgh Fund Managers Group plc, a United Kingdom based fund manager. In 2005, AAM acquired Deutsche Asset Management's fixed income teams and businesses. In June 2008 AAM acquired the UK fund management business of Credit Suisse Asset Management (CSAM), with Credit Suisse taking a 23.9% stake in Aberdeen. In January 2010 Aberdeen announced the acquisition of various assets from Royal Bank of Scotland ('RBS'), mainly Fund of Hedge Fund and Long Only Multi Manager assets.

Aberdeen has an alliance with Mitsubishi UFJ Trust and Banking Corporation (MUTB) whereby MUTB have a stake of 18.6% in Aberdeen, with MUTB distributing certain Aberdeen products in Japan.

International Equity – Global Equity – Core – Global Equity

International Equity - World ex US/EAFE Equity - Core - EAFE Plus Equity

Key decision makers

Stephen Docherty heads the global team, and has been with Aberdeen since 1994, with experience of the US and LATAM markets. Docherty is supported by a team of seven, including senior investment managers Bruce Stout (22 years experience all at Aberdeen), Andrew McMenigall (23 years experience, 7 at Aberdeen), Jamie Cumming (9 years experience all at Aberdeen), and Samantha Fitzpatrick (13 years experience at Aberdeen). The global equity team are all based in Edinburgh. The Global Equity team are supported by over 80 regional analysts based around the globe.

Hugh Young, Head of Equities, is responsible for the regional teams as well as the Global team and so is seen as critical to the overall equity offering. Young joined Aberdeen in 1985 and is based in Asia.

Product history

Docherty has led the Global Equity team since 2003. The process to constructing global equity strategies changed in 2002, and the track record prior to 2003 should not be taken as indicative of the current approach.

Investment style/philosophy

This strategy follows a bottom-up, stock picking, approach which is benchmark agnostic and has a focus on absolute value. The firm focuses on quality and price, aiming to find good quality stocks with cheap valuations and hold them for the longer term. The portfolio will usually have a large cap bias.

Investment process

The starting universe for the global team is the ideas which form the regional unconstrained model portfolios, totalling approximately 300 to 350 companies. The regional teams assess companies in two stages, quality then price. Quality encompasses management quality, business strategy/prospects, financials (strength of balance sheet, use of gearing) and corporate governance (transparency and commitment to shareholder value). The assessment of quality is derived from company meetings where a series of questions is used to determine a pass/fail. The regional team will not recommend a company without first meeting the management. Following a company meeting the regional analyst produces a detailed stock note which is circulated to the broader teams and stored on an internal database. Stocks that pass the quality test will then be assessed based on price. Stocks are valued relative to key financial ratios (P/E, P/CF, NAV, Dividend Yield), the market, the peer group and business prospects. Criteria vary by sector/industry and comparisons are made cross-border. Stocks that are too expensive will go onto a watch list.

The global team take the stocks that make it past the quality and price criteria, and get included in the regional model portfolios, as their starting universe. They then apply a market capitalisation minimum of $500m, which usually excludes another 20 names. They conduct an additional layer of comparative assessment of company valuation across global sectors.

The global team meet weekly to discuss changes to the regional buy lists, portfolio transactions, cash levels, performance and compliance. The output from this Monday meeting is a 'model' unconstrained global portfolio. Decisions on final positions are usually made by consensus, although Docherty does have the right of veto if necessary. Although this is primarily a bottom-up approach, country views are taken into account during portfolio construction.

GLOBAL EQUTIY

The portfolio holds between 40 and 60 stocks, with an outperformance target of 3%. The Global model portfolio has the following limits - active stock weights of max 5%, sectors +/- 15% and countries +/- 35%. New holdings will typically be introduced at a minimum of 1% active position, normal position sizes between 1% and 2.5% and high conviction ideas at between 3% and 5%. Risk assessment relies on common sense checks and the principles of diversification. They do not equate risk with divergence from benchmark, but with investing in companies that do not deliver the expected return. Maximum of 5% cash holding.

EAFE PLUS

The EAFE Plus portfolio will hold between 40 and 60 stocks, with an outperformance target of 3%. The following limits are applied - active stock weights maximum of 5%, sectors +/- 15% and countries +/- 35%. Maximum of 5% cash holding. New holdings will typically be introduced at a minimum of 1% active position, normal position sizes between 1% and 2.5% and high conviction ideas at between 3% and 5%. Risk assessment relies on common sense checks and the principles of diversification. They do not equate risk with divergence from benchmark, but with investing in companies that do not deliver the expected return.

Stocks are sold when there is a deterioration in quality (changes in management, dishonesty/fraud, loss of business focus/direction, industry factors etc), a deterioration in value (price increases outpace growth potential or other better-priced stocks emerge), or due to corporate activity (mergers/acquisitions etc). When the stock is removed from the regional model portfolio the Global team have 30 days to sell their holding - although typically they will be aware of the removal ahead of the event and participate with the other teams.

Currency exposure is not hedged.

Portfolio holdings analysis

Style Research analysis shows a number of historical biases to Aberdeen's portfolio style. These are to low beta stocks, stocks which have a high yield and to quality factors, most notably low gearing; this is a clear reflection of their style and we would expect them to persist. The portfolio has historically had a persistent bias to value as measured by IBES forward earnings yield (i.e. cheap on a forward measure of PE); currently the portfolio is at the bottom end of that historical range. Similarly the portfolio is currently reflecting slightly stronger growth tilts than it has in the past. Both the value and growth tilts are the result of a moment in time and will reflect the team's view of global sectors at that time.

The positive tilts towards momentum in these strategies reflect the recent consistently good performance of the strategies rather than any part of the process being designed to identify momentum factors.

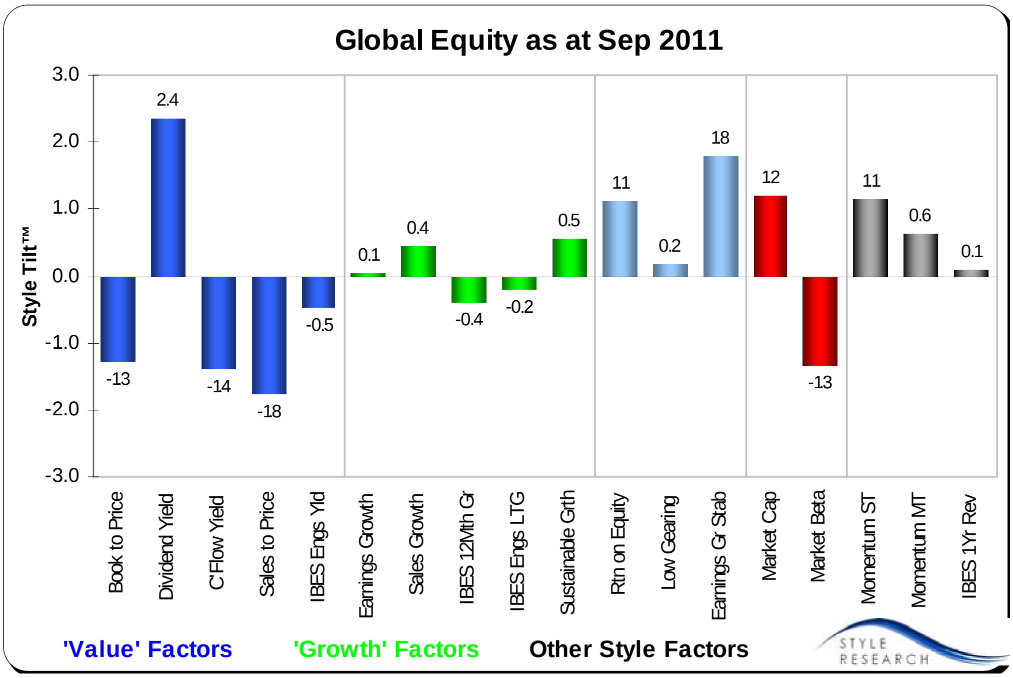
Portfolios are broadly diversified, with the most significant position being an underweight to North America. This has been a fairly persistent underweight, with the portfolio having had at least a 25% underweight in the USA since 2005, and at least a 10% underweight since 2003 (the portfolio is currently 30% underweight the US). Portfolios are active and have low coverage with the index. The global portfolio has coverage of 10.1%, the EAFE strategy has coverage of 16.5%.

The EAFE strategies have similar tilts, both currently and historically, which is what you would expect given the underlying philosophy and process is exactly the same for these strategies.

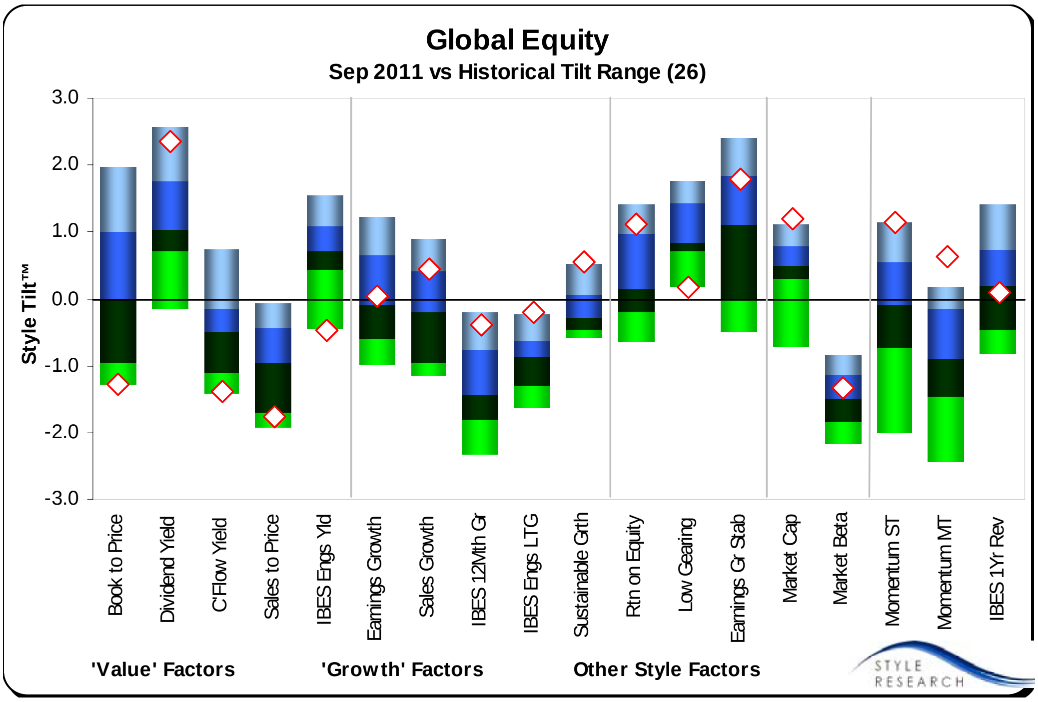
International Equity - Global Equity - Core - Global Equity

Date of analysis	30 September 2011
Benchmark used for analysis	MSCI World Free
Number of stocks	48
Predicted tracking error (%)	4.3
Average value score	-0.5
Average growth score	0.1
Adjustment used for Style Tilts	Country Adjusted
Cash (%)	4.1

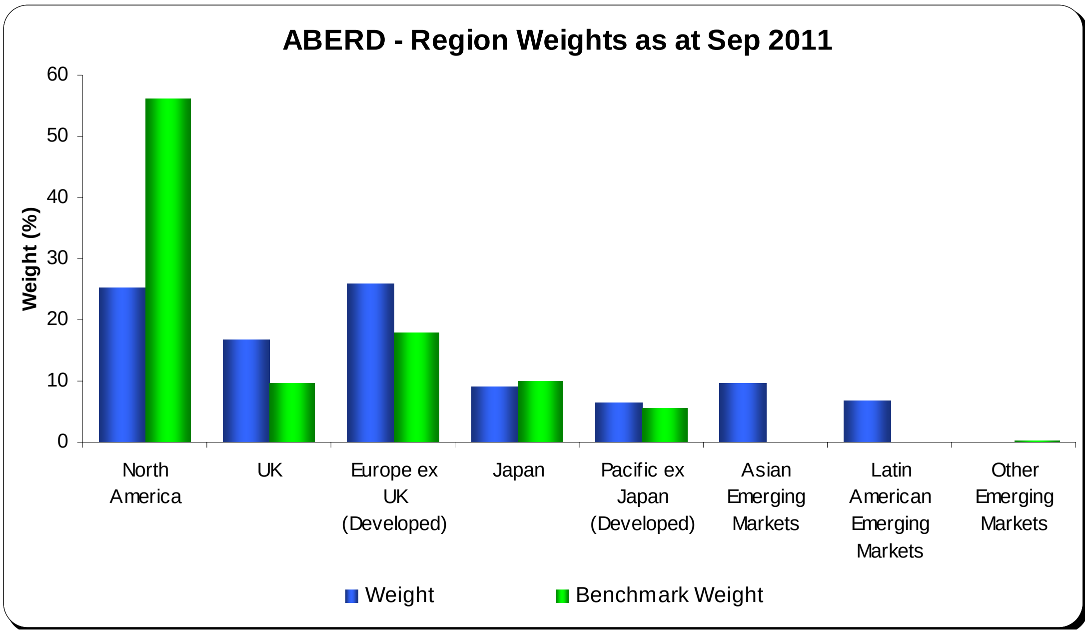
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



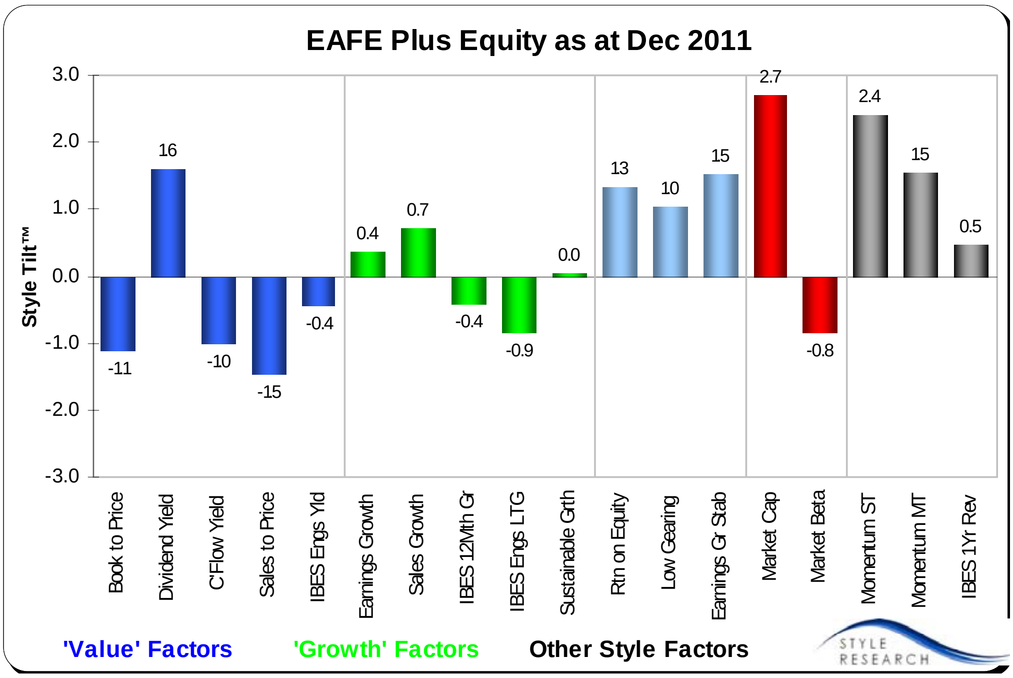
The following chart shows the portfolio weightings to each region.



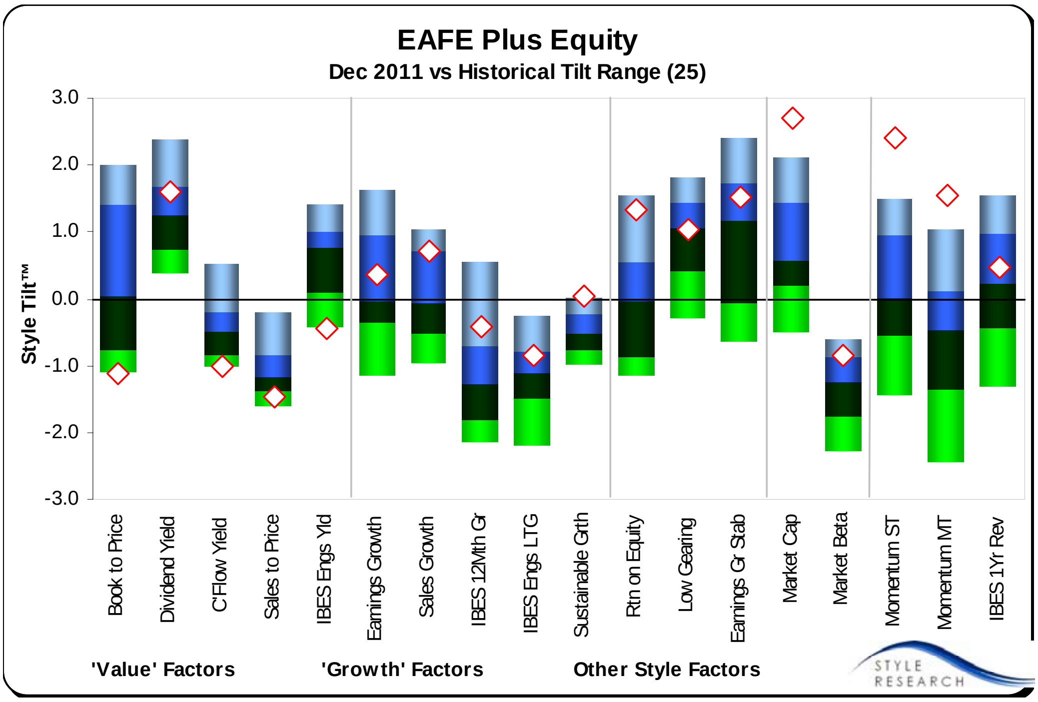
International Equity - World ex US/EAFE Equity - Core - EAFE Plus Equity

Date of analysis	31 December 2011
Benchmark used for analysis	MSCI EAFE
Number of stocks	43
Predicted tracking error (%)	4.0
Average value score	-0.5
Average growth score	0.0
Adjustment used for Style Tilts	Country Adjusted
Cash (%)	8.8

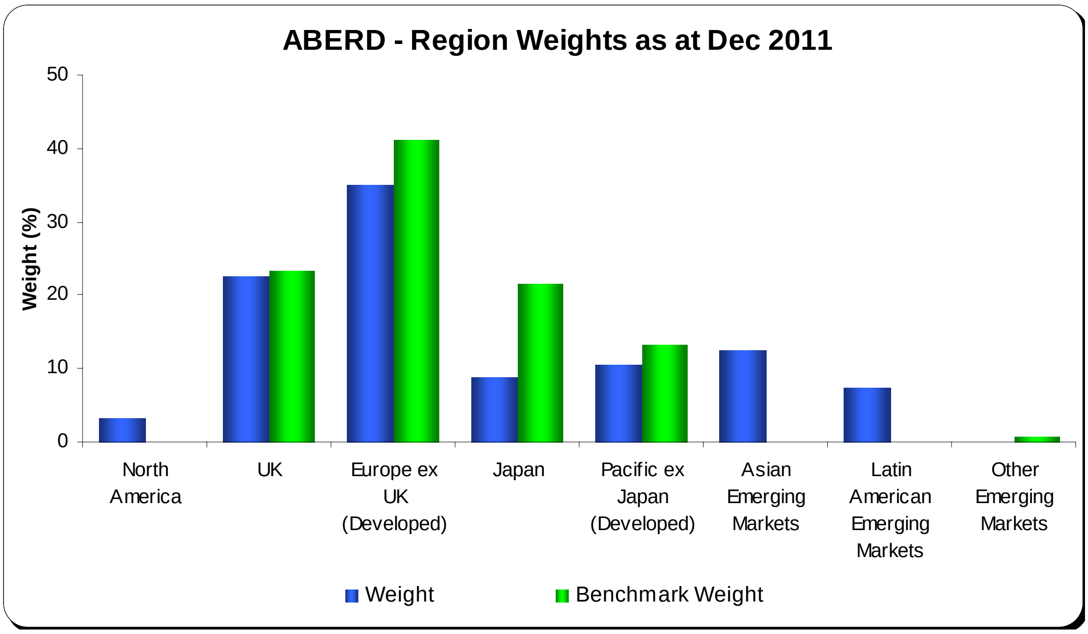
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the portfolio weightings to each region.



Past performance

Performance has been strong since Docherty took over the global process in 2003. This is partly due to their style being in favour – quality was the best performing factor in 2011 and has delivered positive returns over the last 5 and 10 years. Having said that we believe they have added value over and above their style. He talked through their thinking in 2010 and how they became more cautious on industrial and cyclical companies and so bought or added to more defensive companies. This was the correct action as the markets became increasingly nervous through 2011. Docherty feels that with a poor outlook for developed market growth in the next few years they will be mindful of what they pay for cyclical; he is very cautious of the current relatively high level of margins in many cyclical companies.

Attribution analysis provided by Aberdeen for the year ended December 2011 shows that for the Global strategy the bulk of the excess returns came from allocation to sectors; although stock selection was also positive. Being underweight the materials sector and overweight Consumer Staples and, perhaps surprisingly, overweight Financials were all positive contributors. We discussed this with Aberdeen after the meeting and their attribution is done at a sub sector level and then aggregated to a sector level not, as is more usual, at a sector level. Their zero weight in diversified financials (by far the worst performing sub sector in financials) and overweight in banks/insurance/real estate therefore counted as asset allocation not stock selection. This results in positive asset allocation from financials despite being overweight an underperforming sector. Their analysis at a sector level is shown below:

Aberdeen World Equity Fund — **1 YR Ending December 31, 2011 Currency GBP**

ATTRIBUTION DETAIL BY ASSET

	Portfolio		Benchmark		Net Management Effects		
	Weight	**Return**	**Weight**	**Return**	**Alloc**	**Select**	**Total**
TOTAL	**100.0**	**0.23**	**100.0**	**-4.31**	**3.89**	**0.65**	**4.54**
EQUITIES	**96.7**	**0.42**	**100.0**	**-4.31**	**3.91**	**0.65**	**4.56**
FINANCIALS	**20.1**	**-14.15**	**17.6**	**-17.47**	**0.84**	**-0.33**	**0.51**
BANKS	9.2	-18.41	7.3	-17.31	-0.23	-0.07	-0.30
DIVERSIFIED FINANCIALS	--	--	4.0	-28.44	1.30	0.00	1.30
INSURANCE	7.0	-13.69	3.8	-10.85	-0.22	-0.21	-0.43
REAL ESTATE	3.8	-6.64	2.6	-5.70	-0.02	-0.05	-0.07

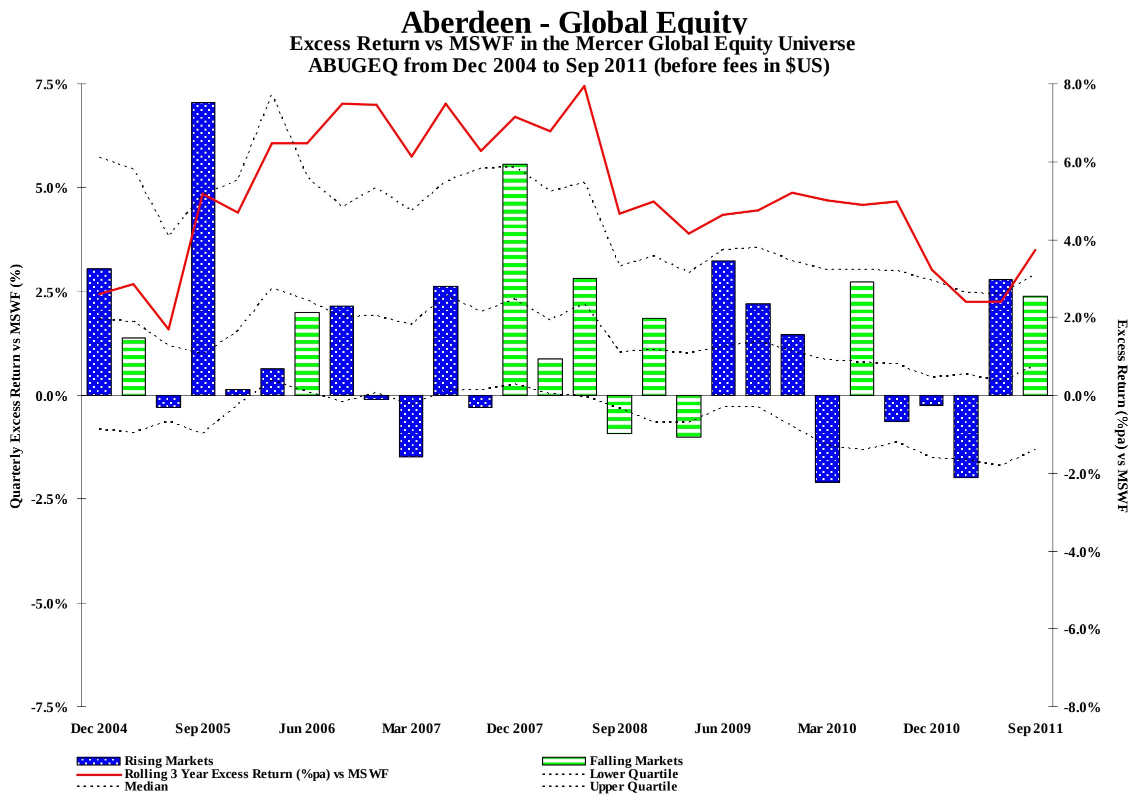
Stock selection in financials was a slight drag on performance.
Being underweight the US was the largest negative contributor to performance, although it must be remembered that this is a result of bottom up stock selection not a country allocation. Stock selection within the US then offset the drag from being underweight. The US team had a challenging year in terms of performance, having too high an exposure in cyclical companies and not enough of the large cap, defensive companies. Docherty refers to the US team as 'not the finished article'.

The EAFE plus attribution is broadly similar in terms of allocations to the materials, financials and consumer sectors, however in the case of EAFE plus stock selection during 2011 was stronger than the sector selection, albeit both were positive. There was very strong stock selection in Financials, Telecomms and Information Technology – stocks such as Standard Chartered and Vodafone. The EAFE plus portfolio has 63% of its assets in the top 20 holdings and these include names such as Roche, British Americans Tobacco, Novartis and Nestle. These are all perceived as defensive names and as the market took fright at political developments and slowing growth investors favoured these types of stocks during 2011 and rewarded visibility and stability of earnings, which would have provided a strong tailwind to the strategy. These would be typical holdings for this strategy and when the market is prepared to take on more risk, as it did in January 2012, it is likely the Aberdeen portfolios would lag the benchmark. Docherty talked of areas such as tobacco as being relatively expensive but feels that other defensive areas such as pharmaceuticals still offer attractive valuations.

International Equity - Global Equity - Core - Global Equity

Track Record	Global Equity (MPA)
Currency	$US
Benchmark	MSCI World Free
Mercer Universe	Global Equity ($US)
Track record type	Composite
Track Record Assets	$20.2 billion as at 30 September 2011

Rolling period chart

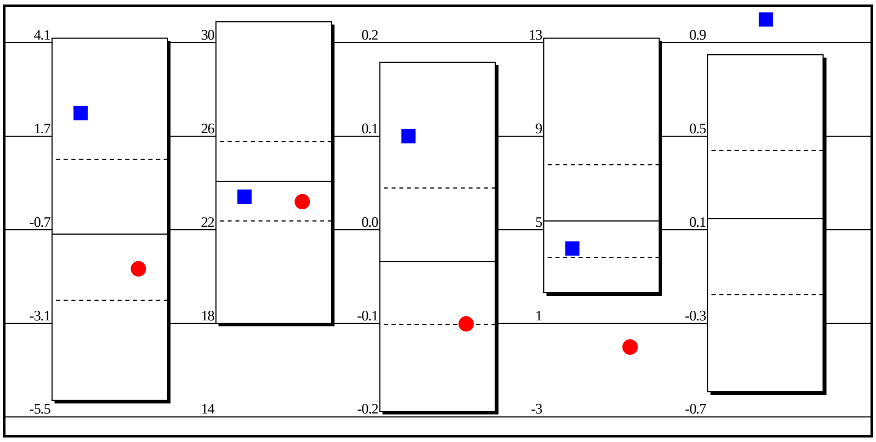


Risk/return characteristics

Aberdeen - Global Equity

Comparison with the Mercer Global Equity Universe

Risk and Return Characteristics (calculated quarterly) versus MSWF and Actual Ranking for the 5 Years ended Sep 2011

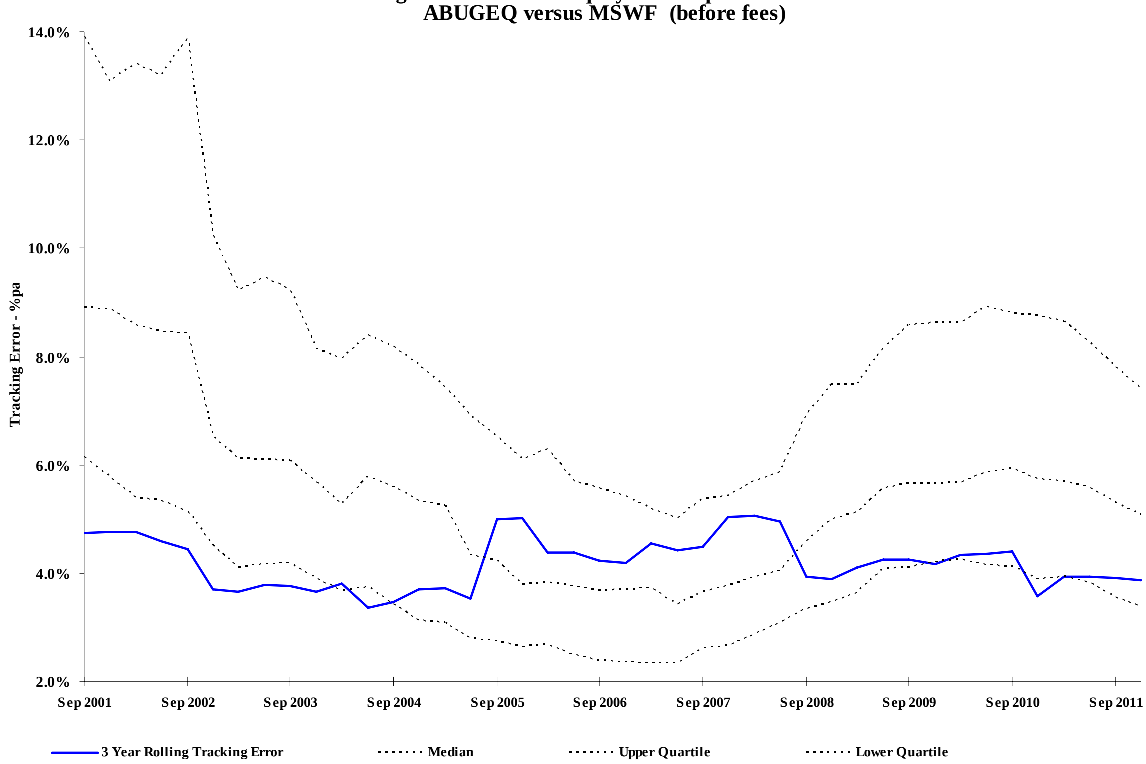


	Return (% pa)	Std Deviation (% pa)	Reward to Risk Ratio	Tracking Error (% pa)	Information Ratio
ABUGEQ	2.3 *(42)*	23.4 *(180)*	0.1 *(25)*	4.2 *(207)*	1.0 *(10)*
MSWF	-1.7 *(196)*	23.2 *(195)*	-0.1 *(173)*	0.0 *(312)*	na
95th Percentile	4.2	30.9	0.2	13.1	0.8
Upper Quartile	1.1	25.8	0.0	7.8	0.4
Median	-0.8	24.0	0.0	5.3	0.1
Lower Quartile	-2.5	22.4	-0.1	3.8	-0.2
5th Percentile	-5.1	17.9	-0.2	2.2	-0.6
Number of Funds	311	311	311	311	311

The chart below shows the 3 year rolling, ex post, tracking error of the Global equity strategy since inception relative to the Global Equity universe.

Aberdeen - Global Equity

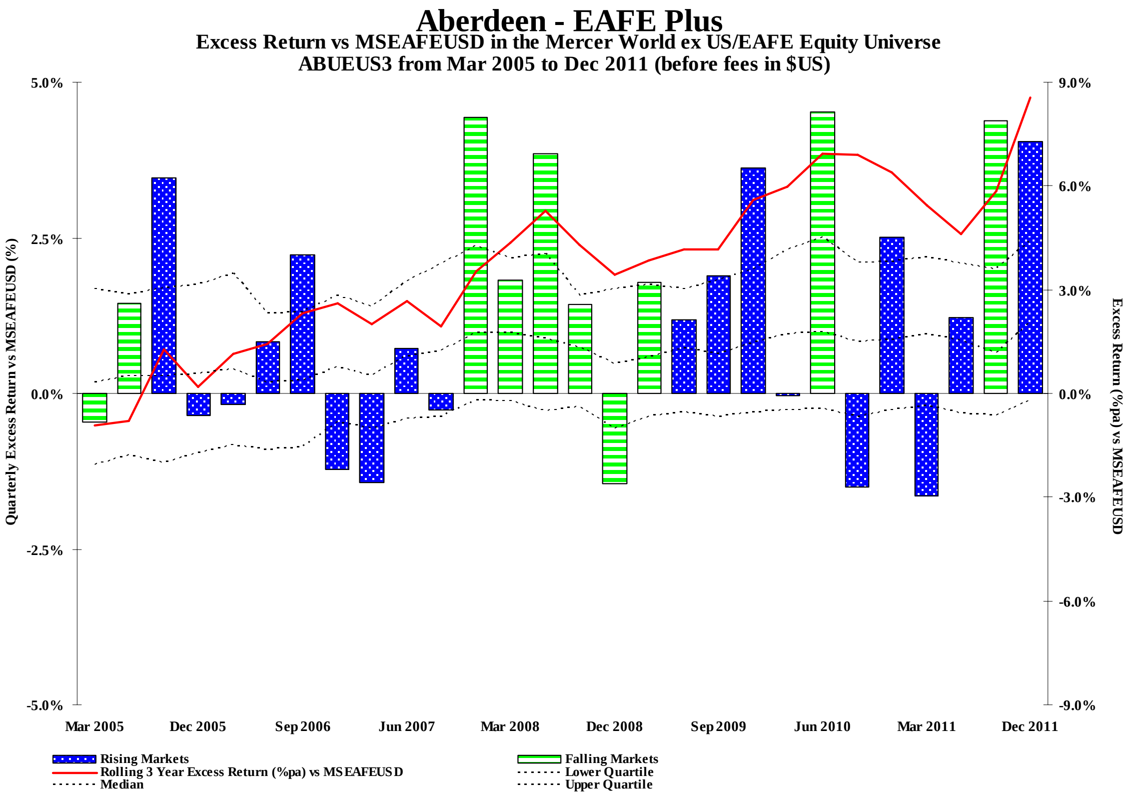
Tracking Error in Global Equity from Sep 2001 to Dec 2011
ABUGEQ versus MSWF (before fees)



International Equity - World ex US/EAFE Equity - Core - EAFE Plus Equity

Track Record	EAFE Plus Equity (MPA)
Currency	$US
Benchmark	MSCI EAFE
Mercer Universe	World ex US/EAFE Equity ($US)
Track record type	Composite
Track Record Assets	$4.6 billion as at 31 December 2011

Rolling period chart

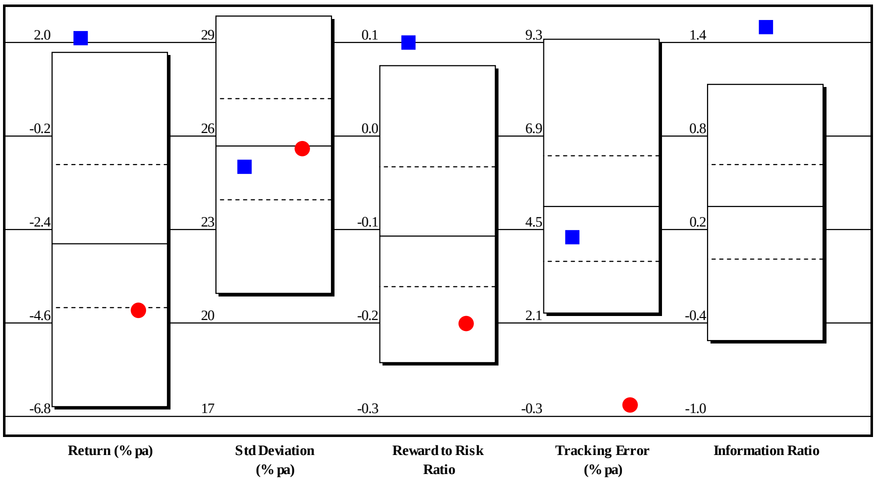


Risk/return characteristics

Aberdeen - EAFE Plus

Comparison with the Mercer World ex US/EAFE Equity Universe

Risk and Return Characteristics (calculated quarterly) versus MSEAFEUSD and Actual Ranking for the 5 Years ended Dec 2011



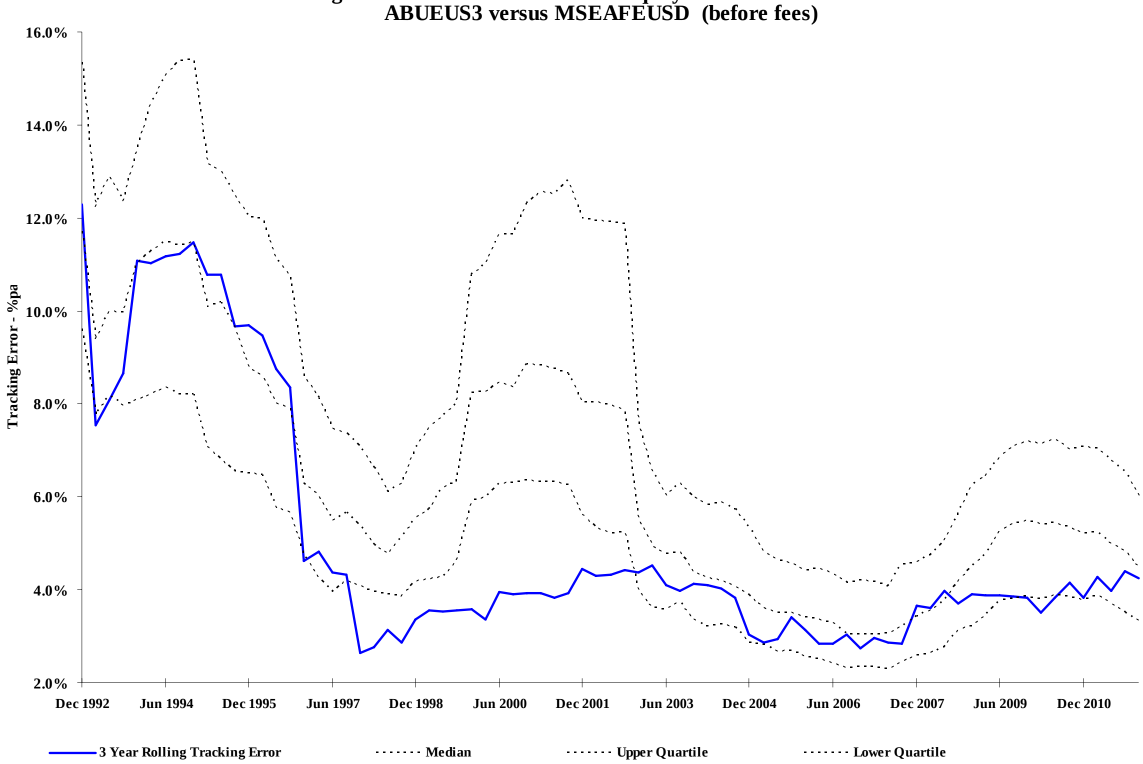
	Return (% pa)	Std Deviation (% pa)	Reward to Risk Ratio	Tracking Error (% pa)	Information Ratio
ABUEUS3	2.1 (12)	25.0 (176)	0.1 (7)	4.3 (183)	1.5 (1)
MSEAFEUSD	-4.3 (217)	25.6 (147)	-0.2 (200)	0.0 (288)	na
95th Percentile	1.8	29.8	0.1	9.4	1.1
Upper Quartile	-0.9	27.2	0.0	6.4	0.6
Median	-2.7	25.7	-0.1	5.1	0.3
Lower Quartile	-4.2	24.0	-0.2	3.7	0.0
5th Percentile	-6.6	20.9	-0.2	2.3	-0.5
Number of Funds	287	287	287	287	287

The chart below shows the 3 year rolling, ex post, tracking error of the EAFE plus equity strategy since inception relative to the EAFE Equity universe.

Aberdeen - EAFE Plus

Tracking Error in World ex US/EAFE Equity from Dec 1992 to Dec 2011

ABUEUS3 versus MSEAFEUSD (before fees)



Further Detail

ESG and Active Ownership

We did not cover ESG in depth at this meeting and have made no change to the rating.

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Research ratings

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Risk warnings

- The value of stocks and shares, including unit trusts, can go down as well as up and you may not get back the amount you have invested.
- Investments denominated in a foreign currency will fluctuate with the value of the currency.
- Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalization and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.
- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
- Where investments are not domiciled and regulated locally, the nature and extent of investor protection will be different to that available in respect of investments domiciled and regulated locally. In particular, the regulatory regimes in some domiciles are considerably lighter than others, and offer substantially less investor protection. Where an investor is considering whether to make a commitment in respect of an investment which is not domiciled and regulated locally, we recommend that legal advice is sought prior to the commitment being made.