



Aberdeen Standard's McCabe: First Nation To Re-Open Its Economy Only Gains A Mild edge

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Chuck Jaffe, in The NAVigator podcast, interviewed Adam McCabe, head of fixed income for Asia and Australia for Aberdeen Standard Investments. Read the Q & A below as Adam explains why the countries on the leading edge of the viral economy – the ones who can awaken from global



Adam McCabe

hibernation first – will have a mild advantage over nations that quarantine longer. But even when economies have re-started globally, McCabe says recovery likely will be slow as investors try to regain footing amid the 'new normal'.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Adam McCabe, head of fixed income for Asia and Australia for Aberdeen Standard Investments joins us today from Singapore, and we're discussing economic stock market and other conditions in Asia today on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Today the direction that we're pointing is east, towards Asia and

emerging markets, and Australia and the rest, because my guest is Adam McCabe, head of fixed income for Asia and Australia for Aberdeen Standard. Part of the team that runs the Aberdeen Asia Pacific Income Fund, that's a closed-end fund that trades under the ticker symbol FAX, and Aberdeen Global Income, a smaller fund trading under FCO. If you want to learn more about the firm, they're online at AberdeenStandard.com. They're on Twitter @ASInvestmentsUS. To learn more about closed-end fund investing, go to AICAlliance.org, the website for the Active Investment Company Alliance. Adam McCabe, good to chat with you.

ADAM MCCABE: Thanks Chuck.

CHUCK JAFFE: We appreciate you joining us from Asia, where you're in lockdown conditions just as we are here in the States. But let's start by trying to get an understanding, because Asia in general has been maybe riding the crest of the wave. I don't want to say ahead of the curve. It's ahead of the curve we've seen here when it comes to the virus, but it's been riding the crest as all this is happening. And so are you getting to where there is some general sense that opening is coming and coming soon?

ADAM MCCABE: Well, I guess it's an interesting question, Chuck. I would have guessed maybe four weeks ago that, yes, Asia was ahead of the curve and opening was more likely a scenario here. But we have seen very clearly that the very strong arm of the Chinese government paying dividends for China. They were first in the aggressive restrictions, aggressive lockdowns. Really have paid dividends in terms of the control of the spread of the virus. And in some senses the Chinese economy's coming back to something of normal conditions. It won't be back to where it was before of course, but there's a sense of normalcy reemerging in China. However, sitting where I'm sitting right here today in Singapore, only a couple days ago the Singaporean government just extended our, what they call 'circuit breaker', for another six weeks. That just demonstrates the pace of spread, the ability for governments to control the spread of the virus is very uneven. And the path to opening will also be uneven.

CHUCK JAFFE: Well you talk about the path to opening, and in China, first in, first out is normally a stock market term or what have you. But if they are first out, and you were talking about the economy starting to pick up, is there an advantage or is it perceived as an advantage to be the first one back to normal conditions?

ADAM MCCABE: In many ways, yes. Because what you have is economic activity that continues to emerge from that hibernation that we're all experiencing around the rest of the world, and that generate income. And that gives policy makers, it gives companies, it gives household the opportunity to get through what will be a difficult time. So yes, there is some benefit to getting back first. But to be fair, getting back first means that a lot of the markets that China's used to exporting their goods to are now closed, so it won't be the normal conditions that they had experienced prior to going into this scenario.

CHUCK JAFFE: In terms of the industries and the things that are most affected, are there some things that you think, "This will back most quickly," and "This will bounce back most slowly"?

ADAM MCCABE: Very clearly the tourism sector is going to bear the brunt of this. Tourism and services. Firstly and foremost the tourism sector around Asia and around the world has benefited from tourism. The Chinese tourists have been the largest source of increase in travel around the world. They've contributed greatly to a lot of our economies. Frankly speaking, the cross-border restrictions will be in place for a long period of time. Of course, within countries there may be a bit more liberal conditions and more freedom of movement, but those international border restrictions will remain in place for some time. And that's where you'll experience the most difficult scenarios; that tourist sector and of course all of the affiliated sectors that support that, be that aviation sector, the hotels, and indeed the broader service sector. Even when it comes to conditions within a country, being an Australian, when I look at the Australian economy, the Australian government is looking at relaxing some its own lockdown measures. But the normal conditions for the Australian household, the Australian consumer, will be very different. So the ability to go out and go to the pub, have a restaurant meal, or indeed the willingness of people to do that will be curtailed and be somewhat different to what we've experienced in the past. So it'll be a slow recovery in those sectors. It'll be tough times for those that have got too much leverage going into this scenario.

CHUCK JAFFE: One of the things that has to happen here for recovery is they have to get money moving, they have to get cash flowing. Do you expect policy responses that in any way really give them any leg up in terms of getting that job accomplished?

ADAM MCCABE: Definitely. I think the most important thing to note with respect to Asia is that going into this period we've come off a 20-year period of learning, I guess. And really one where we've had credibly in terms of policy making. Fiscal policy has been very credibly handled across most of Asia. And the reason for that is that many of the policy makers still remember the Asian financial crisis, when it was essentially a period when economies had their backs to the wall. What we see now is that after a period of conservatism, of credible monitoring fiscal policy, the policy makers here in Asia have the space to move, and they've moved in good order. They've moved swiftly. Of course policy makers all around the world are moving swiftly, but here in Asia the policy makers are moving very aggressively. And that is very important because it not only supports the economies in the hibernation period, but also it means that the economies have the space to provide the support, to provide some reciprocal support when the economies open. To give that jolt in the arm so to speak, to give the economy that opportunity to get back on firm footing. So we're in a relatively sound position having strong balance sheets from a sovereign corporate perspective going into the crisis. We can expect policy to be supportive in the downtime, but also supportive on the way back.

CHUCK JAFFE: Let's talk a little bit about the closed-end funds. Again, tickers FAX for Aberdeen Asia Pacific Income, FCO for Aberdeen Global Income. Obviously not just for your funds, but for closed-end funds in general, discounts have widened dramatically. Will we see the discounts narrowing ahead of the markets really returning to normal? Or do we need for the markets to get a true sense of normalcy for the closed-end funds to return to normal?

ADAM MCCABE: There's some uncertainty in the closed-end funds community around the sustainability of income and how robust the income generation is. When we think about the FAX portfolio, the Aberdeen Asia Pacific Income Fund, I'll just call out a couple of characteristics that really hold true in the past and hold true now. And that is that we're looking to generate high-quality income using a diversified portfolio across a broad suite of Asian opportunities; be it a sovereign, quasi-sovereign state government securities and corporates. It's true that we had some corporate exposure. If you're in the high-yield space, there's obviously some challenges to that sector. But we have a very high quality portfolio that is in excess of sixty-five percent if not more in investment grade securities. Those that

are relatively robust, they will continue to pay their coupons, continue to generate their income. Yet we have that sufficient diversity to avoid single name issuer risk from a credit perspective. And as a result, when investors get confidence that the income that we're generating is reliable and on-going, we think that that's an opportunity for investors to look at these closed-end funds and take confidence in a very attractive opportunity.

CHUCK JAFFE: Obviously for anyone, these are not normal times. But as a manager, does it change the way you're looking at distributions? Because, well hey, as we widen the discounts and we go through whatever market pressure we've got, we can just see a need to change distributions. And I'm not suggesting you're going to tell us whether or not it's in the works, but do you think that where that has traditionally been a bit poisonous for closed-end funds? Change your distribution, watch the money flee. Do you think that at this point there's going to be some significant cutting? And oh by the way, it's just smart business, it shouldn't send people running for the exits?

ADAM MCCABE: I think there's two ways to answer that question. On the one hand, you've got to be careful of those yield traps. Those companies that are delivering the incomes, they can't sustain the income. Then there's the others that can't sustain the income and they're looking to cut that dividend. So we've been really focused on seeking diversity, changing the allocation of our portfolio as the structural changes in the markets over the last ten years have dictated changing opportunities for income generation. So if I cast my mind back slightly before my time, but when the FAX portfolio, the Aberdeen Asia Pacific Income Fund was first launched, it was a hundred percent invested in the Australian fixed income market. Back then it was a high-yielding market, it made sense to invest in that market. However, what we've seen of the course of the past twenty, twenty-five, thirty years, is that the interest differential between the Australian market and the U.S. has narrowed quite aggressively. And even as late as last year, interest rates in Australia were below that of the U.S. So the appeal from investing a hundred percent in the Australian market was no longer what it was thirty years ago. So in the past fifteen, twenty years at Aberdeen Standard Investments, we've been looking to diversify away from that Australian bias that we've had in the portfolio across the core Asian markets to secure income. But secure it in companies and countries that are robust in terms of their fundamentals, that are demonstrating continued improvement, but can also generate a bit more yield. So that diversity is

something that's very appealing for closed-end fund investors, but also the ability for the manager to be active in looking for those opportunities to continue to secure that income.

CHUCK JAFFE: Adam, it's been great talking with you. Thanks so much for joining us, I appreciate it. I hope we get a chance to chat again down the line.

ADAM MCCABE: Thanks Chuck. Stay safe and hope everyone stays well.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm Chuck Jaffe, your host, you can learn more about my work and my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Adam McCabe, head of fixed income from Asia and Australia for Aberdeen Standard Investments, online at AberdeenStandard.com, on Twitter @ASInvestmentsUS. The NAVigator's available for your every Friday. Until next week, stay safe everybody.

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