

abrdn Equity Income Trust (AEI)

Equity income using an index-agnostic approach focusing on our best ideas from the full UK market cap spectrum

March 2025

Thomas Moore, Senior Investment Director, UK Equities

Key messages

- Fully covered 22.9p dividend, extending track record to 24 years of dividend growth, while increasing revenue reserves to 15.8p (equivalent to over 8 months of FY24 dividend)
- Board is committed to extending track record to 25 years of dividend growth by paying a dividend of at least 23.0p per share in FY25
- FY24 demonstrates that income and capital growth can be achieved hand in hand. No compromise – our focus on valuation points us towards companies with attractive dividends and the potential to deliver a valuation re-rating as positive change is recognised.

Net asset value
total return per
ordinary share

+13.3%

Share price total
return per
ordinary share

+10.4%

Discount to net
asset value*

-2.5%

Dividend per
ordinary share

22.9p

Revenue return
per ordinary
share

23.1p

Dividend yield*

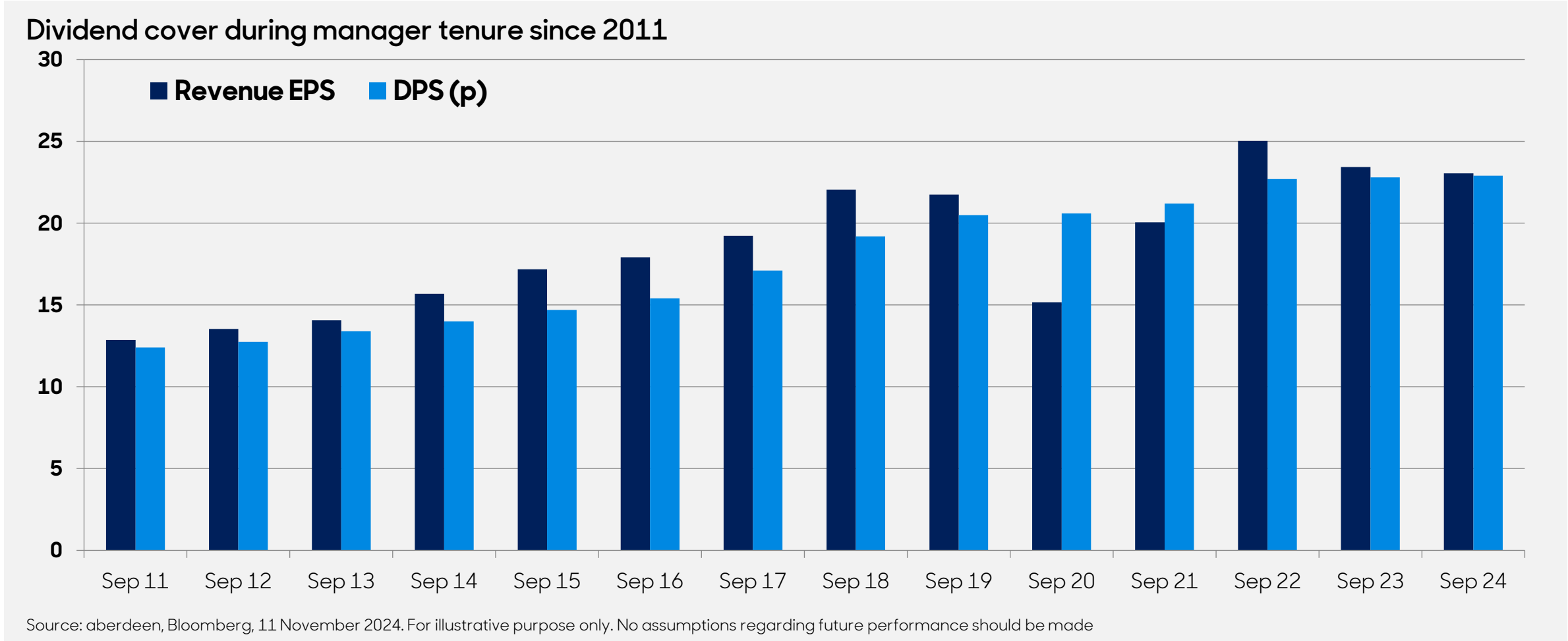
6.9%

Source: aberdeen Equity Income Trust, 30 September 2024. *As at 17 January 2025

24 years of continuous dividend per share growth



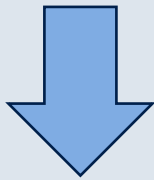
Dividend covered by earnings throughout manager tenure, apart from Covid (FY20-21)



Our vision of income investing

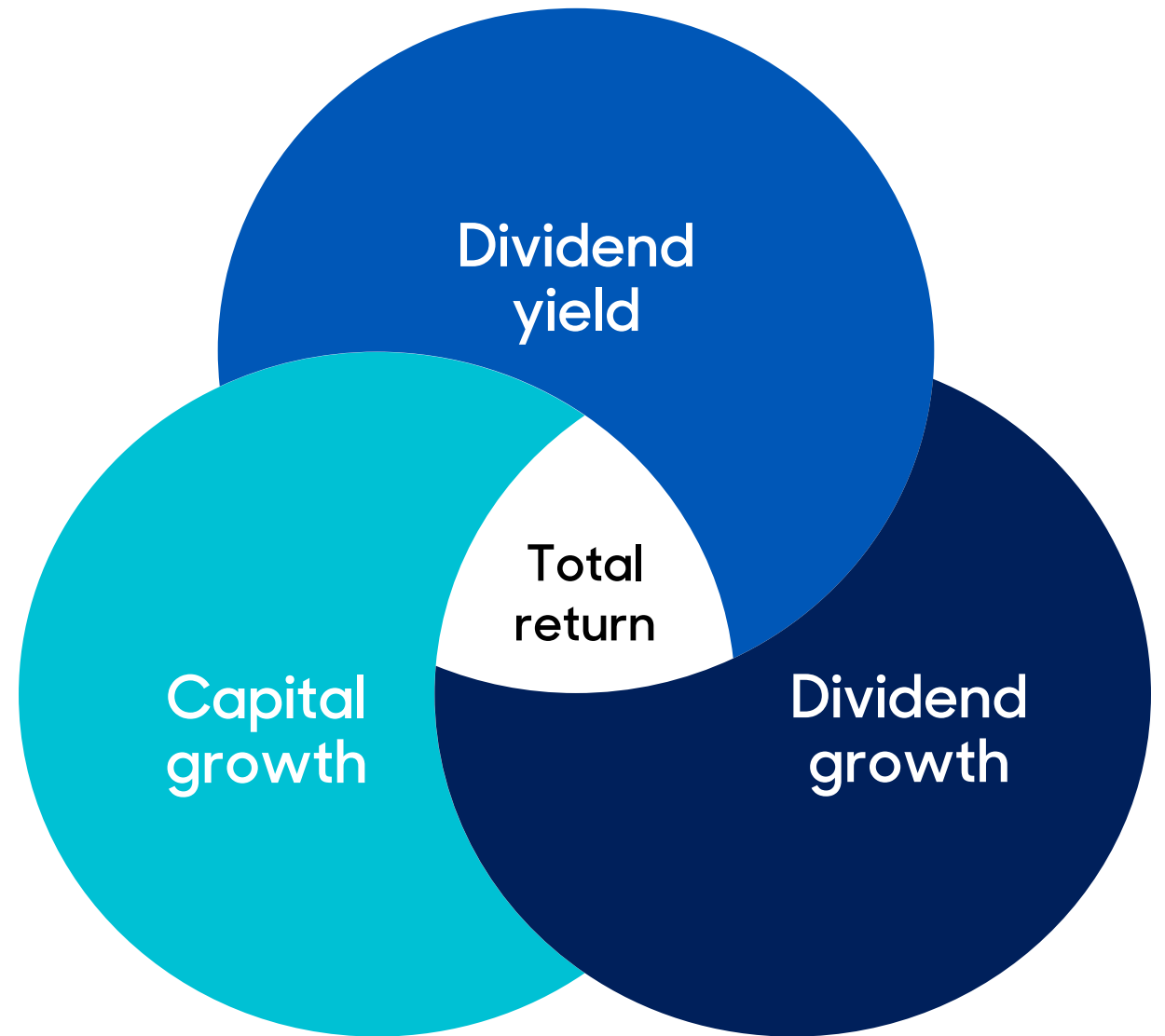
We identify stocks across the UK market that can deliver dividend yield, dividend growth and capital growth.

Nirvana is where positive change is rewarded with valuation re-rating, driving a rising share price.



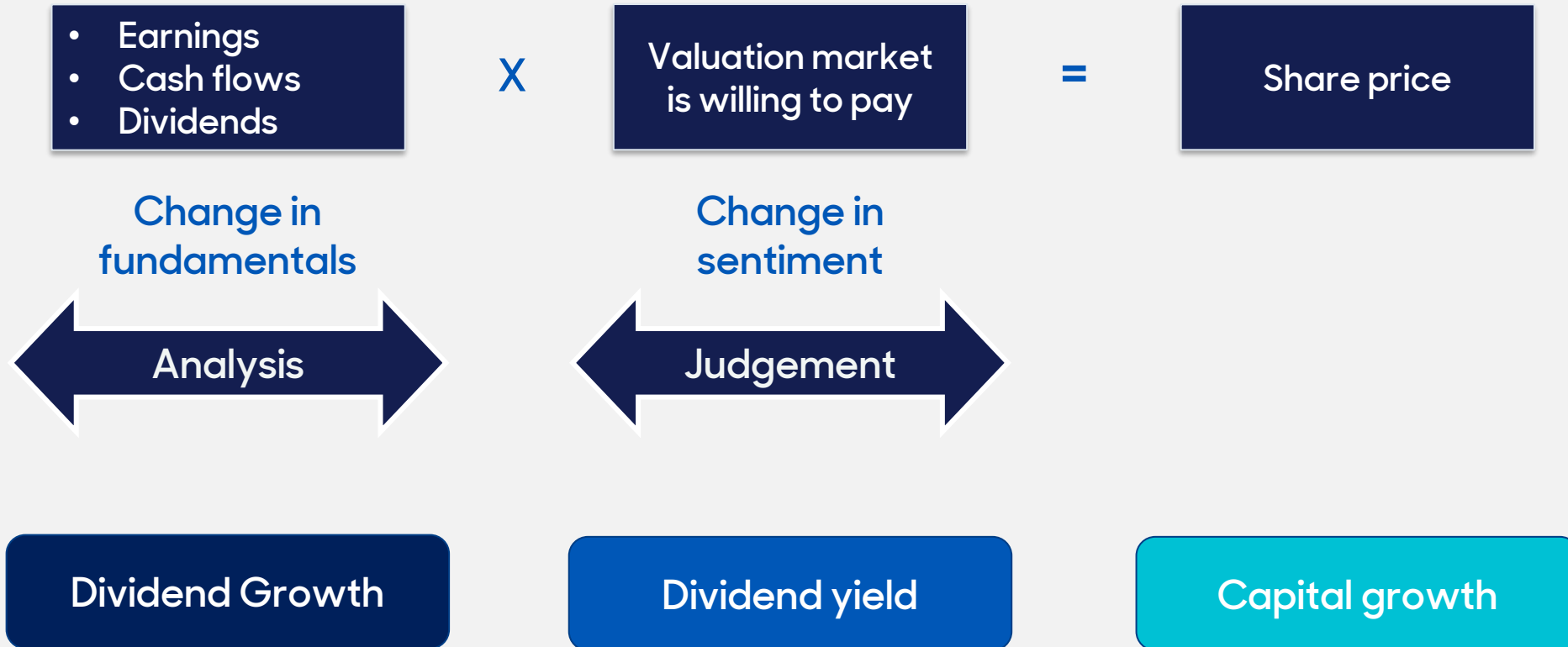
**Income and capital growth
delivered hand in hand**

Source: aberdeen, January 2025



Investment process identifies key building blocks of total return

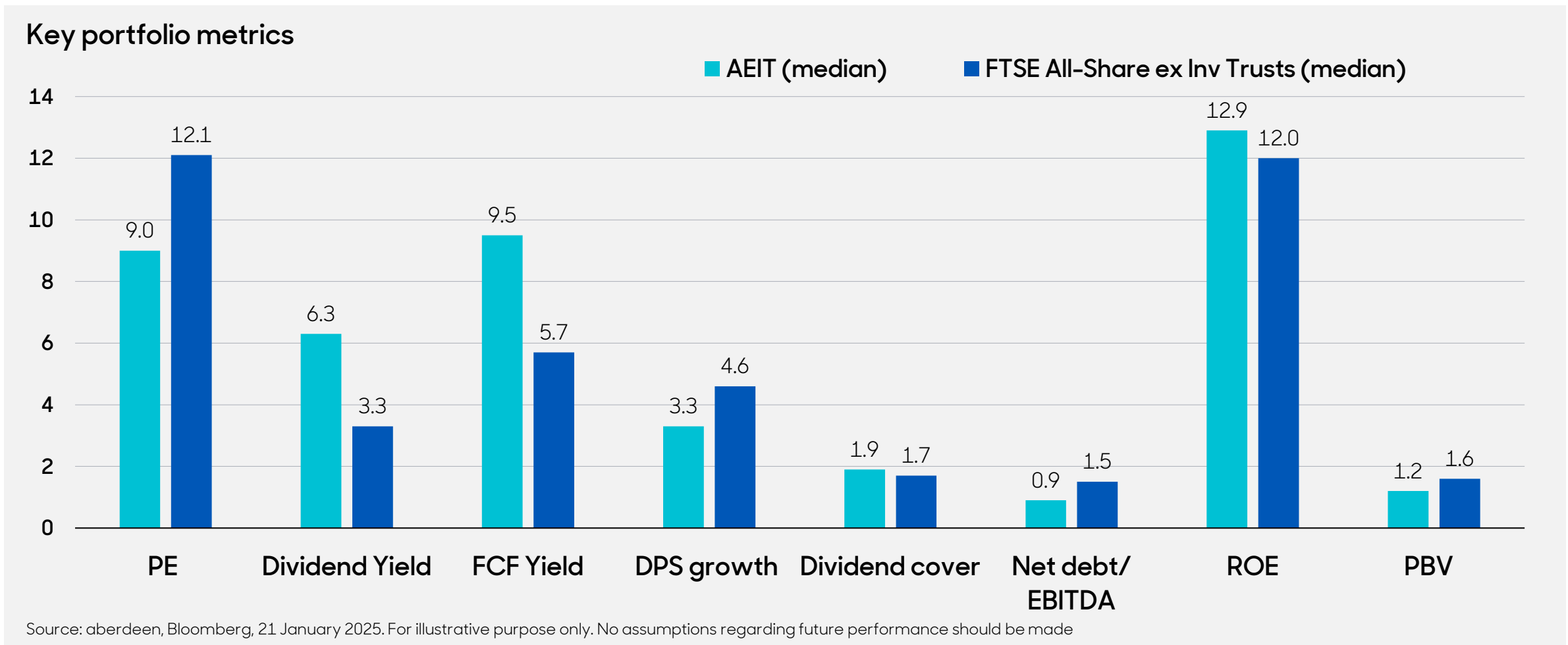
We seek to identify stocks with dividend yield, dividend growth and valuation re-rating potential



Source: aberdeen, January 2025, For illustrative purpose only. No assumptions regarding future performance should be made

Low valuations provide valuation re-rating potential

Investment process identifies stocks on low valuations, with dividends supported by cash flow



Valuation discipline drives confidence in AEI portfolio

Our focus on valuation supports the portfolio, reducing dependence on macro conditions

Capital returns in FY24

25x Buybacks
5x Special Dividends

- Combination of dividend + buyback (known as distribution yield) is often >10% and sometimes as high as 20%.
- At these distribution yields, these companies are being priced for only a few years of existence.
- Our focus on valuation has led us towards companies generating enough cash flow to pay ordinary/special dividends + buy back their own shares. The maths is playing out.

M&A in FY24

4x M&A bids

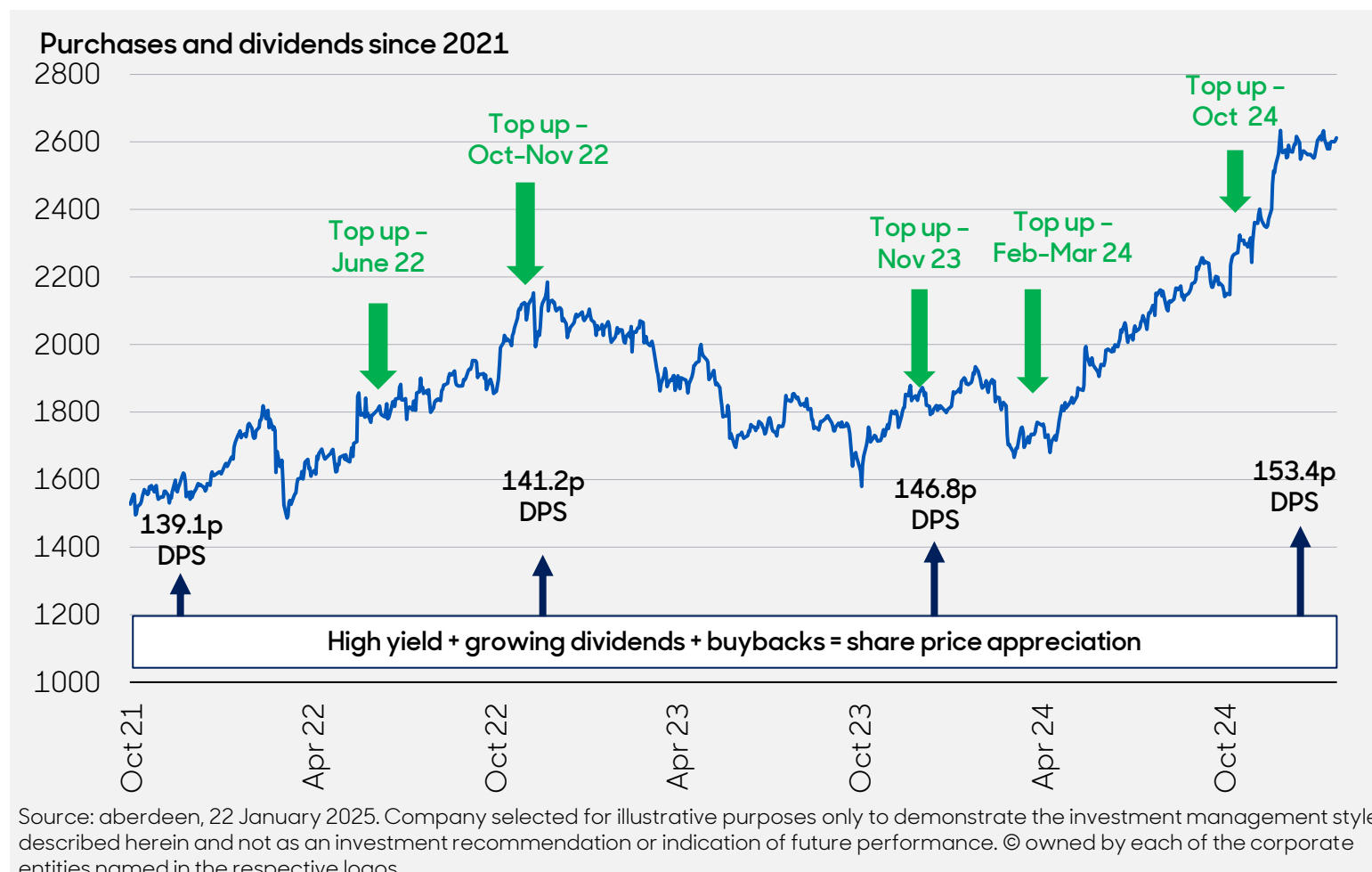
- 4 AEI holdings received M&A approaches in FY24 – Hargreaves Lansdown, Tyman, DS Smith and Centamin.
- We expect other holdings to be bid targets as international bidders recognise the gap between share prices and intrinsic value.
- Our focus on valuation is key to understanding situations where M&A is likely to happen.

Source: aberdeen, Bloomberg, 21 January 2025. For illustrative purpose only. No assumptions regarding future performance should be made

Nirvana Stock 1 – Imperial Brands



Management focus on cash flow driving 12% distribution yield (6% dividend + 6% buyback)



Imperial Brands:

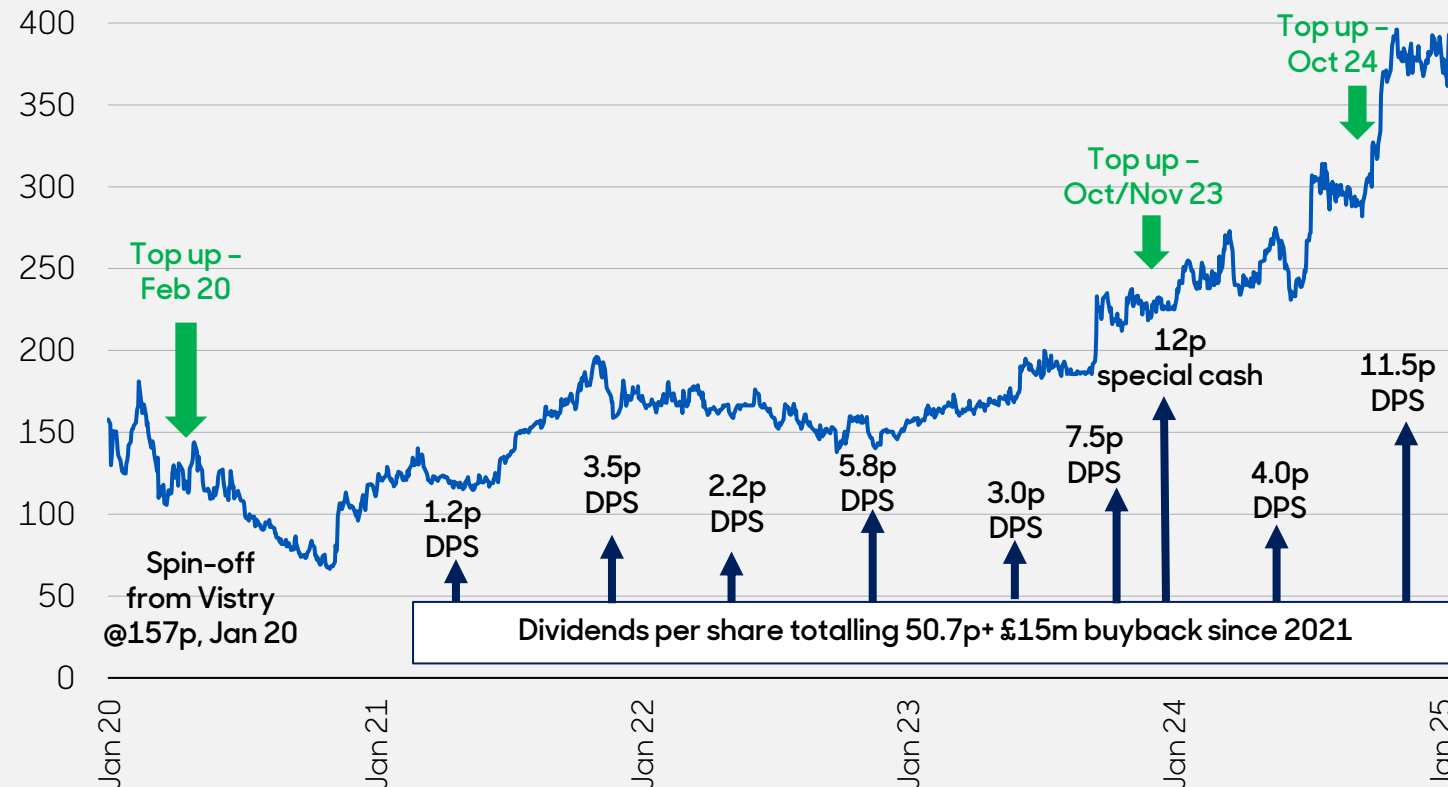
- ✓ **Cash flow king:** Cash flow improving rapidly thanks to CEO's decision to apply the 80/20 rule – focusing on key brands in most profitable markets; cutting investment in next generation products.
- ✓ **High yield + DPS growth:** Annual cash returns c.£2.5bn (half dividends, half buybacks) represents c.12% of market cap. Also paid down debt, taking net debt/EBITDA below target range.
- ✓ **Differentiated:** Taking on the consensual view that Beverages stocks will outperform Tobacco stocks. A difficult macro backdrop has highlighted the true defensiveness of tobacco stocks, unlike Diageo and Pernod.
- ✓ **Catalysts for further outperformance:** Potential for further re-rating on announcement of new 5-year targets at the Capital Markets Day in March 2025.

Nirvana Stock 2 - Galliford Try



Dividend growth - identifying small cap opportunities

Purchases and dividends since spin-off of Vistry Group (housebuilding division) in January 2020



Source: aberdeen, 22 January 2025. Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance. . © owned by each of the corporate entities named in the respective logos.

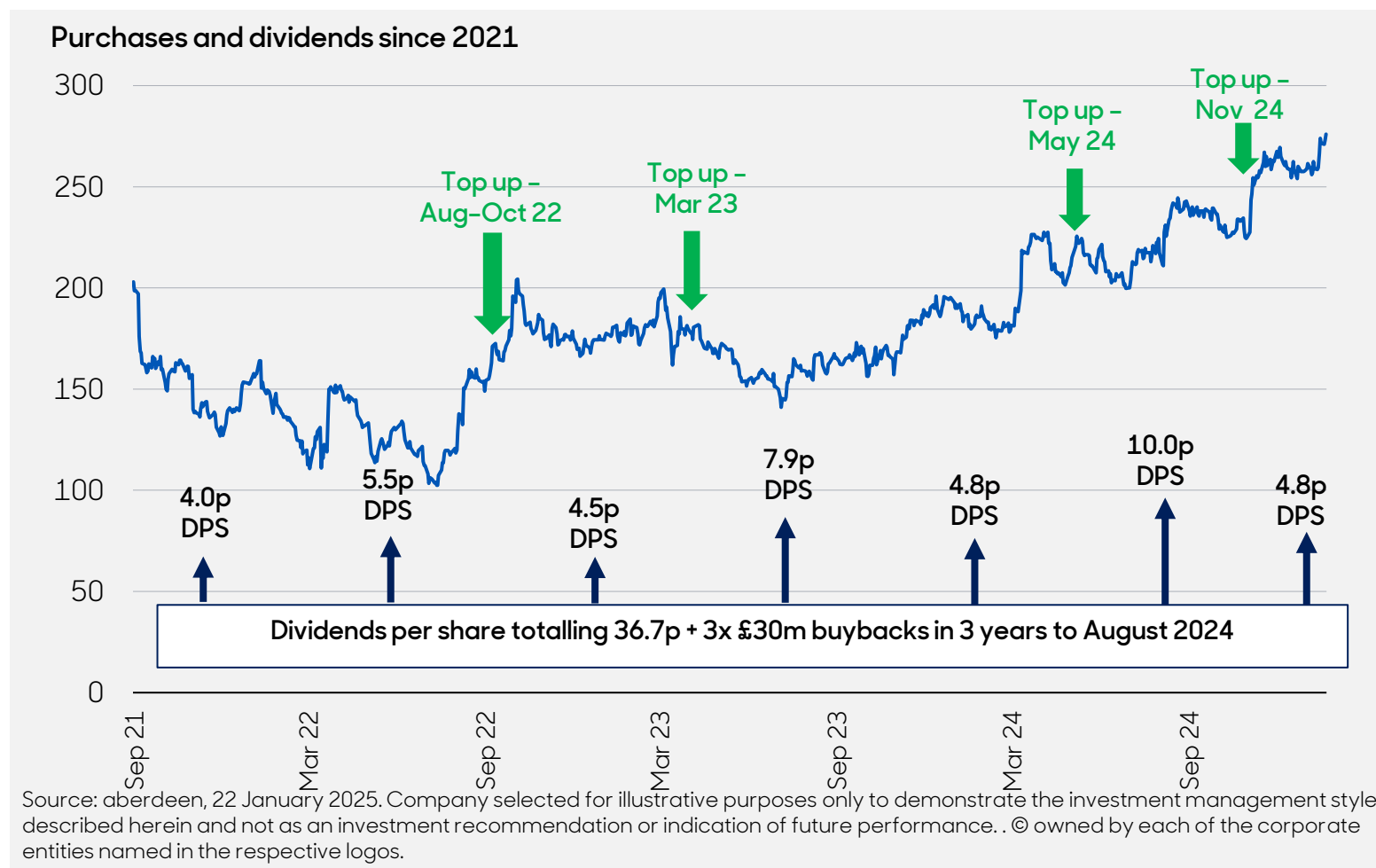
Galliford Try:

- ✓ **Construction winner:** Galliford Try is in a sweet spot – best operational momentum in the construction sector, yet cheapest valuation due to being under-researched small cap. Exposure to growth in infrastructure spending, in particular Water. Operating margin set to double thanks to pricing discipline and growth in higher value-add adjacent markets.
- ✓ **Consistent DPS growth:** Net cash position on de-merger of housebuilding division Vistry – increased confidence in sustainable, growing ordinary dividend, along with specials.
- ✓ **Differentiated:** Example of a defensive, low-beta, small-cap stock that provides diversification for the portfolio.
- ✓ **Catalysts for further outperformance:** Galliford Try hit its FY26 targets 2 years early, resulting in management setting ambitious new targets at Capital Markets Day on 23 May 2024. Trading updates indicate that they continue to run ahead of forecasts.

Nirvana Stock 3 – TP ICAP



Focus on change – uncovering businesses with the potential to surprise investors

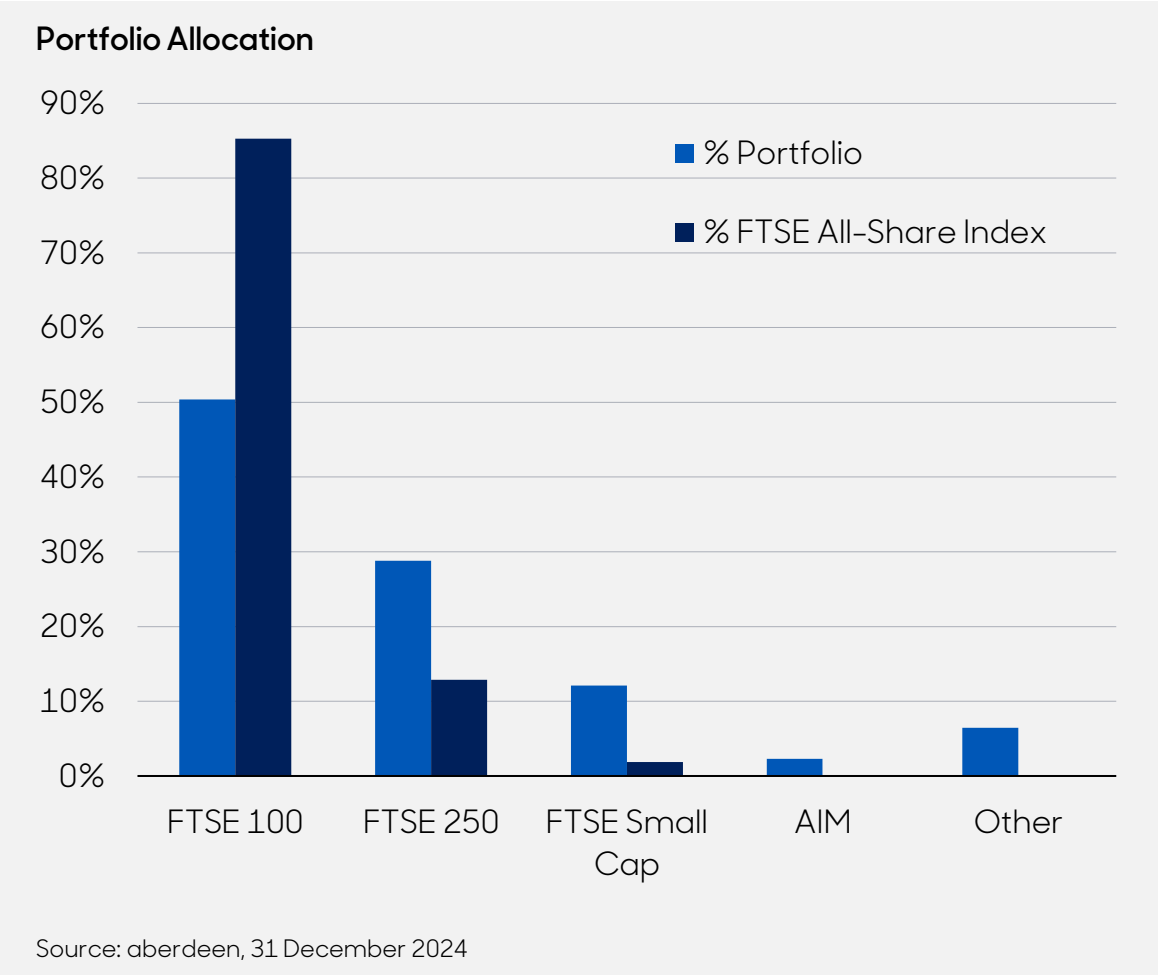
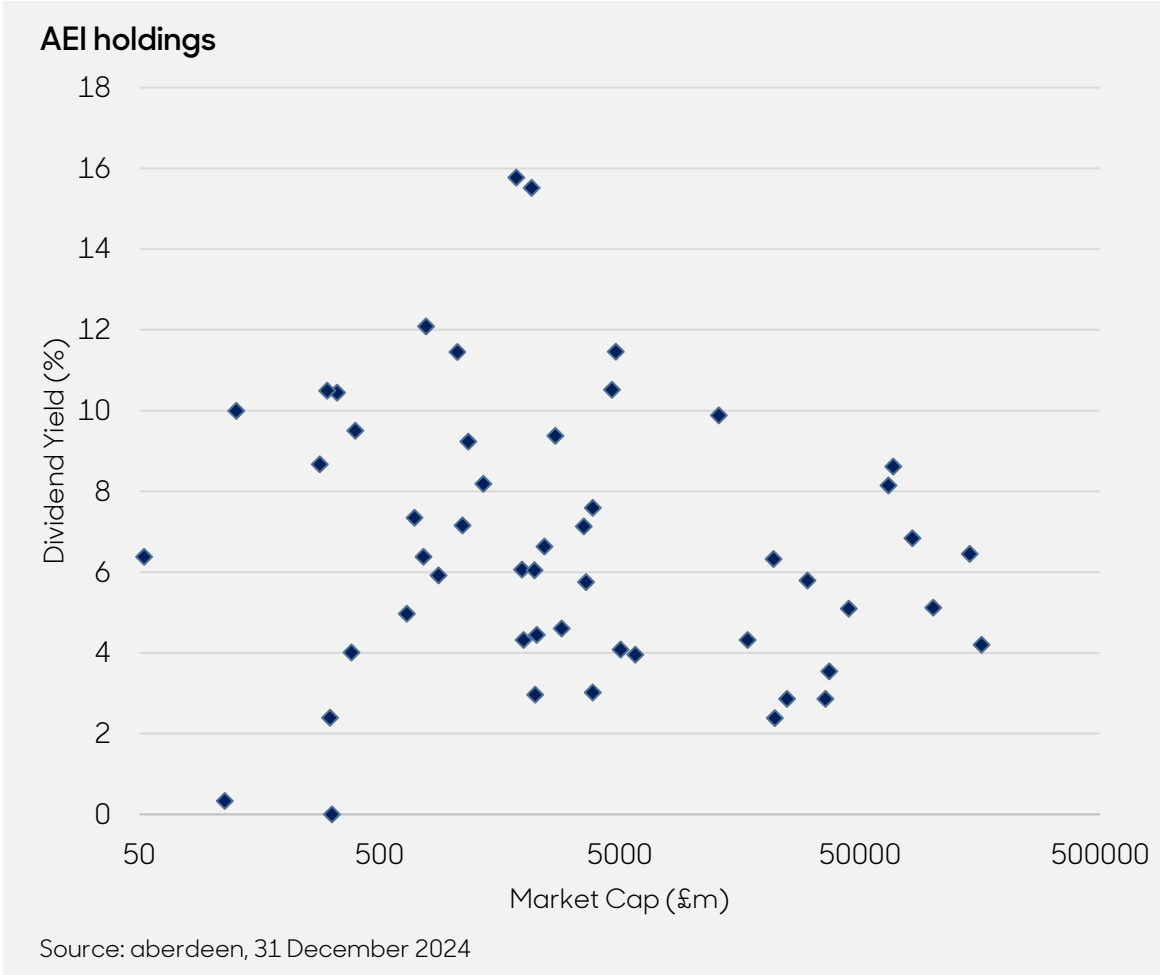


TP ICAP:

- ✓ **Entrenched market position:** World's largest inter-dealer broker and provider of OTC data, with c.40% market share. Incumbent with unrivalled connectivity and long-established relationships with top-tier clients. Cyclical tailwinds and structural initiatives are not factored into the current valuation, with clear catalysts for the stock to outperform.
- ✓ **Balance sheet transformation:** Paid down debt, moving to net cash position, allowing acceleration in DPS growth and buyback.
- ✓ **Beneficiary of macro volatility:** High volatility and high rates are good news for TP ICAP, making the stock a good diversifier for the portfolio.
- ✓ **Catalysts for further outperformance:** Potential de-merger of Parameta (their Data & Analytics business) which would force the market to put a value on this highly valuable and fast-growing asset (analysts are suggesting Parameta's value is c.£1bn vs £2.0bn market cap).

Index-agnostic – broadening the range of investment opportunities

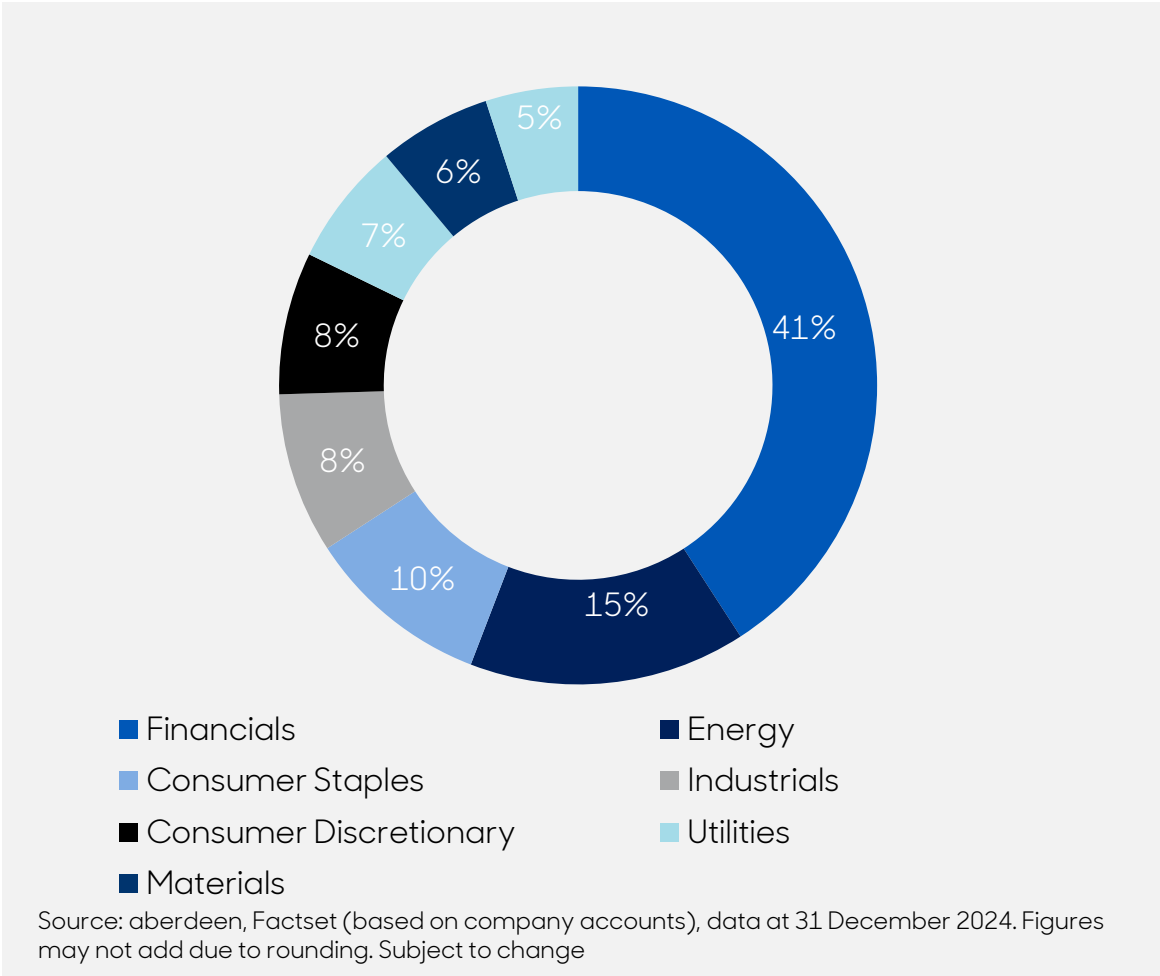
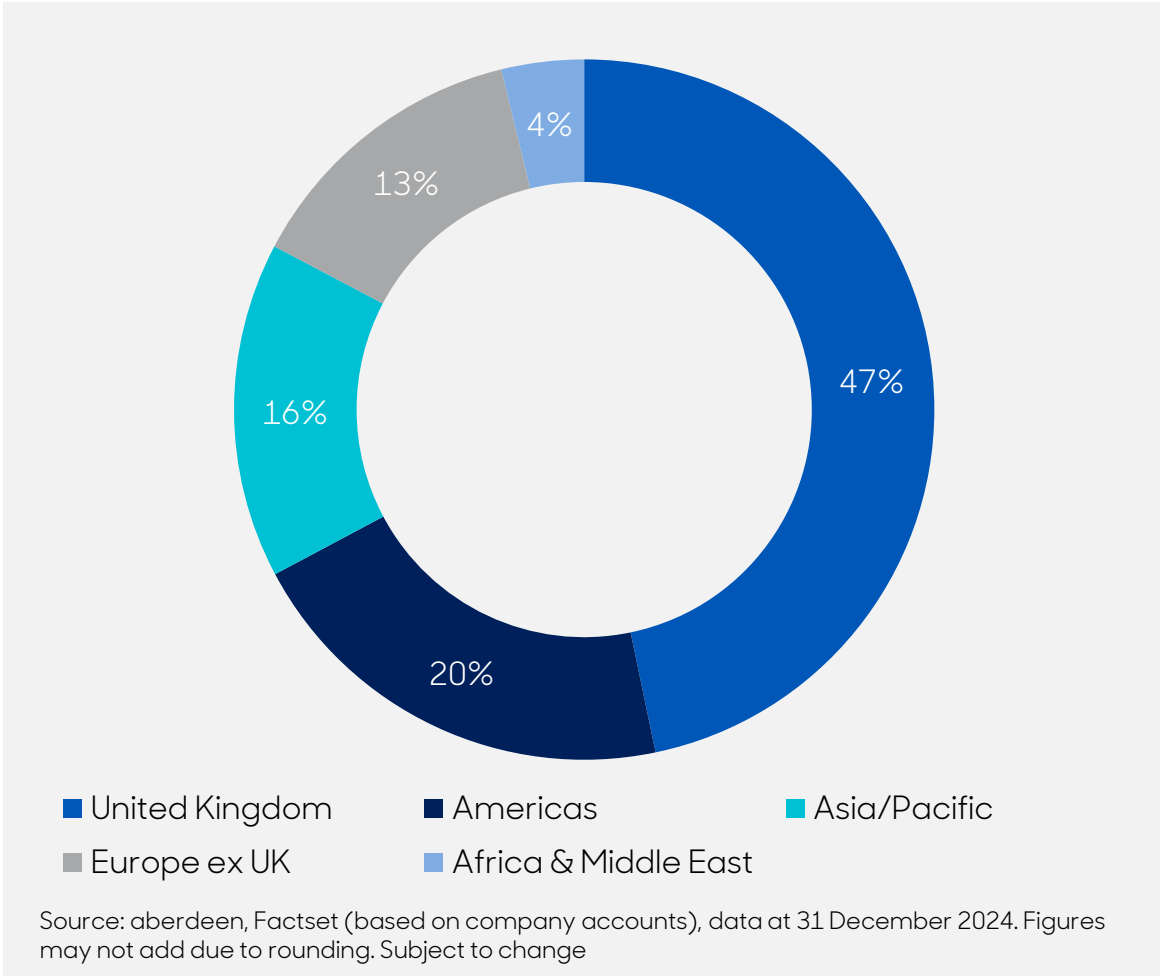
Ability to identify high-yielding investment opportunities across the UK equity market



Past performance does not predict future returns

Portfolio composition by geography and sector

Identifying attractive stock-level opportunities across the UK equity market



Positioning – Top 10 holdings

Process identifies stocks that enable AEI to achieve income and capital growth

Top 10 Holdings	% of portfolio	Rationale
Imperial Brands	6.7	Increased focus on core activities under new CEO supporting 12% distribution yield (dividend + buyback)
BP	5.1	BP trades at 8x PE and 8% dividend yield – the gap versus peers can close as new CEO focuses on financial returns
British American Tobacco	4.8	BAT is using the cash from its combustibles business to pay a c.9% dividend yield + invest in new categories
HSBC	4.3	Valuation of 1x NAV does not price in 16% ROTE; February strategy update on costs and capital return
Petershill Partners	3.9	Fast-growing private markets platform (+23% CAGR in AUM since 2018) at attractive valuation (0.8x NAV, 13x EPS)
National Grid	3.9	Clear beneficiary of electrification theme, with rights issue providing visibility on growth in Regulatory Asset Base
Galliford Try	3.9	Exposure to infrastructure spending, including Water, driving order book growth. Operating margin set to double.
Barclays	3.7	Valuation of 0.7x NAV set to re-rate driven by disciplined capital allocation and increase in ROTE to 12%
NatWest	3.6	Valuation of 1x NAV does not price in 14-16% ROTE despite improving Net Interest Income trends
Berkeley	3.6	Strong operator, deploying surplus cash into a new growth initiative (build to rent); price/book back to 1.0x

Source: aberdeen, 31 December 2024. Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance

AEIT – portfolio construction process drives our activity

Process provides structure to decision-making on portfolio positioning

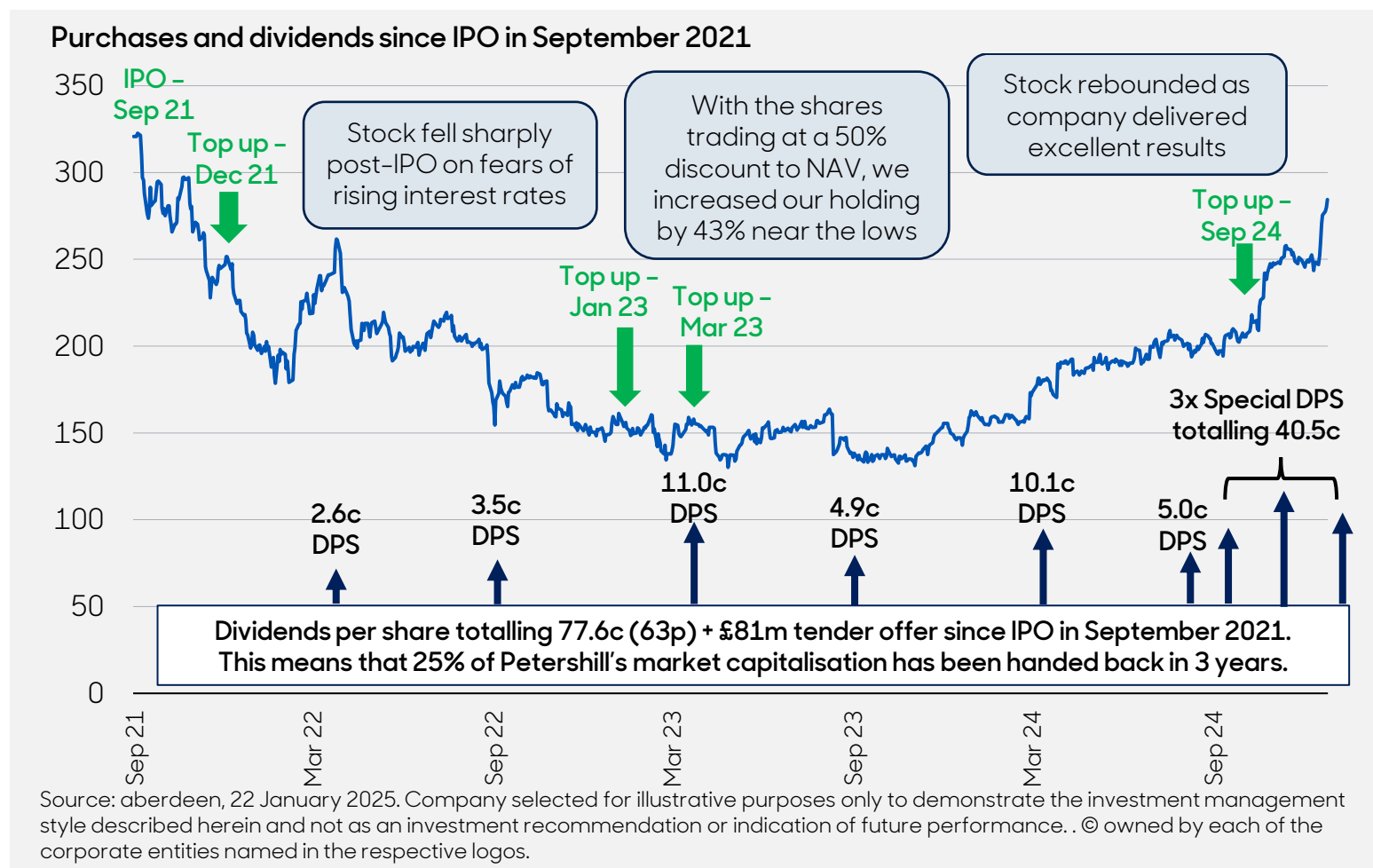


- **Intentionality** – each stock competing for a place in the portfolio
- **Blank sheet of paper mindset** – would we own stock if we were starting from scratch?
- **Sharpened execution** – adding to winning ideas and eliminating stale ideas

Source: aberdeen, January 2025

Recent activity – adding to Petershill Partners

Research highlights mid-cap growth stock – we added when wider market gave up



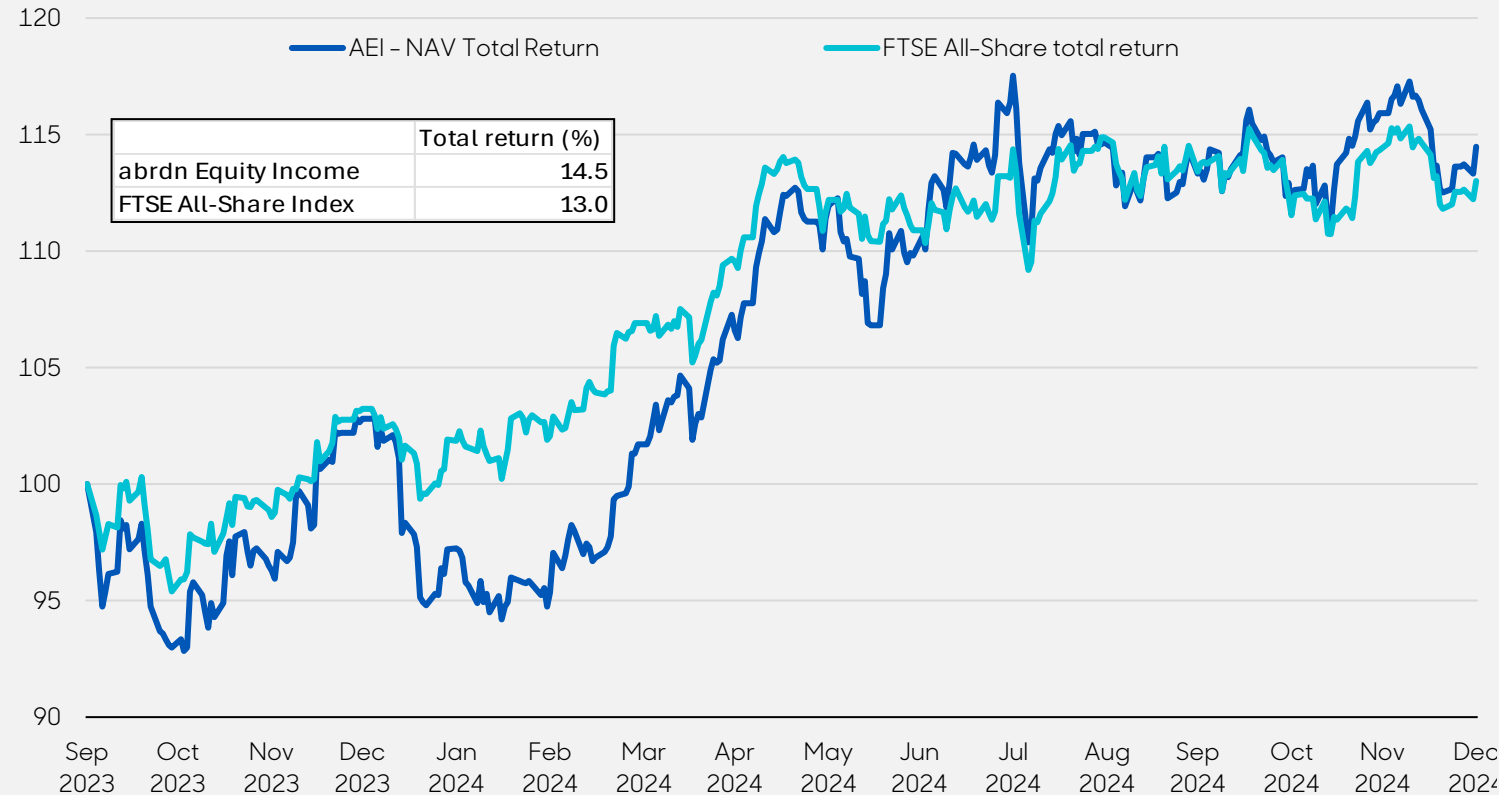
Petershill Partners:

- ✓ **Growth business on value rating:** Petershill is the private markets division of Goldman Sachs Asset Management, providing a means to gain access to fast-growing private markets businesses (+23% CAGR in AUM since 2018) at an attractive valuation (0.8x NAV, 13x EPS).
- ✓ **Fundraising driving earnings upgrades:** Petershill announced that 2024 fundraising would exceed the top end of their \$20–25bn guidance. Management is guiding to another \$20–25bn fundraising in 2025.
- ✓ **Divestments driving capital returns:** Petershill is active in divesting businesses at significant uplifts to carrying value, with 3 special dividends in the past year.
- ✓ **Sharpened execution:** The share price fell sharply after IPO due to fears on the impact of rising interest rates on Petershill's fundraising activity. Rather than giving up and crystallising losses, we intensified our research efforts and concluded that we should add to our holding. This turned out to be the right decision.

Performance – AEI vs index

Improving market backdrop + company results/M&A drive strengthening performance

Performance – 30th September 2023 to 31st December 2024



Source: aberdeen, Refinitiv Datastream, 22 January 2025

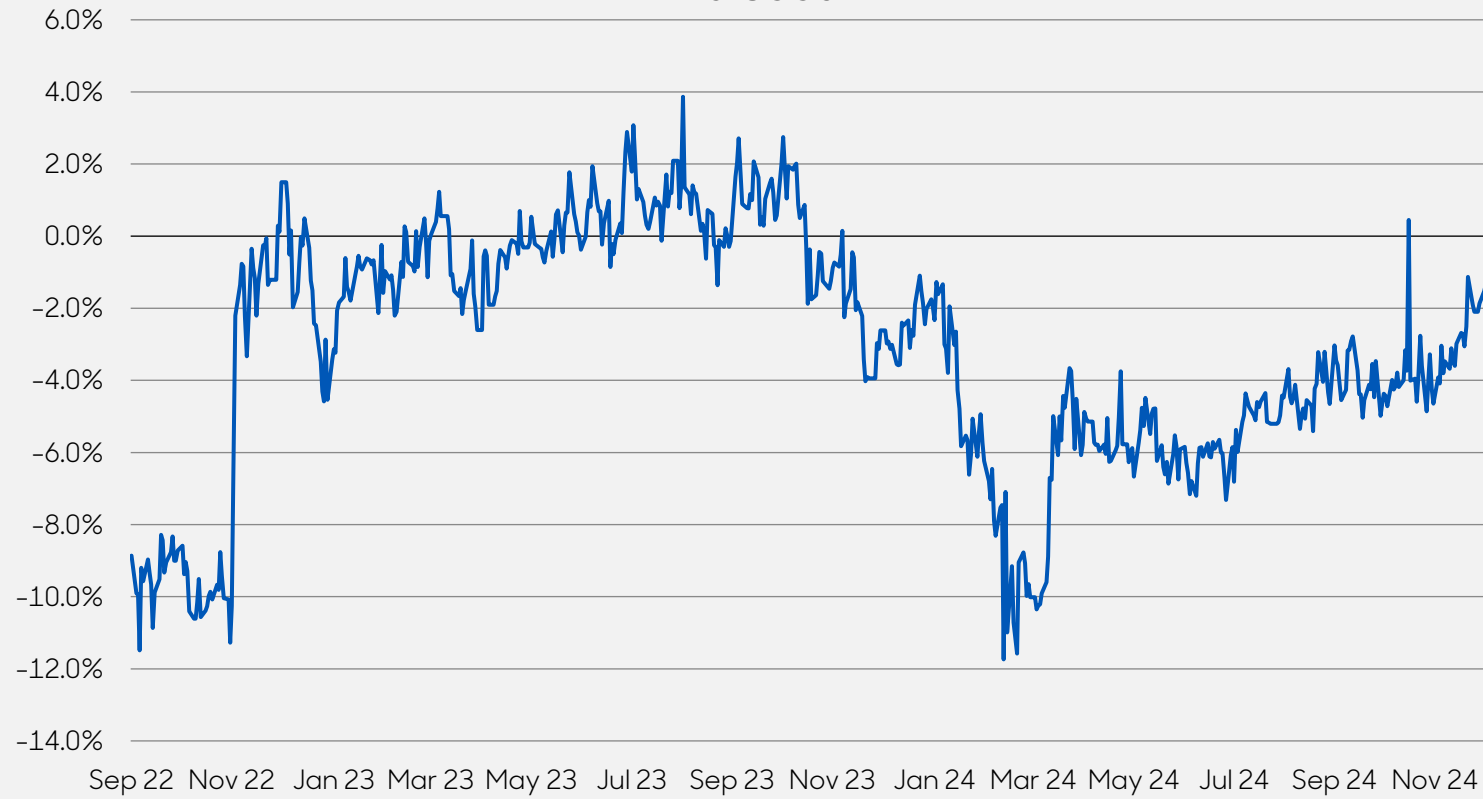
- **Performance strengthening:** Market backdrop was initially challenging as fears of hard landing for global economy caused outperformance of large caps vs mid caps and growth stocks vs value stocks. Market conditions became more benign later in the period as market leadership began to broaden out.
- **Company results and M&A provide catalyst:** After troughing in mid-February, our NAV performance picked up sharply on strong company results and M&A bids, providing a catalyst to unlock the value that is latent in the portfolio. The recovery in share prices was analogous to a coiled spring.
- **Earnings upgrades + PE expansion:** We look for stocks that offer the combination of earnings upgrades and/or valuation re-rating. This can be extremely powerful for our NAV. A further benefit of a recovery in the NAV is that it provides an increased capital base from which to generate portfolio income.

Focused on achieving our investment objective

To provide shareholders with an above average income from their equity investment, while also providing real growth in capital and income

AEI – NAV discount since 30 September 2022

AEIT discount



Source: aberdeen Equity Income Trust, 20 January 2025

✓ Focused on investment objective

AIC Dividend hero; 24 years of consecutive dividend growth, outpacing the FTSE All Share

✓ Identifying stocks across UK market

Index-agnostic approach enables differentiated portfolio – providing access to a broad range of income stocks across the UK market

✓ Focus on valuation enables yield and growth

AEIT's 7% yield is a function of the breadth of compelling opportunities available – we also see potential for NAV growth as companies grow earnings/dividends and valuations re-rate

✓ NAV discount narrower than sector peers

Reflection of differentiated and distinctive portfolio, with high yield and covered dividend

Past performance does not predict future returns



Appendices

aberndeen

active equities

division

Well resourced

- >110 investors
- 12 cities globally
- Extensive support teams

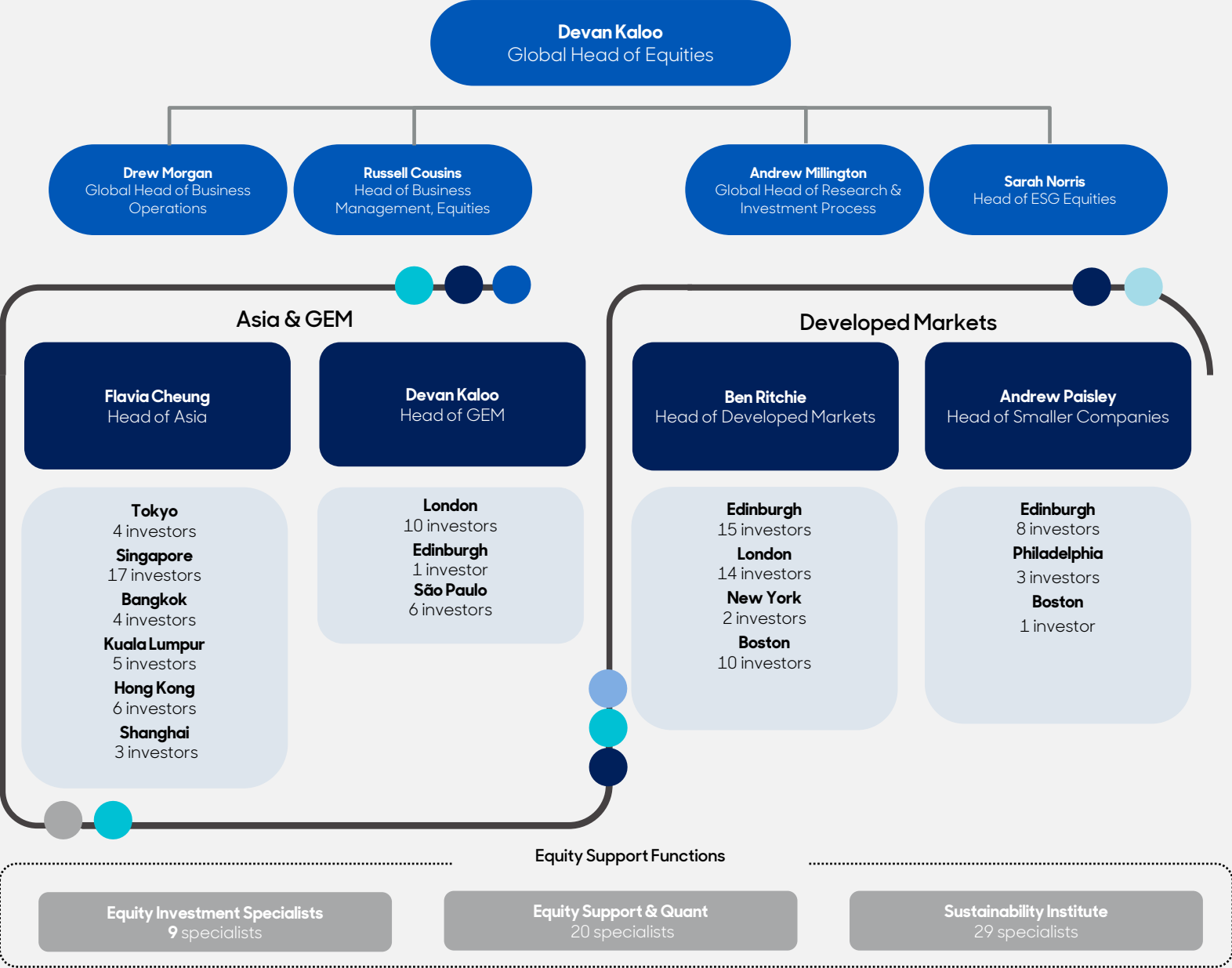
Global reach

- Single approach to research
- Common investment language
- Sustainability specialists

Clear accountability

- Focused portfolio construction groups
- Sector expertise
- Dedicated stock ownership

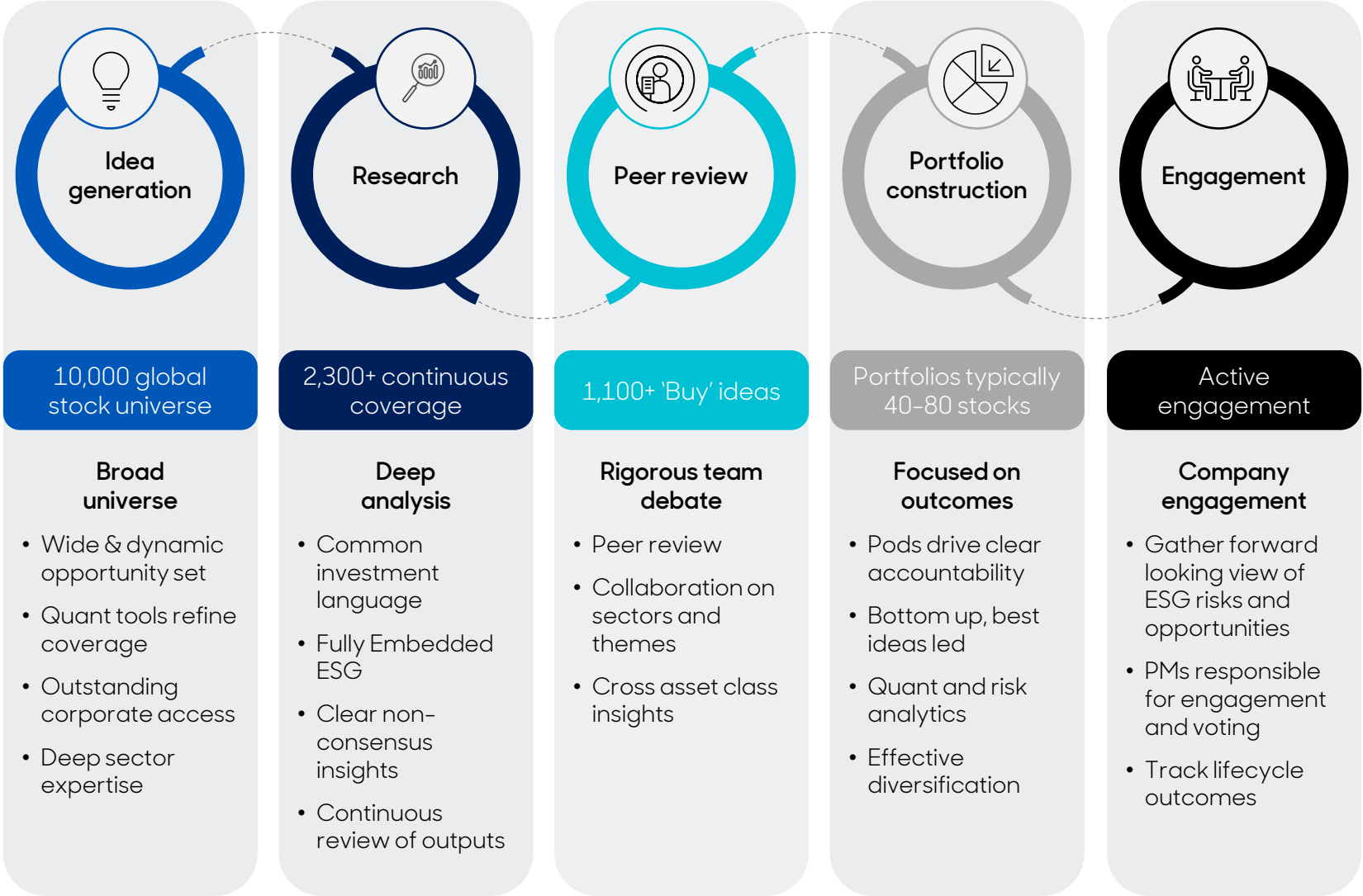
Source: aberdeen, 01 January 2025



Local insights, global perspective

Active equity investment process

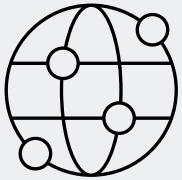
Our Research drives performance



Source: aberdeen, December 2023

Equity research

Fundamental, focused and insightful



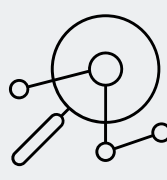
Broad universe and proactive engagement

- Proprietary research platform providing deep company level insights
- Broad and dynamic opportunity set; quant tools support and refine coverage
- Outstanding corporate access and engagement



Deep company level analysis delivers investment insights

- Globally consistent approach and common language delivers actionable insights
- ESG embedded principles
- Sector analysis provides deeper understanding of companies



Conviction developed through rigorous team debate

- Informed peer review of research builds conviction
- Broad team company knowledge strengthened through effective team discussion
- Clear team and individual responsibilities ensure collaboration and accountability

Stock Research Note

Foundations

- Business fundamentals
- Evaluation of ESG risks and opportunities

Dynamics

- Key drivers of business change that influence corporate value

Financials and valuation

- Financial analysis and assessment of market expectations

Investment Insight and risk

- Investment thesis and non-consensus insight; risk factors & downside scenarios

Source: aberdeen, December 2023

Proactive company engagement

Ensures our holdings remain or become better companies

Our Engagement

Engagement allows us to influence for positive outcomes and act as responsible stewards of our clients' assets. We engage with multiple stakeholders far beyond just company management, such as NGOs, industry and regulatory bodies, activists and clients

Example areas of engagement include:

- Board Diversity
- Carbon Emissions
- Corporate Governance
- Cyber Security
- Deforestation
- Employee Discrimination
- Employee Safety
- ESG Disclosures
- Human Capital Management
- Human Rights
- Labour Management
- Market Communication
- Remuneration
- Succession Planning
- Waste Affluence Management
- Water Management

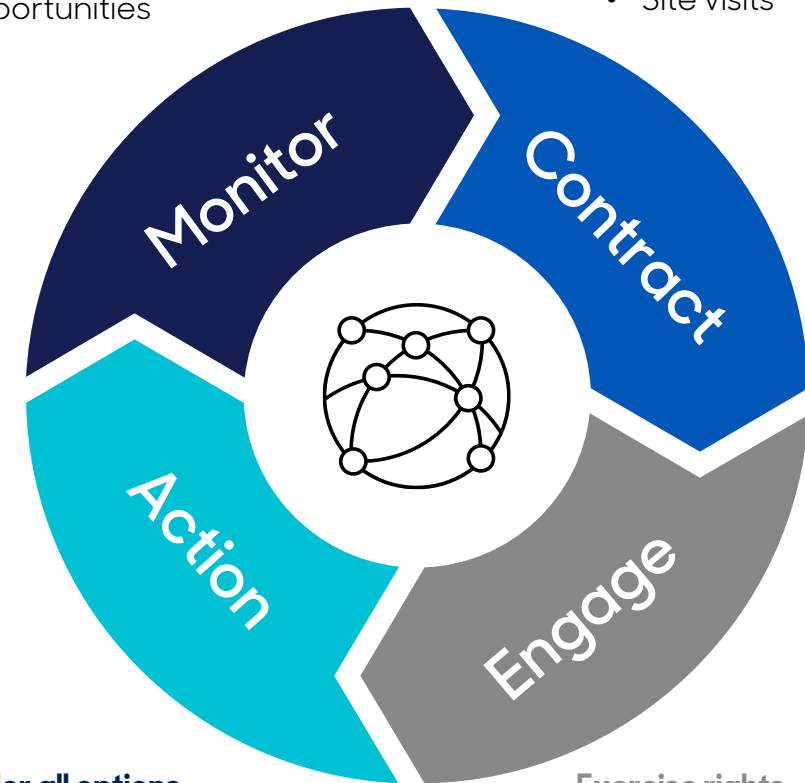
Source: aberdeen, January 2024

On-going due-diligence

- Business performance
- Company's financials
- Corporate governance
- Company's key risks and opportunities

Frequent dialogue

- Senior executives
- Board members
- Heads of departments and specialists
- Site visits



Consider all options

- Buy, Sell or Action
- Seek to collaborate
- Legal action, if necessary

Exercise rights

- Always vote
- Explain voting decisions
- Attend AGM/EGMs
- Influence for positive outcomes

Important Information

abrdn Equity Income Trust

Cumulative Performance	As at 31/12/2024	1 Month	3 Months	6 months	1 Year	3 Year	5 year
Share Price	325.0p	2.3	2.9	9.5	13.2	12.6	10.4
NAV	329.3p	(1.3)	1.0	4.2	11.4	6.2	3.6
FTSE All-Share Index		(1.2)	(0.4)	1.9	9.5	18.5	26.5
FTSE 350 Higher Yield Index		(0.8)	0.8	1.9	11.0	33.1	32.5

Discrete annual returns	2024	2023	2022	2021	2020
Share Price	13.2	(6.3)	6.2	22.1	(19.7)
NAV	11.4	(2.4)	(2.3)	18.1	(17.5)
FTSE All-Share Index	9.5	7.9	0.3	18.3	(9.8)
FTSE 350 Higher Yield Index	11.0	7.1	12.1	20.5	(17.4)

Investment Objective

To provide shareholders with an above average income from their equity investment while also providing real growth in capital and income.

Source: aberdeen, 31 December 2024, total returns. The percentage growth figures are calculated over periods on a mid to mid basis.
NAV total returns are calculated on a cum-income basis.

Important Information

Risk factors you should consider prior to investing:

- a) The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- b) Past performance does not predict future returns
- c) Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- d) There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- e) As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- f) The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- g) The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- h) Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- i) The Company may charge expenses to capital which may erode the capital value of the investment.
- j) The Alternative Investment Market (AIM) is a flexible, international market that offers small and growing companies the benefits of trading on a world-class public market within a regulatory environment designed specifically for them. AIM is owned and operated by the London Stock Exchange. Companies that trade on AIM may be harder to buy and sell than larger companies and their share prices may move up and down very sharply because they have lower trading volumes and also because of the nature of the companies themselves. In times of economic difficulty, companies listed on AIM could fail altogether and you could lose all your money.
- k) The Company invests in the securities of smaller companies which are likely to carry a higher degree of risk than larger companies.

Source: aberdeen

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