abrdn Equity Income Trust (AEI)

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

September 2024

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Why invest in UK Equity Income and why abrdn Equity Income Trust?

Significant valuation divergence between UK equities and other equity markets

Why UK Equity Income?

- Access to well managed businesses, with strong cash generation, at attractive valuations
- Asset allocation shift out of asset class has driven down valuations, spurring significant M&A activity
- Dividends are a key driver of long-term total equity returns
- Dividend pay-out ratio is modest, creating the springboard for dividend growth as confidence returns

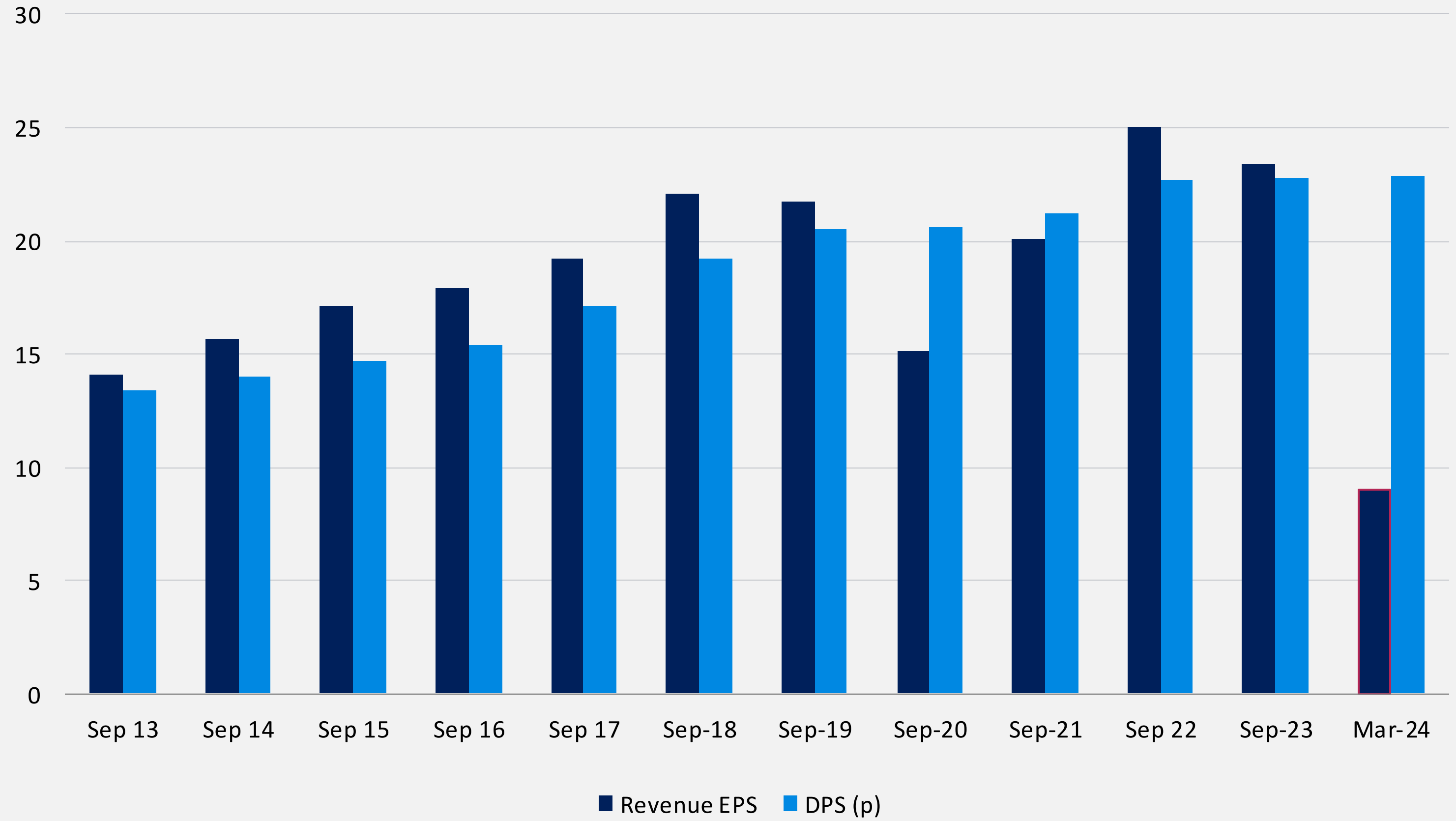
Why abrdn Equity Income Trust?

- Index-agnostic investment approach – creating a differentiated and diversified portfolio
- Investment philosophy focused on identifying positive change that is overlooked by the market
- "AIC Dividend hero"; 23-year track record of growing the dividend; the current dividend yield c.7%
- AEI's high yield is a function of the higher yield opportunities available – we also see potential for NAV growth as companies grow earnings / dividends and valuations re-rate

Source: abrdn, August 2024

23 years of dividend per share growth

Revenue EPS +5.2% year-on-year in H1 24



Source: abrdn, May 2024

	2024	2023	2022
Interim Revenue EPS (pence)	9.05	8.60	8.75
Revenue EPS (pence)	-	23.4	25.5
DPS (pence)	22.9*	22.8	22.7
Annualised 5 year dividend growth (%)	2.2	3.5	5.8
Annualised 5 year RPI growth (%)***	6.1	5.9	4.8

- Fully covered dividend - achieved 1.03x dividend cover in FY23, while growing the dividend per share.
- Guiding to 22.9p DPS in FY24
- Typically generate between 30% and 40% of full year portfolio income in H1 due to timing of dividend payments
- Improving dividend outlook expected to support portfolio income in H2 24

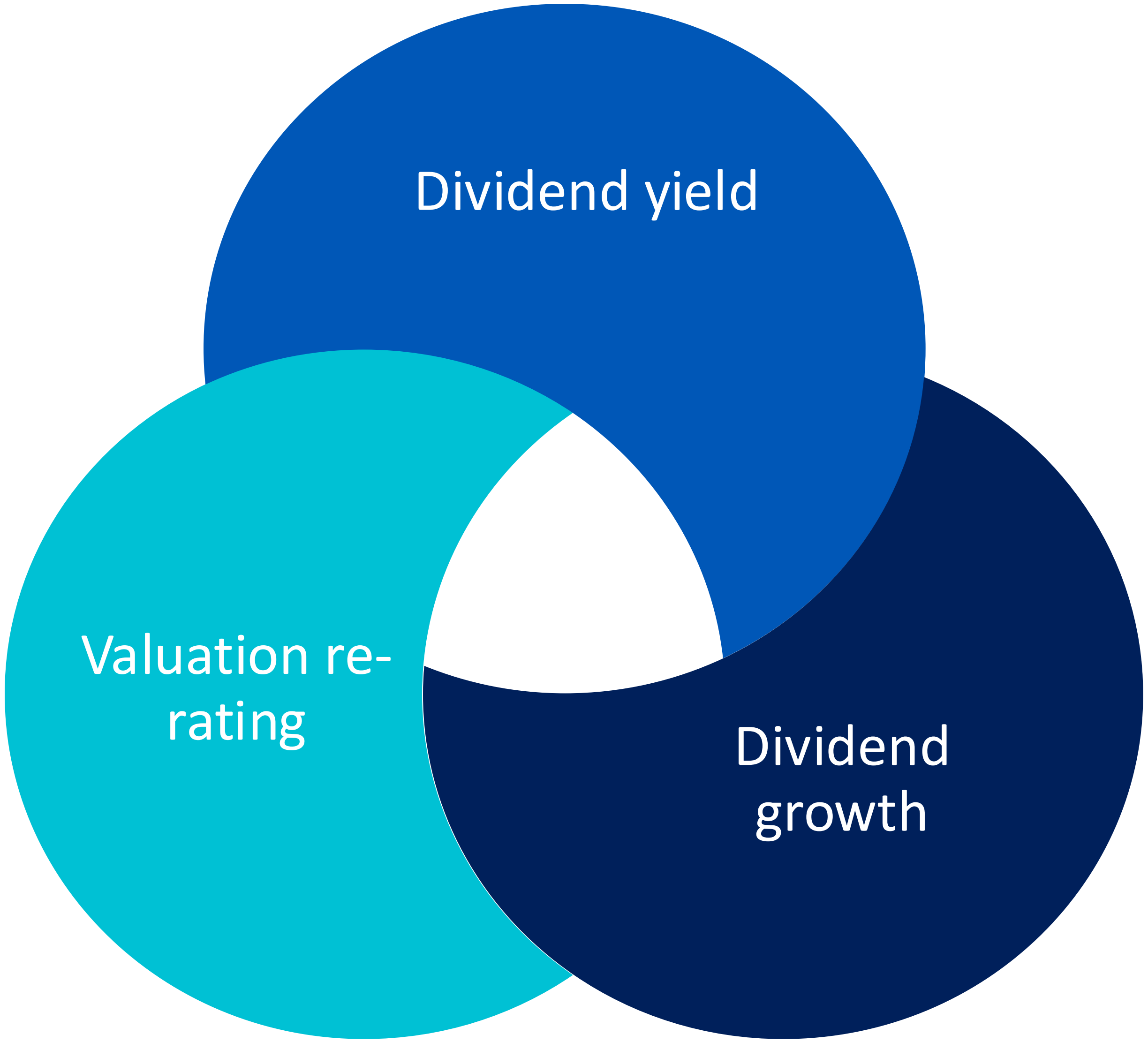
*As reported in 2023 Annual Report. *** 2024 RPI Growth to 31 March 2024. Prior years to September

Past dividends are not a guide to future dividends

Process and Positioning

Identifying stocks that can deliver dividend yield, dividend growth and valuation re-rating

Nirvana is when delivery of positive news on earnings/dividends is rewarded with a valuation re-rating, driving a rising share price



Source: abrdn, December 2023

Process - focused on delivering our investment objective

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

Income growth

18 stocks
40% of portfolio
5.2% dividend yield

Stocks whose corporate fundamentals make them well positioned to deliver growth in cash flows and dividends over time

Example: Galliford Try

Real growth in income

Mispriced yield

21 stocks
35% of portfolio
8.6% median yield

High yield stocks whose market position is more robust than the market perceives, sustaining an above average dividend

Example: Chesnara

Above average income

Unrecognised change

16 stocks
25% of portfolio
4.2% median yield

Stocks with operational change that is overlooked by the market. Earnings growth and valuation re-rating can work together powerfully to drive share price

Examples: TP ICAP, Quilter

Real growth in capital

Index-agnostic approach enables differentiated portfolio

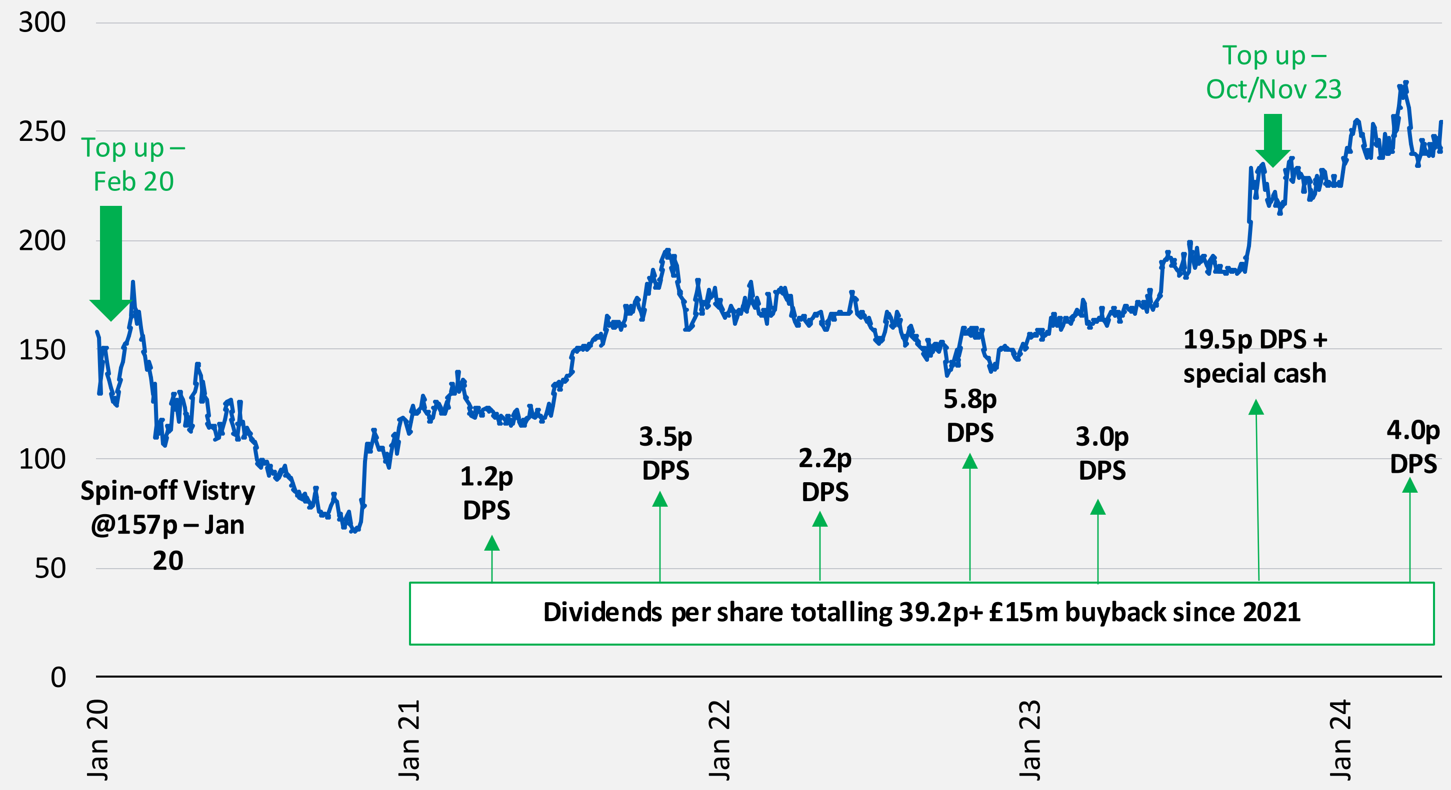
Source: abrdn, forecast yield data at 30 June 2024. Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance
Forecasts are not a reliable indicator of future results and there can be no guarantee that these will be achieved

Past performance does not predict future returns

Investment process - case study 1 - Galliford Try

Using process to identify opportunities that can deliver income (yield 4.7%), NAV growth (consistent DPS growth) and diversify portfolio income (low beta stock, factor risk diversifier)

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



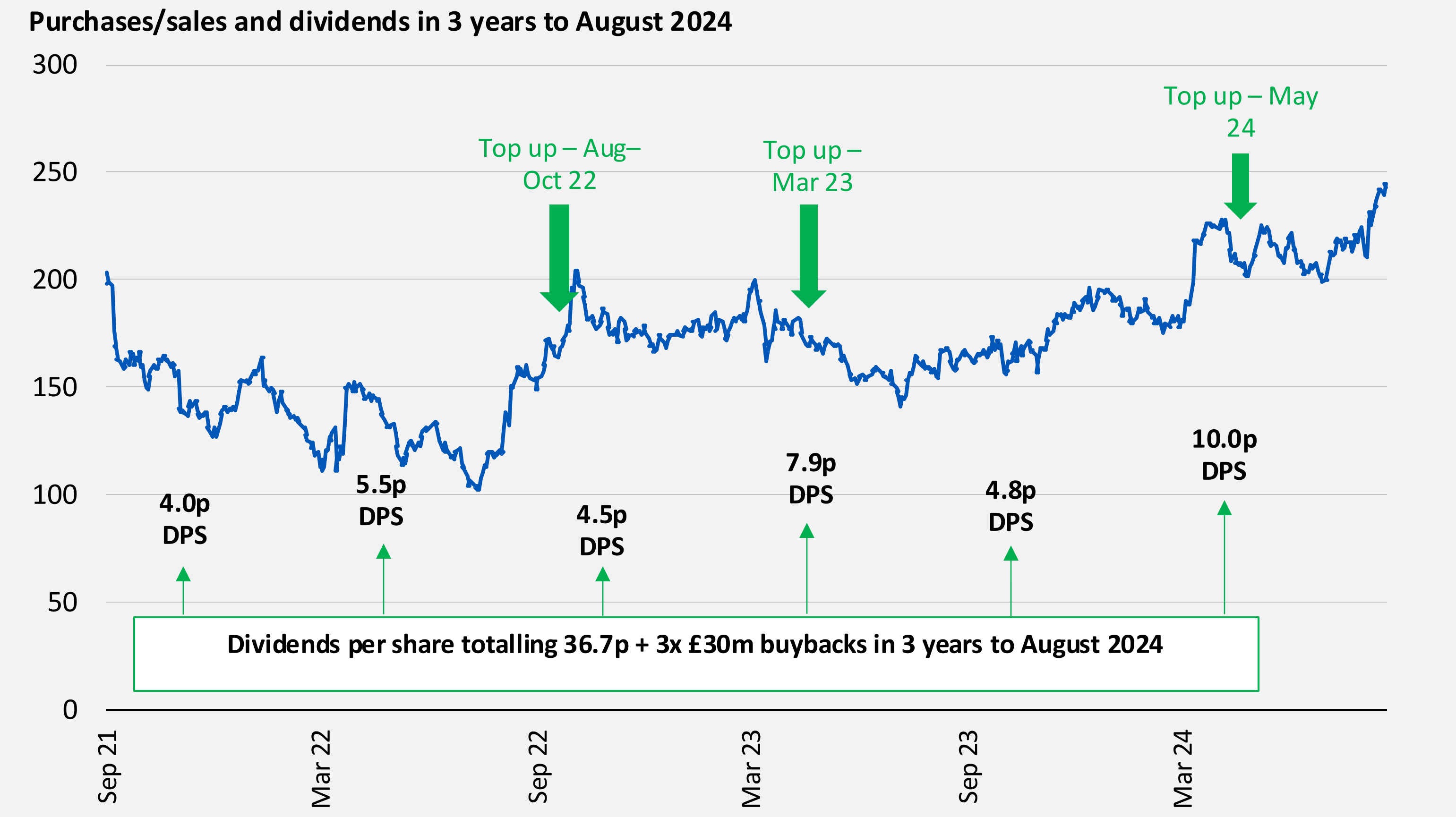
Source: abrdn, 05 May 2024. © owned by each of the corporate entities named in the respective logos.
Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance

Galliford Try – Income Growth:

- ✓ **Analyst Buy:** Favoured idea; discussed within product group vs peers Balfour Beatty and Kier Group. Concluded that Galliford Try is in sweet spot – best operational momentum in the sector, yet also cheapest valuation due to being under-researched.
- ✓ **Consistent DPS growth:** Net cash position on de-merger of housebuilding division Vistry – increased confidence in sustainable, growing ordinary dividend, along with specials.
- ✓ **Diversification:** Risk modelling highlights complementary to existing portfolio – low beta (0.65x) and a factor risk diversifier.
- ✓ **Catalysts for further outperformance:** Rapid progress towards FY26 targets (set to hit targets 2 years early) – requiring management to set ambitious new targets announced at the Capital Markets Day on 23 May 2024.

Investment process - case study 2 – TP ICAP

Using process to identify opportunities that can deliver income (yield 6.0%), NAV growth (consistent DPS growth) and diversify portfolio income (beneficiary of volatility)



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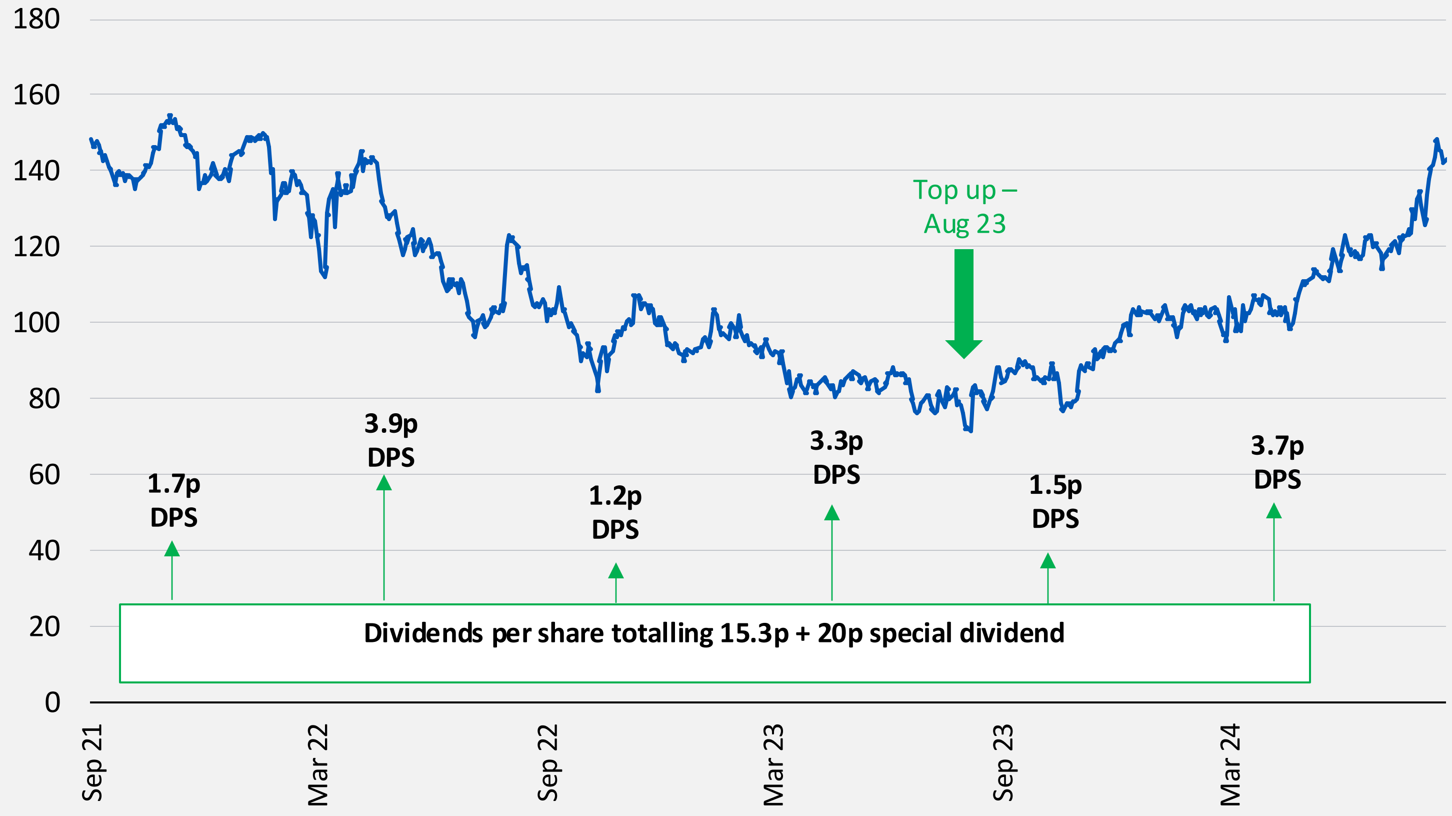
TP ICAP – Unrecognised Change:

- ✓ **Analyst Buy:** Largest inter-dealer broker and provider of OTC data globally, with c.40% market share. Incumbent position with unrivalled connectivity and long-established relationships with top-tier clients. Concluded that cyclical tailwinds and structural initiatives are not factored into the current valuation, with clear catalysts for the stock to outperform in the coming 12-18 months.
- ✓ **Consistent DPS growth**: Paid down debt. Moved to net cash position, allowing accerleration in DPS growth and buyback.
- ✓ **Diversification:** Risk modelling highlights complementary to existing portfolio – low beta (0.95x). High volatility is good news for TP ICAP!
- ✓ **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 £1.8bn market cap.

Investment process - case study 3 – Quilter

Using process to identify with structural growth drivers that can support NAV growth (via EPS growth and valuation re-rating)

Purchases/sales and dividends in 3 years to August 2024



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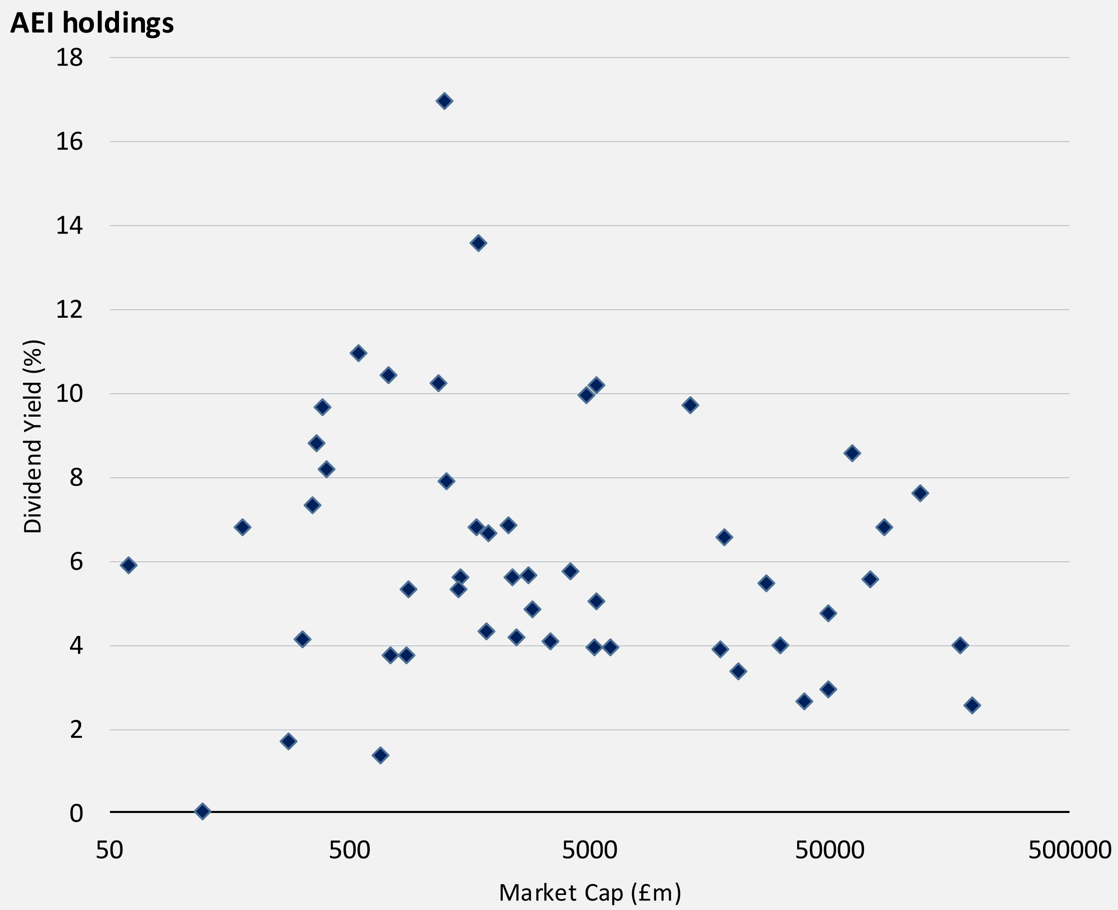
Quilter – Unrecognised Change:

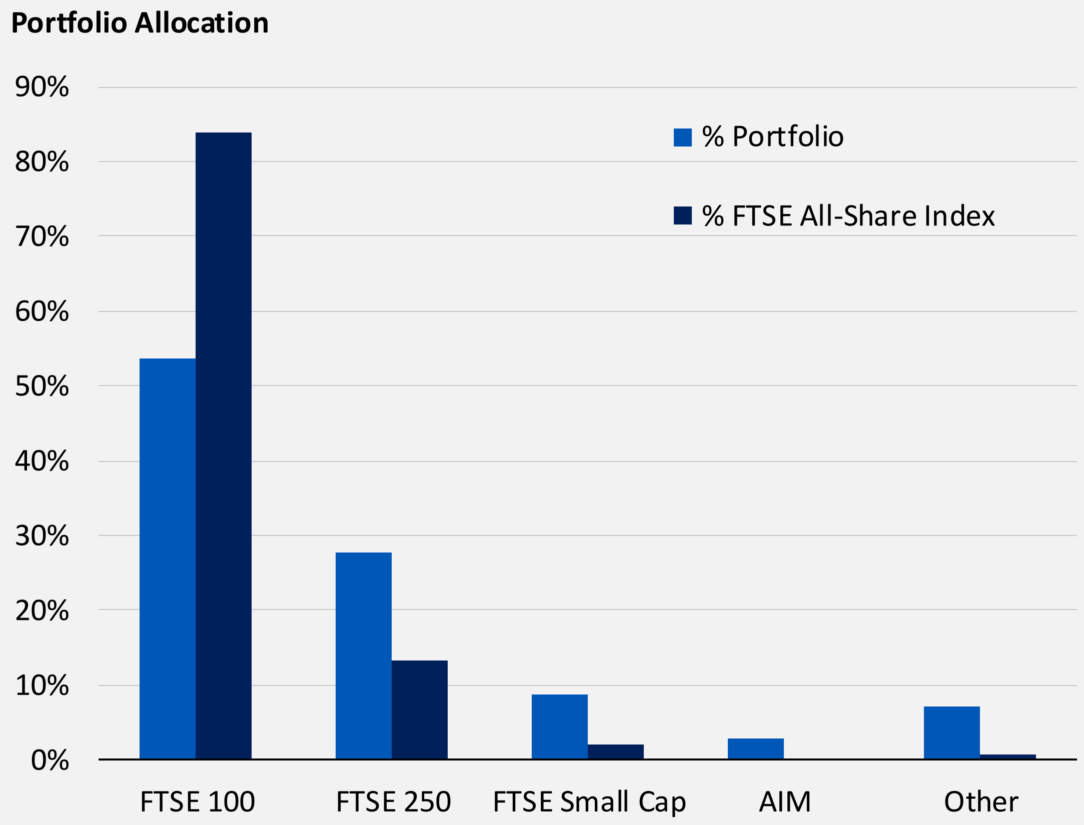
- ✓ **Analyst Buy:** Vertically-integrated asset gathering business with exposure to structurally growing end markets, ideally positioned to benefit from the opportunities arising from the UK's growing "advice gap" given its strong market position in both mass affluent and high net worth customers. As well as being the number 2 player in advice, Quilter also generates significant flows onto their platform which is the centre-piece between financial advice, wealth management and investment solutions.
- ✓ **Self-help initiatives drive EPS upgrades**: Ambitious transformation, following spin-off from Old Mutual. Roll-out of new FNZ platform and cost cutting driving EPS upgrades (up from 7p to 10p in past 12 months).
- ✓ **Catalysts for further outperformance:** Quilter is moving towards achievement of their targets of 30% operating margin and +6% net flows. This sets the scene for valuation re-rating as the market recognises successful delivery.

Index-agnostic investment approach – broadening the range of investment opportunities

Attractive high-yielding investment opportunities



Source: abrdn, August 2024



Source: abrdn, 30 June 2024

Past performance does not predict future returns

Positioning - Top 10 holdings

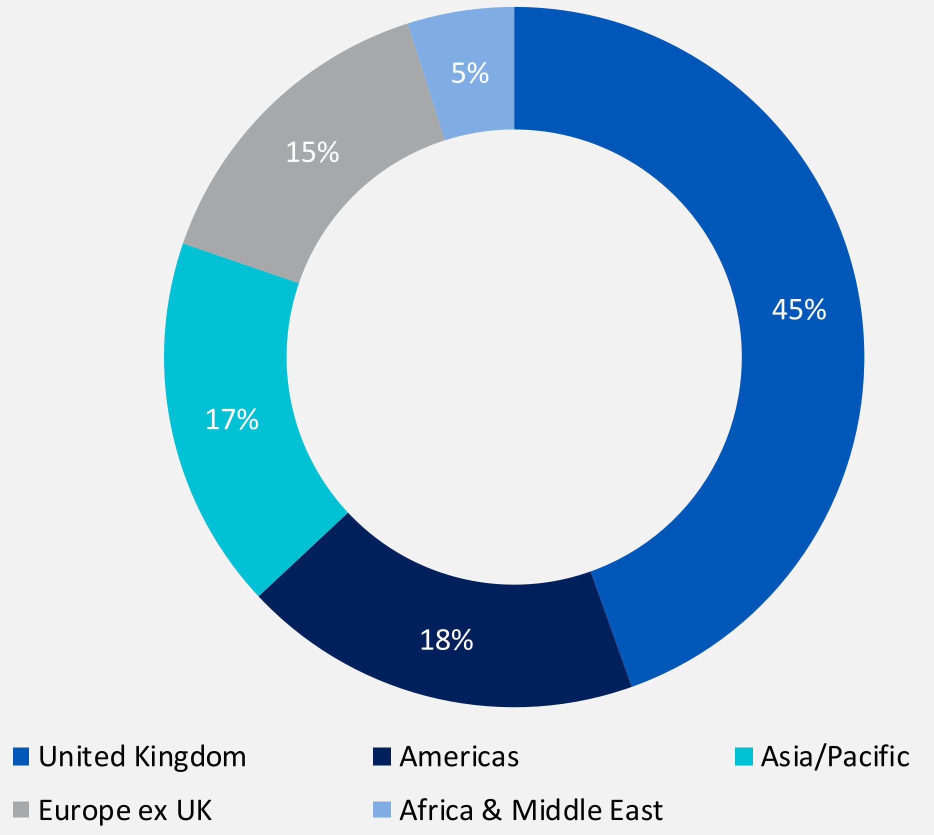
Process identifies stocks whose robust fundamentals are not reflected in valuations

Top 10 Holdings	% of portfolio	Dividend yield	Rationale
National Grid	5.5	4.5%	Inflation-linked contracts in the UK, while investing to deliver EV infrastructure
Imperial Brands	5.4	6.8%	Increased focus on core activities under new management team. Distribution yield in the high teens.
BP	4.5	5.9%	Increased focus on higher return activities increasing cash flow, allowing buyback and dividend growth
Berkeley Group	4.4	5.2%	Strong operator investing cash into new growth initiative (build to rent), as well as large dividends
SSE	4.3	3.2%	Regulatory clarity on Transmission assets + growth in Renewables assets.
BHP	4.1	5.5%	Iron ore mines generating sufficient cash to allow investment in copper production and attractive dividend
British American Tobacco	4.0	8.0%	Debt de-leveraging set to drive valuation re-rating as buyback begins
CMC Markets	3.7	3.7%	Investing to diversify and grow. A technology platform which is valued as if it were a pure trading business.
Hargreaves Lansdown	3.5	4.1%	Market-leading D2C wealth platform with structural growth; pre-bid was trading at 11x EPS and >6% yield
Conduit	3.4	5.1%	Reinsurance business taking advantage of hardening market as legacy players exit

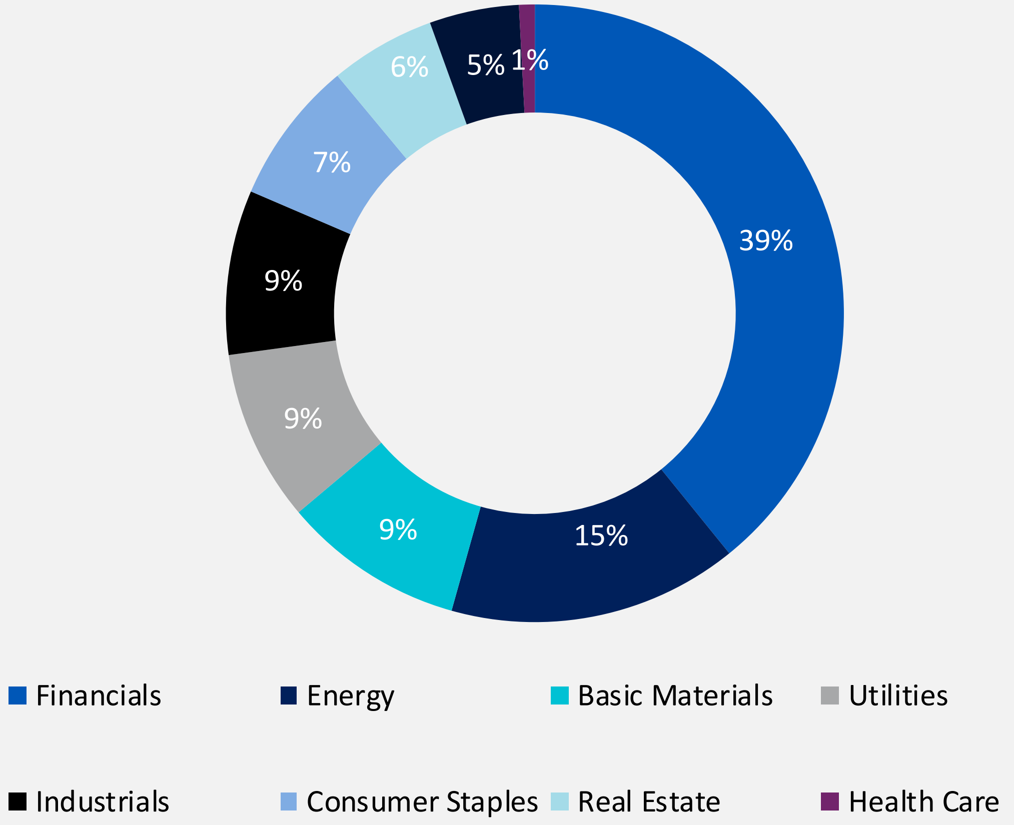
Source: abrdn, 31 August 2024. Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance

Portfolio composition by geography and sector

Heavy positions in cash-generative Financials and Resources sectors



Source: abrdn, Factset (based on company accounts), data at 30 June 2024. Figures may not add due to rounding. Subject to change

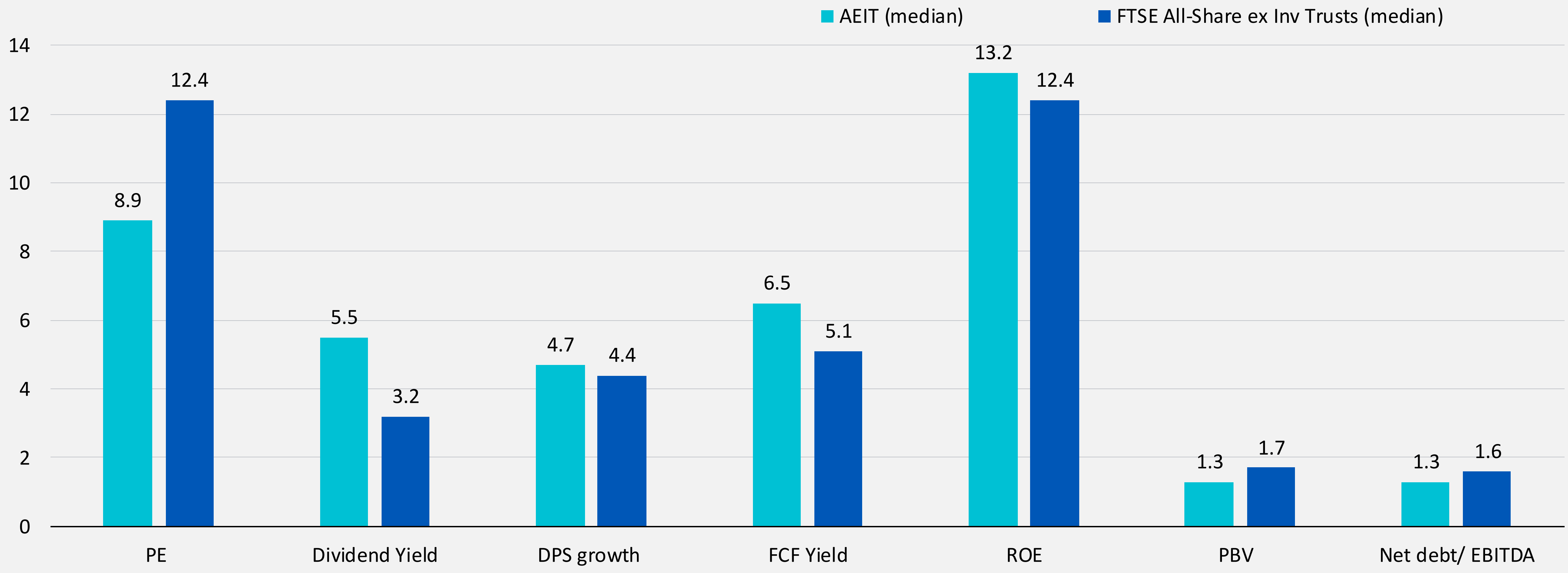


Source: abrdn, Factset (based on company accounts), data at 30 June 2024. Figures may not add due to rounding. Subject to change

AEI - attractive returns available at very cheap valuations

Identifying stocks with potential for earnings growth and valuation re-rating

Key portfolio metrics



Source: abrdn, Bloomberg, 05 May 2024. For illustrative purpose only. No assumptions regarding future performance should be made

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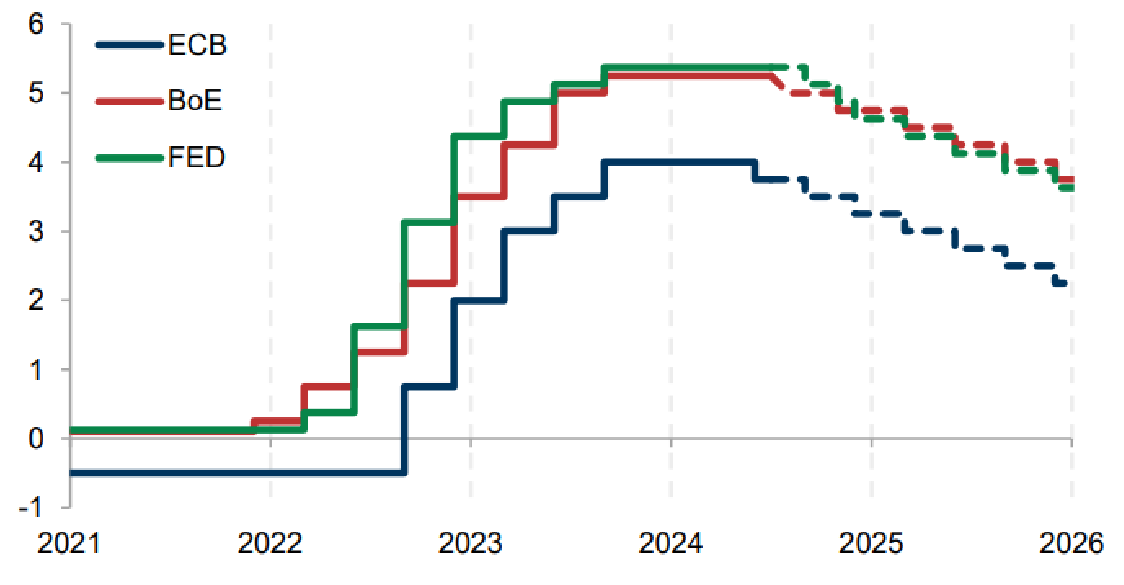
Rate cuts can drive equity returns

Potential for earnings yield (inverse of PE) to follow bond yields lower

Central banks in gradual cutting mode
Goldman Sachs policy rate forecast (%)



Source: LSEG Datastream, Haver Analytics, Goldman Sachs Global Investment Research,, August 2024
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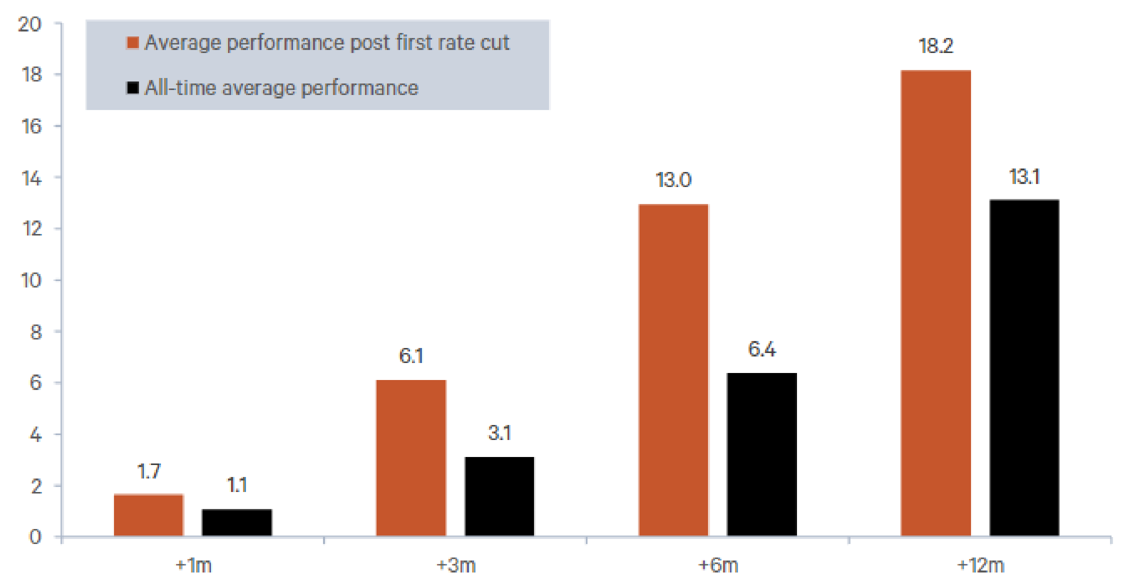
Average UK equity market performance following 1st rate cut (last 50 years)

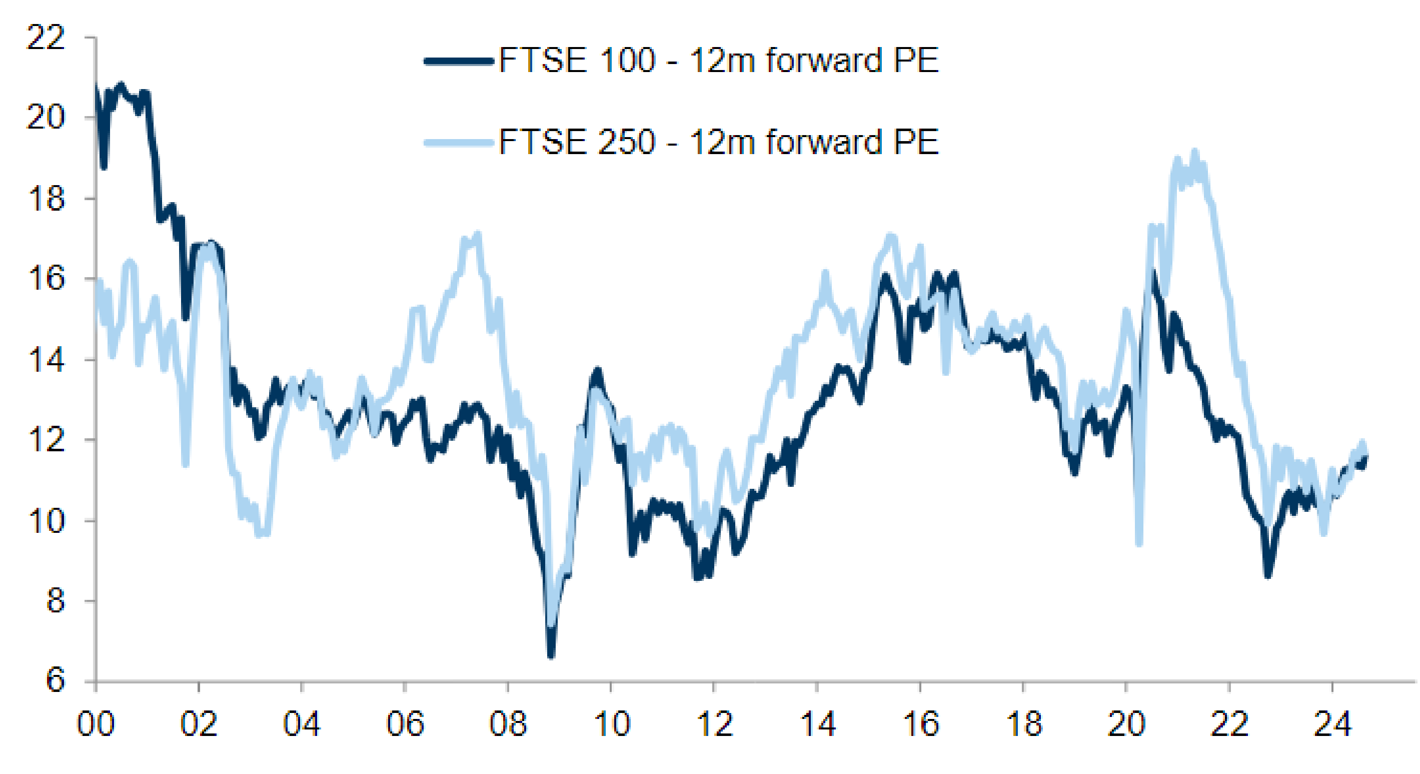


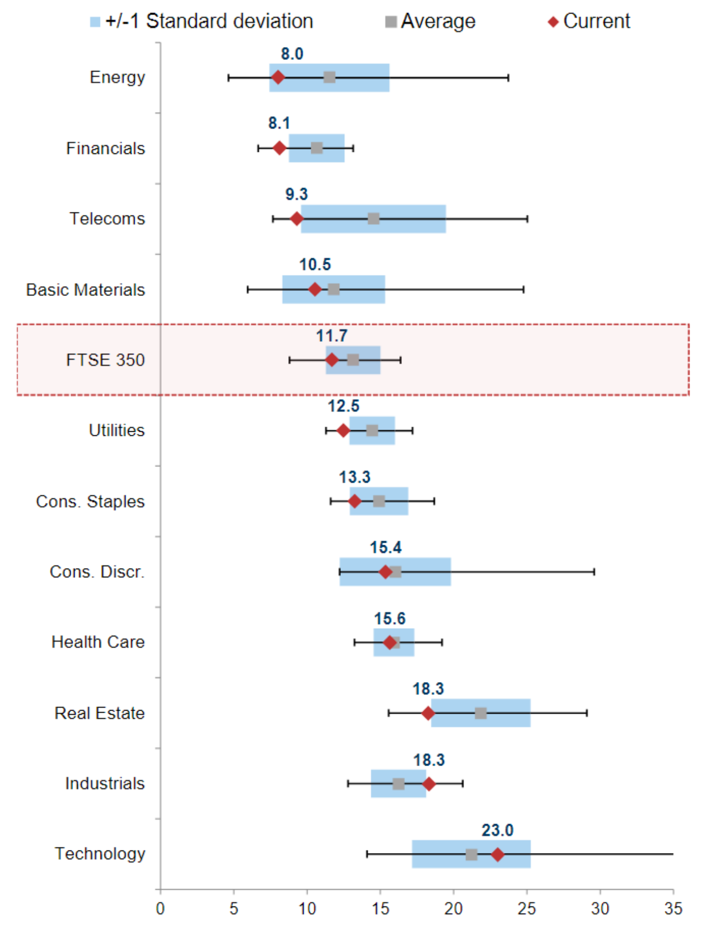
Source: Berenberg research, August 2024

The UK Opportunity - significant divergence in valuations by sector

Index-agnostic approach allow portfolio to go where income opportunities exist

FTSE 250 PE ratio converging with FTSE 100, with wide divergence in valuations by sector



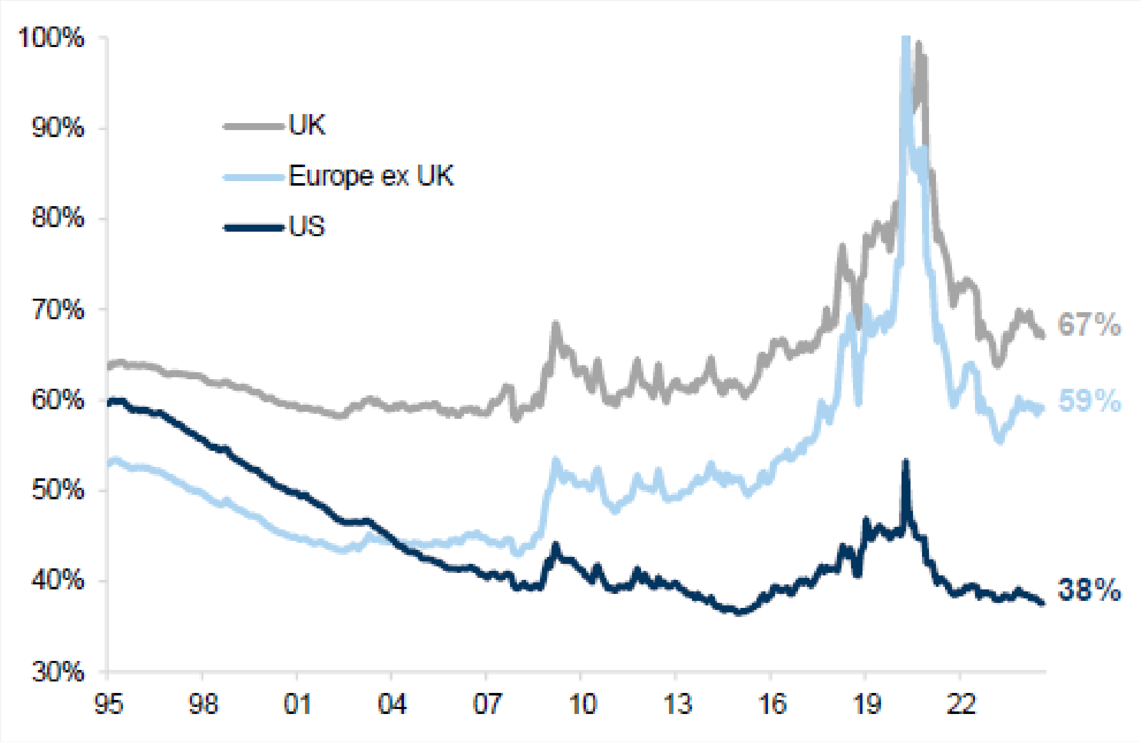


Source: Factset, Goldman Sachs Global Investment Research, August 2024

UK equity market – dividends are a key part of the total return

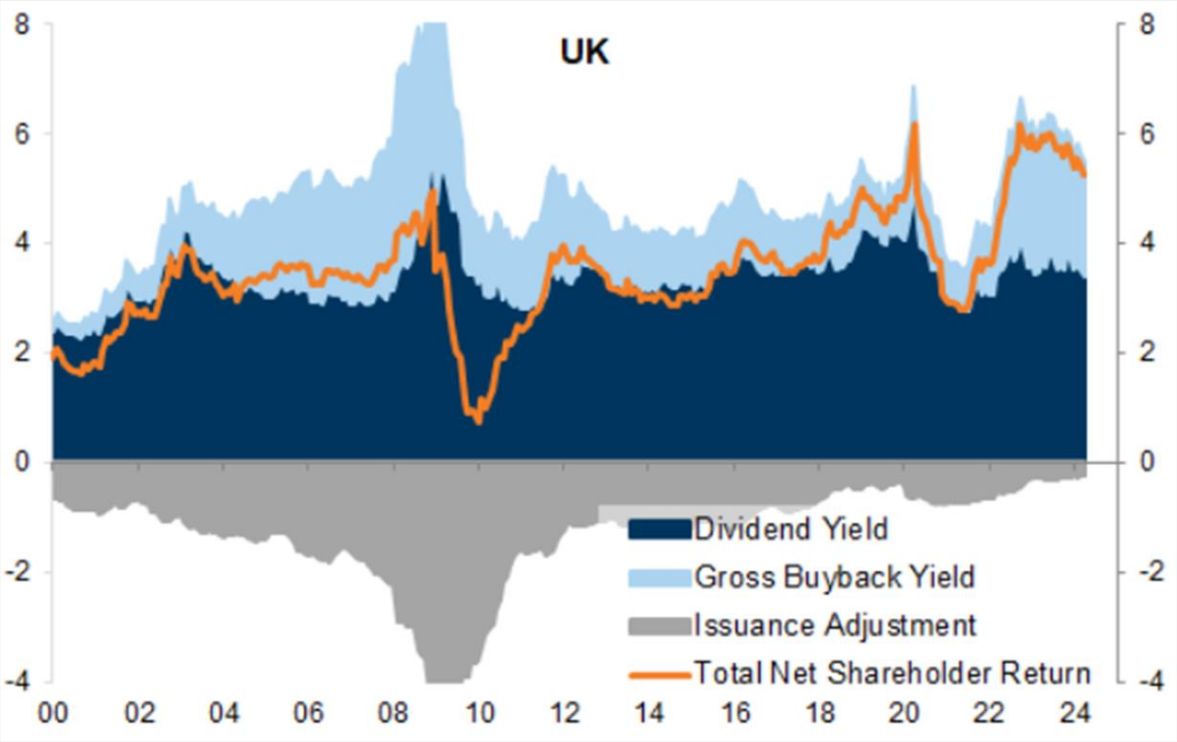
Investors need to recognise the importance of dividends – UK market offers a rich seam

Percentage of rolling 20-year returns from dividends



Source: Goldman Sachs, LSEG Datastream, August 2024

Dividends and share buybacks as a % of market cap. UK (12m trailing)



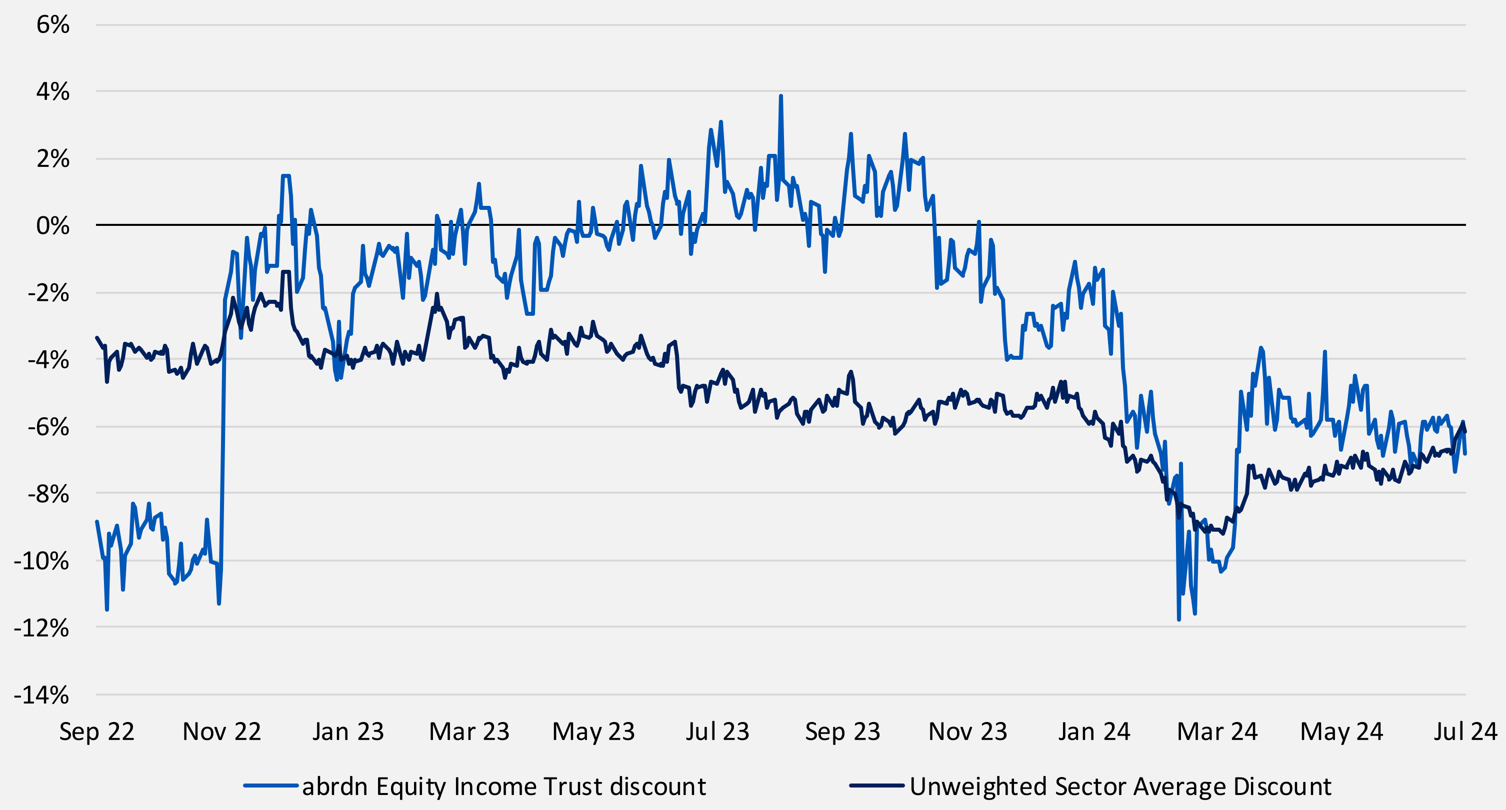
Source: LSEG Datastream, Worldscope, Goldman Sachs Global Investment Research, August 2024
For illustrative purposes only. No assumptions regarding future performance should be made

Past dividends are not a guide to future dividends

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 and unweighted sector average discount since 30 September 2022



Source: abrdn Equity Income Trust, 22 August 2024

Focused on investment objective

23 years of consecutive dividend growth, outpacing the FTSE All Share

Identifying stocks to deliver objective

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

Valuations stand out as compelling

AEIT's high yield is a function of the unusual number 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

Why invest in UK Equity Income and why abrdn Equity Income Trust?

Significant valuation divergence between UK equities and other equity markets

Why UK Equity Income?

- Access to well managed businesses, with strong cash generation, at attractive valuations
- Asset allocation shift out of asset class has driven down valuations, spurring significant M&A activity
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Source: abrdn, August 2024

Appendices

AEIT - Portfolio construction process

Rigorous process underpinning portfolio

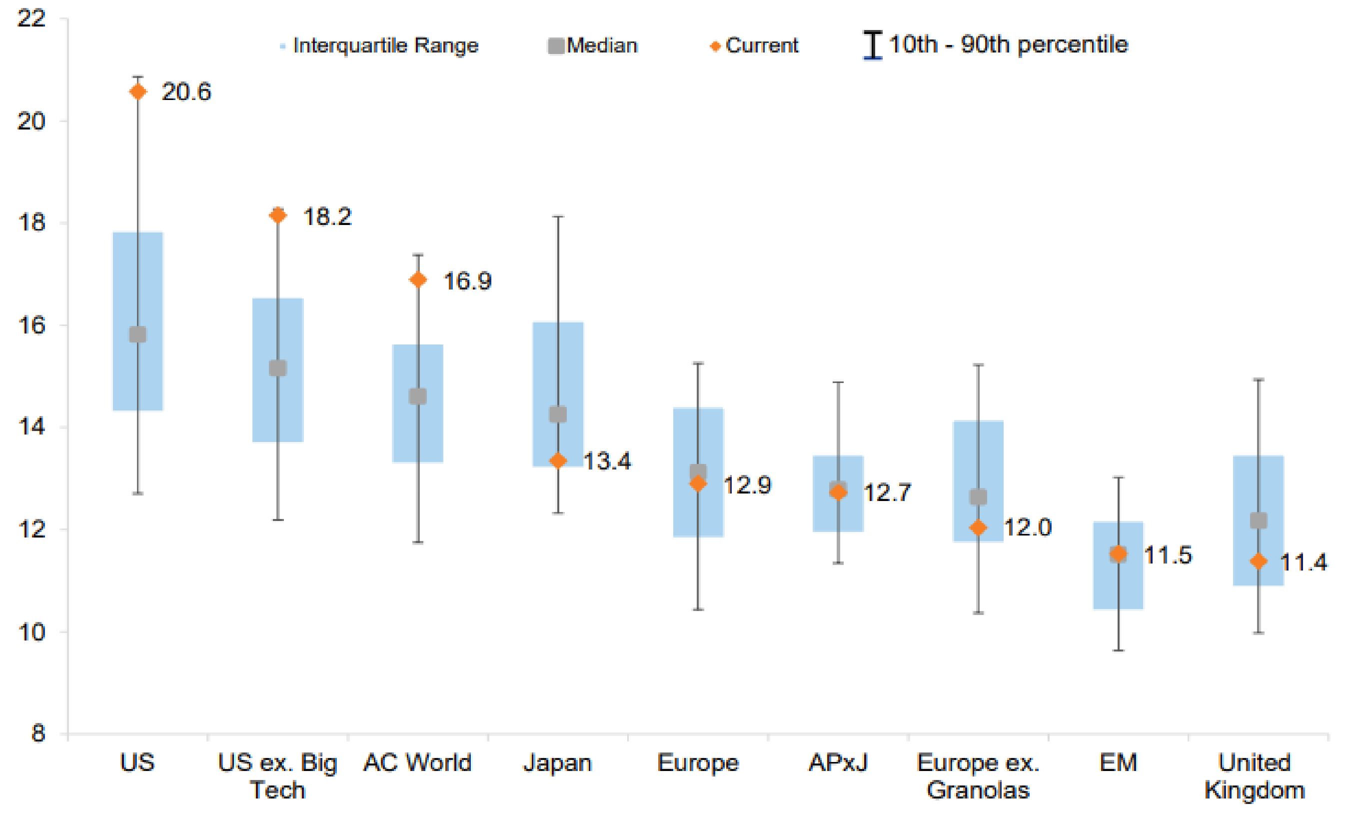
Idea generation	• Company meetings pre-cursor to investment • Analyst research - stock-specific insights on earnings and valuation
Matrix quant model	• Screening for stocks with attractive style factors relevant for portfolio • Weekly screen of holdings
Product groups	• Informed peer review challenges/builds conviction • Discussion of suitability of each stock to portfolio
Income monitoring	• Portfolio income forecasting • Scrutiny of company earnings prospects and dividend policy
Diversification	• Index-agnostic approach - differentiated and diversified portfolio • Risk management tools promote awareness of contributors to risk
Continuous review	• Ongoing review/challenge to ensure portfolio is best positioned to deliver investment objectives

Source: abrdn

The UK Opportunity – UK equities are cheap vs other markets

Wide divergence in valuations across global equity markets

P/E ratio (12m forward) - MSCI countries/regions; - data over the last 20 years



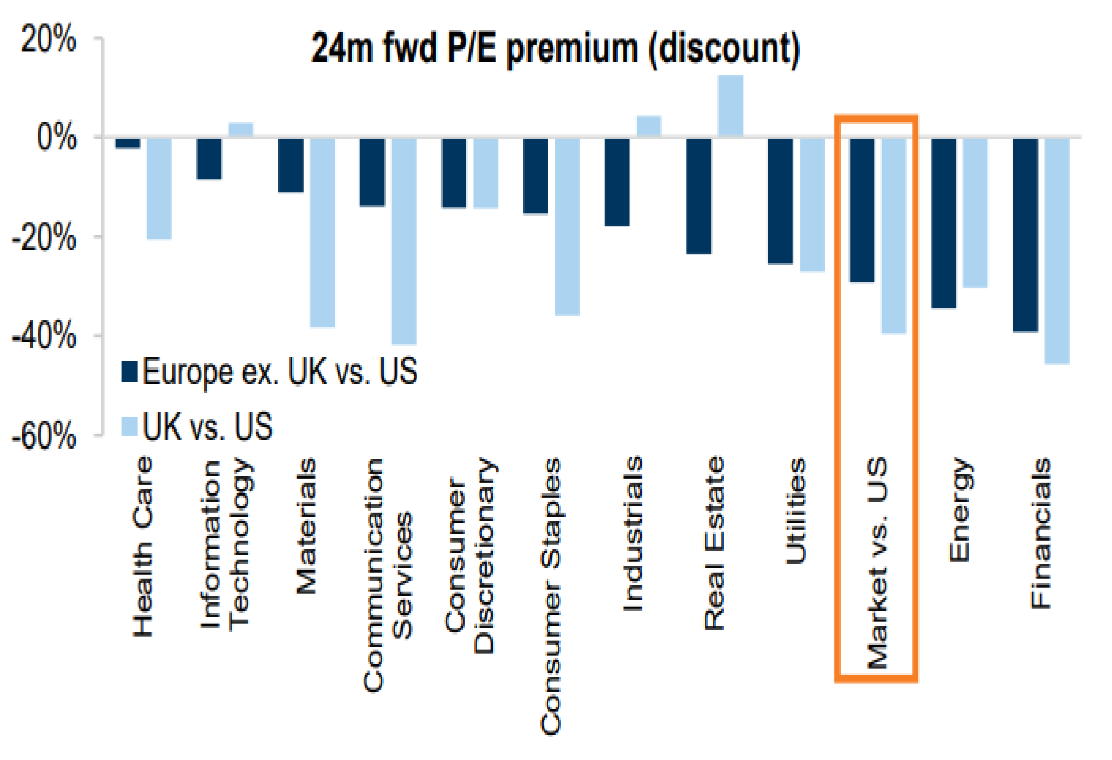
Source: Factset, Goldman Sachs Global Investment Research, August 2024

Forecasts are not a reliable indicator of future results and there can be no guarantee that these will be achieved

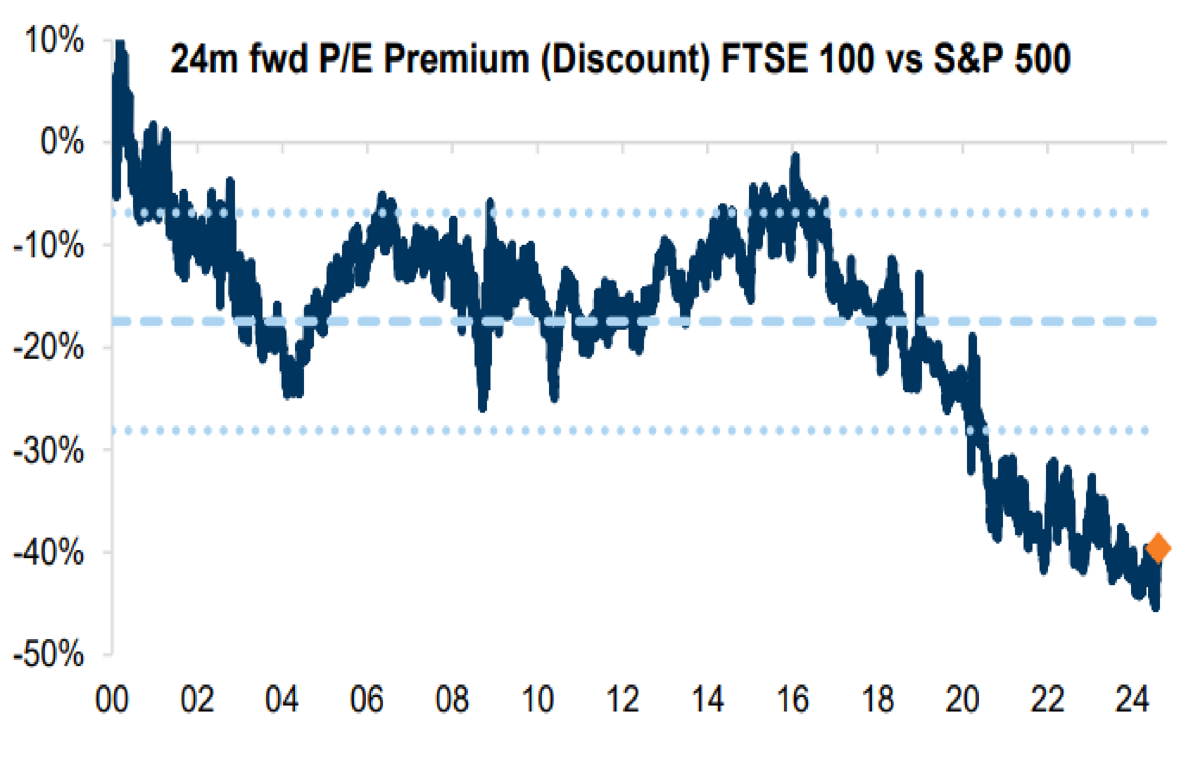
The UK Opportunity – UK sectors trade at large discount to US sectors

Index-agnostic approach allow portfolio to go where income opportunities exist

Sectors – PE discount to US (%) – MSCI indices, GICS Level 1 sectors



FTSE 100 vs S&P 500 – PE discount

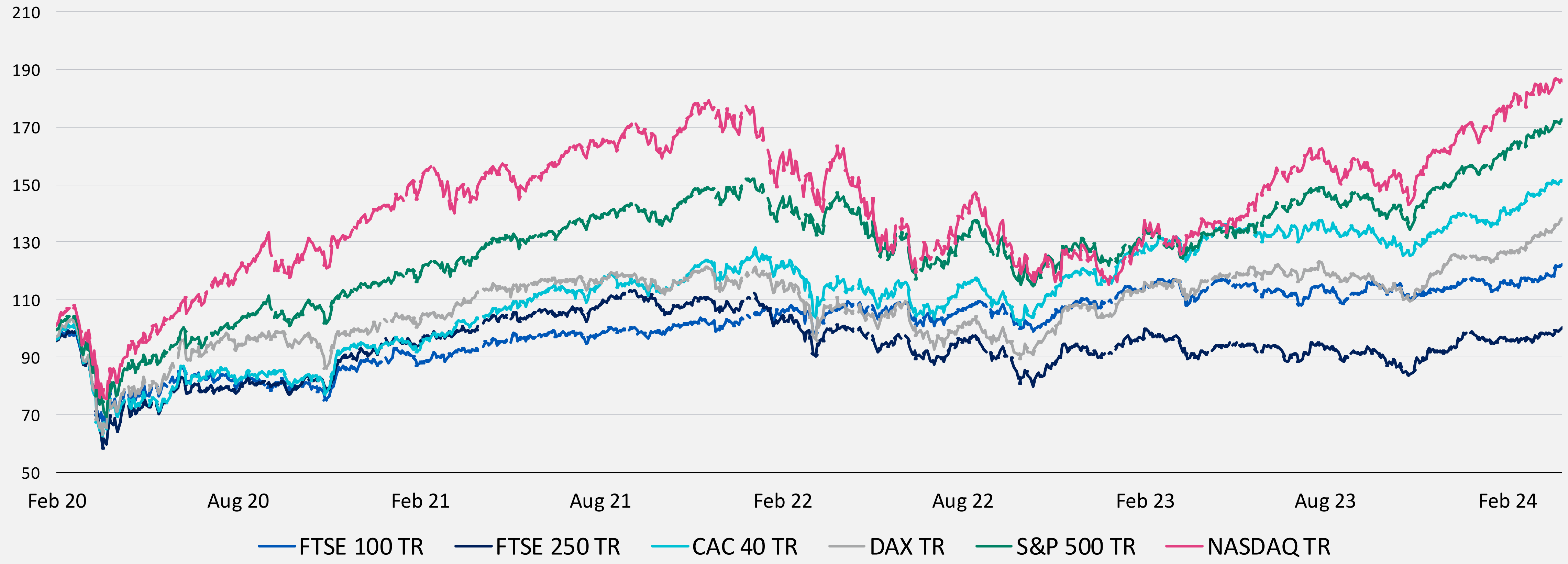


Source: Factset, Goldman Sachs Global Investment Research, August 2024

UK has significantly lagged other indices

FTSE 250 total return is only marginally positive since January 2020

Total return of FTSE 100 and 250 versus S&P 500, Nasdaq, Dax and CAC 40 since 1st January 2020

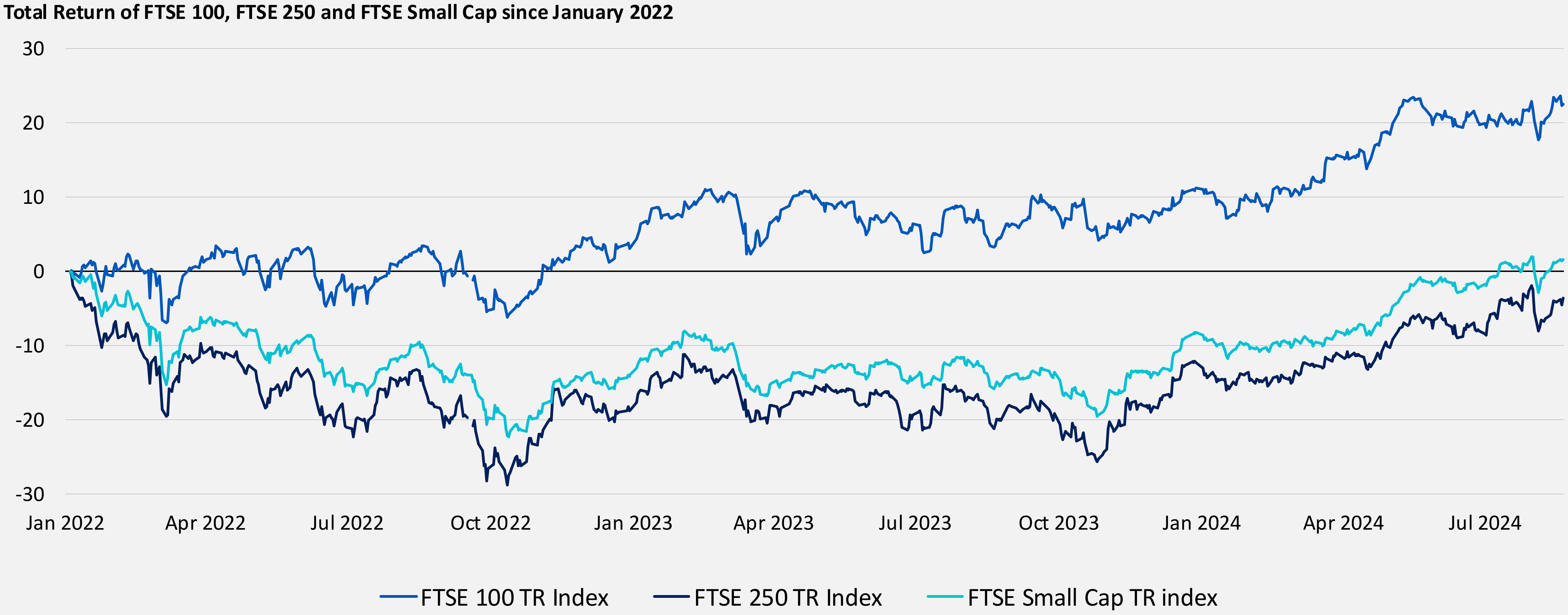


Source: abrdn, Bloomberg, 22 August 2024. For illustrative purposes only. No assumptions regarding future performance should be made

Past performance does not predict future returns

Large caps outperform mid-caps by >25% since January 2022

Mid and small caps have meaningfully lagged, creating valuation opportunities



Source: abrdn, Bloomberg, 22 August 2024. For illustrative purposes only. No assumptions regarding future performance should be made

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Important Information

abrdn Equity Income Trust

Cumulative Performance	As at 31/7/2024	1 Month	3 Months	6 months	1 Year	3 Year	5 year
Share Price	326.0p	6.02	9.15	16.02	7.80	12.94	13.68
NAV	349.8p	7.04	10.28	21.38	17.57	11.29	13.42
FTSE All-Share Index		3.13	4.39	12.27	13.54	27.10	32.37
FTSE 350 Higher Yield Index		3.33	3.93	15.36	16.93	43.95	36.84

Discrete annual returns	2024	2023	2022	2021	2020
Share Price	7.80	8.24	(3.21)	42.15	(29.20)
NAV	17.57	(5.48)	0.14	38.72	(26.53)
FTSE All-Share Index	13.54	6.09	5.51	26.64	(17.76)
FTSE 350 Higher Yield Index	16.93	5.91	16.24	31.67	(27.81)

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

Source: abrdn, 31 July 2024, total returns. The percentage growth figures are calculated over periods on a mid to mid basis

Past performance does not predict future returns

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: abrdn

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