Aberdeen Asia Pacific and Japan Equity Fund

Annual short report for the year ended 31 July 2016

Investment objective and policy

The objective of the Fund is to achieve capital growth by investing in countries of the Asia Pacific region, including Japan.

Performance review

For the year ended 31 July 2016, the value of Aberdeen Asia Pacific and Japan Equity Fund – A Accumulation Shares increased by 13.03% compared to an increase of 16.07% in the benchmark, the MSCI AC Asia Pacific Index.

Source: Lipper, Basis: total return, NAV to NAV, net of annual charges, UK Net income reinvested, GBP.

Please remember that past performance is not a guide to future returns. The price of shares and the revenue from them may fall as well as rise. Investors may not get back the amount originally invested.

Market review

Asian equities posted solid gains, driven mainly by a sharp rebound towards the end of the review period, while regional currencies also appreciated against sterling in the wake of the UK's historic vote to leave the European Union. Initial risk aversion was displaced by expectations of lower rates for longer and the liquidity boost from yield-seeking flows to the region, perceived as a safe haven in view of significant headwinds elsewhere.

The New Zealand market led regional gains by a comfortable margin, aided by rate cuts and stabilising commodity prices, while Australian stocks also performed well. Across Southeast Asia, Indonesian stocks were boosted by president Joko Widodo's growing political and economic clout. Signs of renewed vitality in the Thai economy, aided by a jump in government spending, attracted investors back into the domestic market. Philippine stocks rose after Rodrigo Duterte won the presidential election convincingly. Singapore posted more modest gains, while the IMDB controversy constrained the market's advance in Malaysia.

Indian equities were in the middle of the pack, supported by firm economic growth and above-average monsoon forecasts. A bankruptcy code sailed smoothly through both houses of parliament, while at the time of writing, the upper house approved the GST bill, a big boost for prime minister Narendra Modi.

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Elsewhere, Japanese stocks did well, as prime minister Shinzo Abe pledged at least ¥28 trillion in fiscal stimulus, following his landslide upper house victory. His move outweighed concerns over the strength of the yen and the central bank's easing, deemed too modest by some. The Taiwanese market was supported by better-than-expected economic data and rate cuts, while the political landscape also changed dramatically, as Tsai Ing-wen, from the pro-independence Democratic Progressive Party, became the first female president. Korean equities and the won were resilient despite sluggish domestic earnings. China was a relative laggard with single-digit returns, given a stuttering economy despite Beijing's various attempts to stabilise it. Market wobbles were most pronounced at the turn of the year, emanating from a steep sell-off in China A-shares on the back of policy gaffes and yuan volatility. Hong Kong equities fared better, underpinned by strength in financial stocks in anticipation of a slower pace of US policy tightening.

Portfolio review

At the stock level, Korea's Samsung Electronics was the top contributor, owing to a share buyback totalling 11.3 trillion won and impressive results on the back of higher handset and semiconductor margins. Our Japanese holdings enhanced returns as well. Shin-Etsu Chemical benefited from improving margins and a recovery in its PVC business in the US, while Chugai Pharmaceutical reported steady sales growth.

Elsewhere, Taiwan Semiconductor Manufacturing profited from customer restocking and higher utilisation. Our position in the Aberdeen Global – Indian Equity Fund contributed positively. Among the underlying holdings, health-care group Piramal Enterprises was boosted by its plan to split into two listed companies to unlock value, while Grasim Industries' cement and viscose staple fibre businesses performed well.

In contrast, our financial holdings were among the key detractors. Standard Chartered and HSBC were hampered by an anaemic operating environment. Their stocks also suffered a knee-jerk sell-off in the wake of the UK referendum results, despite both banks earning most of their profits from the emerging markets. Australian insurer QBE also detracted following the Brexit outcome, as it derives almost a third of its gross written premiums from the UK and Europe. Singapore-based OCBC and UOB, meanwhile, suffered falling net interest margins amid a low interest rate environment and rising non-performing loans, mostly from the beleaguered oil and gas sector.

Our resources-related holdings also underperformed. A still-weak commodity backdrop weighed on PetroChina and diversified miner BHP Billiton, while Singapore's Keppel Corp posted mediocre results amid a languishing offshore and marine division. In other sectors, the lack of exposure to Chinese internet company Tencent proved costly, given that its profits exceeded expectations. We do not hold Tencent because we are not sufficiently comfortable with the opaque corporate structures that characterise companies in this sector. That said, we will continue to track its treatment of minority shareholders.

Over the review period, we capitalised on markets swings to introduce new holdings at reasonable valuations and divest positions where our investment premise has seen significant erosion. In the interim report, we had mentioned the initiations of Chinese cement player Anhui Conch, Indonesian private lender Bank Central Asia, Hong Kong Exchanges and Clearing as well as three Japanese companies – sensor-maker Keyence, Nippon Paint and Yahoo Japan. Against this, we had sold ASM Pacific Technology, Canon, PTT Exploration & Production and Woolworths in view of their weakening fundamentals and deteriorating prospects.

Subsequently, we initiated a position in the Aberdeen Global - China A Share fund, which offers a selection of Chinese companies that are benefiting domestically from rising consumption of a growing middle class and rapid urbanisation. Investing in the A-share market remains daunting and we think it is more prudent to do so through a pooled vehicle offering diversification with lower stock-specific risk and volatility. Elsewhere, we introduced Japan's KDDI, one of the largest domestic telcos, given its market position and focus on the local market, economies of scale and the strength of its cash flows.

In Korea, we added two new holdings. AmorePacific Corp is a leading cosmetics player with a burgeoning Chinese business. Besides a formidable and diversified brand portfolio, the company also has a solid balance sheet. We bought the preference shares, which trade at an attractive discount relative to the ordinary shares. The other new position was internet company Naver, which is dominant in the domestic search portal business. Its mobile messaging subsidiary, LINE, is a major regional player. Naver boasts a net-cash balance sheet and generates good free cash flow, which enables it to continue investing in enhancing its other related businesses.

Conversely, we sold Li & Fung and tidied up a small position in South 32.

Outlook

It remains a tough environment for our holdings, given soft demand. Bottom-line gains have been driven by incremental margin improvements, amid closer scrutiny of costs and the consolidation of overlapping businesses. Our holdings have hunkered down for the long haul, supported by sensible management that are strengthening balance sheets and deepening business moats. We are keeping a close eye on valuations, adding to our holdings on price weakness or paring them when share prices have climbed too high. We are also monitoring good-quality companies that we like but do not yet hold, with possible forays when valuations turn more inviting.

Portfolio breakdown

Portfolio of investments	As at 31 July 2016 %	As at 31 July 2015 %
Japan	26.94	22.52
Hong Kong	15.07	17.61
Singapore	12.93	14.43
United Kingdom	10.91	9.75
Open Ended Investment Funds	4.98	5.03
South Korea	4.88	2.73
Taiwan	4.14	4.35
Australia	3.73	4.78
India	3.64	3.65
Thailand	3.34	2.55
China	1.76	4.06
Philippines	2.35	2.26
Indonesia	2.17	1.01
Malaysia	1.28	1.58
United States	0.52	1.03
Sri Lanka	-	0.66
Bonds	0.41	0.30
Investment assets	**99.05**	**98.30**
Net other assets	**0.95**	**1.70**
Net assets	**100.00**	**100.00**

Fund facts

	Interim/annual accounting dates	Income payment date
	31 January, 31 July	31 October

	Ongoing charges figure % as at 31 July 2016	Ongoing charges figure % as at 31 July 2015
Share class A	1.95	1.95
Share class I	1.20	1.24

The ongoing charges figure (OCF) is the total expenses paid by each share class in the year against its average net asset value. This includes the annual management charge, the other operating expenses and any synthetic element to incorporate the ongoing charges of any underlying collective investments. The OCF can fluctuate as underlying costs change. Where underlying costs have changed, the OCF disclosed in the Key Investor Information Document will be updated to reflect current changes.

Distribution summary

	Total distribution (p) for the year to 31/07/2016	Total distribution (p) for the year to 31/07/2015
A Accumulation	1.3485	1.4518
I Accumulation	1.6880	1.7725

Prior to 6th April 2016, distributions paid in respect of the Fund came with a tax credit of 1/9th of the amount stated. UK higher and additional rate taxpayers not holding through an ISA may have additional income to pay in respect of these. Non taxpayers are not entitled to a refund of the 1/9th tax credit. Distributions received by corporate investors are subject to the corporate streaming rules.

Performance summary

	Net asset value as at 31/07/2016 pence per share	Net asset value as at 31/07/2015 pence per share	Net asset value % change
A Accumulation	194.91	173.34	12.44
I Accumulation	127.97	112.97	13.28

Net of tax and expenses.

Performance record

Accounting year ended		Highest price pence per share	Lowest price pence per share
2014	A Accumulation	176.18	151.19
2014	I Accumulation	112.45	97.51
2015	A Accumulation	198.69	165.64
2015	I Accumulation	129.20	107.48
2016	A Accumulation	197.26	145.51
2016	I Accumulation	129.50	95.22

Risk profile

The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is based on past data, may change over time and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table below shows the Fund's ranking on the Risk and Reward Indicator.

Typically lower rewards, lower risk						Typically higher rewards, higher risk
1	2	3	4	**5**	6	7

Risk and reward indicator table as at 31 July 2016.

- This Fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past.
- Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases. The indicator does not take into account the following risks of investing in this Fund:
- Exchange Rates: Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
- Emerging Markets: Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your money is at greater risk.
- A full list of risks applicable to this Fund can be found in the Prospectus.
- The latest risk and reward profile can be found on the Key Investor Information Document (KIID) for this Fund which is available on the website at **aberdeen-asset.co.uk.**

Other information

Consumers' rights and protections, including any derived from EU legislation, are currently unaffected by the result of the UK referendum to leave the European Union, and will remain unchanged unless and until the UK Government changes the applicable legislation.

What if I have a complaint?
If you need to complain about any aspect of our service, you should write to the Complaints Team, Aberdeen Fund Managers Limited, 10 Queen's Terrace, Aberdeen, AB10 1YG, who will initiate our formal complaints procedure. If you prefer, you may call the Complaints Team on 01224 404490 or email complaints@aberdeen-asset.com in the first instance. A leaflet detailing our complaints procedure is available on request.

If the complaint is not resolved by us to your satisfaction then you may take your complaint to the Financial Ombudsman Service. In order to contact the Financial Ombudsman Service or obtain details of the compensation scheme you should write to The Financial Ombudsman Service, Exchange Tower, London, E14 9SR or telephone 0300 1239 123 or 0800 023 4567.

Literature and Fund information
Our website contains a wealth of information on our funds and investment approach, including Key Investor Information Documents (KIIDs) for all of the funds available for investment. We also publish Supplementary Information Documents (SIDs), Application Forms, Fund Lists and Terms and Conditions.

You can invest online and access fund performance and pricing information.

Please visit:
aberdeen-asset.co.uk

Alternatively please contact our Customer Services Team on:

Tel: **0345 300 2890**
Email: **customer.services@aberdeen-asset.com**

Report and accounts
Copies of the annual and half-yearly long form report and accounts for this Fund are available free of charge on request to Aberdeen Fund Managers Limited.

Aberdeen Asia Pacific and Japan Equity Fund is a sub-fund of Aberdeen Investment Funds ICVC, an openended investment company ('OEIC') authorised under the Financial Services and Markets Act 2000.

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For more information on Aberdeen Asset Management PLC and our product range please visit **aberdeen-asset.com**

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