

Aberdeen Asia Pacific 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 the countries of the Asia Pacific region excluding Japan.

Performance review

For the year ended 31 July 2016, the value of Aberdeen Asia Pacific Equity Fund - A Accumulation Shares increased by 10.16% compared with an increase of 17.58% in the benchmark, the MSCI AC Asia Pacific ex Japan 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.

Elsewhere, 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. Elsewhere, our position in the Aberdeen Global – Indian Equity Fund contributed positively, along with positions in individual Indian stocks. Grasim Industries delivered robust results, driven by both its cement and viscose staple fibre businesses. The restrained hike in cigarette tariffs was good news for our holding in tobacco firm ITC, which should be able to recoup this from customers, as it has in the past. The fund further benefited from not holding China Life Insurance, China Construction Bank and Bank of China, given that the financial sector was among the heaviest casualties of the mainland sell-off in early 2016.

On the other hand, 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 market 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 as well as Hong Kong Exchanges and Clearing. Against this, we had sold ASM Pacific Technology, PTT Exploration & Production, Venture Corp and Woolworths in view of their weakening fundamentals and deteriorating prospects, along with China Resources Enterprises on strong relative performance following a revised privatisation offer from the parent, China Resources Group.

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.

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 %
Hong Kong	20.81	20.44
Singapore	18.73	19.07
United Kingdom	10.86	9.55
India	8.81	8.73
South Korea	7.69	5.84
Taiwan	5.16	4.96
Australia	5.05	5.70
Open Ended Investment Funds	4.55	5.66
Philippines	4.02	2.98
Thailand	3.17	3.08
Malaysia	2.97	3.27
Indonesia	2.77	1.03
Sri Lanka	1.80	1.94
China	1.78	5.43
United States	1.04	1.33
Investment assets	99.21	99.01
Net other assets	0.79	0.99
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	1.94
Share class I	1.20	1.19
Share class Z	0.20	0.19

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	1.9013	2.0971
A Income	1.7400	1.9400
I Accumulation	3.4802	3.7768
I Income	1.7100	1.8900
Z Accumulation	5.8916	6.2845

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	214.42	196.00	9.40
A Income	194.49	179.37	8.43
I Accumulation	229.21	207.95	10.22
I Income	110.91	102.17	8.55
Z Accumulation	250.35	224.88	11.33

Net of tax and expenses.

Performance record

Accounting year ended		Highest price pence per share	Lowest price pence per share
2014	A Accumulation	201.90	174.72
2014	A Income	188.29	162.88
2014	I Accumulation	211.20	183.43
2014	I Income	107.26	93.14
2014	Z Accumulation	225.93	195.61
2015	A Accumulation	225.80	191.02
2015	A Income	208.88	176.71
2015	I Accumulation	239.06	201.79
2015	I Income	119.63	100.98
2015	Z Accumulation	257.81	216.96

Accounting year ended		Highest price pence per share	Lowest price pence per share
2016	A Accumulation	218.33	160.24
2016	A Income	199.80	146.65
2016	I Accumulation	233.36	170.70
2016	I Income	114.66	83.88
2016	Z Accumulation	254.86	185.59

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 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.

Appointments

Authorised Corporate Director

Aberdeen Fund Managers Limited

Head Office

10 Queen's Terrace
Aberdeen
AB10 1YG

Registered Office

Bow Bells House
1 Bread Street
London
EC4M 9HH

Depository

BNP Paribas Securities Services
London Branch
10 Harewood Avenue
London
NW1 6AA

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

Registrar

International Financial Data Services (UK) Limited
IFDS House
St. Nicholas Lane
Basildon
Essex
SS16 5FS
(the register of shareholders can be inspected at
this address)

Contact us

Phone

(Lines are open 9:00am to 5:00pm, Mondays
to Fridays, excluding bank holidays)

Dealing	0800 833 580
Customer Services	0345 300 2890
Broker Desk	0800 592 487

Post

All enquiries Aberdeen Fund Managers Limited,
PO Box 9029, Chelmsford, CM99 2WJ

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



Recycled
Supporting responsible use
of forest resources
www.fsc.org Cert no. SA-COC-1605
© 1996 Forest Stewardship Council



The above document is strictly for information purposes only and should not be considered as an offer, investment recommendation or solicitation, to deal in any of the investments or funds mentioned herein and does not constitute investment research as defined under EU Directive 2003/125/EC. Aberdeen Asset Managers Limited ('Aberdeen') does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Any research or analysis used in the preparation of this document has been procured by Aberdeen for its own use and may have been acted on for its own purpose. The results thus obtained are made available only coincidentally and the information is not guaranteed as to its accuracy. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make their own assessment of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigations, as they may consider necessary or appropriate for the purpose of such assessment. Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither Aberdeen nor any of its employees, associated group companies or agents have given any consideration to nor have they or any of them made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document. Aberdeen reserves the right to make changes and corrections to any information in this document at any time, without notice.

Issued by Aberdeen Fund Managers Limited, authorised and regulated by the Financial Conduct Authority in the United Kingdom. A member of the Aberdeen Asset Management group of Companies.

