

# Aberdeen Emerging Markets Bond Fund

Annual short report for the year ended 31 July 2013

## Investment objective and policy

The investment objective is to provide an attractive level of income and long-term capital return.

The investment policy is to invest primarily in fixed interest securities which are issued by corporations with their registered office in, and/or government related bodies domiciled in an emerging market country. The Fund may also invest in other transferable securities, money market instruments, cash, near cash, deposits, shares in collective investment schemes (including other funds managed by the investment adviser or its associates) and derivatives.

## Risk profile

Shareholders should be aware of the risks inherent in investing in securities and other financial instruments. Financial markets can be vulnerable to unpredictable price movements and are affected by a number of factors.

The value of your investment and the revenue derived from it will rise and fall due to market and company specific factors.

### **The specific risk warnings relating to this fund are as follows:**

- The Fund may use derivatives for both hedging and investment purposes which raises the risk profile and increases potential volatility. The use of derivatives for hedging in a rising market may restrict potential gains.
- The underlying investments in the Fund are subject to interest rate and credit risk.
- The value of a bond will fall in the event of the default or reduced credit rating of the issuer.
- The value of your investment will rise or fall with any movement in exchange rates.
- The Fund may invest a proportion of its portfolio in non-investment grade bonds that have a greater volatility and risk of capital loss and income than higher grade bonds.
- The Fund charges annual management charges to capital which will constrain capital growth.
- The Fund invests primarily in emerging markets which tend to be more volatile than mature markets and the value of investments could move sharply up or down. In some circumstances the Fund's underlying investments may become illiquid which may constrain the ability to realise some of the portfolio.

## Cumulative performance (%)

	Period of report 31/07/2012 to 31/07/2013	Since launch 09/03/2011 to 31/07/2013
Fund - A Accumulation	1.45	16.37
Benchmark <sup>A</sup>	(1.42)	16.75

Source: Lipper, JP Morgan, Total Return, NAV to NAV, UK Net income reinvested, £.

<sup>A</sup> JPM EMBI Global Diversified (Hedged GBP 100%) Index.

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

Emerging market debt posted gains in the period under review, spurred on by a series of risk-supportive events in September. The European Central Bank announced its “outright monetary transactions” programme, while the US Federal Reserve (Fed) decided to unleash further Quantitative Easing (QE) focused on purchasing mortgage-backed securities and Germany’s constitutional court ratified the Eurozone bailout package. A surprise Italian parliamentary election result in February and the news of a Cyprus bailout at the end of March caused risk appetite to take a breather at the beginning of 2013. Poor employment figures in the US however caused US treasury yields to fall sharply in April, providing support for spread products.

Emerging market debt suffered a setback in May and June by increased rhetoric from the Fed that it will seek to “taper” its QE programme towards the end of 2013. The announcements were motivated by increasingly positive signs of economic recovery in the US. Treasury yields rose as a result causing emerging market debt to suffer. Market concerns over a reversal in fund flows into the asset class as well as a higher cost of financing for emerging market countries led to a significant re-pricing across all segments of the asset class.

July generally provided some respite from the negative market sentiment despite the Fed’s Open Market Committee minutes failing to provide any new information on the direction of US monetary policy. Chairman Ben Bernanke was more downbeat in his question and answer session which prompted a rally in core government bonds and emerging market assets.

---

## Portfolio review

The Fund outperformed the benchmark over the period under review. Overweight positions in Ivory Coast, Pakistan and Romania were positive contributors to the Fund as was an underweight position in Uruguay and Morocco. An overweight position in Honduras detracted from performance over the year as did underweighted positions in Belarus and Hungary.

Over the period under review, we reduced our exposure to Latin America, particularly in, Argentina, Venezuela and El Salvador, while adding to the Fund's position in Mexico and also participating in Guatemala's and Honduras' inaugural Eurobond. Conversely we added to the portfolio's exposure to the Emerging Europe, Middle East and Africa region, favouring Croatia, Serbia, Romania and Lithuania in Eastern Europe; and Tanzania, Ghana and Nigeria in Africa. In Asia, we reduced the Fund's exposure to Philippines while adding in Mongolia and India. We also reduced the Fund's duration by selling the long-end bonds of Qatar. In local currency space, we added a Turkish inflation-linked bond position. In terms of currency positioning we removed the portfolio's Chinese renminbi exposure and reduced our Mexican peso position both of which had outperformed the market, while increasing the Fund's Indian rupee and South Korean won positions.

## Outlook

As we move into the summer holiday season, we expect markets to take a breather before focusing once more on when the US Federal Reserve will start to taper its asset purchasing programme. In terms of new issuance, while we have seen a few select sovereigns test the market – Nigeria, Bahrain and Ghana – it is likely that any credits with significant funding needs will wait until September to issue new bonds. The negative fund flows which characterised June have decelerated as markets have stabilised and this will also provide a support over the short term.

## Portfolio breakdown

Portfolio of investments	As at 31 July 2013%	As at 31 July 2012%
Corporate Bonds	19.96	24.01
Government Bonds	71.96	72.01
Forward Currency Contracts	0.59	0.16
<b>Investment assets</b>	<b>92.51</b>	<b>96.18</b>
<b>Net other assets</b>	<b>7.49</b>	<b>3.82</b>
<b>Net assets</b>	<b>100.00</b>	<b>100.00</b>

## Fund facts

	Interim/annual accounting dates	Income payment date
	31 January, 31 July	Monthly on the last business day

	Ongoing charges figure % as at 31/07/2013	Ongoing charges figure % as at 31/07/2012
Share class A	1.65	1.73
Share class I	1.15	N/A
Share class Z	0.15	0.23

The ongoing charges figure is calculated in accordance with the guidelines issued by the European Securities and Markets Authority. It is the ratio of the total ongoing charges to the average net asset value over twelve months and includes the annual management charge, the other operating expenses and any synthetic element to incorporate the ongoing charges of any underlying collective investments.

## Distribution summary

	Total distribution (p) for the year to 31/07/2013	Total distribution (p) for the year to 31/07/2012
Share class A - Income	4.71000	5.52000
Share class I - Income	3.80000	N/A
Share class A - Accumulation	5.15353	5.75635
Share class I - Accumulation	3.86284	N/A
Share class Z - Accumulation	5.08919	3.77612

Distributions are stated net of 20% income tax withheld. UK higher and additional rate taxpayers not holding through an ISA may have additional income tax to pay. Non taxpayers are not entitled to a refund of income tax withheld.

Corporate investors may have an additional liability to corporation tax. Corporate investors may be entitled to a refund of income tax withheld to the extent that it exceeds their corporation tax liability.

## Performance summary

	Net asset value as at 31/07/2013 pence per share	Net asset value as at 31/07/2012 pence per share	Net asset value % change
Share class A - Income	104.31	107.74	(3.18)
Share class I - Income	94.27	N/A	N/A
Share class A - Accumulation	116.84	115.65	1.03
Share class I - Accumulation	97.95	N/A	N/A
Share class Z - Accumulation	116.03	113.12	2.57

Net of tax and expenses.

## Performance record

Calendar year		Highest share price (p)	Lowest share price (p)
2011 <sup>A</sup>	Income A	105.93	96.57
2011 <sup>A</sup>	Accumulation A	107.89	99.04
2011 <sup>B</sup>	Accumulation Z	101.42	100.34
2012	Income A	114.34	102.92
2012	Accumulation A	124.45	107.45
2012 <sup>C</sup>	Income I	103.30	100.00
2012 <sup>C</sup>	Accumulation I	104.02	100.00
2012	Accumulation Z	122.43	104.34
2013 <sup>D</sup>	Income A	115.82	102.95
2013 <sup>D</sup>	Accumulation A	127.39	114.12
2013 <sup>D</sup>	Income I	104.70	93.24
2013 <sup>D</sup>	Accumulation I	106.68	95.63
2013 <sup>D</sup>	Accumulation Z	126.08	113.16

<sup>A</sup> The Fund was launched on 9 March 2011.

<sup>B</sup> Share class Z launched on 1 December 2011.

<sup>C</sup> Share class I launched on 1 October 2012.

<sup>D</sup> to 31 July 2013.

## Risk and reward 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 2013.

- This Fund is ranked at 4 because funds of this type have experienced average 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.
  - **Bonds:** Bonds are affected by changes in interest rates, inflation and any decline in creditworthiness of the bond issuer. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may not be able to pay the bond income as promised or could fail to repay the capital amount used to purchase the bond.
  - **Derivatives for investment purposes:** The Fund can use derivatives in order to meet its investment objectives or to protect from price and currency movements. This may result in gains or losses that are greater than the original amount invested.
  - 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 our website at [www.aberdeen-asset.co.uk](http://www.aberdeen-asset.co.uk)

## Other information

### Name change – Aberdeen Unit Trust Managers Limited

As a result of a recent review of our company names, on 20 May 2013 Aberdeen Unit Trust Managers Limited changed its name to **Aberdeen Fund Managers Limited**. The name change does not affect your holdings with Aberdeen or the way in which they are managed.

### 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) which contain Application forms and additional information, such as Terms and Conditions.

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

Please visit:

[www.aberdeen-asset.co.uk](http://www.aberdeen-asset.co.uk)

[www.aberdeenukprices.com](http://www.aberdeenukprices.com)

Alternatively please contact our Customer Services Team on:

Tel: **0845 300 2890**

Email: [customer.services@aberdeen-asset.com](mailto: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 Emerging Markets Bond Fund is a sub-fund of Aberdeen Investment Funds ICVC, an open-ended investment company ('OEIC') authorised under the Financial Services and Markets Act 2000.

Aberdeen Fund Managers Limited only provides information about its own products and will not give individual financial advice. If you are in any doubt about the suitability of a product to meet your financial needs, then you should seek the advice of a financial intermediary.

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the Fund during the period it covers, and the results of those activities at the end of the period. The naming of specific shares or bonds is not a recommendation to deal in them. The views expressed are those of Aberdeen Fund Managers Limited and should not be construed as advice either to buy, retain, or sell a particular investment. Investment in the Fund should generally be viewed as a long-term investment.

---

## Appointments

**Authorised Corporate Director**  
Aberdeen Fund Managers Limited

**Head Office**  
10 Queens Terrace  
Aberdeen  
AB10 1YG

**Registered Office**  
Bow Bells House  
1 Bread Street  
London  
EC4M 9HH

**Depository**  
National Westminster Bank Plc  
Trustee & Depositary Services  
Younger Building  
3 Redheughs Avenue  
Edinburgh  
EH12 9RH

**Auditors**  
KPMG Audit PLC  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

**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	0845 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 [www.aberdeen-asset.com](http://www.aberdeen-asset.com)



**Recycled**  
Supporting responsible use  
of forest resources  
[www.fsc.org](http://www.fsc.org) Cert no. SA-COC-1605  
© 1996 Forest Stewardship Council



