

# Aberdeen Strategic Bond Fund

Annual short report for the period ended 31 July 2013

## Investment objective and policy

The Fund's investment objective is long-term total return to be achieved by investing primarily in a diversified portfolio of global investment and sub-investment grade debt and debt related securities issued by companies, governments, government related bodies and supranational institutions.

Additionally, the Fund may invest in other transferable securities and units in collective investments schemes, including those managed by the ACD or companies related to the ACD. The Fund's assets will primarily be either denominated in sterling or denominated in currencies other than sterling and hedged back to sterling. The Fund may use financial derivative instruments for investment purposes or efficient portfolio management.

## 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:**

- Derivatives may be used to hedge against various risks but may not be used for speculative purposes. 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 charges annual management charges to capital which will constrain capital growth.
- The Fund invests primarily in non-investment grade securities. These securities carry a high risk of default compensated for by a substantially higher yield than provided by investment grade securities.
- 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.
- A full list of the risks attaching to this fund can be found in the Prospectus.

## Cumulative performance (%)

	Since launch 11/03/2013 to 31/07/2013
Fund - A Accumulation	(0.57)
Benchmark <sup>A</sup>	(1.00)

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

<sup>A</sup> Barclays Global Aggregate Credit (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

Early in the year, concerns over the results of the Italian election and Cypriot bailout caused credit performance to be muted. As the Spring progressed, valuations became more positive despite a number of economic indicators remaining in flux. Late May and June saw a weaker tone to markets in reaction to increased concerns over the prospect, and later aim, of the US Federal Reserve (Fed) to end its asset purchase programme by as early as September this year. As the summer progressed, credit valuations rebounded partially with participants becoming more comfortable with the Fed's new timing and the gradual improvement of the US and European economies.

In Europe, corporate bond markets performed well through the period. The EU voted into law the long awaited Basel 3 guidelines on capital requirements for financial institutions, finally providing the market with some clarity on the form of new capital instruments. It is expected that more Basel 3 compliant capital instruments will come to the market in the coming months thus supporting existing senior debt. We believe the EU's actions continue to support credit investors' participation in the banking sector as more subordinated, equity-like capital will be raised among other factors.

From a total return perspective high yield bonds delivered positive overall returns. Both the US and European high yield markets recorded strong issuance, while default rates remained muted. In contrast, emerging market securities underperformed their developed market peers given the likelihood of Fed tapering and the resulting reversal of money flows into emerging market economies. In the medium to long-term, Aberdeen continues to believe that secular economic trends continue to improve in these developing markets and will support valuations.

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## Portfolio review

Over the period, the Fund lost -0.57%. The primary performance driver was the Fund's duration position, which generally matched that of the global investment grade credit markets. The Fund's holdings in emerging markets detracted value as well, but were offset by positive performance from holdings in developed market credit across the quality spectrum.

Relative to its benchmark, the Fund outperformed over the period. The Fund's overweight positions in the Basic Industry, Services, Capital Goods, Other Financial Services, Consumer Non-Cyclical and Energy sectors all added value, while an underweight position in the Banking sector detracted from value.

## Outlook

Despite the recent set back, credit risk premiums have recovered, which is positive for valuations and currently trade in a relatively tight band. This trading range has been a result of generally supportive fundamentals, moderate economic growth and strong technical properties in the form of robust demand for the asset class. Reduced tail risks from the Eurozone are being replaced by increased tail risks relating to the uncertain global interest rate environment. Overall, given that "bad news" (i.e., Federal Reserve tapering) is predicated on economic data remaining solid, we assess the backdrop to the corporate bond market as moderately positive. Thus we expect valuations to improve gradually once core rates stabilise. In the interim, we have looked to shorten the Fund's interest rate sensitivity – or duration – so as to protect capital in an environment of rising rates.

## Portfolio breakdown

Portfolio of investments	As at 31 July 2013%
Asset Backed Bonds	1.85
Corporate Bonds	95.34
Government Bonds	3.23
Forward Currency Exchange Contracts	(1.19)
<b>Investment assets</b>	<b>99.23</b>
<b>Net other assets</b>	<b>0.77</b>
<b>Net assets</b>	<b>100.00</b>

## Fund facts

	Interim/annual accounting dates	Income payment dates
	31 January, 31 July	30 April, 31 October
	<b>Ongoing charges figure % as at 31/07/2013</b>	
Share class A		1.13
Share class I		0.63

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

	<b>Total distribution (p) for the period to 31/07/2013</b>
Share class A - Income	1.2600
Share class I - Income	1.2600
Share class A - Accumulation	1.2600
Share class I - Accumulation	1.2600

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

	<b>Net asset value as at 31/07/2013 pence per share</b>
Share class A - Income	97.66
Share class I - Income	97.85
Share class A - Accumulation	98.92
Share class I - Accumulation	99.12

Net of tax and expenses.

## Performance record

Calendar year		Highest share price (p)	Lowest share price (p)
2013 <sup>AB</sup>	Income A	103.14	96.96
2013 <sup>AB</sup>	Income I	103.22	97.10
2013 <sup>AB</sup>	Accumulation A	103.14	96.96
2013 <sup>AB</sup>	Accumulation I	103.22	97.10

<sup>A</sup> The Fund was launched on 11 March 2013.

<sup>B</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:
- 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.
- 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 our website at [www.aberdeen-asset.co.uk](http://www.aberdeen-asset.co.uk)

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## 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 Strategic 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.

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## Appointments

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Aberdeen Fund Managers Limited

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## Contact us

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For more information on Aberdeen Asset  
Management PLC and our product range please  
visit [www.aberdeen-asset.com](http://www.aberdeen-asset.com)



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