

Aberdeen High Yield Bond Fund

Interim short report for the six month period to 31 January 2014

Investment objective and policy

The investment objective is to provide an attractive level of income with the opportunity for some long-term capital return.

The Fund will be primarily invested in non-Investment grade Debt and debt related securities issued by companies, governments, government related bodies and supranational institutions that are domiciled in the UK or a European Country and/or non-Investment grade Debt and debt related securities issued by companies which conduct a significant proportion of their business activities in the UK or a European Country which, in the investment advisor's opinion, are likely to produce a high yield.

The Fund investments may be of any credit quality and may include securities not paying interest currently and securities in default following purchase.

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). Derivatives may be used for efficient portfolio management and hedging purposes.

Under normal circumstances, the Fund may hold up to 10% of its net assets in cash or near cash assets. However, the Fund may from time to time adopt temporary defensive positions in response to adverse political, economic or bond market events in which case up to 100% of the Fund's net assets may be held in cash or near cash assets including short term Debt and debt related securities listed and traded on an eligible market or OTC market.

Cumulative performance (%)

	Period of report 31/07/2013 to 31/01/2014	Since launch 09/03/2011 to 31/01/2014
Fund - A Accumulation	5.44	14.96
Benchmark ^A	6.45	33.87

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

^A BofA Merrill Lynch European Currency High Yield Constrained (Hedged GBP 100%) Index.

Figures are as at valuation point.

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

High yield, along with most other risk assets, performed strongly in the second half of 2013 as it became evident markets had misread the signal given by the Federal Reserve (Fed) in May. The assumption was that prospective tapering of quantitative easing meant interest rate expectations should be moved forward. The Fed, however, made it clear that this was not the case and the rates would remain low for an extended period. This explains why the market reaction to tapering announced in December (which will reduce central bank bond purchases from US\$85 billion per month to US\$75 billion per month) was so muted.

The improving macro-economic picture in Europe, particularly in the periphery, also drove performance in the European high yield market. Though growth is not expected to pick up dramatically there are some "green shoots" of recovery and forward expectations are generally being revised upwards. Consequently, we saw a compression between the periphery and the core as well as between ratings buckets as the lowest rated segments of the market outperformed.

Refinancing markets continue to be extremely robust, which is a key reason default rate expectations remain anchored as the majority of the capital raised was used to extend maturity profiles or reduce the cost of debt. For the full year 2013 we saw approximately €80 billion of new issuance, hugely outstripping the previous yearly record, which was more or less equally weighted between the first and second halves. Though the average rating of new issuance declined year-on-year and average leverage ticked up slightly the percentage of lower rated deals was low at 10% (vs 35% in 2005). It is worth pointing out, however, that the quality of issuance did deteriorate in the fourth quarter of the year with lower rated issuance representing 15% of the total. We track new issuance trends closely, but are not overly concerned by this signal at this point in time though we continue to be extremely selective in what we buy.

Defaults in Europe are currently at 3.4% to end of December 2013, with future forecasts estimated at 2- 3% for 2014.

A key focus for markets has been the sharp decline in 10-year Spanish and Italian government bond yields. Incidentally German yields have remained below 1.5%. Government bond markets remain supported by the easing measures carried out by central banks, however many still wonder when government bond yields will stabilise back to approximately 3.5%.

Portfolio review

The market witnessed heavy new issuance; however with issues spread across the credit spectrum, we remain selective in our approach. We currently have 97 names in the portfolio, with the CCC rated bucket of bonds accounting for approximately 9.4% of the fund. Meanwhile, we remain underweight to financial and peripheral bonds due to our focus on the capital structures and recovery rates. The fund has grown to approximately £30m million in size and seen strong inflows during the period, as people desire for income continues to grow in this low interest rate environment.

Outlook

After a year in which the European high yield market returned over 10% total return, one has to be more subdued for 2014 with most commentators predicting returns in the 3%-5% range.

With government bond yields at low levels and investors searching for a higher yield, we have become more cautious in our risk approach given that the average high yield bond yields just below 5%. We still expect to see more investors getting into the asset class as they appreciate the flexibility to either take income from the fund or build up a large capital sum via accumulation units.

Portfolio breakdown

Portfolio of investments	As at 31 January 2014%	As at 31 July 2013%
Corporate Bonds	98.28	94.77
Equities	0.21	0.22
Forward Currency Contracts	0.55	(1.35)
Investment assets	99.04	93.64
Net other assets	0.96	6.36
Net assets	100.00	100.00

Fund facts

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

	Ongoing charges figure % as at 31/01/2014	Ongoing charges figure % as at 31/07/2013
Share class A	1.40	1.40
Share class I	0.85	0.85

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 period to 31/01/2014	Total distribution (p) for the period to 31/01/2013
Share class A - Income	2.73000	3.08000
Share class I - Income	3.07000	2.34000
Share class A - Accumulation	3.30330	3.48178
Share class I - Accumulation	3.30275	2.36008

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 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 31/01/2014 pence per share	Net asset value as at 31/07/2013 pence per share	Net asset value % change
Share class A - Income	93.81	91.66	2.35
Share class I - Income	106.13	103.40	2.64
Share class A - Accumulation	115.45	109.56	5.38
Share class I - Accumulation	116.11	109.89	5.66

Net of tax and expenses.

Performance record

Calendar year		Highest share price (p)	Lowest share price (p)
2011 ^A	Income A	102.67	78.66
2011 ^A	Accumulation A	103.40	82.07
2012	Income A	93.73	80.55
2012 ^B	Income I	105.66	99.88
2012	Accumulation A	106.81	85.52
2012 ^B	Accumulation I	106.83	99.88
2013	Income A	96.14	90.73
2013	Income I	108.56	102.53
2013	Accumulation A	115.38	106.76
2013	Accumulation I	116.00	106.84

Calendar year		Highest share price (p)	Lowest share price (p)
2014 ^C	Income A	95.37	93.84
2014 ^C	Income I	107.88	106.13
2014 ^C	Accumulation A	116.84	114.97
2014 ^C	Accumulation I	117.51	115.59

^A The Fund was launched on 9 March 2011.

^B Share class I launched on 1 October 2012.

^C to 31 January 2014

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 January 2014.

- 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.
- 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.
- 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

Other information

Initial Charge

On 17 February 2014 the initial charge was removed from Aberdeen High Yield Bond Fund. This change reflects a movement in the UK funds' industry towards increased transparency of fund charges and associated costs.

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

www.aberdeenukprices.com

Alternatively please contact our Customer Services Team on:

Tel: 0845 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 High Yield 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

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