



# European High Yield Bond Fund

# Aberdeen

## Important Information

- Investors are reminded that they are responsible for their investment decision and should not invest unless the intermediary who offers or sells it to you has advised you that it is suitable for you and has explained why, including how buying the fund would be consistent with your investment objective.
- Investment in this fund may involve a high degree of risk and may not be suitable for all investors. Past performance is not indicative of future results. The value of the fund can be volatile and could go down substantially within a short period of time. It is possible that the entire value of your investment could be lost.
- Please read the offering documents for further details and the risk factors, particularly the risk of investment in debt securities.
- Investors should not make investment decision(s) based solely on this document.

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## Market overview

Despite uncertainty over the outlook for growth in Europe, the high yield market was modestly firmer over the month. Weakness from May continued to flow through in the earlier part of June, as Hungary's deputy leader was quoted as saying the country was at risk of a Greece-like crisis. The debate surrounding the need to reduce budget deficits at the expense of growth continued to erode risk appetite and market confidence, keeping yields elevated. The negativity was arrested with the ECB raising its 2010 growth forecast to 1%, and China allowing an appreciation of its currency, signalling confidence in the global growth profile. This allowed yields to fall towards month end, off their year-to-date highs.

Market <sup>A</sup> at a glance	Jun-10	Jun-09
Issue number	265	225
Par amount (bn)	129	95.4
Market value (bn)	114.7	63.3
Yield to worst	9.5%	16.9%
OAS (spread) basis points	798	1449
Modified duration	3.9	3.6
Par weighted price	88.5	66.4
Par weighted coupon	7.0%	6.6%
Average rating	BB3	B1

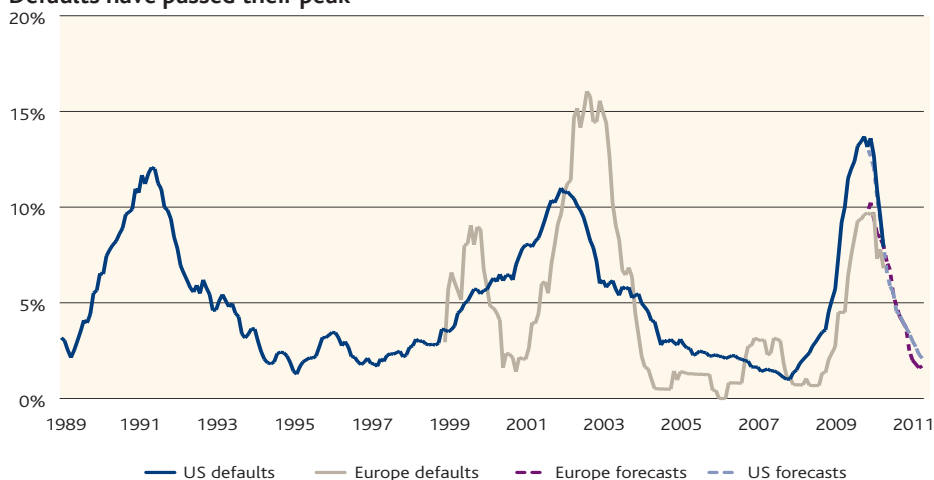
<sup>A</sup>Based on Merrill Lynch European High Yield Constrained Index (HECO)  
Source: Bloomberg, end June 2010

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## Chart of the month

Revisiting Moody's default forecasts has shown that we have passed the peak in defaults, with the expected default rate to fall to 2-3% by the end of the year. This is consistent with recent second quarter company results, which on the whole showed quarter-on-quarter as well as year-on-year improvements in performance, in turn providing solid support for the asset class despite the recent bout of risk aversion.

## Defaults have passed their peak



Source: Moodys, June 2010

Fund flows into high yield assets have been volatile of late. The aforementioned concerns regarding sovereign debt and economic growth have resulted in mainly fund outflows since the end of April. In the past two weeks fund flows have once again turned positive as investors take advantage of higher yields to put their money to work. European flows track those of the US with a lagged effect. We anticipate that fund flows for European high yield should pick up in line with investor appetite for the product, as company operations continue on a firm footing.

"The euro high yield market was modestly firmer in June."

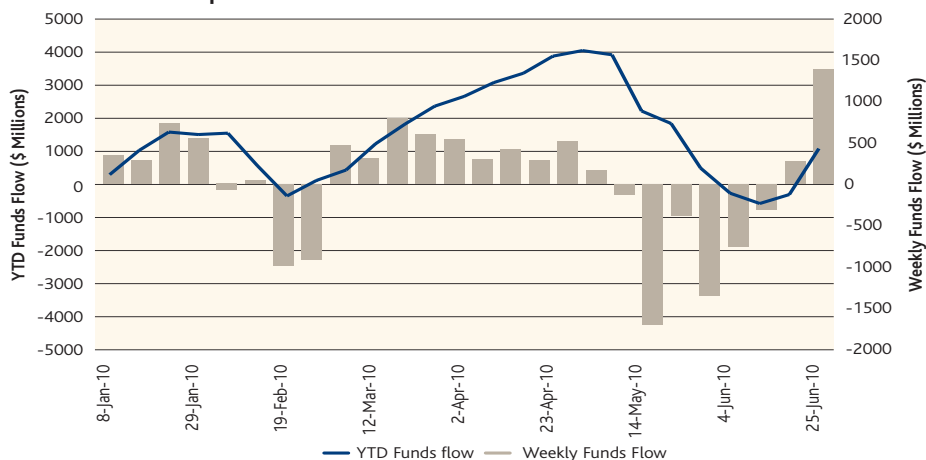
"The debate surrounding the need to reduce budget deficits at the expense of growth eroded risk appetite."

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### Fund flows turned positive towards month end



Source: AMG Data Services, June 2010

### Corporate news

The BASF takeover of Cognis had been anticipated and was finally confirmed this month with a bid of e3.1 billion from BASF. The bonds improved modestly with confirmation of the deal. In the telecoms space, Intel announced solid second quarter results and further detail of its sale of the international business to Turk Telekom for e220 million. Meanwhile Hellas announced weak results for the first quarter and the first two months of quarter two – leading the company to restructure the bonds for a second time.

There was a return to issuance this month with the rental car sector tapping the markets to refinance senior bank debt, and chemicals and materials companies also pricing new deals towards month end.

### Portfolio activity

After a 4-week hiatus in the new issue market because of market volatility, seven new issues were completed in the last two weeks of June. We participated in the issue for Europcar and we also added to holdings in Ziggo, Rexam and Abengoa.

### Disclaimer

This is not an offer to sell any investment funds referred to herein. In particular, such funds are not offered or sold in the United States or to US persons.

Investment involves risk. Before making any investment decision to invest in the fund, investors should read the Summary Prospectus and in particular to the investment policies and the risk factors. Investors should ensure they fully understand the risks associated with the fund and should also consider their own investment objective and risk tolerance level. Investors are reminded that they are responsible for their investment decision and they should not invest unless the intermediary who offers or sells the fund to them has advised them that the fund is suitable for them and has explained why, including how buying the fund is consistent with their investment objectives. If in doubt, please seek independent financial and professional advice.

Subscriptions may only be made on the basis of the relevant offering documents, the most recent annual financial statements and semi-annual financial statements if published thereafter. Investors are reminded that the value and income (if any) from shares of the fund may be volatile and could change substantially within a short period of time, and investors may not get back the amount they have invested in the fund. Past performance is not a guide future performance. The investment returns are denominated in the base currency of the fund. US / HK dollar based investors are therefore exposed to fluctuations in the US dollar / HK dollar / base currency exchange rate.

Investors should note that emerging markets tend to be less liquid and more volatile than mature markets and the value of your investment could move sharply up or down. In some circumstances, the underlying investments may become illiquid which may constrain the Investment Manager's ability to realise some or all of the portfolio. The registration and settlement arrangements in emerging markets may be less developed than in more mature markets so the operational risks of investing are higher. Emerging markets may have relatively unstable government and may be more susceptible to adverse economic conditions which expose investors to higher levels of risks and political risks.

Investors should note that investment in bonds and other debt instruments are exposed to the credit risks of the issuer and interest rate risk and in particular, if a fund maintains a significant position in high-yielding bonds, there is more risk to the investor's capital and income than from a fund investing in government or investment grade bonds. In the event that any issuer of bonds or other debt instruments experiences financial or economic difficulties, the value of the investment may be adversely affected (inability of the issuer to pay the interest on a bond and/or return the capital on redemption date) and may become zero. Interest rate fluctuations affect the capital value of investments. Where long term interest rates rise, the capital value of shares is likely to fall and vice versa. In addition, unlike income from a single bond, the level of income from a fund is not fixed and may fluctuate. Yields are estimated figures and may fluctuate.

Investors are reminded that a fund that focuses on investing in a geographical area or country is likely to be more volatile and may be more susceptible to fluctuations in value resulting from adverse conditions in the geographical area or country in which a fund invests. Investors are also reminded of concentration risks and volatility associated with sector funds which invests in a specialist market sector.

Derivatives may be used to hedge against the various risks as permitted by the regulations but may not be used for speculative purposes. The use of derivatives for hedging in a rising market may restrict potential gains.

Any research or analysis used in the preparation of this document is based upon sources believed to be reliable as of the date thereof, but no representation or warranty is given as to the accuracy or completeness of data sourced from third parties. Any opinions, estimates or forecasts may be changed at any time without prior warning.

This document is issued by Aberdeen International Fund Managers Limited and has not been reviewed by the Securities and Futures Commission.

[For more information](#)

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