



# 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.
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## Market overview

The market was considerably weaker in May as sovereign risk returned to the fore once again. Concerns grew about the 'debt contagion' spreading through, not just the PIIGS, but also the rest of Europe. The EU's €750bn rescue package, temporarily halted the sell off, but this was soon reversed when Germany unilaterally banned naked short selling of government bonds. Fears of too much intervention, which impedes

the ability to manage risk effectively, led to further speculation that the EU economy was more fragile than first thought. Subsequently, financial assets broadly declined and the Euro depreciated against most major currencies. Towards month end some opportunistic buying returned as investors saw value after the sell off. In the midst of this volatility, most companies reported Q110 results at or above market expectations, though this was largely lost in the noise of the wider macro issues.

Market at a glance	May-10	May-09
Issues	273	224
Par	134	98.7
MV	119.1	61.1
YTW	9.6%	18.7%
OAS	810	1627
MD	3.8	3.5
PWP	88.9	61.9
PWC	6.9%	6.6%
Avg R	BB3	BB3

Source: ML HECO index, end May 2010

## Chart of the month

One of the most widely recognised gauges of risk and investors' 'fear factor' is the VIX indicator which measures the implied volatility of the S&P 500. In May this index rose significantly, indicating the aforementioned return of risk aversion during the month, leading to widening out in high yield spreads and a general underperformance of all risk assets. The VIX remains elevated compared to historical levels, suggesting that high yield assets will remain under pressure given the current risk climate.



Source: JPM HY index, Bloomberg, end May 2010

"Optimism is short lived after the EU's s750 billion rescue package."

"European markets see more volatility following Germany's staunch legislation against naked short selling of government bonds."

"Q1 reporting season underway with majority of company results meeting or exceeding analyst expectations."

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### Corporate news

Results were either broadly in line or better than market expectations for most companies that reported on their Q110 performance. Of note were Reclam and Eircom, both of which have been under heavy selling pressure given market speculation of distress for these two names. The operating results both companies were better than expectations, though in the case of Reclam, liquidity still remains tight. Both of these bonds rallied on the release of results, although Eircom bonds remain lower than they were at the start of the month. Hellas fell sharply over the month in conjunction with growing tensions in Greece, but rebounded at month end when an article was published suggesting that Weather was considering a potential cash injection into the company.

A raft of gaming sector companies reported results that met expectations with the exception of Peermont, which underperformed the broader gaming segment.

Unlike previous months, liquidity was tight, and new issuance was much reduced- including the proposed Loyalty Partners bond issue which was postponed.

### Portfolio activity

There was little new issue activity over the month. Of the four issues completed we took just the one for Ineos. Other notable activity was a purchase of the recent Abengoa issue at a discount to the issue price and sales from Ford Bank, Heidelberg Cement, Ardagh and Cirsa where bonds had performed well and yields were less compelling.

### For more information

#### Client Services Team Aberdeen International Fund Managers Limited

Room 2605-06, 26/F  
Alexandra House  
18 Chater Road  
Central, Hong Kong

Tel: +852 2103 4700  
Fax: +852 2103 4788  
[www.aberdeen-aseet.com.hk](http://www.aberdeen-aseet.com.hk)

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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.

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