



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

Credit markets were consumed by sovereign concerns as problems in Greece, followed by Portugal, Ireland, Italy and Spain came into focus. Collectively known as PIIGS, their relatively weak economies, coupled with large fiscal deficits, raised doubts about the economic strength of the Eurozone and the European Central Bank's ability to correct imbalances under a universal umbrella of monetary policy. The emergence of an austerity plan and potential bail out for Greece managed to temper some of the market's concerns towards the end of the month, but the overall tone of the market was muted. Corporate spreads widened in line with macro concerns, and reports of approximately US\$2bn of outflows from the high yield asset class put further pressure on bonds. In this uncertain climate, bond deals and IPO plans were abandoned.

Market* at a glance	February 2010	February 2009
Issue number	251	191
Par amount (bn)	122.4	77.6
Market value (bn)	108	40.7
Yield to worst	9.8%	23.2%
OAS (spread) basis points	791	2093
Modified duration	3.79	3.38
Par weighted price	88.2	52.5
Par weighted coupon	6.98%	6.93%
Average rating	B1	B1

*Based on Merrill Lynch European High Yield Constrained Index (HECO)
Source: Bloomberg, as of 26 Feb 2010.

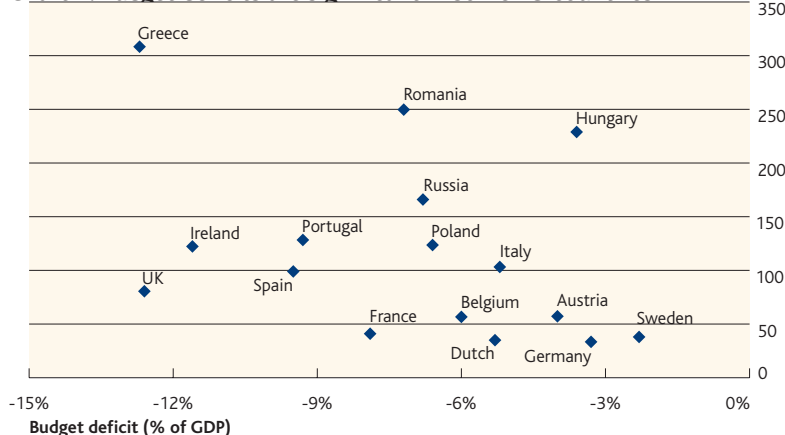
"Credit markets were consumed by sovereign concerns in February."

"Corporate spreads widened in line with macro concerns, and reports of approximately US\$2bn of outflows from high yield."

Charts of the month

The market focused squarely on the drama unfolding in Greece during February. Despite its small contribution to overall European GDP, the risk posed to the financial system of the European Union (EU) is fairly large with European banks holding 83.8% (US\$235.3bn) of Greek debt. Given the already fragile state of the financial system, the general feeling was that it was in the best interest of the EU to provide financial aid to Greece, yet as Chart 1 below shows, many other EU countries are breaching the EU directive of a 3% limit on their budget deficits. There are obvious discrepancies in risk pricing for sovereign debt, despite similar fiscal positions. But there is an overhanging risk that the market will re-price the sovereign debt, and related corporate debt, of countries such as France, UK and Belgium, to reflect the greater macro risk.

Chart 1: Budget deficits are significant in some EU countries

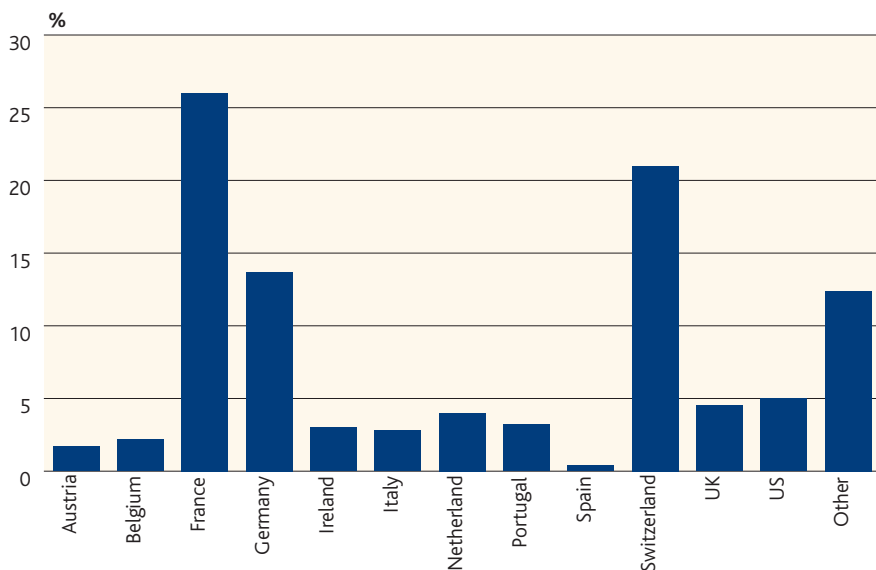


"Despite Greece's small contribution to overall European GDP, the risk posed to the financial system of the EU is fairly large."

Source: Government deficit expectations for FY09.

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Chart 2: European banks' exposure to Greece



Source: Bank of International Settlements, December 2009 quarterly review.

Corporate news

With sovereigns the focus, corporate bonds were somewhat of a sideshow through the month. A handful of companies reported quarter four results, with most meeting or beating expectations – albeit some of these expectations had been revised down from expectations earlier in 2009. Overall the trend of quarter-on-quarter improvement in operating conditions looks set to continue, if not on a year-on-year basis.

Portfolio activity

February was a quiet month in terms of portfolio activity, with only one new issue in euro in which we did not participate. Activity was confined to small reductions in holdings in Smurfit Kappa, Heidelberg Cement and Lecta.

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.

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Client Services Team

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