



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

April proved to be another positive month as investor demand, coupled with early positive quarter one results from US financials, supported the rally. However, sentiment soured towards month end as doubts re-emerged over Greece's ability to service its public debt. Confidence was further undermined when the SEC brought a civil fraud case against Goldman Sachs. New issuers continued to tap the market given the cheap levels of funding.

Market* at a glance	Apr-10	Apr-09
Issue number	267	221
Par amount (bn)	132	97.5
Market value (bn)	123.5	53.7
Yield to worst	8.2%	21.9%
OAS (spread) basis points	629	1965
Modified duration	3.8	3.3
Par weighted price	93.6	55.1
Par weighted coupon	6.94%	6.6%
Average rating	BB3	BB3

*Based on Merrill Lynch European High Yield Constrained Index (HECO)
Source: Bloomberg

Chart of the month

Although the month of April saw credit yields grind tighter against government bonds, we note the rise in 3-month euribor through April. 3-month Euribor has been on a downward trend and hit a low point at the end of March. Since then it has slowly risen, despite there being no rate hike expectations for the Eurozone in the foreseeable future. Together with the forward Euribor-OIS^B spread widening, this suggests a certain amount of nervousness re-entering the markets, which is not evident yet in credit spreads. The obvious risk to credit is the availability and cost of funding, as witnessed during the banking crisis when financial institutions were reluctant to lend. During that period the Euribor-OIS spread was at historical highs. Although we don't anticipate that sort of scenario repeating, we are still weary that a widening Euribor-OIS may reduce liquidity in the markets.

Chart 1: Spread widening suggests nervousness re-entering market



Source: Bloomberg. Data from 31/03/10 to 30/04/10

^B OIS is Overnight Indexed Swaps – a fixed/floating interest rate swap with the floating leg tied to a published index of a daily overnight rate reference.

"April was another positive month for the European high yield market."

"Doubts re-emerged towards the end of the month over Greece's ability to service its public debt."

"Euribor spread widening suggests a certain amount of nervousness re-entering the market."

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Corporate news

Preem refinanced their existing bonds through a combination of cash tender and new bond issue. The market responded well to the terms of the refinancing, pushing the old bonds back to par. Cognis bonds and payment in kind (PIK) bonds rallied on take over speculation by BASF – an investment grade company. Ecobat results for quarter four 2009 were strong, with sales up 26% quarter-on-quarter, on the back of stronger lead prices. Ineos, Cirsa, Foodcorp, Ironmountain, Countrywide and VMed also reported results that were in line with or stronger than market expectations.

Portfolio activity

The Fund participated in three of the nine new euro issues - New World Resources, Ziggo (a Dutch cable company) and Cirsa. We also added to our holding in Ardagh. The most notable sales to finance the purchases came from Europcar, New Reclamation, Ecobat, Campofrio, FMG, Smurfit Kappa and Heidelberg Cement.

For more information

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Disclaimer

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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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