

Sovereign High Yield Fund

Presentation to
Merrill Lynch Hong Kong

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Aberdeen Asset Management

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Why Sovereign High Yield?

- Fundamentals do matter, again: EM growth rates are recovering ahead of developed countries
- High yielding asset class with low default risk
- Investors get the benefit of steady income stream from both funds
- SHY hard currency fund has rebounded from difficult year in 2008, should continue to outperform as risk appetite improves
- SHY local currency fund offers potential higher return opportunities from FX appreciation
- Investors should increase exposure to EMFX as risk appetite improves, also provides a hedge against USD risk



Performance – Hard Currency

In USD %	Portfolio	Benchmark	Difference
2003	30.27	24.85	5.42
2004	9.71	11.62	-1.91
2005	12.01	10.25	1.76
2006	15.69	9.86	5.83
2007	5.62	6.16	-0.54
2008	-43.51	-12.03	-31.48
Q1 09	10.81	3.84	6.97
Q2 09	15.58	8.93	1.72
Q3 09	16.86	10.42	6.44
2009 YTD	55.58	27.75	27.83

As at 30 Sep 09.
 Inception date: 31 Aug 02. Returns are stated gross of fees
 Benchmark: 100% JP Morgan EMBI Global Diversified
 Source: Aberdeen Asset Management



Current portfolio – Hard currency

Country	(% of total fund)		
	Fund	CDS	Net Exp
Argentina	9		9
Brazil	6		6
Colombia	7		7
Dominican Republic	1		1
El Salvador	2		2
Mexico	7		7
Panama	1		1
Peru	1		1
Uruguay	4		4
Venezuela	6		6
Latin America total	44	0	44
Bosnia	4		4
Gabon	2		2
Georgia	1		1
Ghana	1		1
Hungary	2		2
Iraq	3	2	3
Ivory Coast	1		1
Kazakhstan	6		6
Poland	5		5
Russia	7		7
Slovakia	-1	-1	-1
South Africa	4		4
Turkey	-2	-2	-2
Ukraine	4	4	4
Europe/Africa total	37	3	35
Indonesia	8		8
Malaysia	4		4
Pakistan	1		1
Philippines	3		3
Vietnam	2		2
Asia total	18	0	18
US/Cash	1		4
Total	100	3	100

Source:
Aberdeen Asset
Management.
Positions for the
Aberdeen SHY
Hard Currency
Fund, 28 Oct 09

Total fund risk statistics

	Fund	Benchmark
Volatility	9.13	13.93
Value at Risk (1 month, 99% CI)	6.03	9.21
Conditional VaR (CVaR)	6.91	
Tracking Error	6.21	
Tracking at Risk	10.79	
	Systematic	Specific
Market Risk Contribution	93.7%	6.3%
Beta versus benchmark	0.62	
Correlation versus benchmark	0.94	
Relative VaR	4.11	
VaR Ratio	0.66	

Source: Aberdeen Asset Management
 Benchmark name: JP Morgan EMBI Global Diversified
 Date of analysis: 23 Oct 09
 Based on Sovereign High Yield Hard Currency Fund

Country Risk Decomposition

Country	Fund notional	Benchmark notional	Contribution to active risk
Argentina	0.09	0.02	0.12
Belize	0.00	0.00	0.06
Bosnia and Herzegovina	0.04	0.00	0.22
Brazil	0.05	0.09	0.33
Bulgaria	0.00	0.01	0.02
Chile	0.00	0.02	0.01
China	0.00	0.03	0.04
Colombia	0.07	0.05	-0.11
Dominican Republic	0.01	0.00	-0.01
Ecuador	0.00	0.00	0.10
Egypt	0.00	0.01	0.01
El Salvador	0.02	0.02	-0.05
European Composite	-0.16	0.00	0.59
Gabon	0.03	0.00	-0.53
Georgia	0.01	0.00	-0.19
Ghana	0.01	0.00	-0.01
Hungary	0.02	0.01	-0.05
Indonesia	0.08	0.06	0.66
Iraq	0.03	0.01	-0.12
Jamaica	0.00	0.00	0.02
Kazakhstan	0.06	0.03	-0.03
Lebanon	0.00	0.04	1.19
Malaysia	0.03	0.05	-0.01

Country Risk Decomposition – (cont'd)

Country	Fund notional	Benchmark notional	Contribution to active risk
Mexico	0.07	0.08	-0.05
Pakistan	0.01	0.01	-0.12
Panama	0.01	0.03	0.21
Peru	0.01	0.04	0.13
Philippines	0.03	0.07	1.94
Poland	0.05	0.03	0.02
Russian Federation	0.07	0.08	-0.11
Serbia and Montenegro	0.00	0.01	0.01
Slovakia	-0.01	0.00	0.00
South Africa	0.04	0.03	-0.08
South Korea	0.02	0.00	0.01
Sri Lanka	0.01	0.00	-0.21
Supranational	0.02	0.00	-0.03
Tunisia	0.00	0.00	0.00
Turkey	-0.02	0.08	2.58
Ukraine	0.05	0.02	0.40
United States	0.21	0.00	0.00
Uruguay	0.04	0.03	-0.61
Venezuela	0.06	0.05	0.32
Vietnam	0.02	0.00	-0.45
Grand Total	1.05	1.00	6.21

Source: Aberdeen Asset Management
 Benchmark name: JP Morgan EMBI Global Diversified
 Date of analysis: 23 Oct 09
 Based on Sovereign High Yield Hard Currency Fund

Market outlook

EMD 2009 outlook

- EMD spreads have come a long way since October crisis; valuations on USD sovereigns are in some cases getting stretched
- Still see value in high yield sovereigns where the market continues to overstate default risk
- Have trimmed less liquid sovereigns, but still see some value
- We are generally constructive on EMFX
- Market overpricing rate hikes in a number of emerging countries
- Selectively adding to corporate credits
- Accommodative global monetary policy, low inflation risk and rising growth expectations supportive for EMD
- Timing and pace of global rate hikes are a risk, but we think the Fed and other central banks will be reluctant to move too soon, and too aggressively

Spreads decline sharply, valuations now less compelling

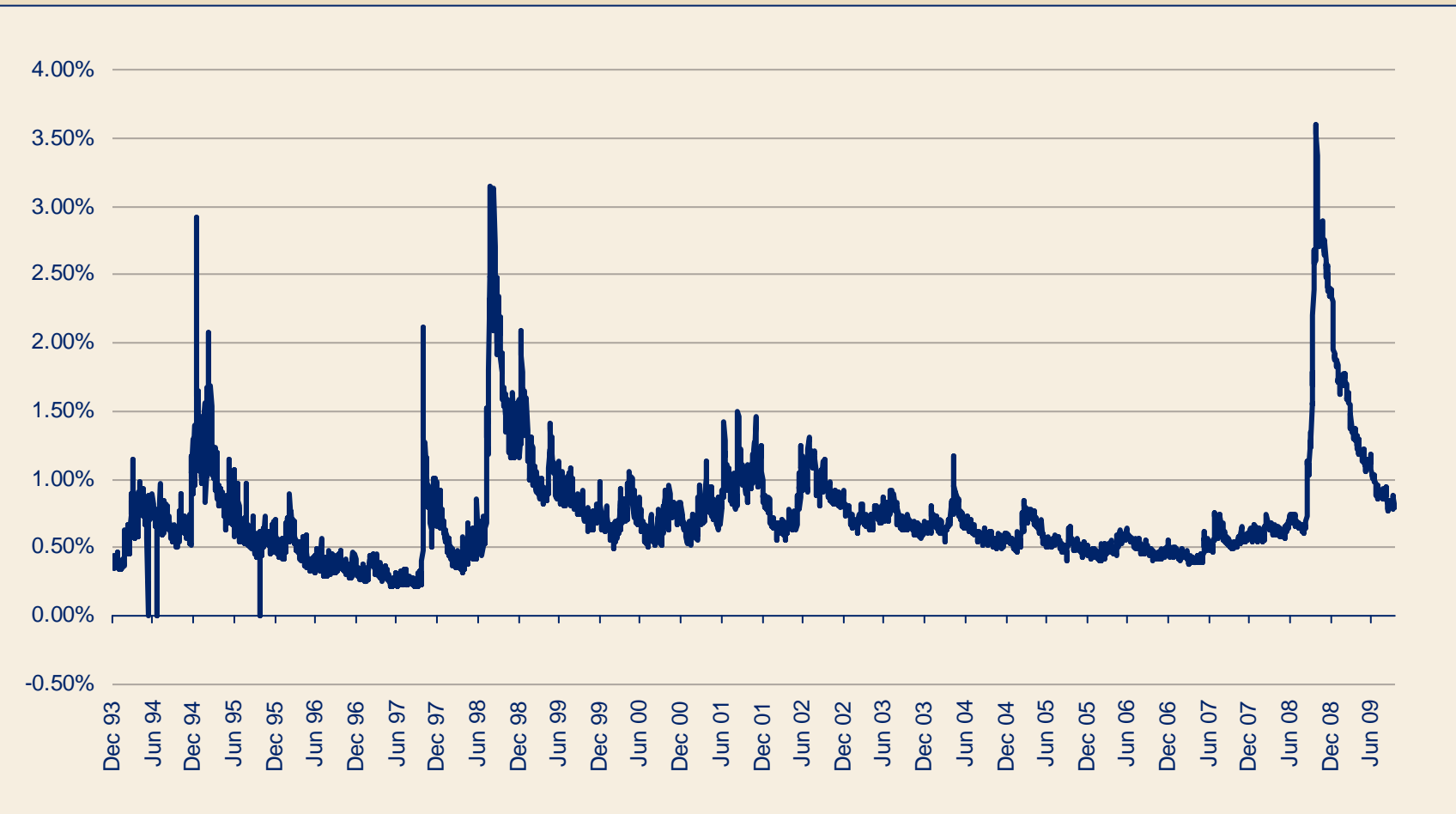
Spread over UST



Source: JP Morgan EMBI Global Diversified, Oct 09

EMD liquidity back to pre-Lehman levels

Average bid/offer spread for US\$ EMD bonds

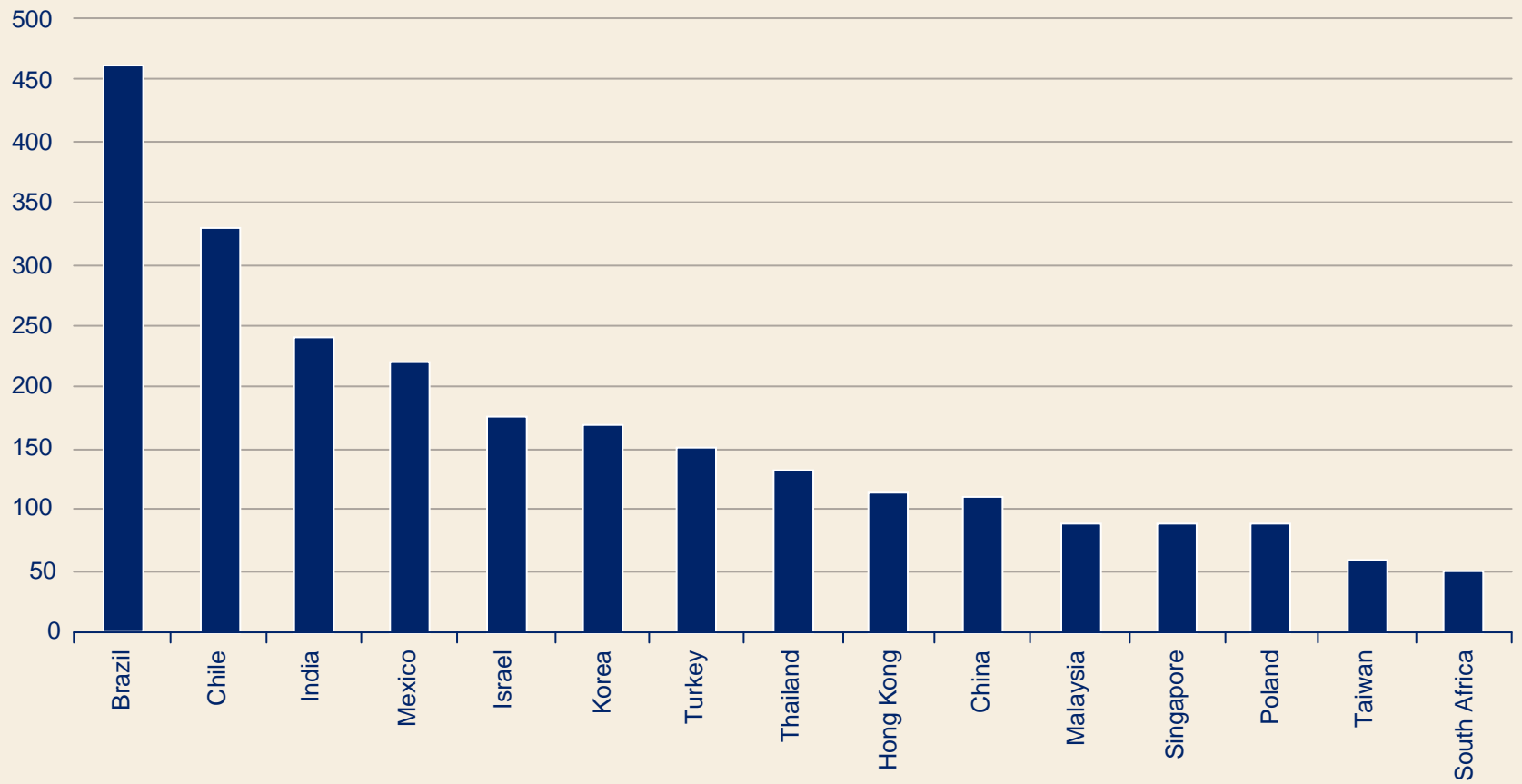


Source: JP Morgan, Oct 09

Get ready for rate hikes in 2010

Market is expecting tightening across a range of emerging economies – in general by more than we expect

Priced interest rate moves: the market's expected tightening from selected central banks over the next 12 months (in bp)

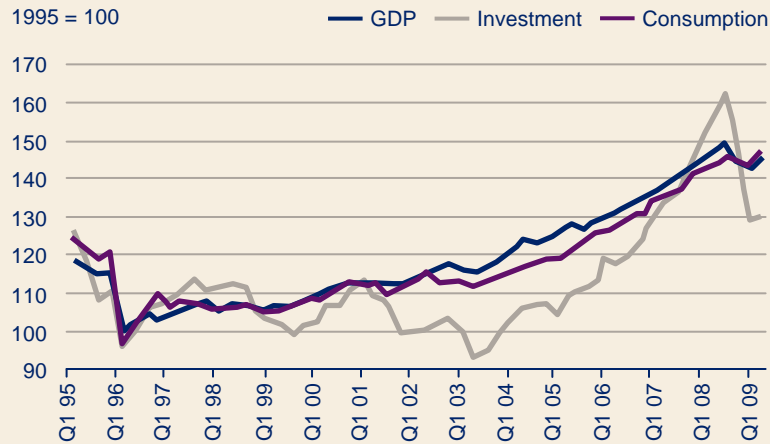


Source: Bloomberg, Oct 09

Review of select countries

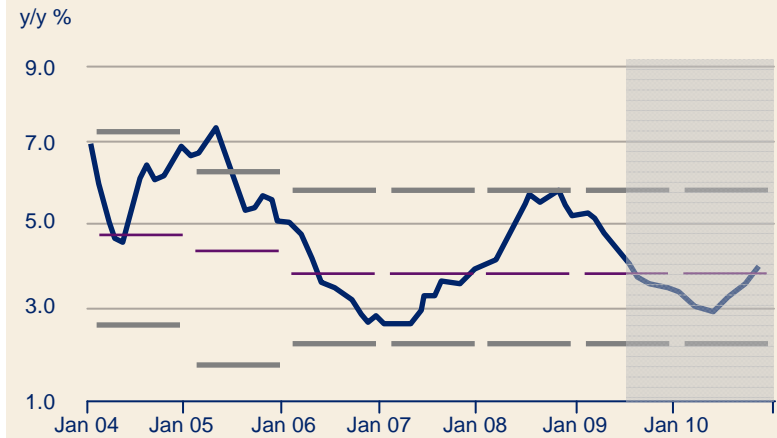
Brazil: still constructive despite capital controls

Real GDP



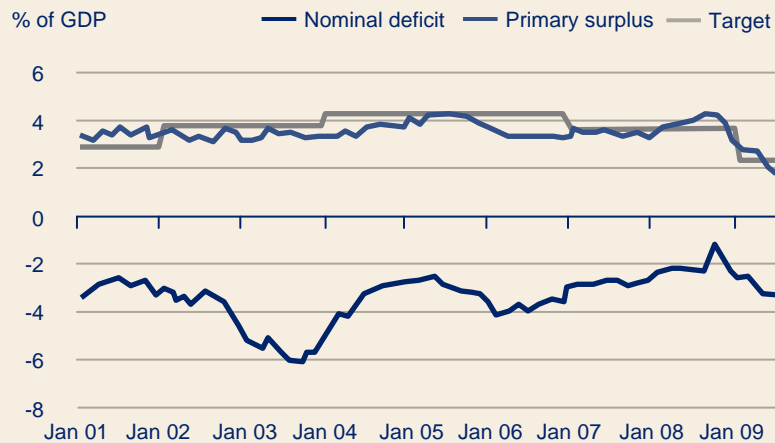
Source: IBGE

IPCA and inflation targets



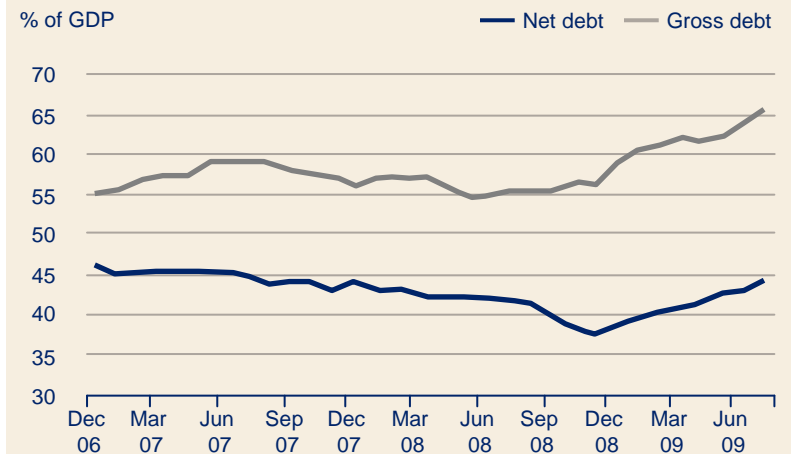
Source: IBGE, Deutsche Bank forecasts

PSBR



Source: BCB

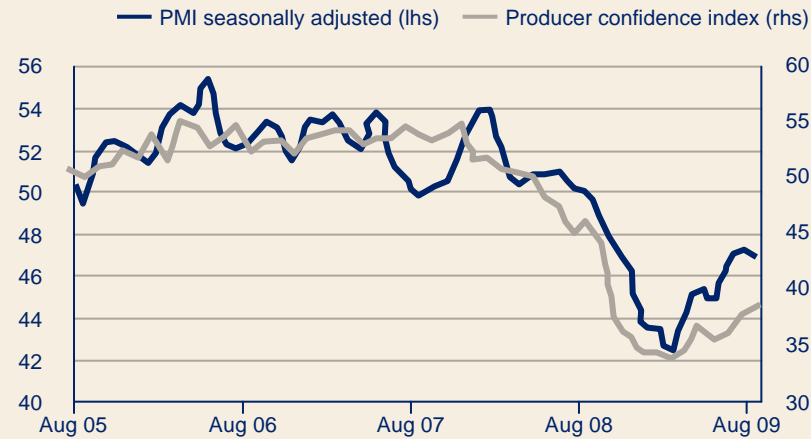
Public debt



Source: BCB

Mexico: stiff headwinds from the north are subsiding

PMI and producer confidence



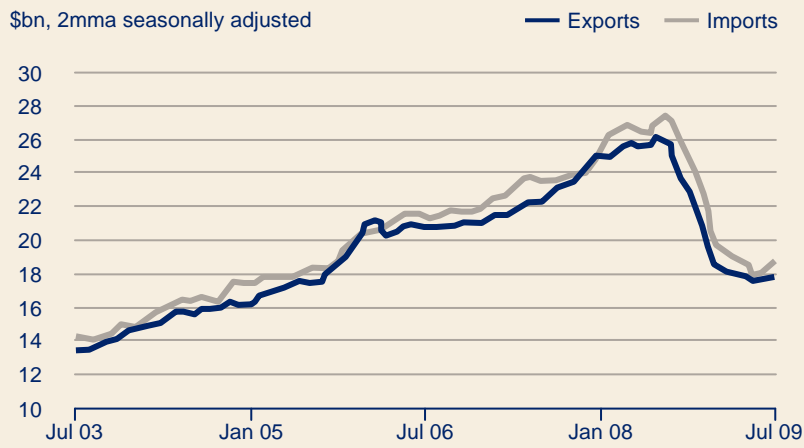
Source: INEGI, Credit Suisse

Industrial output index



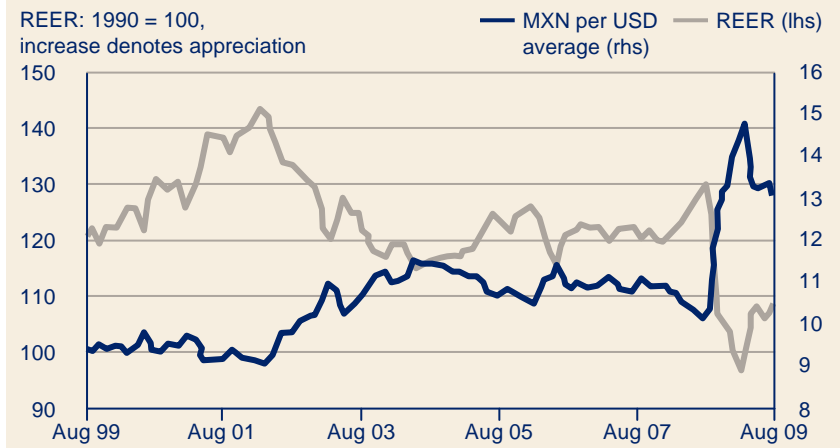
Source: INEGI, Credit Suisse

Exports and imports



Source: INEGI, Credit Suisse

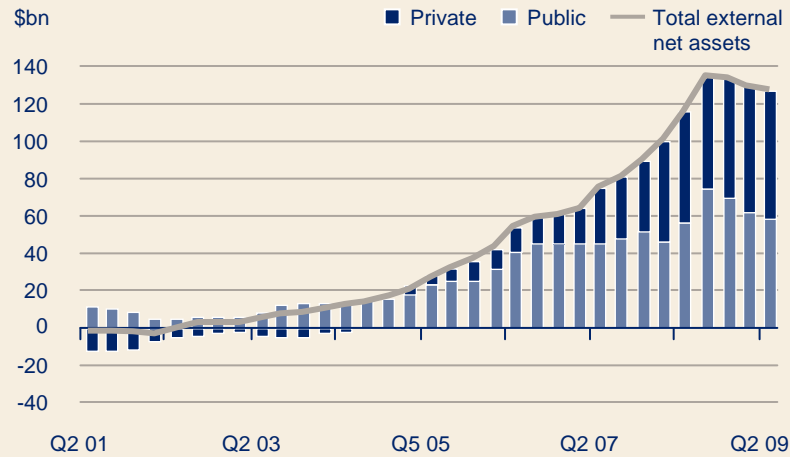
Real effective exchange rate vs nominal exchange rate



Source: Central bank, Credit Suisse

Venezuela: net creditor, but look out for supply

Public and private sector net external asset position



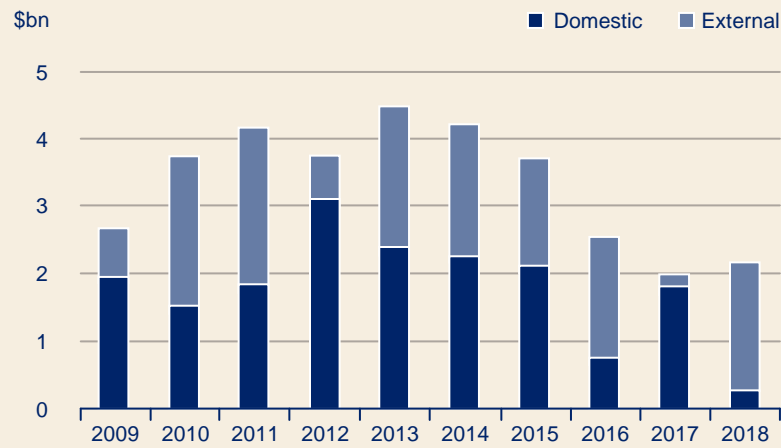
Source: Central bank, Credit Suisse

Central bank international reserves



* FIEM is the macroeconomic stabilization fund. Source: Central bank, Credit Suisse

Central government debt amortization schedule



Source: Ministry of finance, Credit Suisse

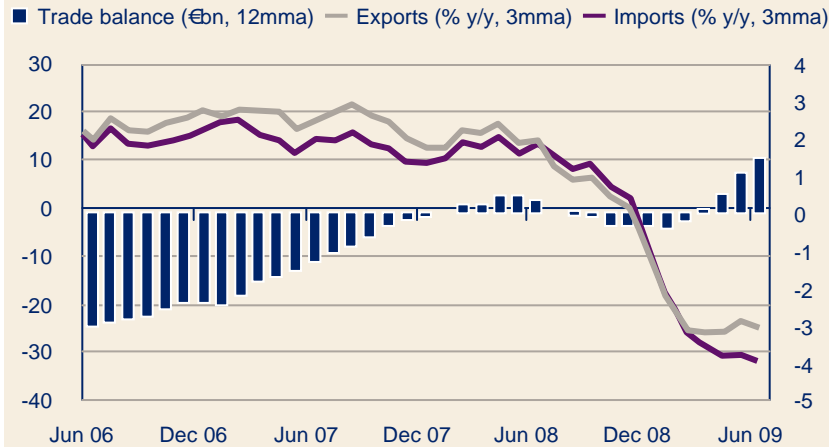
Official and parallel exchange rate



Source: Central bank, www.venezuelafx.blogspot.com, Credit Suisse

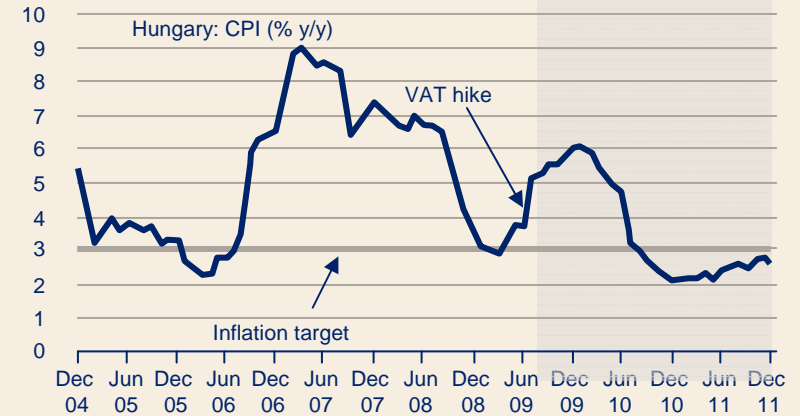
Hungary: fiscal adjustment, now comes slow recovery

Trade balance is in surplus with exports turning ahead of imports



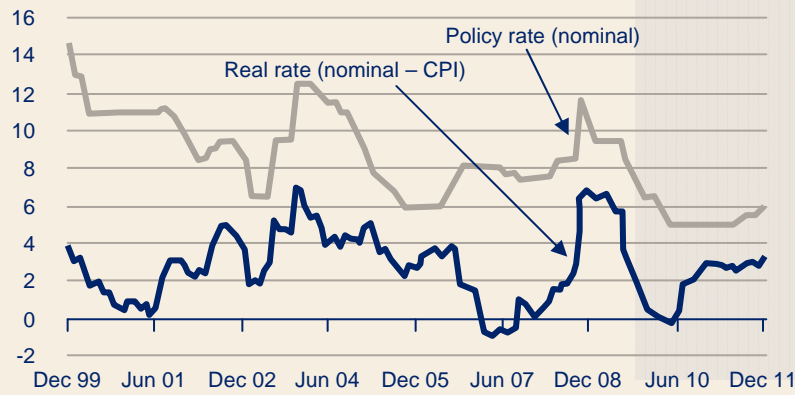
Source: Statistics Office, Credit Suisse

Inflation will temporary rise due to VAT hikes but should drop in 2010



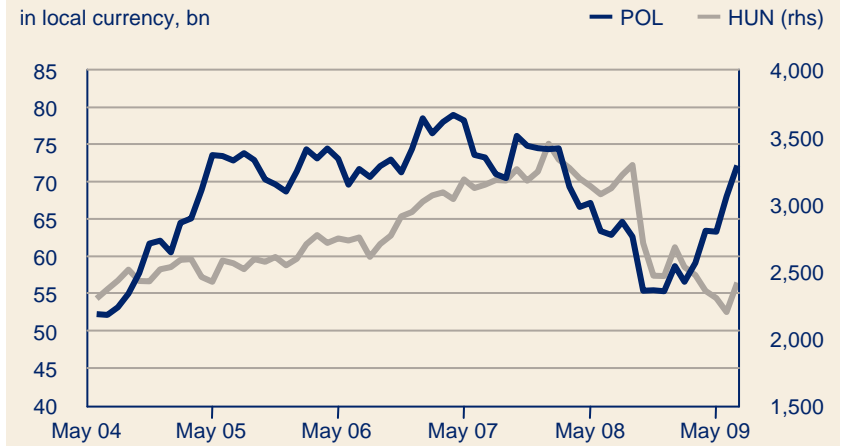
Source: Statistics Office, Credit Suisse

This should create room for a series of policy rate cuts



Source: Statistics Office, Credit Suisse

Foreign holdings of local government debt



Source: Statistics Office, Citigroup

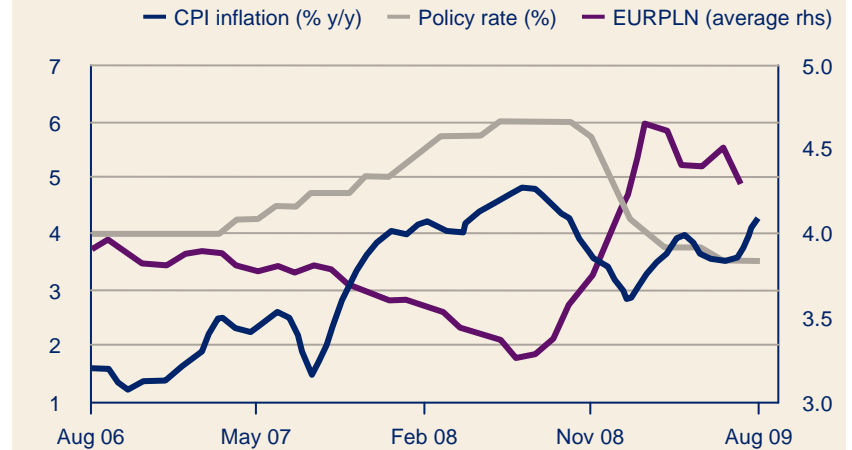
Poland: zloty looks attractive compared to peers

Industrial production and manufacturing PMI



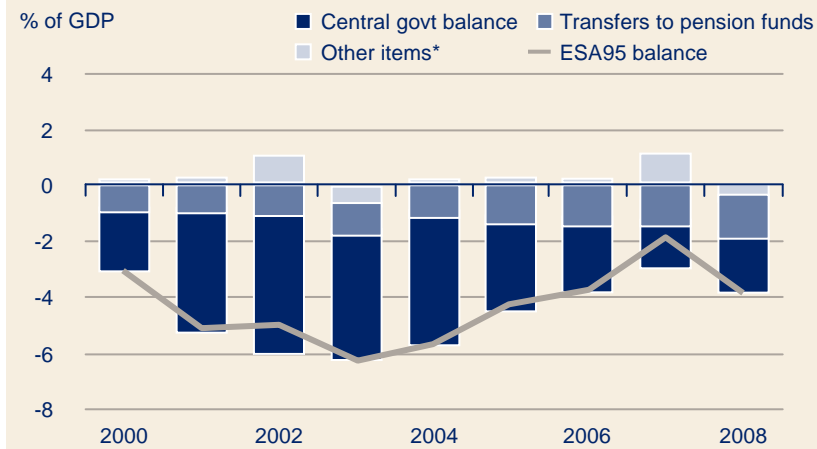
Source: Statistics office, PMI Premium, Credit Suisse

Inflation, the policy rate and EURPLN



Source: Statistics Office, Central bank, the Bloomberg Professional™ service, Credit Suisse

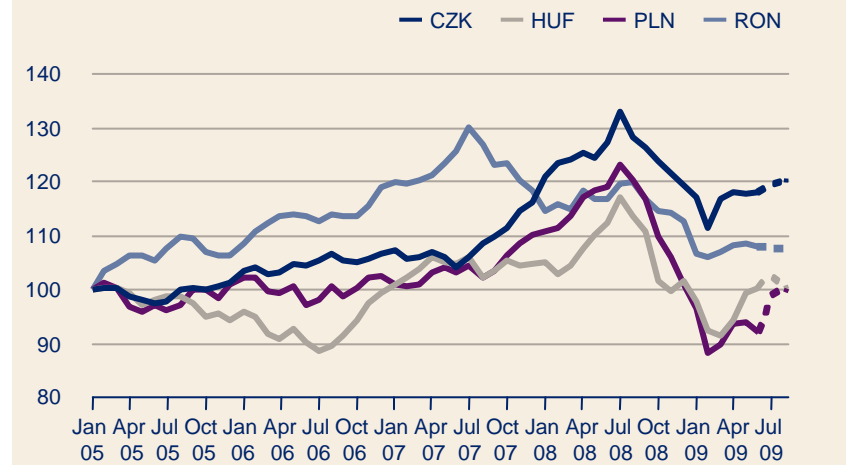
Breakdown of annual ESA95 budget



* Other items include local governments, EU funds, the social security fund and the differences between cash and accrual-based accounting

Source: Eurostat, Finance Ministry, Credit Suisse

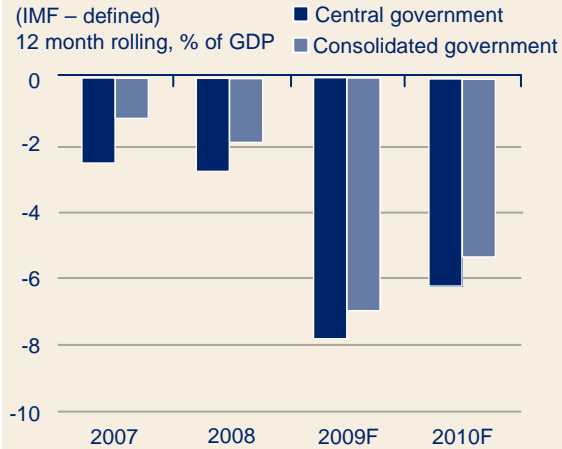
REER in CEE (BIS data)



Source: Central bank, Credit Suisse

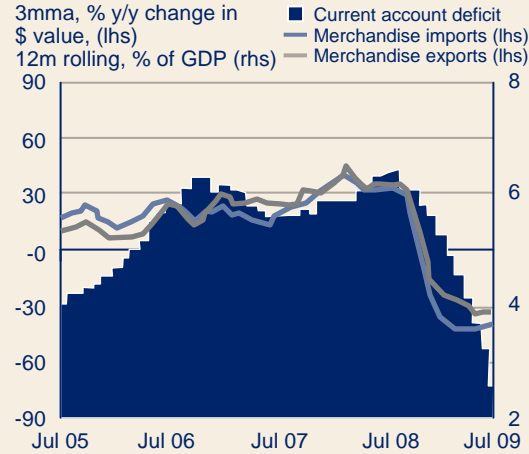
Turkey: IMF would provide further support for local assets

Central and consolidated government's budget balances



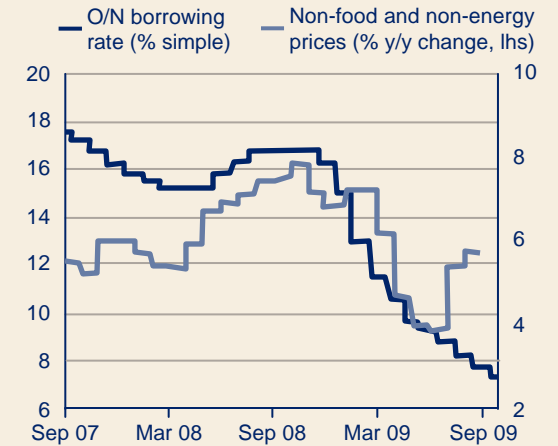
Source: Treasury, Statistics Office, Credit Suisse

Current account balance



Source: Central Bank, Statistics Office, Credit Suisse

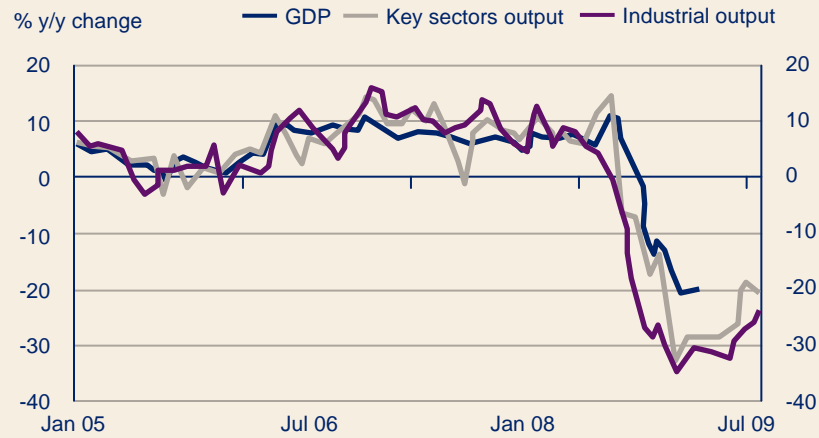
Monetary policy



Source: Central Bank, Statistics Office, Credit Suisse

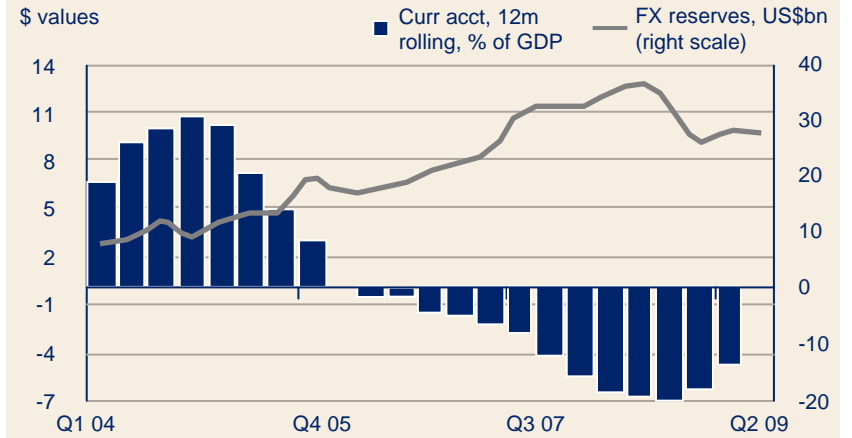
Ukraine: back from the abyss, but political risk on horizon

Output indicators



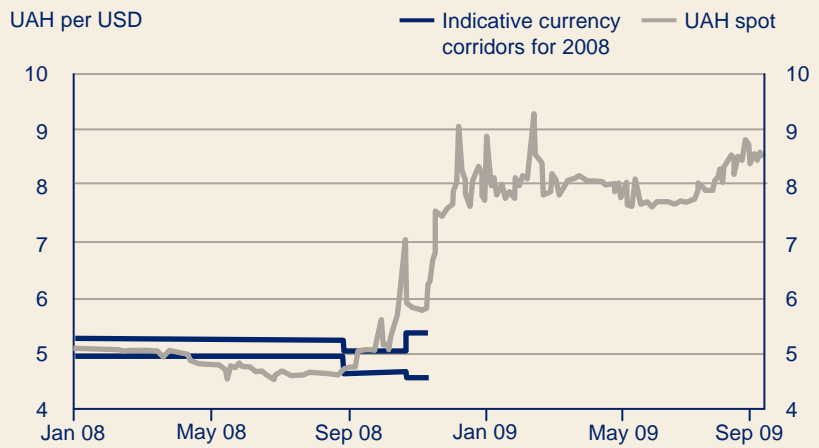
Note the NBU's key sectors indicator covers 72% of GDP components
Source: State Statistics Agency, NBU, Credit Suisse

Current account balance and FX reserves



Note the latest FX reserves data (\$28.7bn) are for 01 Jun 09. Source: NBU, Credit Suisse

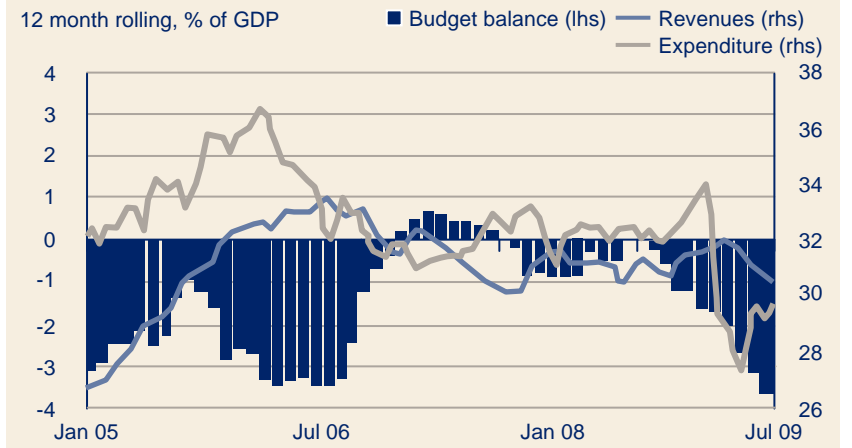
Hryvnia's nominal exchange rate against the dollar



Note the UAH 4.95-5.25 band was replaced in Jul 08 with a 4.66-5.04 indicative range (widened in Sep and abandoned in Oct)

Source: The Bloomberg Professional Service, NBU, Credit Suisse

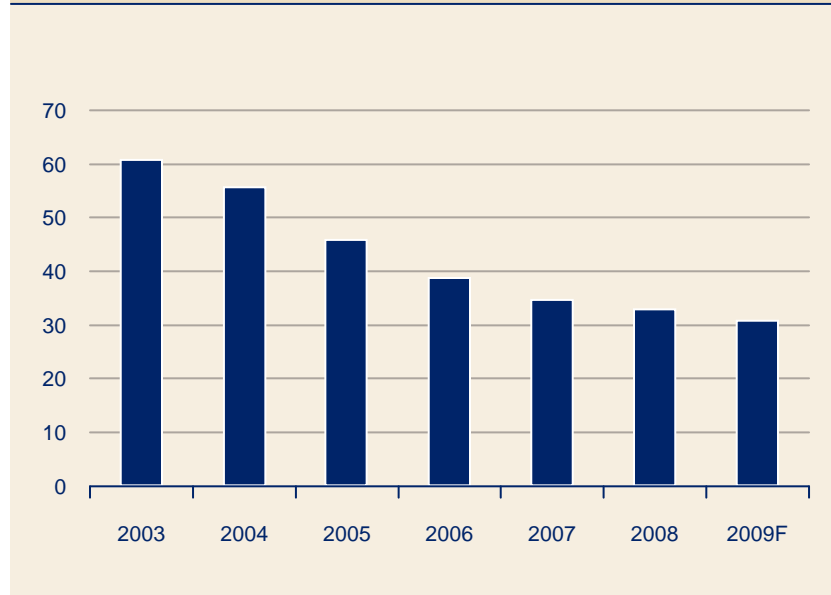
Consolidated budget



Source: Economy Ministry, Credit Suisse

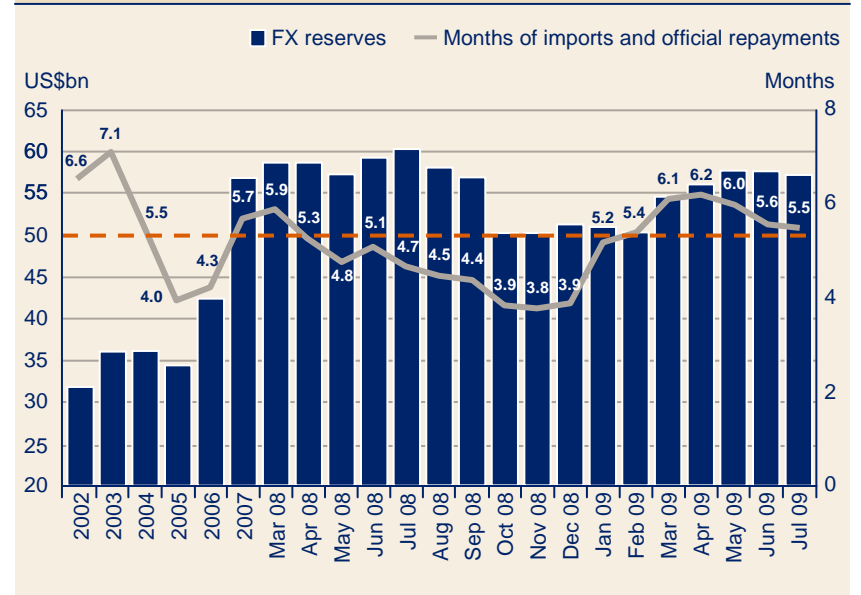
Indonesia: on the march to investment grade

Debt to GDP ratio



Source: Bank Indonesia

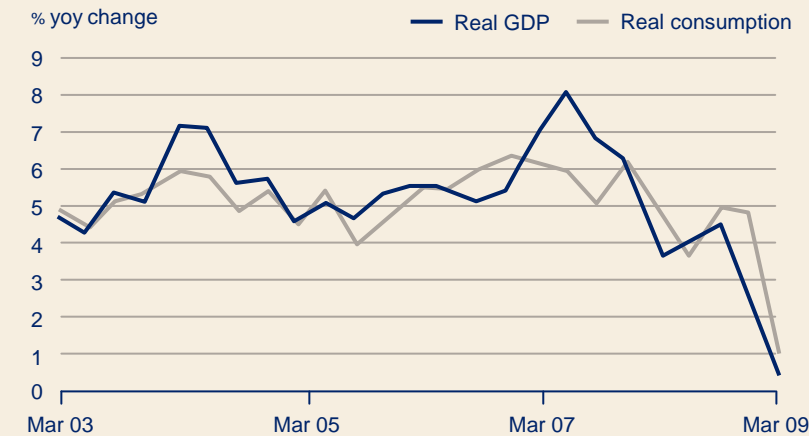
Indonesia – gross FX reserves and FX reserve coverage



Source: Bank Indonesia and CEIC Data Company Limited

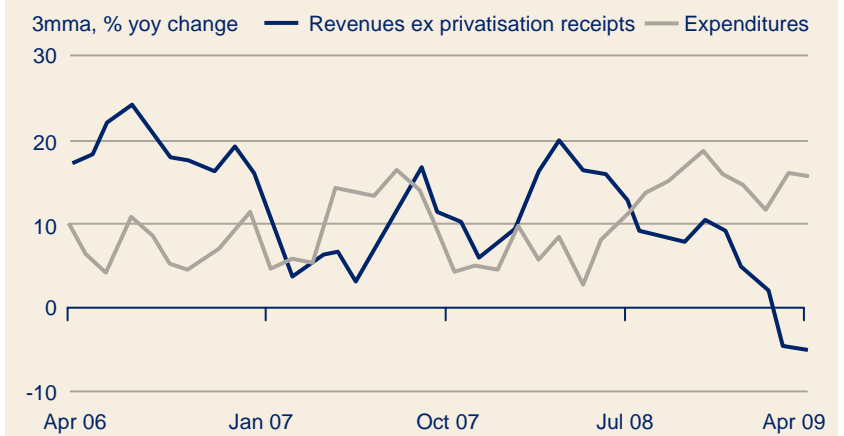
Philippines: remittance inflows remain supportive, fiscal deterioration a concern

Growth and consumption



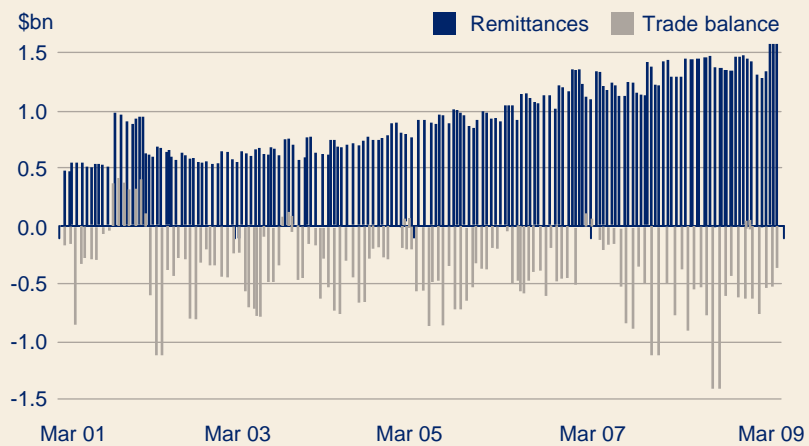
Source: the Bloomberg Professional™ service, Credit Suisse

Revenue performance



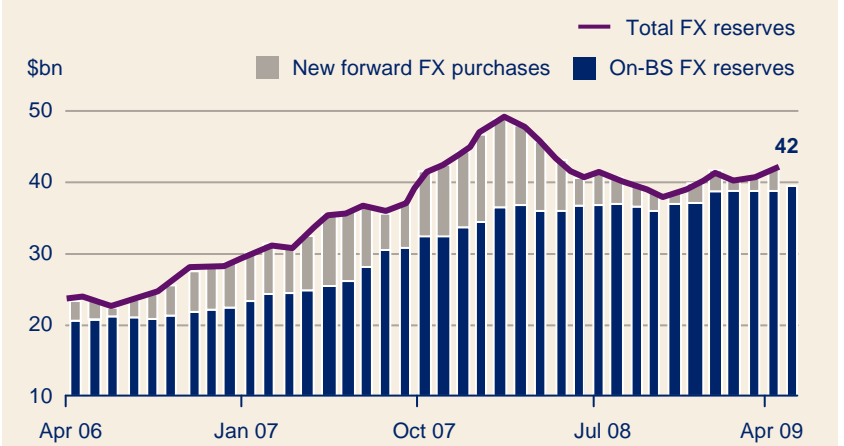
Source: Department of finance, CEIC, Credit Suisse

Remittances and trade



Source: CEIC, Credit Suisse

FX reserves



Source: the Bloomberg Professional™ service, Credit Suisse

Appendices

Market review: Emerging market hard currency debt index returns

Q3 09	%
Argentina	35.5
Pakistan	31.8
Ghana	25.1
Venezuela	24.7
Ecuador	24.2
Dominican Rep.	21.7
Gabon	20.6
Iraq	20.5
Kazakhstan	20.4
Georgia	18.9
Ukraine	16.2
Republic of Serbia	15.5
Indonesia	15.3
El Salvador	14.2
Belize	13.9
Hungary	12.7
Bulgaria	12.5
Sri Lanka	11.4
Russia	11.2
Uruguay	10.3
Peru	10.3
Panama	10.2
Vietnam	9.9
Colombia	8.7
South Africa	8.4
Philippines	7.7
Turkey	7.6
Brazil	7.5
Poland	6.9
Mexico	6.9
Lebanon	5.9
Tunisia	4.5
Chile	4.4
China	3.7
Egypt	3.1
Malaysia	3.1
Jamaica	1.8
Total index return	10.4

Year to date	%
Pakistan	156.4
Ukraine	120.4
Argentina	111.2
Ecuador	100.1
Iraq	91.1
Ghana	88.0
Dominican Rep.	82.7
Venezuela	74.6
Republic of Serbia	71.9
Georgia	68.9
Gabon	66.1
Sri Lanka	64.2
Kazakhstan	61.1
Belize	57.7
Jamaica	44.8
Indonesia	42.4
El Salvador	41.3
Russia	35.4
Vietnam	34.0
Uruguay	32.1
Panama	25.8
Bulgaria	25.2
South Africa	22.8
Peru	22.5
Hungary	22.1
Lebanon	22.0
Philippines	20.9
Turkey	19.0
Colombia	17.5
Tunisia	15.6
Poland	12.3
Chile	11.9
Malaysia	11.8
Mexico	11.5
Brazil	11.1
Egypt	10.5
China	7.1
Total index return	27.8

Source: Aberdeen
Asset Management
Source: JPMorgan
EMBI Global
Diversified Index
Returns to Sep 09

Market review: Emerging market local currency debt index returns

Q3 09	%
Turkey	29.41
Colombia	17.95
Hungary	15.89
Indonesia	14.96
Brazil	12.63
Poland	12.02
Peru	9.53
Russia	7.03
Egypt	6.49
South Africa	4.84
Malaysia	3.46
Thailand	1.90
Mexico	0.08
Chile	-1.37
Total index return	8.65

Year to date	%
Brazil	45.69
Indonesia	34.38
Colombia	32.62
Peru	31.81
Egypt	30.28
Turkey	29.41
South Africa	18.99
Chile	18.20
Hungary	17.19
Mexico	9.76
Russia	9.58
Poland	5.33
Malaysia	-0.03
Thailand	-0.32
Total index return	18.63

Source: Aberdeen
Asset Management
Source: JPMorgan
GBI-EM Global
Diversified Index
(unhedged in USD)
Returns to Sep 09



Performance – Local Currency

In USD (%)	Portfolio	Benchmark	Difference
2008	-14.99	-5.22	-9.77
Q1 09	-3.19	-4.92	1.73
Q2 09	11.33	11.89	-0.56
Q3 09	9.22	8.65	0.56
2009 YTD	21.29	18.63	2.67

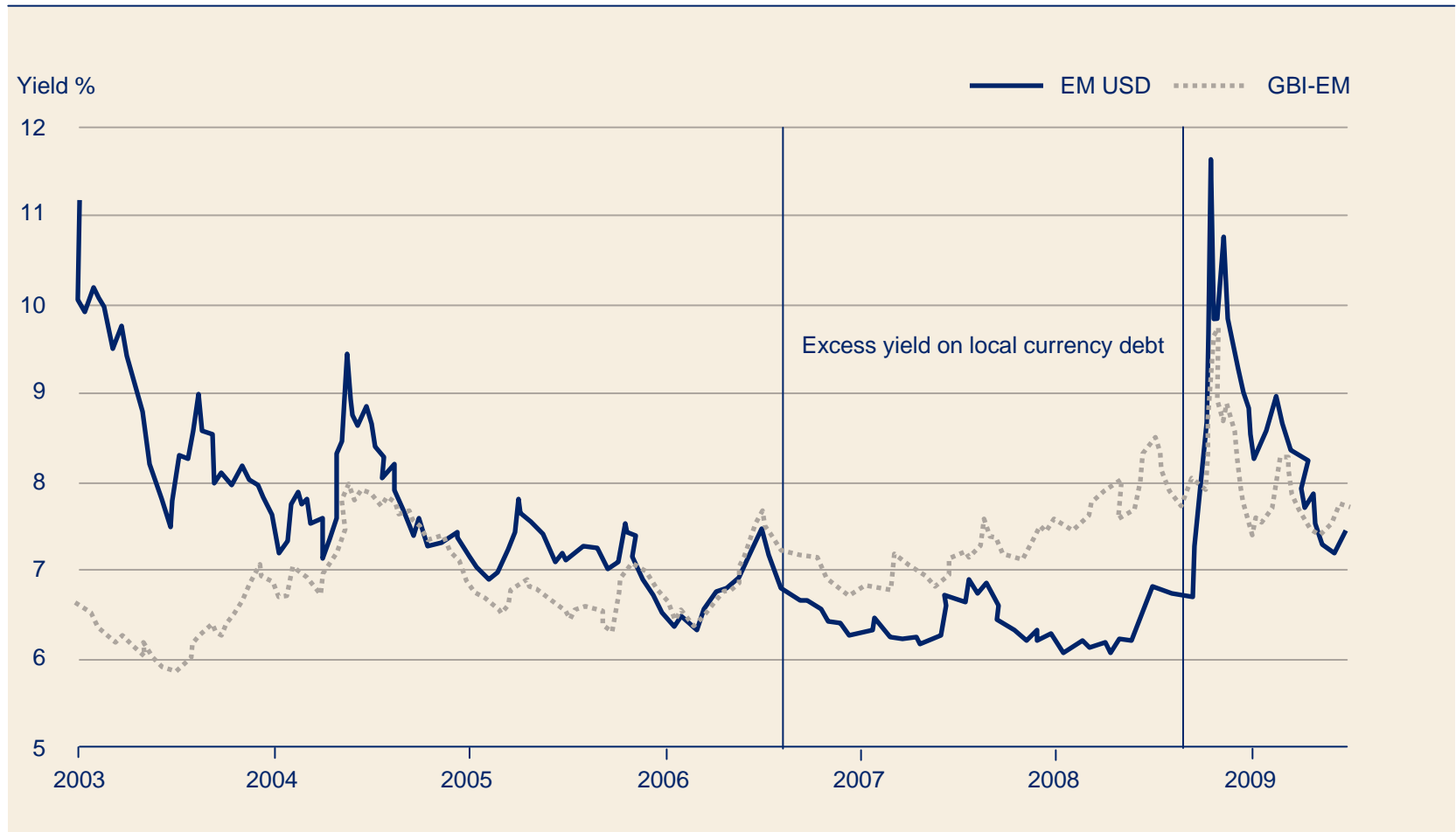
As at 30 Sep 09.
Inception date: 4 Oct 07. Returns are stated gross of fees
Benchmark: 100% JP Morgan GBI-EM Global Diversified
Source: Aberdeen Asset Management

Current portfolio – Local currency

Country	(% of total fund)		
	Bond Exposure	Currency Fwds	Net FX
Argentina	1		1
Brazil	11		11
Chile	0	2	2
Colombia	5	-2	3
Mexico	10	1	11
Peru	3	3	6
Uruguay	1		1
Latin America total	31	4	35
Hungary	11	-2	9
Nigeria	4		4
Poland	6	3	9
Russia	3	-2	1
South Africa	11	-5	6
Turkey	5	6	11
Europe/Africa total	40	0	40
Indonesia	9	2	11
Malaysia	7	2	9
Philippines	0	1	1
Thailand	4	-3	2
Asia total	20	2	22
US/Cash	9	-6	3
Total	100	0	100

Source: Aberdeen Asset Management. Positions for the Aberdeen SHY Local Currency Fund, 28 Oct 09

Local currency offers higher yield than hard currency debt



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