



CAPITAL INTERNATIONAL HIGH INCOME FUND P.L.C.

Abbreviated Annual Report
for the year ended 30th September 2017

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General Information

Directors

W J Clarke*

R C Floate

D R Q Long

D M Schuster* (Chairman)

* denotes Non-executive Director

Secretary

R C Floate

Manager and Registrar

Capital International Fund Managers Limited
Capital House, Circular Road, Douglas
Isle of Man, IM1 1AG, British Isles

Investment Manager

Aberdeen Asset Managers Limited
10 Queen's Terrace, Aberdeen,
AB10 1YG, British Isles

Fiduciary Custodian

Capita Trust Company (Jersey) Limited*
12 Castle Street, St Helier, Jersey
JE2 3RT, British Isles

* Following acquisition by Link Administration Holdings Limited, with effect from 6th November 2017, Capita Trust Company (Jersey) Limited has changed its name to Link Corporate Services (Jersey) Limited.

Auditor

PricewaterhouseCoopers LLC
Sixty Circular Road, Douglas, Isle of Man
IM1 1SA, British Isles

Manager's Report

Introduction

As detailed in the previous section entitled 'General Information', the Capital International High Income Fund P.L.C ("the Fund") is managed by Capital International Fund Managers Limited ("the Manager") and the investment manager is Aberdeen Asset Managers Limited ("the Investment Manager"). This section also details the Directors, Secretary, Fiduciary Custodian and the Auditor; it should be noted that following acquisition by Link Administration Holdings Limited, with effect from 6th November 2017, the Fiduciary Custodian has changed its name from Capita Trust Company (Jersey) Limited to Link Corporate Services (Jersey) Limited.

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 ("Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with these Regulations, the Fund complies with the Statement of Recommended Practice ("SORP") for Authorised Funds issued by the Investment Management Association ("IMA") in May 2014 (the "IMA SORP") and includes the portfolio statement as part of the Manager's report. The Fund was originally established and authorised on 3rd March 1989.

Important information

The Annual Report & Audited Financial Statements for the year ended 30th September 2017 (together with the Abbreviated Annual Report for the year ended 30th September 2017 that has been sent to all registered shareholders) can both be viewed on our website - www.capital-iom.com and are available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund. The Fund remains a reporting fund at the date of this report.

If shareholders have any questions regarding the Fund please contact our Customer Services Team on 01624 654200 - or by email on customerservices@capital-iom.com.

Investment objective, policy and strategy

The investment objective of the fund is to provide investors with a high return before taxation from a managed portfolio of predominantly fixed-interest securities, denominated in sterling and other currencies, with all income distributed on a quarterly basis.

Investment Manager overview for the year ended 30th September 2017 Market review

Geopolitical issues were a primary focus for the UK corporate bond market over the review period. Donald Trump won a surprise victory in the US presidential election. Meanwhile in Europe, populist politics looked to be in the ascendancy, most notably in France and the Netherlands. Theresa May decided to trigger Article 50 at the end of March, setting the clock running on the UK's exit from the European Union.

Following Trump's election success in November, the risks to inflation looked to have increased, with growing expectations of tax cuts and increased spending on infrastructure. Corporate bonds were strong in all the major markets, and credit risk premiums (spreads) fell as investors added risk. Central banks such as the European Central Bank and the Bank of England bought significant amounts of bonds.

The asset class continued to deliver positive returns in the first quarter of 2017. While central banks continued to buy bonds, the main support for the asset class came from “real money” investors, and demand was sufficiently robust to soak up new issuance. Between April and June, the benign global macroeconomic environment was supported by a strong earnings season. Markets also drew comfort from the result of the French presidential election. Towards the end of June, policymakers hinted that easy monetary policy regimes may be coming to a close, driving underlying government bond yields higher.

While credit spreads edged wider in August – interrupting a significant period of outperformance – the performance of the asset class remained very positive. Some of August’s volatility was caused by heightened geopolitical concerns and in anticipation of potential actions from policymakers. In September, the 10-year gilt yield rose by 33 basis points (the largest upward move in the last year) but credit spreads moved tighter, offsetting some of the price drops caused by the gilt move.

Performance and activity of the Fund*

In the 12 months to the end of September 2017 the Fund returned 46bps gross of fees and tax versus a benchmark return of -19bps, therefore outperforming the benchmark by 65bps. Throughout the period, subordinated banks and insurers – where the fund is overweight – made a positive contribution to performance with stronger macroeconomic conditions supporting the financials sector. Bonds from Lloyds Banking Group and Axa were among the strongest performers; we trimmed our holdings in both in August following outperformance.

Volkswagen had suffered from a barrage of bad publicity when it was found to have cheated carbon dioxide emissions tests. In April we participated in a new issue from the carmaker to reduce underweight to the name as negative news flow on the company began to wane. The fund also reduced its ultra-long Mexico position.

Performance and activity of the Fund* (CONT.)

Stock selection in the consumer sector was boosted in particular by the overweight in Tesco Property Finance bonds. This was sold in June as the spread reached a level where the bond appeared fully valued. We also sold bonds issued by Centrica, Deutsche Telekom, taking profits after a late spring rally. The focus on reducing credit risk continued into July; bond sales included those issued by Enel, Thames Water and Apple as spreads reached levels where it was difficult to envisage further outperformance.

In the second half of the review period we reduced our structural underweight in housing association bonds, adding bonds from Peabody after yield spreads widened in the sector. We also purchased Notting Hill and THFC Funding. For much of the review period we have favoured lower beta, more defensive trades such as the regulated balance sheets of Severn Trent Water and National Grid. Broadly speaking, these have been positive for performance.

September was a busy month for primary issuance with the Fund participating in no fewer than six deals. New senior bank positions were added in Credit Suisse, Swedbank and Barclays. Exposures to high quality names Total, British Land and Northumbrian Water were also topped up. Purchases were largely funded via reductions in residential mortgage-backed security names such as Dukinfield and RMS, which have performed well this year and now appear expensive.

*The performance figures reported by the Investment Manager differ from the Comparative Table due to distributions and other Fund operating expenses.

Outlook**

Credit markets are fairly valued as a whole, especially in the context of other asset classes, though with yield curves steepening bonds at the longer end are starting to feel pressure with offers noticeably outweighing bids in the market. Bond values have largely withstood the completion of the Bank of England's Corporate Bonds Purchase Scheme which helped drive spreads tighter around the turn of the year however the focus is now on tightening monetary policy, albeit gradually. Coupled with other macroeconomic and political news flow – not least ongoing Brexit negotiations – some volatility is likely over the course of 2018 and a more cautious approach appears prudent. As a result the fund continues to trim risk from the fund and add shorter bonds with a higher carry element in order to protect capital in a rising rate environment.

**Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Comparative Table

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

Performance record for the year ended

	Highest offer share price P	Lowest bid share price P	Net allocation per share* P
30 September 2013	57.35	50.40	1.94
30 September 2014	56.64	50.60	1.97
30 September 2015	60.16	52.30	1.91
30 September 2016	62.81	51.70	1.91
30 September 2017	61.28	54.67	1.91

*Net distribution per share is based on average shares in issue during the period.

Net asset value record for the year ended

	Net asset value of participating shares £	Shares in issue	Cancellation price per share P
30 September 2015	40,766,930	77,782,080	52.41
30 September 2016	43,262,143	74,550,840	58.03
30 September 2017	38,723,245	69,794,140	55.48

Ongoing charges figure ("OCF") for the year ended

	OCF/TER* %
30 September 2015	1.15%
30 September 2016	1.03%
30 September 2017	0.86%

*The Ongoing charges figure ("OCF") has replaced the Total expense ratio ("TER"). OCF is the total expenses paid by a share class in the year against its average daily net asset value.

Details of investments

	% of Fund's property 30.09.2017	% of Fund's property 30.09.2016
Government bonds	4.26	7.86
Corporate bonds	94.06	90.16
Bank balances	1.68	1.98
	100.00	100.00

Due to licence restrictions, individual credit ratings have not been disclosed. However a credit quality is disclosed below in accordance with the requirements of the IMA SORP.

Credit rating analysis

	Market Value as at 30.09.2017 £	Market Value as at 30.09.2016 £
Investment grade	36,744,528	40,204,472
Non-investment grade	1,108,990	1,936,649
Total debt securities	37,853,518	42,141,121

Top five holdings

Asset description	% of Fund's property 30.09.2017	Asset description	% of Fund's property 30.09.2016
1. TRANSPORT FOR LONDON 2.125% 24/04/2025	2.96	1. TRANSPORT FOR LONDON 2.125% 24/04/2025	2.77
2. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	2.41	2. GE CAPITAL UK FUNDING 5.875% 18/01/2033	1.62
3. UK TREASURY 5% 07/03/2025	1.98	3. LLOYDS BANK PLC 6.5% 17/09/2040	1.48
4. E.ON INTL FINANCE BV 6.375% 07/06/2032	1.51	4. E.ON INTL FINANCE BV 6.375% 07/06/2032	1.44
5. ELECTRICITE DE FRANCE SA 5.5% 17/10/2041	1.35	5. ELECTRICITE DE FRANCE 5.5% 17/10/2041	1.34

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