



# CAPITAL INTERNATIONAL HIGH INCOME FUND P.L.C.

Unaudited Abbreviated Interim Report  
for the six-month period ended 31st March 2018

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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

Link Corporate Services (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.

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 Unaudited Interim Financial Statements for the six-month period ended 31st March 2018 (together with the Unaudited Abbreviated Interim Report that has been sent to all registered shareholders) can both be viewed on our website - [www.capital-iom.com](http://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.

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](mailto: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 six-month period ended 31st March 2018

Sterling corporate bonds underperformed UK government bonds over the six months to 31 March. The final three months of 2017 were positive for corporate bonds; benign government bond markets, loose monetary policies and improving levels of economic activity all helped create an environment which attracted investors into riskier assets. Financials led the performance tables – in particular subordinated bonds – but spreads tightened in practically all sectors.

## Market review

Moving into 2018, sterling investment grade credit continued to outperform UK government bonds in January, although the return generated by a tightening of credit spreads over gilts was entirely offset by yield moves, with the 10-year gilt yield finishing 0.30% higher over the month at 1.52%.

## Performance and activity of the Fund

Volatility returned to markets in late February and through March, causing spreads to widen with equity markets losing ground. The main drivers were rising wages, rising inflation, and a realisation that interest rates are set to rise in the US and the UK. Yield spreads for corporate bonds over government bonds widened, led by higher beta sectors such as subordinated financials and hybrid corporates.

Throughout most of the review period, the Fund has benefited from an overweight position in financials. Insurance subordinated bonds were buoyed by the performance of equity markets at the start of 2018, with yield spreads tightening around twice as much as the general market, albeit this area suffered disproportionately in February and March as credit spreads widened. The Fund's positioning in utilities was also beneficial, with an overweight in electric names and an underweight in water companies boosting the top line.

In the closing months of the review period, the focus on trading has been one of risk reduction. During December the Fund trimmed mining exposure through a sale of Rio Tinto bonds and added a defensive name in the form of Eversholt. In January, the Fund took some profits from bonds at the shorter end of the maturity spectrum, including Clydesdale Bank. In February, EDF was traded across its curve, reducing our large overweight in the 2041 bonds and reducing underweights on either side, though remaining underweight credit risk as a whole.

Also in February, weakness in Vodafone bonds was used as a catalyst to reduce its underweight while the Fund took the opportunity of a widening in AXA bonds to take a more constructive position in a name we like fundamentally. Dignity Finance, the UK funeral home operator, underperformed significantly in March as rating agency S&P downgraded the class B notes to BB (from BBB). This action follows a profit warning in January. Spreads on the bonds have widened materially this year to date as the issue will now fall out of investment grade indices.

## Outlook\*

On most traditional measures corporate bonds appear to be fairly fully valued. The demand for income, in what remains a very low yield environment, is often cited as the explanation. Whilst we think yields are likely to rise in 2018, we remain constructive on credit and see potential for spread compression after the widening seen in February and March. Fundamental factors are also, in our opinion, supportive, as are macroeconomic improvements in both the developed and developing economies although the US-China trade issue is an ongoing potential risk and central banks remain likely to be paring back their bond-buying programmes.

\*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

## Change in net assets per share

	2018*	2017	2016
	P	P	P
Opening net asset value per share	55.48	58.03	52.41
Return before operating charge**	0.16	(0.15)	8.12
Operating charges	(0.26)	(0.49)	(0.59)
Return after operating charges**	(0.10)	(0.64)	7.53
Distributions on preference shares	(0.86)	(1.91)	(1.91)
Closing net asset value per share	54.52	55.48	58.03
<b>*For the six-month period ended 31st March 2018</b>			
<b>** after direct transaction costs of</b>	0.003	0.004	0.003

## Performance

	2018	2017	2016
Return after charges	(0.18%)	(1.10%)	14.37%

## Other information

	2018	2017	2016
Closing net asset value	36,754,408	38,723,245	43,262,143
Closing number of shares	67,419,360	69,794,140	74,550,840
Operating charges	0.47%	0.86%	1.03%
Direct transaction costs	0.005%	0.006%	0.005%*

**\*The 2016 comparative figure has been changed from 0.003% to 0.005% to be consistent with the 2017 calculation.**



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

## Performance record

	Highest offer share price P	Lowest bid share price P	Net distribution per share* P
01.10.2013 to 30.09.2014	56.64	50.60	1.97
01.10.2014 to 30.09.2015	60.16	52.30	1.91
01.10.2015 to 30.09.2016	62.81	51.70	1.91
01.10.2016 to 30.09.2017	61.28	54.67	1.91
01.10.2017 to 31.03.2018	59.87	54.36	0.86

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

## Ongoing charges figure ("OCF")

	OCF* %
30 September 2015	1.15%
30 September 2016	1.03%
30 September 2017	0.86%
31 March 2018 **	0.94%

\*The OCF is the total expenses paid by a share class in the year against its average daily net asset value.

\*\* Charges in the six-month period ended 31st March 2018, annualised.

## Details of investments

	% of Fund's property 31.03.2018	% of Fund's property 30.09.2017
Government bonds	5.52	4.26
Corporate bonds	94.12	94.06
Bank balances	0.36	1.68
	100.00	100.00

## Credit rating analysis

	Market Value as at 31.03.2018 £	Market Value as at 30.09.2017 £
Investment grade	35,482,200	36,744,528
Non-investment grade	783,507	1,108,990
<b>Total debt securities</b>	<b>36,265,707</b>	<b>37,853,518</b>

## Top five holdings

Asset description	% of Fund's property 31.03.2018	Asset description	% of Fund's property 30.09.2017
1. TRANSPORT FOR LONDON 2.125% 24/04/2025	2.80	1. TRANSPORT FOR LONDON 2.125% 24/04/2025	2.69
2. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	2.49	2. EUROPEAN INVESTMENT BANK 5.375% 07/06/2021	2.41
3. E.ON INTL FINANCE BV 6.375% 07/06/2032	1.56	3. UK TREASURY 5.0% 07/03/2025	1.98
4. UK TREASURY 4.0% 07/03/2022	1.54	4. E.ON INTL FINANCE BV 6.375% 07/06/2032	1.51
5. HSBC HOLDINGS 2.256% 13/11/2026	1.38	5. ELECTRICITE DE FRANCE 5.5% 17/10/2041	1.35

The Unaudited Abbreviated Interim Report for the six-month period ended 31st March 2018 is approved and authorised for issue by the Manager:

JP Bridle, Director

PS Moran, Director

Capital International Fund Managers Limited  
24th May 2018

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