Quarter ended October 31, 2018

Quarterly Commentary

Aberdeen Standard Investments

Aberdeen Asia-Pacific Income Investment Company

Fund performance

Aberdeen Asia-Pacific Investment Co. returned -3.97%[1] on a net asset value basis for the three-month period ended October 31, 2018, versus the -3.10% return of its blended benchmark.[2] Our strategy in emerging-market (EM) debt, notably the underweight exposure, was the key contributor to the Company's performance in both absolute and relative terms. This was counterbalanced by the strategies in Asian local-currency bonds, Australian bonds and Asian U.S.-dollar credit, all of which detracted from the Company's absolute and relative performance for the quarter.

The Company's exposure to EM debt stood at 8% of net assets at the end of the reporting period, a substantial underweight relative to its blended benchmark. This enhanced the Company's performance, given the heightened volatility in the segment. Notably, the significant underweight allocations to the Turkish lira and Mexican peso bolstered the Company's relative performance as both currencies fell against the Canadian dollar over the reporting period. Security selection in Brazil also benefited performance, although the underweight to the Brazilian real pared gains as the currency strengthened.

In Asian local-currency bonds, the main detractors from the Company's performance for the quarter were the overweight positions in the Indian rupee and Sri Lankan rupee, both of which declined against the U.S. dollar. However, the overweight to Indian bonds mitigated losses as yields in that market moved lower. The underweight to the Philippines also had a positive impact on performance as local bond yields rose.

The Company's overweight exposure to Asian U.S.-dollar credit, which posted a negative total return during the quarter, weighed on the relative performance. Additionally, the Australian dollar's depreciation detracted from the relative performance.

Market review

Asia-Pacific and EM bonds posted mixed returns over the three-month period ended October 31, 2018, as a recurring litany of worries buffeted investor sentiment. A key concern over the period was escalating contagion risks arising from domestic currency crises in Argentina and Turkey, which quickened foreign outflows from EM financial assets. For oil-importing markets, this was exacerbated by the spike in the crude price on the back of U.S. economic sanctions on Iran. This in part led to higher inflation and accelerated interest-rate hikes by several Asian central banks. To some extent, they were following in the footsteps of the Fed, whose rate-hike cycle caused U.S. Treasury yields to rise to multi-year highs. Amid fears about a U.S.-dollar liquidity crunch, most currencies weakened against the greenback. A new U.S.-Mexico-Canada trade deal also strengthened the Canadian dollar against most currencies. Meanwhile, China-U.S. trade tensions worsened as U.S. President Donald Trump amplified his protectionist stance.

Regional U.S.-dollar credit markets declined on a total-return basis over the reporting period, with high-yield bonds underperforming their investment-grade[3] counterparts. Tighter liquidity and heightened risk-aversion caused spreads to widen significantly over the quarter. A rising issuance pipeline from China and new deals concluded at relatively high yields put pressure on issuers due for refinancing. Local government financing vehicles in mainland China weakened on the back of downgrades, which reflected credit-rating agencies' view that implicit support from Beijing would lessen over time. In India, rare defaults at a non-bank financial company fuelled worries about a potential cash crunch.

[1] ***Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance quoted. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.***

[2] The Company's blended benchmark is comprised of 25% UBS Composite Index; 20% Merrill Lynch Asia U.S. Dollar Bond Index; 15% Markit iBoxx Indonesia Index; 10% Market iBoxx Philippines Index; 10% Markit iBoxx India Index; 7% J.P. Morgan Government Bond-Brazil Index; 7% J.P. Morgan Government Bond-Turkey Index; and 6% J.P. Morgan Government Bond-Mexico Index.

[3] Companies whose bonds are rated as "investment grade" have a lower chance of defaulting on their debt than those rated as "non-investment grade." Generally, these bonds are issued by long-established companies with strong balance sheets. Bonds rated BBB- or above are known as investment grade bonds. Standard & Poor's credit ratings communicate the agency's opinion of relative level of credit risk. Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. The investment grade category is a rating from AAA to BBB-.

Among local-currency government bonds, the Philippines and Sri Lanka were major underperformers on a total-return basis, with yields rising across their respective curves. Philippine policymakers remained decidedly hawkish as inflation remained elevated, while Sri Lanka suffered a constitutional crisis when the prime minister was ousted. Indonesian yields rose on the back of the central bank's rate hikes and dwindling foreign reserves as policymakers struggled to prop up the floundering rupiah.

The Indian market experienced a volatile quarter but investor confidence returned after oil prices declined, inflationary pressures moderated and the central bank announced more bond-buying through open-market operations. This helped to lower bond yields and bolstered total returns despite rupee weakness. In Australia, bond yields fell but market returns were pared by the Australian dollar's depreciation, given the country's close economic ties with China, where the trade spat with the U.S. began to a take a toll. Falling house prices and out-of-cycle mortgage rate increases led investors to push out the potential for a rate hike from the Reserve Bank of Australia to two years.

In emerging markets outside of Asia, government bond yields were mixed. In Turkey and Mexico, currency weakness weighed on bond market returns, with government bond yields sharply higher across their respective curves. Policy inaction remained a concern in Turkey, prompting Moody's[4] to downgrade the credit ratings of 18 domestic banks and sending the lira plunging. However, this was somewhat assuaged by the central bank's 625-basis point rate hike to 24% in September, with a promise to deliver further tightening if inflation accelerates. Turkey's external position also appeared to improve as the current account recorded its first surplus in three years in August. Despite easing inflation and an improving trade deficit, the Mexican market was hampered by investors' worries that the government would default on the bonds it had issued to finance the construction of the Mexico City airport, after a referendum voted to cancel the project.

Conversely, Brazilian bonds rallied over the quarter, with the currency's appreciation further lifting total returns. The Brazilian real proved to be an exception among EM currencies, gaining against both the U.S. and Canadian dollars. The main reason was the improved sentiment in the lead-up to right-wing candidate Jair Bolsonaro's sweeping presidential victory. Investors took comfort in his market-friendly pledge and a favourable Congress composition that could prove crucial in pushing forward his economic agenda, including privatisation of state-owned companies, pension reform and lower taxes.

Outlook

EMs have borne the brunt of concerns about tightening U.S. monetary policy, the stronger greenback, volatile oil prices and unresolved global trade tensions. Going forward, we see the possibility of the Fed taking a breather in its policy normalisation cycle in the first half of 2019. We are mindful of the slowdown in China's economy but are encouraged to see that the authorities are committed to providing support for the private sector. Therefore, while we think that we may see further pressure on currencies and capital flows, we believe that markets are already reflecting this risk to a large degree. Furthermore, we should not rule out the possibility of Washington and Beijing resolving their trade dispute, which could take place next year when Democrats, who won the majority in the House of Representatives in the U.S. midterm elections in early November, take office. We think that they are unlikely to back further tax cuts to boost growth, so President Trump may be compelled to soften his hardline stance against China.

In Australia, we feel that interest rates are likely to be kept steady well into 2019 as strong GDP growth supported by consumer spending is being offset by housing-sector weakness and tightening credit conditions. We think that employment growth will add a positive countervailing force to housing weakness, but we do not expect labour conditions to tighten before the end of the year.

Overall, we believe that risk factors, such as global liquidity tightening and global trade tensions, could further expose vulnerable economies. However, most Asia-Pacific and emerging economies generally have healthy external balances and solid foreign-currency reserves, while institutional frameworks are noticeably more robust than a decade ago. We anticipate that volatility will persist, but we will take advantage of opportunities to add exposure where we think that valuations look compelling, particularly issuers which we feel will cope well in a lower-growth environment.

[4] Moody's is an independent, unaffiliated research company that rates fixed income securities. Moody's assigns ratings on the basis of risk and the borrower's ability to make interest payments. Typically securities are assigned a rating from Aaa to C, with Aaa being the highest quality and C the lowest quality.

Total Returns* (%)

NAV	Cumulative	Annualized
Since inception (June 1986)	751.6	6.8
Ten years	95.1	6.9
Five years	19.3	3.6
Three years	9.4	3.0
One year	-9.9	

Market price	Cumulative	Annualized
Since inception	542.4	5.9
Ten years	102.8	7.3
Five years	-9.9	-2.1
Three years	-3.1	-1.0
One year	-18.9	

* Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. NAV return data includes investment management fees, custodial charges, bank loan expenses and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions. The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

Top Ten Equity Holdings**

Holding	%
Brazil Notas do Tesouro Nacional (Series F)	6.0
Indonesia Government Bond, JP Morgan Chase Credit Linked Note	3.8
Indonesia Government Bond, Standard Chartered Credit Linked Note	3.8
Brazil Notas do Tesouro Nacional (Series F)	3.7
Australian Government Bond	3.1
India Government Bond	3.0
Australian Government Bond	2.8
Indonesia Government Bond	2.3
India Government Bond	2.1
India Government Bond	2.1
Total	**32.7**

**Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. The top ten holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

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