

F&C European High Yield Bond



Share Class A

June 2014

Chris Brils
Fund Manager



remained the same at 1.7% and expects this to rise to 2.3% by end March 2015.

The portfolio's overweight to single-B rated securities detracted from performance this month. Outperformance came from peripheral European positions, select emerging market names and lower quality, triple-C rated securities.

The new issue market was active, but showed a much lower volume than the record April month. The fund is becoming increasingly selective as covenants offered are deteriorating. Amongst others, we participated in new issues for Schaeffler, R&R Icecream, Matalan, Xella, CABB and the long awaited new additional tier 1 issue for Deutsche Bank.

Reporting season was heavy in May and many issuers disappointed. There were weak results for Ence, Avanza, Telecom Italia and Wind. Edcon bonds performed well on the recovery in emerging markets. Existing R&R Icecream bonds were called and refinanced with a news issue in which we participated.

Fund overview

The Fund aims to capture superior risk-adjusted returns over the long-term through investment in high yielding fixed income securities issued predominantly by European companies.

The team actively manages the portfolio with a conservative investment style and a high quality bias. Investment will predominantly be in high yield corporate bonds but there is scope for the Fund to invest opportunistically in investment grade and non-rated bonds as well as derivative instruments such as credit default swaps where the manager believes this will enhance portfolio return. The Fund's benchmark excludes subordinated financials and triple-C and lower rated bonds..

The exclusion of both categories means our reference index has a lower sensitivity to market movements, reflecting our cautious approach.

Fund commentary

May witnessed a continuation of the rally in developed market government bonds and this drove credit returns. Spreads remained mostly flat over the month, although there was some spread volatility. The European periphery continues to improve as Portugal announced it no longer requires bail-out funding. The Ukraine crisis abated somewhat as Russia apparently withdraw some troops from the border. Going forward attention is now on the ECB meeting in early June.

It has become evident from recent earnings releases that credit metrics are coming under pressure as firms become more expansionary again with a focus on capital expenditures. Standard & Poor's reported that the default rate

Key facts

Fund objective: The objective is to achieve a long term increase in the value of your investment. The Fund seeks to achieve this by investing in non-investment grade, BB or lower, debt securities which are denominated in a European Currency or which are issued or guaranteed by companies which are registered in a European country.

Fund type: SICAV

Sector: Bond Europe High Yield

Benchmark: ML Euro currency HY, BB-B Constrained Index ex Subordinated Financials

Fund size: €37.8 mn

Fund price €: 14.47c

Dividend (ex date): Annually

Dividend payment date: Last working day of January

Front end fee: Up to 5.00%

Management fee: 1.00%

Launch date: 14 Aug 2000

Minimum investment: EUR 2,500

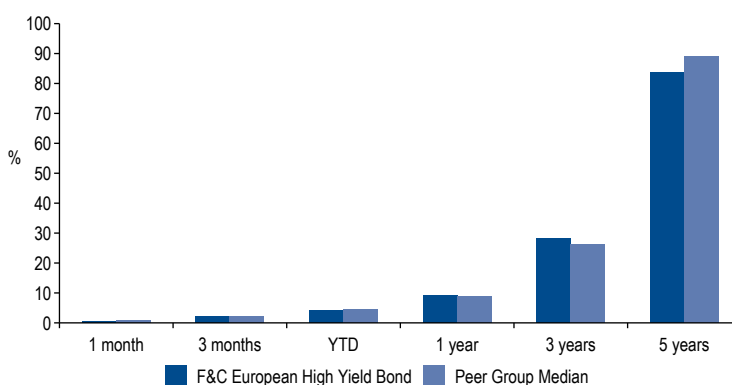
Currency: Euro

Year end: 30 September

ISIN: LU0153358402

The Key Investor Information Document(s) and Prospectus for these shares are available from F&C.

Fund performance - Primary share class



Discrete performance as at 31.12.2013 (%)

	2009	2010	2011	2012	2013
F&C European High Yield Bond	52.06	12.66	-1.71	20.77	8.26
Peer Group Median	56.26	13.70	-3.32	22.58	7.74
Quartile Ranking	3	3	2	3	2

The discrete performance periods are to the end of December each year.

Cumulative performance as at 30.05.2014 (%)

	1 month	3 months	YTD	1 year	3 years	5 years
F&C European High Yield Bond	0.63	2.19	4.25	9.18	28.32	83.61
Peer Group Median	0.82	2.29	4.36	8.83	26.30	89.02
Quartile Ranking	3	3	3	2	2	3

Source: F&C Management Limited, Lipper

Past performance is not a guide to future performance. Values may fall as well as rise and investors may not get back the full amount invested. Income from investments may fluctuate. Income payments may constitute a return of capital in whole or in part. Income may be achieved by foregoing future capital growth. Receiving income due from debt instruments and the return of the principal is dependant upon the provider's ability to pay. Changes in interest rates can affect the value of the fixed interest holdings. The fund may place cash on deposit with approved counterparties, the return of which will be dependant upon the continued solvency of the counterparty.

Top holdings (%)

Telecom Italia 4.875% 25 Sep 2020	2.07
Heidelbergcement Finance 7.5% 03 Apr 2020	1.66
Arqiva Broad FIN 9.500% 31 Mar 2020	1.53
Lafarge SA 6.75% 16 Dec 2019	1.48
Intergen Nv 7.500% 30 Jun 2021	1.41
Numericable Group S.A Regs 5.625% 15 May 2024	1.40
Fiat Fin&Trade 6.625% 15 Mar 2018	1.40
Atona 7.250000 C 22 EUR	1.40
Almirall SA 4.625% 01 Apr 2021	1.40
SGD Group 5.625% 15 May 2019	1.37

Credit rating breakdown (%)

BB	37.58
B	56.15
CCC	2.92
NR	1.40
Cash	1.95

All data as at 30.05.2014

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The Swiss representative of F&C Portfolios Fund is Carnegie Fund Services S.A. 11, rue du Général Dufour, 1204 Geneva, phone number +41 (0)22 705 1177 and website www.cfswitzerland.ch.