ABERDEEN ASIA-PACIFIC INCOME FUND INC
Form N-CSR
January 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number: 811-04611

Aberdeen Asia-Pacific Income Fund, Inc.

Exact name of registrant as specified in charter:

800 Scudders Mill Road,

Plainsboro,

New Jersey 08536
Address of principal executive offices:

Megan Kennedy

Aberdeen Asset Management Inc.

1735 Market Street

37th Floor

Philadelphia, PA 19103
Name and address of agent for service:

Registrant s telephone number, including area code: 800-522-5465

Date of fiscal year end: 10/31/08

Date of reporting period: 10/31/08

Item 1 Reports to Stockholders

08

Invests primarily in Australian and Asian debt securities.

Aberdeen Asia-Pacific Income Fund, Inc.

Annual Report

October 31, 2008

[GRAPHIC]

Letter to Shareholders (unaudited)

December 11, 2008

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Asia-Pacific Income Fund, Inc. (the Fund) for the year ended October 31, 2008. The Fund s investment objective is to seek current income. The Fund may also achieve incidental capital appreciation.

Net Asset Value Performance

The Fund s total return based on net asset value (NAV) was 24.32% over the year ended October 31, 2008 and 7.8% per annum since inception, assuming the reinvestment of distributions.

Share Price Performance

The Fund s share price decreased by 33.5% over the year, from $6.29 on October 31, 2007 to $4.18 on October 31, 2008. The Fund s share price on October 31, 2008 represented a discount of 14.9% to the NAV per share of $4.91 on that date, compared with a discount of 10.0% to the NAV per share of $6.99 on October 31, 2007. At the date of this letter, the share price was $3.89 representing a discount of 23.7% to the NAV per share of $5.10.

Asia: 48.5% of Total Investments Invested in Asian Debt Securities

As of October 31, 2008, the Fund held 48.5% of its total investments in Asian debt securities (including New Zealand). Of the Fund s total investments, 29.4% were held in U.S. dollar denominated bonds issued by foreign issuers, bringing the Fund s total U.S. dollar exposure to 37.6%.

Credit Quality: 71.9% of Securities Rated or Deemed Equivalent to A or Better

As of October 31, 2008, 71.9% of the Fund s portfolio was invested in securities where either the issue or the issuer was rated A or better, or judged by Aberdeen Asset Management Asia Limited (the Investment Manager) to be of equivalent quality.

Distributions

Distributions to common shareholders for the twelve months ended October 31, 2008 totaled 42 cents per share. Based on the share price of $4.18 on October 31, 2008, the distribution rate over the twelve months then ended was 10.0%. Since all distributions are paid after deducting applicable withholding taxes, the effective distribution rate may be higher for those U.S.

investors who are able to claim a tax credit.

On December 9, 2008, the Board of Directors authorized a monthly distribution of 3.5 cents per share, payable on January 16, 2009 to common shareholders of record as of December 31, 2008 and authorized a special distribution of 5.0 cents per share payable on January 16, 2009 to common shareholders of record as of December 31, 2008.

The Board s policy is to provide investors with a stable monthly distribution out of current income, supplemented by realized capital gains and, to the extent the Fund does not generate earnings from dividends, interest and net realized capital gains equal to or in excess of the aggregate distributions paid by the Fund, paid-in capital, which is a non-taxable return of capital. It is the Board s intention that the monthly distribution of 3.5 cents per share be maintained for twelve months, beginning with the July 11, 2008 distribution payment. This policy is subject to regular review at the Board s quarterly meetings, unless market conditions require an earlier evaluation. The next review is scheduled to take place in March 2009.

Share Repurchase Policy

The Board s policy is generally to buy back Fund shares on the open market when the Fund trades at certain discounts to NAV. During the fiscal year ended October 31, 2008, the Fund repurchased 3,344,500 shares through this program.

Revolving Credit Facility and Leverage

The Fund has entered into a $600 million loan facility with a syndicate led by The Bank of Nova Scotia. Under the terms of the loan facility and applicable regulation, the Fund is required to maintain certain asset coverage ratios for the amount of its borrowings outstanding. Following the broader market declines in October 2008, the Fund s management determined to pay down $80 million of the loan facility in order to maintain compliance with these asset coverage ratios. Subsequent to fiscal year end, the Fund paid down an additional $30 million on the loan balance. The Fund s Board of Directors continues to evaluate the use of leverage for the Fund. In December 2008, the Fund s Board of Directors authorized the Fund to use reverse repurchase agreements as another form of leverage. The Fund may implement a reverse repurchase agreement program if the Board determines it would be advantageous for the Fund and stockholders to do so.

Portfolio Holdings Disclosure

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at http://www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund makes the information on Form N-Q available to shareholders on the Fund s website or upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465.

Amendments to Bylaws

In December 2008, the Fund s Board of Directors adopted amendments to the Fund s Amended and Restated Bylaws dated as

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Letter to Shareholders (unaudited) (concluded)

of December 12, 2007 (Bylaws) pertaining to certain corporate governance matters. Many of these amendments reflect recent changes to the Maryland general corporation law; other amendments were also approved to conform the Bylaws to those of the other closed-end funds managed by the Investment Manager. The amended Bylaws include:

Updates to the procedures required for shareholders to call a special meeting of shareholders, including provisions that (a) clarify which shareholders may call a special meeting; (b) establish procedures to fix a record date; (c) establish procedures to set the date, time and place of special shareholders meetings; (d) address revocation of requests for special shareholders meetings; and (e) allow for verification of the validity of a shareholder request for a special meeting.

Enhancements to the advance notice provisions of the Bylaws. These amendments require shareholders to notify the Secretary of the Fund of Director nominations and other shareholder proposals to be brought at an annual meeting, beginning with the 2010 annual meeting of shareholders, not earlier than the 150th day and not later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the preceding year s proxy statement.

Additionally, the enhanced advanced notice provisions (a) expand the information required to be provided by the shareholder making the proposal or nomination, including information regarding hedging activities and investment strategies of such shareholder and the shareholder s affiliates; and (b) require shareholders to update or correct any previously-submitted information.

Clarification that only those individuals nominated in compliance with the advance notice provisions of the Bylaws are eligible to serve as Directors, and that individuals must meet the substantive qualification requirements at both the time of nomination and at the time of election.

Revisions to the vote required to elect Directors of the Fund; the vote required to elect a Director will be the affirmative vote of a majority of the shares of stock outstanding and entitled to vote in the election of such Director.

Clarification that the Board and shareholders may ratify prior actions or inactions by the Fund, and amendments providing that matters questioned in litigation may be ratified and that any such ratification bars any claim or execution of any judgment as to such questioned matter.

Other amendments relating to corporate governance and the conduct of shareholder meetings.

Amendments that vest in the Board the exclusive power to amend the Bylaws.

Amendments providing that directors and officers are entitled to indemnification and reimbursement to the maximum extent permitted by Maryland law and the Investment Company Act of 1940, as amended.

Any shareholder who would like a copy of the Fund s bylaws may obtain a copy by calling Investor Relations toll-free at 1-800-522-5465 or by visiting the web site of the Securities and Exchange Commission at http://www.sec.gov.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the twelve months ended June 30, 2008, is available: (i) upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465; and (ii) on the SEC s website at http://www.sec.gov.

Investor Relations Information

For information about the Fund, daily updates of share price, NAV and details of distributions, please contact Aberdeen Asset Management Inc. by:

calling toll free at 1-800-522-5465 in the United States,
emailing InvestorRelations@aberdeen-asset.com, or
visiting the website at www.aberdeenfax.com.

For information about the Aberdeen Group, visit the Aberdeen website at www.aberdeen-asset.com.

Yours sincerely,

Vincent Esposito

President

All amounts are U.S. dollars unless otherwise stated.

Distribution Disclosure Classification (unaudited)

Your Board s policy is to provide investors with a stable monthly distribution out of current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital.

The Fund is subject to U.S. corporate, tax and securities laws. Under U.S. tax accounting rules, the amount of distributable income for each fiscal period depends on the actual exchange rates during the entire year between the U.S. dollar and the currencies in which Fund assets are denominated and on the aggregate gains and losses realized by the Fund during the entire year.

Therefore, the exact amount of distributable income for each fiscal year can only be determined as of the end of the Fund s fiscal year, October 31. However, under the U.S. Investment Company Act of 1940, as amended (the 1940 Act), the Fund may be required to indicate the sources of certain distributions to shareholders. This estimated distribution composition may vary from month to month because it may be materially impacted by future realized gains and losses on securities and fluctuations in the value of the currencies in which Fund assets are denominated.

The distributions for the fiscal year ended October 31, 2008, consisted entirely of net investment income.

In January 2009, a Form 1099-DIV will be sent to shareholders, which will state the amount and composition of distributions and provide information with respect to their appropriate tax treatment for the 2008 calendar year.

Dividend Reinvestment and Cash Purchase Plan (unaudited)

We invite you to participate in the Fund s Dividend Reinvestment and Cash Purchase Plan (the Plan) which allows you to automatically reinvest your distributions in shares of the Fund s common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least $100 per transaction, with a maximum of $10,000 per month, and an aggregate annual limit of $120,000. Under this arrangement, The Bank of New York Mellon Corporation (the Plan Agent) will purchase shares for you on the New York Stock Exchange or otherwise on the open market on or before the investment date. The investment date is the 15th day of each month, but if such date is not a business day, the preceding business day.

As a participant in the Plan, you will benefit from:

- **Automatic reinvestment** the Plan Agent will automatically reinvest your distributions, allowing you to gradually grow your holdings in the Fund;
- **Lower costs** shares are purchased on your behalf under the Plan at low brokerage rates. Brokerage on share purchases is currently 2 cents per share;
- **Convenience** the Plan Agent will hold your shares in non-certificated form and will provide a detailed plan account statement of your holdings at the end of each month.

To request a brochure containing information on the Plan, together with an enrollment form, please contact the Plan Agent:

The Bank of New York Mellon Corporation

Shareholder Relations Department

480 Washington Blvd.

Jersey City, NJ 07310

or call toll free at 1-866-221-1606.

Report of the Investment Manager (unaudited)

Share Price Performance

On October 31, 2008, the Fund s share price was $4.18, which represented a discount of 14.9% to the NAV per share of $4.91. As of December 11, 2008, the share price was $3.89, representing a discount of 23.7% to the NAV per share of $5.10.

Redemption of the Auction Market Preferred Stock

On April 18, 2008, the Fund announced that it would redeem all the issued and outstanding shares of its series of Auction Market Preferred Stock (the AMPS) pursuant to their terms and replace the AMPS with debt financing from a loan of an equivalent amount from a syndicate of major financial institutions led by The Bank of Nova Scotia. The Fund undertook this transaction in response to liquidity issues in the AMPS market. In early February 2008, for the first time in the history of the Fund s AMPS program, the Fund did not receive sufficient hold orders and purchase requests for its AMPS. As a result, the amount sold by each selling AMPS holder was reduced pro rata or to zero. In addition, the dividend rate on the AMPS, which was normally set by means of a Dutch Auction procedure, automatically reset to the maximum rate permitted under the AMPS program.

On April 21, 2008, the Fund entered into the loan facility with a syndicate led by The Bank of Nova Scotia in the amount of $600 million, with an initial draw of $325 million and subsequent draws of $100 million on April 24, 2008 and May 2, 2008, and a final draw of $75 million on May 12, 2008 to redeem respective series of the Fund s AMPS. For the year ended, October 31, 2008, the average interest rate on the loan facility was 3.53% and the average balance of the loan facility was $581,871,795. During October 2008, the Fund paid down $80 million of the loan facility.

Loan Facility and the Use of Leverage

The Fund utilizes leverage to seek to increase the yield for its common stockholders. Until April 21, 2008, the Fund had issued AMPS for its leverage. The AMPS were redeemed and the leverage for investment purposes now involves borrowing under a loan facility. The amounts borrowed from the line of credit may be invested at higher rates than the rates in the Fund s portfolio. However, the cost of leverage could exceed the income earned by the Fund on the proceeds of such leverage. To the extent that the Fund is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Fund s common stock will decrease. In addition, in the event of a general market decline in the value of assets in which the Fund invests, the effect of that decline will be magnified in the Fund because of the additional assets purchased with the proceeds of the leverage. Non-recurring expenses in connection with the implementation of the loan facility and the redemption of the AMPS will also reduce the Fund s performance.

The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The funds borrowed pursuant to the loan facility may constitute a substantial lien and burden by reason of their prior claim against the income of the Fund and against the net assets of the Fund in liquidation. The Fund is not permitted to declare dividends or other distributions in the event of default under the loan facility. As described below, in the event of a default under the credit agreement, the lenders have the right to cause a liquidation of the collateral (i.e., sell portfolio securities and other assets of the Fund) and, if any such default is not cured, the lenders may be able to control the liquidation as well. The loan facility has a term of 364 days and is not a perpetual form of leverage; there can be no assurance that the loan facility will be available for renewal on acceptable terms, if at all.

The credit agreement governing the loan facility includes usual and customary covenants for this type of transaction. These covenants impose on the Fund asset coverage requirements, fund composition requirements and limits on certain investments, such as illiquid investments, which are more stringent than those imposed on the Fund by the 1940 Act. The covenants or guidelines could impede the Investment Manager or Investment Adviser from fully managing the Fund s portfolio in accordance with the Fund s investment objective and policies. These covenants also include limits on the Fund s ability to (i) issue preferred shares or forms of indebtedness, (ii) incur liens, (iii) change its investment objective or fundamental investment restrictions without the approval of lenders, (iv) amend the Fund s organizational documents in a manner which could adversely affect the rights and remedies of the lenders, or (v) create, incur, assume or permit to exist certain debt except for certain specified types of debt. In addition, the credit agreement does not permit the Fund s asset coverage ratio (as defined in the agreement) to fall below 300% at any time.

Furthermore, non-compliance with such covenants or the occurrence of other events could lead to the cancellation of the loan facility. These other events include, but are not limited to:

- Non-payment by the Fund of certain obligations to the lenders and other parties;

- Involuntary or voluntary liquidation, reorganization or other debt relief proceedings are commenced against or by the Fund;

- Aberdeen Asset Management Limited ceases to be the Investment Adviser to the Fund; State Street Bank and Trust Company ceases to be the Fund s custodian, or Aberdeen Asset Management Inc. ceases to be the Fund s administrator;

Report of the Investment Manager (unaudited) (continued)

Aberdeen Asset Management Asia Limited ceases to be owned or controlled by Aberdeen Asset Management PLC.

The Fund has entered into a $600 million loan facility with a syndicate led by The Bank of Nova Scotia. Under the terms of the loan facility and applicable regulation, the Fund is required to maintain certain asset coverage ratios for the amount of its borrowings outstanding. Following the broader market declines in October 2008, the Fund s management determined to pay down $80 million of the loan facility in order to maintain compliance with these asset coverage ratios.

The credit agreement permits, in certain circumstances, the Fund to cure non-compliance or seek waivers or approvals from the lenders. However, in the event that the loan facility were cancelled or were not available for renewal, the Fund may not be able to find other financing on acceptable terms, if at all. Should the Fund be unable to find other sources for financing, it would be forced to de-leverage by making significant sales of its portfolio investments. De-leveraging could involve the sales of some securities under unfavorable market conditions in order to repay the lenders. This could result in the portfolio s securities being sold for less than their expected value. Furthermore, these sales may realize capital gains. Because capital gains must be distributed to the Fund s stockholders, the Fund may need to sell additional portfolio securities under unfavorable market conditions in order to fund such distributions. Prices and availability of leverage are extremely volatile in the current market environment. The Fund s Board of Directors continues to evaluate the use of leverage for the Fund and will explore other forms of leverage. In December 2008, the Fund s Board of Directors authorized the Fund to use reverse repurchase agreements as another form of leverage. The Fund may implement a reverse repurchase agreement program if the Board determines it would be advantageous for the Fund and stockholders to do so. A reverse repurchase agreement involves the sale of a security, with an agreement to repurchase the same or substantially similar securities at an agreed upon price and date. Whether such a transaction produces a gain for a fund depends upon the costs of the agreements; coupled with the income and gains of the securities purchased with the proceeds received from the sale of the security. If the income and gains on the securities purchased fail to exceed the costs, the fund s NAV will decline faster than otherwise would be the case. Reverse repurchase agreements, as with any leveraging techniques, may increase the fund s return; however, such transactions also increase the fund s risks in down markets.

The Fund s Investment Management Agreement and Investment Advisory Agreement, under which management and advisory fees are paid to the Investment Manager and Investment Adviser based on the Fund s assets applicable to shares of both common and preferred stock, have been reformed in order to reflect the implementation of the loan facility and completion of the AMPS redemption. Because the Fund no longer uses preferred stock (i.e. the AMPS) for leverage, the Fund, the Investment Manager and Investment Adviser have agreed to reform the Investment Management Agreement and Investment Advisory Agreement to reflect the parties intention that the investment management fee be paid based on the Fund s Managed Assets (including assets attributable to any form of investment leverage). For purposes of this calculation, Managed Assets of the Fund means total assets of the Fund, including any form of investment leverage, minus all accrued expenses incurred in the normal course of operations, but not excluding any liabilities or obligations attributable to investment leverage obtained through (i) indebtedness of any type (including, without limitation, borrowing through a credit facility or the issuance of debt securities), (ii) the issuance of preferred stock or other similar preference securities, (iii) the reinvestment of collateral received for securities loaned in accordance with the Fund s investment objectives and policies, and/or (iv) any other means.

Interest Rate Swaps

The Fund previously entered into interest rate swap agreements, based on an aggregate notional amount of $240 million, which represented 40% of the total borrowings and AMPS outstanding. These interest rate swap agreements, with a nominal value of $240 million, were terminated on June 24, 2008. On June 24, 2008, the Fund entered into interest rate swap agreements with an aggregate notional amount of $390 million, which represented 65% of the total borrowings. Under the terms of the agreements currently in effect, the Fund receives a floating rate of interest (three month USD-LIBOR BBA rate) and pays fixed rates of interest for the terms and based upon the notional amounts set forth below:

Remaining Term as of October 31, 2008	Amount (in $ million)	Fixed Rate Payable (%)
32 months	130	4.140
24 months	116	3.980
8 months	144	3.370

A significant risk associated with interest rate swaps is the risk that the counterparty may default or file for bankruptcy, in which case the Fund would bear the risk of loss of the amount expected to be received under the swap agreements. There can be no assurance that the Fund will have an interest rate swap in place at any given time nor can there be any assurance that, if an interest rate swap is in

Report of the Investment Manager (unaudited) (continued)

place, it will be successful in hedging the Fund s interest rate risk with respect to the loan facility. The implementation of this strategy is at the discretion of the Leverage Committee of the Board of Directors.

Economic Review

The past year has been an extremely challenging one for investors. The full impact of the global credit crisis combined with a substantial increase in energy costs has had a detrimental impact on global capital markets and investor returns. The main focus for fixed income markets during the past year remained on the health of the financial system; the substantial write-offs of bank capital, bank efforts to recapitalize their balance sheets and, towards the latter part of the year, extensive government efforts globally to support the financial system.

These efforts were offset to a certain extent earlier in the year by increases in official interest rates by many central banks as they grappled with rising food and energy costs and rising inflationary pressures. The ultimate collapse of Lehman Brothers in September of this year also had a substantially negative impact on investor confidence and risk appetite during this period. Indeed by the end of the year we witnessed clear signs that these developments, together with falling share markets and property market values has resulted in a dramatic weakening in investor confidence and economic growth in many countries. Fortunately energy prices dropped dramatically towards the end of the year, central banks have moved to lower rates aggressively and governments are now looking actively at substantial fiscal packages in an effort to support growth in the coming year. Nonetheless, the year concluded with substantial forced selling of assets in many markets as a result of a broad based reduction in leveraged investments and a flight into the relative safety of cash, government securities and the U.S. dollar.

Looking across the various markets in which the Fund holds investments, the continuous widening of credit spreads throughout the year and significant weakness in the Australian dollar were the primary drivers of the weakness in the performance of the Fund during this period. Over the course of the year, the Australia dollar (AUD) declined from around 93.4 U.S. cents to 66.8 U.S. cents, a decline of around 28%. Indeed the AUD declined by 15.7% in October 2008 alone, this being the worst monthly return since the floating of the AUD in December 1983 and well below the historic peak of around 98.5 U.S. cents seen only three months before in July 2008. These events affected the nature of market volatility caused by multi-decade highs and lows within the space of a few short months.

The economic landscape for most of the economies in which the Fund invests changed significantly during the year. For example, in Australia from the 4th quarter 2007 into the 1st quarter of 2008, the Reserve Bank of Australia (RBA) continued a tightening cycle. The strength of the Australian economy, largely driven by the terms of trade benefit and the high inflation outlook, lead the RBA to increase rates by 25 basis points at both the November and March meetings, resulting in a cash rate of 7.25%. Through this period Australian bond yields struggled to match the declines in U.S. benchmark yields. However, by the end of June, the weight of the global financial crisis and the slowing in the interest rate sensitive sectors of the economy led the market to believe the RBA would commence easing rates in the 3rd quarter of 2008. During this period consumer and business sentiment fell to levels not seen since the early 1990 s recession. In response to these developments, the RBA reduced rates by 25 basis points at its September meeting. The RBA noted the advent of tight financial conditions, in conjunction with other factors including higher fuel costs and lower asset values that were restraining consumers and businesses. This was followed by a larger than expected 1% cut in official interest rates in October.

Over the course of the year Australian 3-year and 10-year bonds fell by around 2.2% and 0.9% respectively to finish the year at 4.5% and 5.2%. This resulted in a return of around 10.6% in Australian dollars, however, these returns were significantly impacted by the performance of the Australian dollar during this period. Credit spreads also widened substantially in the Australian fixed income market in line with trends in global credit markets.

The Fund s investment in Asian U.S. denominated credit securities also came under tremendous pressure during the financial year as the deepening global credit crisis sparked a general re-pricing of risk assets and portfolio liquidation from distressed investors. The market was extremely weak in the last month of the review period, in particular, as the global credit crisis worsened rapidly after the collapse of Lehman Brothers. Market sentiment was further dampened by intensifying fears of a global recession. Against this backdrop, the Asian Credit markets lost 19% over the financial year, with most of the loss occurring in October 2008.

U.S. Treasury yields at the short-end of the curve fell sharply over the period as a result of flight to safety and drastic interest rate cuts by the Fed. Nevertheless, this offered little respite to Asian dollar bonds as credit spreads widened exponentially. Financial and high yield corporate credits were the worst hit amid extreme risk aversion and weakened credit fundamentals. Investment grade sovereigns fared relatively better on the back of their defensive quality. High yield sovereigns such as Philippines and Indonesia also held up well in the first half of the period on optimism that emerging markets would be able to decouple from the slowdown in the West. However, they failed to maintain their momentum in the second

Report of the Investment Manager (unaudited) (concluded)

half, first due to inflation concerns which later gave way to recessionary fears.

The Asian dollar credit portfolio was defensively positioned throughout the financial year, underweighting some cyclical and vulnerable sectors and this aided the performance of this component of the Fund. The fact that these securities are based in U.S. dollars also cushioned the total performance of the portfolio as the U.S. dollar appreciated significantly against most of the other currencies in the Fund towards the end of the year.

In the Asian local currency markets we witnessed quite a divergence in investment performance across bond markets and currencies in the region. In the first half of the period under review, the majority of local currency Asian fixed income markets through April 2008 realized yields moving lower. This was somewhat counterintuitive given that this period was characterized by a sharp rise in regional inflation, driven first and foremost by considerable food price inflation and by record highs in oil prices. In addition, fourth quarter 2007 GDP growth numbers showed resilience to the U.S. & global slowdown, emerging stronger than expected. However, the market was firmly focused on the deteriorating U.S. economic data and the implications for regional growth prospects and policy. This led to a decline in bond yields across many Asian markets, the primary exceptions were the high yielding markets of India, Indonesia and Philippines which were more vulnerable to the developing inflation shock.

In the second half of the year under review, regional inflation surged to multi-year highs driven by a surge in oil prices from U.S.$114 per barrel at the end of April, up to a record high of U.S.$145 per barrel during July. Food prices, most significantly rice, also saw massive appreciation. India, Indonesia and the Philippines saw double digit inflation and the Fed had eased twenty five basis points in April. From first quarter bond yield lows to second quarter bond yield highs, markets sold off from one hundred to four hundred basis points.

In the final three months through October, reverberations from the intensifying U.S. and increasingly global financial market turmoil led to significant downward revisions to global and Asian growth. During this period a number of Asian central banks moved to cut official interest rates as rapidly as possible. Notably there was a substantial divergence in performance amongst Asian bond markets during this period. Heightened risk aversion led to a significant increase in bond yields in markets such as Indonesia and the Philippines while markets such as Hong Kong and Singapore witnessed much lower bond yields. Exchange rate performance was also very mixed with the South Korean Won, Indian Rupee and Indonesian Rupiah down 30%, 20.4% and 16%, respectively, against the U.S. dollar. The Chinese Renminbi was the exception rising around 9% against the U.S. dollar during the year.

Portfolio Composition (unaudited)

Quality of Investments

As of October 31, 2008, 71.9% of the Fund s total investments were invested in securities where either the issue or the issuer was rated A or better by Standard & Poor s Corporation or Moody s Investors Service, Inc. or, if unrated, judged to be of equivalent quality by the Investment Manager. The table below shows the asset quality of the Fund s portfolio as of October 31, 2008, compared with the previous six and twelve months:

	AAA/Aaa %	AA/Aa %	A %	BBB/Baa %	BB/Ba* %	B* %
October 31, 2008	38.4	11.6	21.9	10.0	16.7	1.4
April 30, 2008	46.7	6.9	20.2	9.8	15.5	0.9
October 31, 2007	45.9	4.0	20.7	10.5	17.5	1.4

* Below investment grade

Portfolio Composition (unaudited) (concluded)

Geographic Composition

The table below shows the geographical composition (i.e., with U.S. dollar denominated bonds issued by foreign issuers allocated into country of issuance) of the Fund s total investments as of October 31, 2008, compared with the previous six and twelve months:

	Australia %	Asia (including NZ) %	United States %
October 31, 2008	47.4	48.5	4.1
April 30, 2008	54.8	42.0	3.2
October 31, 2007	53.6	44.7	1.7

Currency Composition

The table below shows the currency composition of the Fund s total investments as of October 31, 2008, compared with the previous six and twelve months:

Date	Australian Dollar %	Asian Currencies (including NZ dollar) %	US Dollar* %
October 31, 2008	44.3	18.1	37.6
April 30, 2008	46.7	12.7	40.6
October 31, 2007	45.6	21.9	32.5

* Includes U.S. dollar denominated bonds issued by foreign issuers: 29.4% on October 31, 2008, 27.5% on April 30, 2008, and 28.9% on October 31, 2007.

Maturity Composition

As of October 31, 2008, the average maturity of the Fund s total investments was 8.4 years, compared with 7.9 years at October 31, 2007. The following table shows the maturity composition of the Fund s investments as of October 31, 2008, compared with the previous six and twelve months:

Date	Under 3 Years %	3 to 5 Years %	5 to 10 Years %	10 Years & Over %
October 31, 2008	26.8	24.3	34.4	14.5
April 30, 2008	34.7	21.6	32.2	11.5
October 31, 2007	27.0	23.5	36.8	12.7

Summary of Key Rates (unaudited)

The following table summarizes the movements of key interest rates and currencies from the previous six and twelve month periods.

	October 31, 2008	April 30, 2008	October 31, 2007
Australia			
90 day bank bills	5.81%	7.80%	7.01%
10 year bonds	5.17%	6.29%	6.15%
Australian Dollar	$0.66	$0.94	$0.93
Malaysia			
90 day T-bills	3.59%	3.34%	3.49%
10 year bonds	4.35%	3.75%	3.72%
Malaysian Ringgit*	R3.55	R3.16	R3.34
New Zealand			
90 day bank bills	7.16%	8.85%	8.68%
10 year bonds	6.03%	6.54%	6.45%
New Zealand Dollar	$0.58	$0.78	$0.77
Philippines			
90 day T-bills	6.84%	N/A%	N/A%
10 year bonds	9.48%	N/A%	N/A%
Philippines Peso*	₱48.92	₱42.27	₱43.68
Singapore			
90 day T-bills	0.87%	0.95%	2.27%
10 year bonds	2.95%	2.44%	2.81%
Singapore Dollar*	S$1.48	S$1.36	S$1.45
South Korea			
90 day T-bills	5.01%	4.99%	6.15%
10 year bonds	5.50%	5.14%	5.56%
South Korean Won*	₩1,290.95	₩1,002.65	₩900.70
Thailand			
90 day deposits	2.38%	2.25%	2.25%
10 year bonds	3.77%	4.74%	4.81%
Thai Baht*	฿35.08	฿31.71	฿33.99
US$ Bonds**			
Hong Kong	3.74%	3.43%	4.73%
Malaysia	7.83%	3.45%	4.68%
Philippines	8.24%	6.16%	4.58%
South Korea	7.39%	4.79%	5.10%

* These currencies are quoted Asian currency per U.S. dollar. The Australian and New Zealand dollars are quoted U.S. dollars per currency.

** Sovereign issues.

Portfolio of Investments

As of October 31, 2008

Principal Amount (000)		Description	Value (US$)
		LONG-TERM INVESTMENTS 127.0%	
		AUSTRALIA 62.4%	
AUD	15,000	ABN Amro Bank NV, 6.50%, 5/17/13 (a)(b)	$ 8,889,303
AUD	1,300	ALE Finance Company Property Ltd., 7.54%, 5/20/15 (a)	819,059
AUD	5,000	AMP Bank, Ltd., 7.835%, 4/07/09 (a)(b)	3,293,817
AUD	8,000	AMP Group Finance Services, Ltd., 9.00%, 5/16/11	5,498,345
AUD	12,000	ANZ Banking Corporation, 6.25%, 5/23/11 (a)(b)	7,661,274
AUD	14,000	ANZ Banking Corporation, 8.50%, 4/22/13	9,808,969
AUD	10,500	Asian Development Bank, 7.125%, 3/19/13	7,375,518
AUD	9,000	AXA SA, 7.50%, 10/26/16 (a)(b)	4,219,500
AUD	8,000	AXA SA, 7.2017%, 10/26/16 (a)(b)	4,009,883
AUD	7,000	Bank of America Corp., 6.50%, 9/15/09	4,653,024
AUD	8,000	Brisbane Airport Corp., 7.30%, 6/30/10	5,329,082
AUD	16,500	Caisse d Amortissement de la Dette Sociale, 7.50%, 2/28/13	11,748,851
AUD	5,000	CFS Gandel Retail Trust, 6.0967%, 7/31/09 (a)(b)	3,270,245
AUD	4,000	CFS Gandel Retail Trust, 6.25%, 12/22/14	2,209,814
AUD	15,000	Cie de Financement Foncier, 6.25%, 1/30/17	9,944,909
AUD	11,150	Commonwealth of Australia, 6.00%, 2/15/17	7,881,127
AUD	35,200	Commonwealth Bank of Australia, 6.25%, 9/01/09	23,643,870
AUD	16,000	Commonwealth Bank of Australia, 8.50%, 6/24/11	11,207,645
AUD	6,168	Crusade Global Trust, 5.985%, 1/16/35 (a)	4,037,558
AUD	2,400	Deutsche Bank AG, 7.50%, 10/19/12	1,612,538
AUD	3,600	ELM BV for Swiss Reinsurance C	