abrdn Australia Equity Fund

Commentary

Quarter ended January 31, 2023

Fund performance

The abrdn Australia Equity Fund returned 21.22%[1] on a net asset value basis for the three-month period ending January 31, 2023, marginally outperforming the 20.76% return of its benchmark, the ASX 200 Net Index[2].

Good stock selection in the materials, real estate and industrials sectors was offset by stock selection in consumer staples. On a stock-specific level, the Fund benefited from our overweight to Northern Star after the company's solid results for the end-December quarter, which showed higher-than-expected gold production and costs in line with expectations. Northern Star's Pogo operation delivered some much-needed consistency, with the company's other projects tracking well to targets. OZ Minerals outperformed, as the company received a revised A$28.25 per share takeover bid from BHP, which the Board has recommended shareholders vote in favor of. This was a 13% increase on the original A$25/share offer, which OZ Minerals had previously rejected. In addition, our position in fellow Australian mining company, Evolution Mining, was accretive. This was thanks to a rising gold price as the U.S. dollar fell after changing expectations around the Federal Reserve's (Fed) policy in response to falling inflation and the risk of a deteriorating US economy.

In healthcare, Pro Medicus also added to performance after it announced new long-term contract wins with the University of Washington's UW Medicine and Samaritan Health Services. Investors looked favorably on these contract structures, which are typically long-dated with minimum spend and significant upside potential. Elsewhere, Goodman Group outperformed as part of a broad-based recovery in real estate investment trusts, buoyed by falling interest rates and investors tempering some of their negativity regarding the global macroeconomic outlook.

On the other hand, Beach Energy's share price fell, in line with most of the sector, due to news that the key engineering, procurement and construction contractor for Waitsia Stage 2 has gone into voluntary administration. This has led to some delays in the project and higher capital expenditure. Production for the year was also at risk of downgrades due to weather. However, the longer-dated free cashflow story remains intact as well as upside exposure to rising gas prices. Also detracting from performance was our overweight to Elders. The company underperformed during the month after announcing the departure of long-serving CEO Mark Allison. The stock was also affected by extreme wet weather in New South Wales that weighed heavily on the expected winter crop yield.

Elsewhere, Endeavour underperformed on the proposed introduction of cashless gaming legislation in New South Wales, a development which we see as being long dated and already reflected in the company's share price.

In terms of activity, we sold our position in Evolution Mining, given its near-term operating performance has been disappointing, and any subsequent turnaround is likely to be protracted.

[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 the 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 S&P/ASX 200 Index tracks the performance of the 200 largest stocks (by market capitalization) listed on the Australian Securities Exchange. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Top 10 Fund holdings (as of January 31, 2023)[3]

BHP Group Ltd	11.1
Commonwealth Bank of Australia	8.7
CSL Ltd	7.8
National Australia Bank Ltd	5.8
Woodside Energy Group Ltd	4.9
Rio Tinto PLC	4.1
Woolworths Group Ltd	3.9
Macquarie Group Ltd	3.9
Telstra Group Ltd	3.6
Australia & New Zealand Banking Group Ltd	3.5
Percent of Portfolio in Top Ten	57.3

Source : abrdn 01/31/2023.

[3] 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. 95.84% of assets are invested in stocks which are included in the Australian Stock Exchange's 200 Leaders Index.

Compositions are subject to change. The table summarizes the composition of the Fund's portfolio, expressed as a percentage of total assets.

P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the annual earnings per share.

Figures may not always sum to 100 due to rounding.

Cumulative and annualized total return as of January 31, 2023 (%)

	NAV	Market Price	ASX 200 Net Index
Since inception (p.a.)	7.53	7.23	n/a[4]
10 Years (p.a.)	4.61	3.25	4.60
5 Years (p.a.)	6.87	4.93	5.53
3 Years (p.a.)	9.68	8.06	7.79
1 Year	10.17	2.29	12.22
Year to date	11.99	13.21	10.38
3 months	21.22	26.70	20.76
1 month	11.99	13.21	10.38

[4] There is no since inception figure for the S&P/ASX 200 (Net) Index because the inception date of the Index is May 10, 2011.

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The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

abrdn Australia Equity Fund distribution rates

Net Asset Value per share	$5.51
Market price	$4.97
Discount to Net Asset Value	9.80%

The following tables set forth the estimated amounts of the sources of the distributions for purposes of Section 19 of the 1940 Act and the rules adopted thereunder. The tables have been computed based on generally accepted accounting principles. The tables include estimated amounts and percentages for the current distributions to be paid as well as for the cumulative distributions paid relating to fiscal year to date, from the following sources: net investment income; net realized short-term capital gains; net realized long-term capital gains; and return of capital. The estimated compositions of the distributions may vary because the estimated composition may be impacted by future income, expenses and realized gains and losses on securities and currencies.

The Fund's estimated sources of the current distributions to be paid and for its current fiscal year to date are as follows:

Estimated Amounts of Current Distribution per Share

Fund	Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[5]		Net Realized Long-Term Gains		Return of Capital	
IAF	$0.1300	$0.0377	29%	$0.0026	2%	$0.0208	16%	$0.0689	53%

Estimated Amounts of Fiscal Year to Date Cumulative Distributions per Share

Fund	Fiscal Year[6] to Date Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[5]		Net Realized Long-Term Gains		Return of Capital	
IAF	$0.2500	$0.0725	29%	$0.0050	2%	$0.0400	16%	$0.1325	53%

[5] Includes currency gains.

[6] IAF has a 10/31 fiscal year end.

Where the estimated amounts above show a portion of the distribution to be a "Return of Capital," it means that the Fund estimates that it has distributed more than its income and capital gains; therefore, a portion of your distribution may be a return of capital. A return of capital may occur for example, when some or all of the money that you invested in a Fund is paid back to you. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income."

The amounts and sources of distributions reported in this notice are only estimates and are not being provided for tax reporting purposes. The final determination of the source of all distributions for the current year will only be made after year-end. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during the remainder of the fiscal year and may be subject to change based on tax regulations. After the end of each calendar year, a Form 1099-DIV will be sent to shareholders for the prior calendar year that will tell you how to report these distributions for federal income tax purposes.

The following table provides the Fund's total return performance based on net asset value (NAV) over various time periods compared to the Fund's annualized and cumulative distribution rates.

Fund Performance and Distribution Rate Information

Fund	IAF
Average Annual Total Return on NAV for the 5-Year Period Ending 10/31/2022[7]	6.87%
Current Fiscal Period's Annualized Distribution Rate on NAV[8]	8.71%
Cumulative Total Return on NAV[7]	21.22%
Cumulative Distribution Rate on NAV[8]	2.18%

[7] Return data is net of all fund expenses and fees and assumes the reinvestment of all distributions reinvested at prices obtained under the Fund's dividend reinvestment plan.

[8] Based on the Fund's NAV as of January 31, 2023.

Shareholders should not draw any conclusions about a Fund's investment performance from the amount of the Fund's current distributions or from the terms of the distribution policy (the "Distribution Policy").

Market review

Australian equities rose during the period under review, in line with most other markets worldwide. The Australian dollar strengthened against the U.S. dollar, rising to its highest level in five months. Meanwhile, commodity prices were mixed with iron ore and base metals higher, thanks to the earlier-than-expected China reopening, with lithium and gas prices lower.

Australian equities continued their strong momentum from the end of 2022 into the first month of 2023, outperforming most global equities. Investor confidence was generally solid over the period under review. However, there was a small dip in sentiment during the quarter due to recessionary fears after the Fed indicated further interest rate hikes would be likely in 2023, surprising investors after a lower-than-expected U.S. inflation figure for November. However, investor confidence picked up on encouraging inflation data and better-than-expected GDP growth in the U.S.

In economic news, headline inflation for the quarter to end-December came in ahead of expectations at 1.9%, up from 1.8% in the previous three-month period. This resulted in a full-year headline inflation rate of 7.8%, again above the 7.5% consensus. On the other hand, employment data surprised on the downside, with a fall of 14,600 jobs versus expectations of a 22,500 increase. However, the unemployment rate remained steady at 3.5%. Elsewhere, the divergence between consumer and business confidence has narrowed, with the NAB Business Survey falling, whereas the Westpac Consumer Sentiment Index has risen slightly. However, the latter measure remains weak, with house prices and employment expectations continuing to fall. Retail sales backed this up to a degree, with a 3.9% monthly contraction in December, on a seasonally adjusted basis.

Outlook

In 2023, our macroeconomic position remains one of caution. Over in the U.S., the rate-hiking period is close to its peak. However, we remain wary of the Fed's conviction in bringing inflation well under control, meaning elevated rates and restrictive monetary conditions could well persist for an extended period of time. This is unlikely to bode well for equity markets, particularly when we compare this to the bond markets, where investors continue to anticipate rate cuts towards the second half of this year. From an economic perspective, we still believe a material economic slowdown will occur, as the typical U.S. consumer has been significantly weakened over the course of 2022 thanks to inflation. This will likely flow quickly through to corporate earnings and a further pullback in capital investments.

As for Australia, while the Reserve Bank of Australia is also looking to re-establish its credibility, we take comfort that our local policy transfer mechanism is faster and that our policymakers appear to be more cognizant of an overreliance on what are effectively lagged economic indicators. With China also looking to exit its 'zero-COVID' policy, our view is that Australia has a higher probability of achieving a soft landing.

With the last reporting season continuing to demonstrate strength in corporate earnings, with balance sheets solid, we think the upcoming reporting season will be very telling. Corporate earnings have the potential to unravel much quicker than investors expect, while balance-sheet strength will be more heavily tested given rapidly rising debt costs. While we have seen downward revisions in investor expectations for the forward period, we continue to believe that only earnings multiples have normalized (mainly driven by the rising cost of capital). In contrast, earnings estimates have yet to fully capture the impact of subdued economic growth.

Given this volatile backdrop, our portfolio positioning remains biased to businesses that offer strong pricing power and those that exhibit defensive business moats. We continue to be cautious on rate-sensitive sectors and businesses that are just beginning their journey toward profitability.

We remain committed to our 'bottom-up' investment style, with a focus on quality companies. We favor businesses with clear growth prospects that are leveraged to long-term structural shifts. Our holdings' defensiveness (i.e., their robust balance sheets and prospects for generating healthy through-the-cycle earnings and dividend growth) is an added advantage. This will ensure that the portfolio remains resilient despite the current uncertain environment.

Important Information

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Under U.S. tax rules applicable to the Fund, the amount and character of distributable income for each fiscal year can be finally determined only as of the end of the Fund's fiscal year. The Fund anticipates that sources of distributions to shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. The estimated composition of the distributions may vary from time to time because the estimated composition may be impacted by future income, expenses and realized gains and losses on securities. For more detailed information related to the composition of the Fund's distributions, see **aberdeenAGD.com**.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, as well as political and economic risks. These risks are enhanced in emerging markets countries. Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

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