abrdn Australia Equity Fund

Commentary

Quarter ended January 31, 2024

Fund performance

The abrdn Australia Equity Fund returned 17.83%[1] on a net asset value basis for the three-month period ending January 31, 2024, underperforming the 18.93% return of its benchmark, the ASX 200 Net Index[2].

Key areas of strength were the exposure to healthcare and materials, along with positive stock selection in utilities. Conversely, weak stock selection in information technology (IT), communication services and energy weighed on returns.

In the healthcare sector, our holdings performed well amid a general sector rally on easing concerns over the impact of GLP-1 drugs, which treat obesity. Pro Medicus rose on further contract wins, while Resmed, CSL and Cochlear continued their upward price momentum through the quarter. In prior months, for instance, Resmed's share price has fallen on the fear that GLP-1 drugs would shrink the sleep apnea addressable market, yet the company still has a long runway of structural growth treating a vastly underpenetrated market. Recent studies actually show that patients who are on GLP-1 drugs are more likely to adhere to Resmed's CPAP devices.

Elsewhere, in materials, James Hardie Industries, which supplies fiber cement building products for new home construction and remodeling to mainly the U.S., Australia and New Zealand, saw its share price strengthen after it posted results that met market expectations and turned more positive on prospects in North America.

Our property holdings in Charter Hall Group and Goodman Group also contributed positively to performance. Property fund manager Charter Hall's share price rose sharply on expectations that transaction activity will pick up across commercial property and improve the outlook for its assets and transaction fees, as the interest-rate environment looks to peak globally. Goodman Group was seen as benefiting from the demand boom for data centers from artificial intelligence and the cloud. The group announced that it had secured 1 gigawatt of power for one site in Japan and is close to starting 100 megawatts of data center projects.

In contrast, our mining and energy holdings were poor given weak China sentiment and a strengthening U.S. dollar. Woodside Energy's share price fell over the three months, even though the company delivered solid production updates. Woodside is also progressing well on its growth projects, including Scarborough. Pilbara Minerals, meanwhile, posted results that showed weaker-than-expected price realization, owing to a poor lithium price environment, albeit its cash margins remain healthy at double-digits. The group also took steps to preserve balance sheet strength by deferring non-essential projects, and the company is also unlikely to declare an interim dividend.

Elsewhere in IT, Xero, a cloud-based accounting software provider, saw its share price sell off after its recent results, owing to market disappointment over the lack of further clarity on its U.S. market strategy. On the consumer front, Woolworths felt the impact of concerns over the slowing outlook for inflation and sales, combined with elevated wage growth and gross margins. It also announced a NZ$1.6 billion (US$980 million) goodwill impairment for its New Zealand operations in late January.

In terms of portfolio activity, we exited Bapcor to fund better opportunities elsewhere.

[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 December 31, 2023)[3]

BHP Group Ltd	12.1
Commonwealth Bank of Australia	8.5
CSL Ltd	8.1
National Australia Bank Ltd	5.6
Woodside Energy Group Ltd	4.2
Rio Tinto PLC	4.1
Goodman Group	3.9
Macquarie Group Ltd	3.9
Australia & New Zealand Banking Group Ltd	3.5
Telstra Group Ltd	3.5
Percent of Portfolio in Top Ten	**57.4**

Source : abrdn 12/31/2023.

[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.

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 December 31, 2023 (%)

	NAV	Market Price	ASX 200 Net Index
Since inception (p.a.)	7.39	6.99	n/a[4]
10 Years (p.a.)	5.82	4.52	4.76
5 Years (p.a.)	10.63	9.54	9.33
3 Years (p.a.)	4.85	4.60	4.61
1 Year	13.64	10.51	12.86
Year to date	13.64	10.51	12.86
3 months	15.49	12.39	14.52
1 month	10.64	7.18	10.34

[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	$4.99
Market price	$4.33
Discount to Net Asset Value	13.23%

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 paid this month 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 distribution paid this month 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	$0.1100	$0.0055	5%	–	–	–	–	$0.1045	95%

Estimated Amounts of Fiscal Year[6] to Date Cumulative Distributions per Share

Fund	Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[5]		Net Realized Long-Term Gains		Return of Capital	
IAF	$0.1100	$0.0055	5%	–	–	–	–	$0.1045	95%

[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 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 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 10/31/2023[7]	5.86%
Current Fiscal Period's Annualized Distribution Rate on NAV	11.85%
Cumulative Total Return on NAV[7]	1.45%
Cumulative Distribution Rate on NAV[8]	11.85%

[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 October 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 over the quarter ended January in what was a relatively strong period for equity markets globally. This was largely due to signs of cooling inflation alongside underlying economic strength, leading to expectations that major central banks have almost concluded their interest-rate hiking cycles. Optimism over rate cuts happening as early as March led to share prices rising to their highest level in the quarter in late December, before a tempering of sentiment in January closer towards central banks' more cautious guidance on their policy trajectory.

All sectors in the domestic market posted positive returns, except for utilities, which marginally declined. The healthcare sector led performance, supported by lower bond yields and easing concerns over the impact of GLP-1 drugs, which had weighed on the sector in prior months. Another good performer was real estate, on expectations that the Reserve Bank of Australia (RBA) is nearing the end of its policy rate hiking cycle. Chinese stimulus continued to provide demand for iron ore, with the price hitting an 18 month high in November, buoying select mining stocks.

While there have been signs of economic softening, the key factor for many central banks at the moment is persistent underlying demand. In Australia, this is particularly prevalent in the services and rent sectors. Consequently, despite fourth-quarter consumer price inflation (CPI) slowing more than expected to a two-year low and retail sales for December contracting by 2.7% from November, the RBA still believes that a cut to its policy rate is some way off.

Outlook

The RBA held its policy rate at 4.35%, as expected, while still cautioning that future rate increases are not off the table. Commentary from the central bank indicates that officials believe the country's slowing demand still remains beyond the economy's capacity to supply, and therefore, the economy will sustain its inflationary tilt. That said, the RBA has cut its economic growth forecast due to the impact of reduced consumer spending, higher-for-longer interest rates and weakness in Chinese consumption.

More broadly, the domestic backdrop remains challenging, given elevated inflation and a tight labor market. We expect earnings risk over the short to medium term as economic activity softens and as the consumer adjusts to higher interest-servicing costs. We are cautious on rate-sensitive sectors and businesses that are just beginning their journey toward profitability. We remain biased towards businesses with strong pricing power and defensive business moats, and 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 also a positive. Many of our companies are also leaders in governance and sustainability, positioning them well to adapt to the future. This will ensure that the portfolio remains resilient despite the current uncertain times.

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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 www.abrdniaf.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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