abrdn Emerging Markets Equity Income Fund

Quarterly Commentary

Fourth Quarter 2023

Fund performance

The abrdn Emerging Markets Equity Income Fund returned 8.36%[1] for the fourth quarter of 2023 on a net asset value basis, outperforming the 7.86% return of its benchmark, the MSCI Emerging Markets Net Index[2].

At a sector level, a number of our semiconductor and technology hardware exposures were notable outperformers. MediaTek was the top stock contributor. Taiwan Semiconductor Manufacturing Co and Samsung Electronics also fared well. Their share prices rose on expectations of a broader technology recovery, particularly in the memory sector, where we continued to see good production and pricing discipline from industry leaders. Likewise, ASML Holding climbed, while ASM International advanced on better-than-expected results. On the flip side, Chroma ATE, which had outperformed in the prior quarter, pulled back and was a major laggard.

By region, emerging Europe, the Middle East and Africa added most to relative returns, helped by strong stock selection in South Africa. Anglo American Platinum shares reacted favorably to improving sentiment for precious metals, in particular platinum and palladium.

Within Latin America, several holdings in Brazil and Mexico rallied on positive quarterly results, including Itausa, the holding company for Brazilian lender Itau; stock exchange B3; e-commerce player MercadoLibre; and conglomerate Fomento Economico Mexicano. Digital solutions provider Globant also advanced on solid results that beat its peers.

In emerging Asia, the Fund's performance in India outpaced the benchmark modestly and our holdings there were among the key stock contributors. UltraTech Cement rose alongside domestic cement stocks after the latest round of state elections and the ongoing public sector push for infrastructure development. Power Grid Corporation of India outperformed on positive market sentiment. In December, the company announced that it won two tariff-based competitive building projects, adding to its development pipeline and improving earnings visibility.

Our exposures in China and Hong Kong remained a drag, though this was partially mitigated by the underweight to direct China holdings. WuXi Biologics fell as the company lowered its guidance due to soft biotechnology funding prospects and project delays. Alibaba Group declined after announcing the cessation of its proposed spin-off of the cloud business, citing potential near-term challenges. Tencent's shares saw a significant sell-off in December on the release of a draft gaming regulation paper, which among other measures, proposed a cap on in-game charges that may raise uncertainties around the company's monetization abilities going forward. China Tourism Group Duty Free retreated on weaker-than-expected sales in Hainan province.

Meanwhile, Kazakh fintech player Kaspi.kz saw some profit-taking in December following its recent strong run.

[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 MSCI Emerging Markets Net Index is an unmanaged index considered representative of stocks of developing countries. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Elsewhere, the position in Middle Eastern quick-service restaurant operator Americana Restaurants International detracted as its share price pulled back after the company reported results that were moderately below market expectations and owing to boycotts of American brands in the region, including KFC, which is likely to have a short-term impact. We remain confident in the strength of the franchise and its growth opportunities over the longer term.

Over the quarter, we added Chinese sportswear maker Anta Sports, which is well placed to gain from domestic sector growth, and Sungrow Power Supply, a key beneficiary of rising solar energy and storage solution deployment.

Elsewhere, we sold Bank Central Asia to fund the purchase of state-owned lender Bank Negara Indonesia, which has a highly adept, commercially focused management team.

We also exited China International Capital Corp, Meituan and WEG to fund better opportunities elsewhere.

Top Ten Holdings (as of 12/31/23)

Taiwan Semiconductor Manufacturing Co Ltd	9.0
Samsung Electronics Co Ltd	6.5
Tencent Holdings Ltd	5.0
Alibaba Group Holding Ltd	3.4
HDFC Bank Ltd	3.0
SBI Life Insurance Co Ltd	2.2
Power Grid Corp of India Ltd	2.2
FPT Corp	2.2
Bank Rakyat Indonesia Persero Tbk PT	2.0
MediaTek Inc	1.9
Percent of Portfolio in Top Ten	**37.2**

Source : abrdn 12/31/2023.

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.

Performance

The latest available performance figures have been calculated net-of-fees in U.S. dollars for the period:

Cumulative and annualized total return as of 12/31/23 (%)

	NAV	Market Price	MSCI Emerging Markets Net	Custom AEF Emerging Markets Index
1 month	4.62	5.31	3.91	3.91
3 months	8.36	9.07	7.86	7.86
Year to date	11.32	7.12	9.83	9.83
1 year	11.32	7.12	9.83	9.83
3 years (p.a.)	-7.72	-8.06	-5.08	-5.08
5 years (p.a.)	1.33	1.23	3.68	3.68
10 years (p.a.)	-0.03	-0.66	2.66	0.74
Since inception (p.a.)	7.90	7.31	n/a*	n/a*

There is no since inception figure for the MSCI Emerging Markets Index (Net) because the inception date of the Index is December 29, 2000.

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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.

Market review

Emerging market equities faced an extremely challenging environment but ended the year on a relatively strong note in the fourth quarter. However, they lagged developed markets despite the recovery in absolute performance. Even with inflation relatively under control and with some emerging market central banks moving to cut interest rates early, the asset class failed to attract significant inflows. Investor sentiment took a hit throughout the year due to the slower-than-expected pace of economic recovery in China. Expectations are mounting that major central banks, including the U.S. Federal Reserve (Fed), could start reducing rates in 2024 as inflation has remained relatively benign. Meanwhile, China continued to introduce more proactive policies to help its economy, particularly the troubled real estate sector. Green shoots of a prolonged economic recovery emerged, but investors remained on the sidelines, waiting for a more sustainable and meaningful rebound.

Outlook

The outlook for emerging markets remains encouraging. With inflation near target levels in many parts of emerging markets, we are at the early stages of a monetary easing cycle—ahead of the Fed, which is widely expected to start cutting rates in 2024.

While early signs are pointing to a slowdown in the U.S. economy, China's gradual consumption recovery is still underway. The Chinese government remains committed to support growth through widespread policy support, including measures to stabilize the property sector and restore confidence. Meanwhile, India continues to be an emerging star, underpinned by a robust domestic economy ahead of its general parliamentary elections later this year, where the market expects the incumbent government to retain power, thus ensuring policy continuity.

Broadly, emerging market valuations remain undemanding, both relative to history and versus the US.

Our companies are, on the whole, delivering results, which we believe will be rewarded by the market. We expect our more domestic-oriented positions in China, which weighed on performance in 2023, to do better as the economy stabilizes and recovers. The portfolio remains focused on businesses with discernible quality characteristics, including sustainable free cash flow generation and earnings growth, pricing power and low debt levels.

Important information

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International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods; these risks are generally heightened for emerging market investments.

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