Aberdeen Emerging Markets Fund

Quarterly Commentary – Q1 2022

Performance highlights

- Emerging-markets (EM) stock prices moved sharply lower in the first quarter of 2022, lagging their developed- market counterparts. Russia's invasion of Ukraine triggered a sell-off in global risk assets in February.
- Market sentiment was weighed down by the near- and long-term fallout from the conflict. Western sanctions on Russia following the attack, particularly the sanctioning of the country's central bank, generally have been harsher and more unified than anticipated.
- The Fund recorded a negative return for the quarter, and underperformed its benchmark, the MSCI Emerging Markets Index,[1] attributable mainly to the exposure to Russia.

Fund performance

Aberdeen Emerging Markets Equity Fund (Institutional Class shares net of fees)[2] returned -13.52% for the first quarter of 2022, underperforming the -6.97% return of its benchmark, the MSCI Emerging Markets Index.

Revaluing the Fund's Russian holdings Novatek, Lukoil and Sberbank to zero was a material detractor from Fund performance over the quarter. We made this decision due to the implementation of stringent capital controls in Russia as well as Western sanctions on the Russian government, which currently makes it impossible to realize any value from these investments. However, the lack of exposure to former MSCI Emerging Markets Index heavyweight Gazprom, Russia's state-owned oil and gas company, contributed positively to Fund performance. Elsewhere in the energy sector, shares of many non-Russian oil producers made strong gains; we typically tend to avoid these companies due to national service risks.

Prior to Russia's invasion of Ukraine, we had positioned the Fund with an overweight to Russia and holdings in three domestic Russian companies, most of which we exited in the second half of February. We prioritized reducing the Fund's exposure to more domestically oriented companies rather than energy exporters, as we expected a short window to act, and that these holdings would suffer the most notable long-term damage. We were largely successful in exiting the Fund's domestically focused holdings. Heading into this crisis, we had believed that Russia was one of the most compelling bottom-up stories in the EM universe, with disruptive business models and significant long-term growth potential.

Outside of Russia, an additional headwind for Fund performance for the quarter was the market rotation from growth towards value stocks. The Fund's overweight allocation relative to the benchmark to information technology weighed on performance. Consequently, the Fund's holdings in semiconductor suppliers ASML and ASM International detracted from performance despite their robust outlooks, in our view, and strong operational performance. Digital consumer companies were also hit by the rotation, with the Fund's holdings in Prosus, Sea and Allegro all underperforming. We retain strong conviction in the long-term potential of the Fund's holdings in information technology leaders in EMs.

Value stocks also outperformed their growth counterparts in China over the quarter; consequently, stock selection in China hampered Fund performance. The market rotation hampered shares of the Fund's holdings in renewable energy companies, holdings, including Sungrow Power Supply and NARI Technology. However, our conviction in the structural growth opportunity remains high, further supported by Europe's strategy to reduce its dependence on Russia as well as to decarbonize. The flare-up in COVID-19 cases in Shanghai and Shenzhen, and the subsequent lockdowns, also weighed on apparel maker Shenzhou International and travel services provider China Tourism

[1] The MSCI Emerging Markets 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. Index performance is not an indication of the performance of the Fund itself. For complete fund performance, please visit **abrdn.us**

[2] **The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-387-6977 or visiting abrdn.us.**

Group Duty Free. On a more positive note, the Fund's holdings in China Merchants Bank and property developer China Resources Land, along with Hong Kong-listed insurer AIA Group, offset some of those negative effects.

Finally, individual holdings in EM commodity producers posted strong gains during the quarter. Commodity producers were already benefiting from increased demand from the post-COVID-19 economic reopenings before the war in Ukraine, which will result in significant supply disruption. For example, Russia is a big exporter of palladium, and this boosted South African miner Anglo American Platinum; stock price, while copper miner Grupo Mexico was another top performer for the quarter. Shares of Brazilian stock exchange operator B3 and lender Banco Bradesco rose as these companies were indirect beneficiaries of higher commodity prices, as well as positive market sentiment.

Fund activity and positioning

During the quarter, we initiated a holding in Samsung Engineering and PTT Exploration and Production. Samsung Engineering is set to benefit from a rising hydrocarbon investment cycle and from its efforts to develop and commercialize net-zero technologies. PTT Exploration and Production stands to gain from rising oil prices in the near term. The company, which has one of the lowest cash costs, is targeting a 25% reduction in greenhouse gas intensity by 2030 through initiatives such as the carbon capture and storage project in the basement of its operations in the Gulf of Thailand and Malaysia.

Elsewhere in Asia, we initiated a position in Power Grid Corp. of India, the country's central transmission utility, which we believe stands to benefit from the government's investment in renewables and associated infrastructure. We also added a holding in Foshan Haitian Flavouring & Food, a leading Chinese food seasonings manufacturer with solid pricing power and, in our view, good execution, and Kasikornbank, an attractively valued Thai banking franchise with strong digital offerings and a beneficiary of the ongoing economic reopening post-COVID-19 restrictions.

Total Returns (as of 03/31/22)

	1 month	3 months	Year to date	1 year	3 years	5 years	10 years	Since Inception
Class A w/o sales charges	-5.31	-13.59	-13.59	-19.69	4.02	4.15	2.58	5.14
Class A with sales charges	-10.75	-18.56	-18.56	-24.30	1.99	2.92	1.98	4.72
Institutional Class	-5.27	-13.52	-13.52	-19.34	4.51	4.65	3.00	5.43
MSCI Emerging Markets Net	-2.26	-6.97	-6.97	-11.37	4.94	5.98	3.36	3.33

Annual Calendar Year Returns (as of 03/31/22)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class A w/o sales charges	-19.69	75.39	-20.10	-5.94	15.75	15.54	-9.88	-0.71	-6.81	9.31
Institutional Class	-19.34	76.33	-19.76	-5.45	16.33	15.93	-9.50	-0.44	-6.46	9.60
MSCI Emerging Markets Net	-11.37	58.39	-17.69	-7.41	24.93	17.22	-12.03	0.44	-1.43	1.96

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. The performance data quoted represents past performance and current returns may be lower or higher. Class A shares have up to a 5.75% front-end sales charge and a 0.25% 12b-1 fee. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, which may be higher or lower than the performance shown above, please call 866-667-9231 or go to abrdn.com/en-us/investor/fund-centre#literature. Total returns assume the reinvestment of all distributions. Total returns may reflect a waiver of part of the Fund's fees for certain periods since inception, without which returns would have been lower. Indexes are unmanaged and provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

We exited the Fund's positions in Russian online financial services provider TCS Group and internet company Yandex, and trimmed the holding in Sberbank to reduce the Fund's exposure to domestic Russian assets given the deteriorating geopolitical backdrop and the country's subsequent invasion of Ukraine. The Fund's remaining Russian positions have been valued at zero, though we have retained a claim on these assets. In addition to the Fund's Russian holdings, we exited positions in energy and construction company China Conch Venture; natural gas distributor China Resources Gas Group; Korea-based internet company Kakao; China-based e-commerce company Meituan; and Brazilian metals and mining company Vale. We also sold the Fund's shares in LG Energy Solution, a manufacturer of electric vehicle (EV) batteries, after a period of significant share-price appreciation following its initial public offering (IPO), given the Fund's small IPO allocation.

Market review

Global EM equities posted losses in the first quarter of 2022, lagging their developed-market counterparts, amid geopolitical and macroeconomic concerns. Russia's invasion of Ukraine triggered a sell-off in global risk assets in February. Market sentiment was weighed down by the near- and long-term fallout from the conflict. Western sanctions on Russia following the attack, particularly the sanctioning of the country's central bank, generally have been harsher and more unified than anticipated.

Commodity prices, which were already elevated on recovering demand, surged amid fears that the Russia-Ukraine war would disrupt global supply chains. The price of Brent crude oil surpassed US$100 a barrel for the first time since 2014, exacerbating pre-existing fears about inflation and increasing pressure on central banks to curb price pressures. In March, the U.S. Federal Reserve (Fed) lifted its benchmark interest rate by 25 basis points (bps) – its first rate hike since 2018 – and projected six more rate increases this year. EM central banks also raised their benchmark rates in line with the Fed, and in many countries, at a more aggressive pace. China moved in the opposite direction, however. The People's Bank of China (PBOC) lowered its key lending rates in a bid to shore up growth.

Against this backdrop, shares of commodity exporters, with the exception of Russia, outpaced the wider asset class during the quarter. Resource-rich Latin America posted double-digit returns. The market in Brazil, a leading exporter of crude oil, iron ore and soybeans, rallied on rising commodity prices and better-than-expected growth data. Chile was buoyed by higher copper prices. Markets in oil-producing nations in the Middle East also advanced. Conversely, Russian valuations collapsed following the invasion of Ukraine. Foreign selling remained banned and the fungibility[3] of domestic and non-domestic depository receipt lines – such as American depositary receipts and global depositary receipts – is still broken. abrdn's firm-wide ban on additional investment into Russia and Belarus remains in place for the foreseeable future.

The emerging Asia market underperformed over the quarter, hampered by steep losses in China. Chinese equities faced several headwinds, including the government's new regulatory push and the potential delisting of U.S.-listed Chinese companies over accounting standards. However, as of mid-April, Chinese regulators have revised a long-standing rule that restricted data sharing by mainland companies listed offshore, which could remove a key hurdle for U.S. regulators in accessing more fully the auditing reports of those companies. Lockdowns in key Chinese cities to contain a resurgence in COVID-19 outbreaks also weighed on investor sentiment.

Elsewhere in Asia, a sharp market rotation away from growth stocks in January weighed on South Korea's technology-heavy market. Indian stocks outperformed despite rising energy prices, attributable in part to the country's pro-growth budget. The markets in commodity exporters Indonesia and Malaysia rallied over the first quarter, while Thailand benefited from an economic recovery.

Outlook

Russia's invasion of Ukraine has created a supply shock in markets at a point in the economic cycle where inflation is high and monetary policymakers have been moderately tightening to deal with the after-effects of the COVID-19 pandemic.

The Fed is now playing catch-up to inflation and markets have priced in expectations for several rate hikes during 2022. For EMs, higher U.S. interest rates do not pose the same problems as they did during the "taper tantrum" in 2012-13 — when EMs saw sharp reversals of capital inflows. EM countries have been careful to maintain an orthodox monetary policy, tightening ahead of the Fed. Their currency reserves and current account positions are in much better shape than previously. We feel that this is supportive for EMs, where many countries will also benefit from supply shortages of crucial commodities.

Meanwhile, we think that the potential for a counter-cyclical recovery in China remains after the PBOC proactively tightened monetary policy in 2021 as the country was one of the first to emerge from the pandemic. The government is under pressure to boost the economy further and meet its 5.5% gross domestic product (GDP) growth target for 2022. As China's inflation rate remains relatively low, policymakers should have headroom to act.

[3] Fungibility is the ability of a good or asset to be interchanged with other individual goods or assets of the same type.

Heightened geopolitical risks have also brought the security of energy supply chains to the forefront. As a result, increasing investments into an energy transition away from fossil fuels to renewables are expected. EM companies currently dominate in many renewable energy sources, and the Fund has active exposure through holdings in LONGi Green Energy technology, Sungrow Power Supply, and NARI Technology.

At a time like this, we believe that an active approach to investing makes a difference, enabling investors to sidestep parts of the market that are most exposed to risks and uncertainties. We maintain our focus on businesses that in our view have discernible quality characteristics, including sustainable free cash flow-generation and earnings growth, pricing power, low levels of debt, and an emphasis on strong environmental, social and governance (ESG) credentials. These characteristics should help businesses to manage this period of supply disruption. We believe that investors will begin to focus on fundamentals as we move through the remainder of 2022.

Top 10 Fund holdings (as of March 31, 2022) (%)

Taiwan Semiconductor Manufacturing Co Ltd	9.3
Samsung Electronics Co Ltd	7.9
Tencent Holdings Ltd	4.7
Alibaba Group Holding Ltd	4.0
Housing Development Finance Corp Ltd	3.3
Grupo Mexico SAB de CV	2.6
China Merchants Bank Co Ltd	2.6
Anglo American Platinum Ltd	2.4
Grupo Financiero Banorte SAB de CV	2.3
Bank Central Asia Tbk PT	2.1
Percent of Portfolio in Top Ten	**41.2**

Portfolio Characteristics

	Fund	Benchmark
Alpha	0.04	0.00
Beta	1.13	1.00
Net Margin	20.82	18.68
P/E Ratio	12.76	13.49
R-Squared	96.00	100.00
Sharpe Ratio	0.26	0.27
Standard Deviation	20.88	18.05
Weighted Average Market Cap (bn USD)	143.84	116.83

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Past performance is no guarantee of future results.

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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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