



abrdn Emerging Markets Fund

Quarterly Commentary - Q2 2022

Performance highlights

- Emerging-market (EM) equities continued their downtrend in the second quarter, though they fared better than their developed-market counterparts.
- Investor sentiment turned increasingly pessimistic as commodity-led inflation prompted major central banks to ramp up policy tightening, triggering fears of a contraction in the global economy.
- The Fund recorded a negative return for the quarter and slightly underperformed its benchmark, the MSCI Emerging Markets Net Index,¹ attributable mainly to an overweight allocation to Latin America.

Fund performance

abrdn Emerging Markets Equity Fund (Institutional Class shares net of fees)² returned -11.67% for the second quarter of 2022, slightly underperforming the -11.45% return of its benchmark, the MSCI Emerging Markets Net Index. Investors continued to flee risk assets due to worse-than-expected U.S. inflation and rising worries about global demand. As recessionary fears intensified, commodity prices pulled back. Nonetheless, EM equities remained ahead of their developed-market counterparts for the 2022 year to date through June 30.

The Fund's overweight allocation versus the benchmark to Latin America was a notable detractor from performance over the quarter. Following a solid run since the start of 2022, the region lagged in April and June as commodity prices faltered. Shares of the Fund's holdings in Brazilian stock exchange operator B3 and lender Banco Bradesco fell, along with those of Mexican bank Banorte. The stock price of e-commerce company MercadoLibre declined on the back of the deteriorating macroeconomic environment (despite the company's solid fundamentals, in our view), as did those of digital solutions consultant Globant.

From a sector perspective, the Fund's positions in materials companies Anglo American Platinum and Grupo Mexico underperformed over the second quarter. Meanwhile, shares of the Fund's core technology holdings, Samsung Electronics and Taiwan Semiconductor Manufacturing Co, declined amid investors' concerns about slowing end-demand for chips and consumer electronics, though on an allocation basis, the relatively underweight exposure to Korea and Taiwan aided Fund performance. The Fund's non-benchmark technology holdings in the Netherlands - ASML Holding and ASM International - also sold off on broader weakness in the technology sector. Nevertheless, our confidence in the long-term structural growth of leading semiconductor suppliers remains unchanged.

China was another key detractor from Fund performance for the quarter. The underweight position had a negative impact. However, the Fund's Chinese consumer and renewable energy stocks performed strongly. The top stock contributors for the period were either companies listed on the mainland or those in Hong Kong that were beneficiaries of China's gradual economic reopening. Travel services provider China Tourism Group Duty Free and condiments manufacturer Foshan Haitian Flavouring & Food were buoyed by the easing of restrictions. Shares of e-commerce giants JD.com and Alibaba, as well as electrical appliance maker Midea Group, outperformed on improved market sentiment towards discretionary spending. Among the Fund's holdings in the renewable energy space, LONGi Green Energy was the top stock contributor, aided by strong policy support for renewables and solid demand for global solar installations. The Fund's non-benchmark exposure to Hong Kong also enhanced the relative performance. Shares of brewer Budweiser APAC and insurer AIA Group rose on the improving outlook of the operating environments in both mainland China and Hong Kong.

¹ 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. 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.



Elsewhere in Asia, stock selection in India contributed positively to Fund performance for the quarter. Fast-moving consumer goods giant Hindustan Unilever's stock price recovered off a low base as investors focused on its quality.

Finally, the lack of exposure to oil-producing countries in the Middle East benefited Fund performance as share prices in those markets moved lower on the back of volatile energy prices.

Fund activity and positioning

During the quarter, we established two new positions in South Africa. Sanlam is a multi-lines insurer with a tilt to life insurance. The company has been gaining market share and, in our view, is well positioned to benefit from the rising interest-rate environment. We believe that telecom Vodacom Group has an opportunity to increase growth and returns, given its incumbent position in a capital-intensive market.

Elsewhere in Latin America, we initiated a holding in Banco Santander Chile, one of the largest banks in Chile in terms

of total assets, loans and deposits. In our view, the bank has best-in-class operational metrics and a management team with a strong environmental, social and governance agenda. We also added a position in Raia Drogasil, a leading pharmaceutical retailer in Brazil, which we believe has strong e-commerce growth prospects and a sound digitalization strategy.

In addition, we initiated a holding in Chinese e-commerce company JD.com, as we feel that it is an attractive consumer spending play with a strong established moat.³

Conversely, we sold several Fund holdings to fund what we felt were better investment opportunities elsewhere: e-commerce company Allegro.eu; data center solutions provider GDS Holdings; Hangzhou Tigermed Consulting Co., a provider of clinical trial services for research and development of new drugs; athletic apparel retailer Li Ning Co.; lithium ion battery manufacturer Samsung SDI; and casino and resort operator Sands China. Furthermore, we exited the Fund's position in global internet group Prosus and reinvested the proceeds into the position in internet services company Tencent Holdings.

Total Returns (as of 06/30/22)

	1 month	3 months	Year to date	1 year	3 years	5 years	10 years	Since Inception
Class A w/o sales charges	-5.29	-11.82	-23.80	-31.93	-1.38	0.37	1.76	4.18
Class A with sales charges	-10.74	-16.89	-28.19	-35.84	-3.31	-0.81	1.16	3.78
Institutional Class	-5.25	-11.67	-23.61	-31.59	-0.90	0.86	2.19	4.47
MSCI Emerging Markets Net	-6.65	-11.45	-17.63	-25.28	0.57	2.18	3.06	2.44

Annual Calendar Year Returns (as of 06/30/22)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Class A w/o sales charges	-31.93	48.60	-5.18	9.65	-3.13	17.55	-4.20	-8.25	8.65	4.12
Institutional Class	-31.59	49.35	-4.74	10.15	-2.65	18.09	-3.82	-7.91	8.91	4.46
MSCI Emerging Markets Net	-25.28	40.90	-3.39	1.21	8.20	23.75	-12.06	-5.12	14.31	2.87

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Returns prior to 11/23/09 reflect the performance of the abrdn-managed predecessor fund before its reorganization into the Aberdeen Funds family.

The Inception Date represents the inception date for the oldest share class. Performance prior to the inception date for each share class may be linked to performance for the oldest share class. Please see the Fund's prospectus for further details. 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.

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³ A moat is a competitive advantage that one company has over other companies in the same industry.

Market review

EM equities continued their downtrend in the second quarter, though they fared better than their developed-market counterparts. Investor sentiment turned increasingly pessimistic as commodity-led inflation prompted major central banks to ramp up policy tightening, triggering fears of a contraction in the global economy.

Emerging Asia outpaced the broader EM equity asset class for the quarter attributable largely to China's standout performance, which was driven by strong government policy support, easing COVID-19-related restrictions, relatively contained inflation, and investors' optimism surrounding potentially less aggressive regulatory crackdowns in the domestic technology sector. Conversely, technology-heavy markets in South Korea and Taiwan sold off on higher interest rates and growing recession fears.

Oil and commodity prices, which initially rallied on supply disruptions due to the ongoing Russia-Ukraine conflict, came under strain as the quarter progressed and concerns mounted that a global economic slowdown could dent demand. In turn, commodity-driven markets began to price in lower commodity prices and, consequently, suffered significant declines. Resource-rich Latin America, which posted a strong showing in the first quarter of this year, was the weakest-performing region for the period. The markets in oil-producing nations in the Middle East also pulled back.

Outlook

Russia's invasion of Ukraine, and the subsequent supply shock in markets, dominated investor sentiment for most of the first half of 2022. As the U.S. Federal Reserve has accelerated monetary policy normalization to tackle commodity-led inflation, EM central banks have mostly kept pace by aggressively tightening either in line with or ahead of the U.S. central bank. However, emerging economies' currency reserves and current account positions are also in much better shape than before, and they are closer to ending their policy tightening cycle. Meanwhile, we feel that the potential for a counter-cyclical recovery in China remains. The Chinese government is under pressure to boost the economy, particularly given its 5.5% gross domestic product (GDP) growth target for the 2022 calendar year. Separately, we believe that increasing investments into renewables should benefit EM companies, which dominate in many renewable energy sources.

We maintain the Fund's focus on firms that in our view have quality characteristics, including sustainable free cash flow-generation and earnings growth, pricing power and low debt levels. We think that these characteristics should help the companies to manage the current period of supply disruption and cost pressures.

Top 10 Fund holdings (as of June 30, 2022) (%)

Taiwan Semiconductor Manufacturing Co Ltd	8.5
Samsung Electronics Co Ltd	6.5
Tencent Holdings Ltd	6.0
Alibaba Group Holding Ltd	5.3
Housing Development Finance Corp Ltd	3.4
JD.com Inc	2.3
Grupo Mexico SAB de CV	2.3
LONGi Green Energy Technology Co Ltd	2.2
AIA Group Ltd	2.2
Grupo Financiero Banorte SAB de CV	2.0
Percent of Portfolio in Top Ten	40.5

Portfolio Characteristics

	Fund	Benchmark
Alpha	-0.04	0.00
Beta	1.15	1.00
Net Margin	20.09	17.54
P/E Ratio	11.24	12.24
R-Squared	96.00	100.00
Sharpe Ratio	-0.03	0.11
Standard Deviation	21.12	17.93
Weighted Average Market Cap (bn USD)	61.99	14.86



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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.

Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus, or download at abrdn.us. Please read the summary prospectus and/or prospectus carefully before investing any money.

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