abrdn Australia Equity Fund

Commentary

Quarter ended July 31, 2024

Fund performance

The fund returned 8.57%[1] in gross terms over the review period, outperforming the benchmark ASX 200 Index's[2] return by 1.64%. This was due mainly to positive stock selection in the consumer discretionary, healthcare, financials, and materials sectors. The underweight to materials and overweight to healthcare also contributed to performance, although to a lesser extent.

Our consumer discretionary holding in Aristocrat Leisure was among the top stock contributors, owing to its exceptional results that demonstrated to the market its high-quality business. JB Hi-Fi also contributed to performance as the market began appreciating the potential boost to the Australian consumer from rate and tax cuts.

In the healthcare sector, strength in the share prices of Pro-Medicus and CSL added to returns. Pro-Medicus announced further contract wins whilst market sentiment was positive around CSL's strong growth prospects and the ability to improve margins.

The fund's performance in the materials sector was mixed. Australian miners came under pressure as the rally in metal prices faded on concerns around demand strength. While this affected our holdings including Rio Tinto and Northern Star Resources, they were more resilient compared to their peers. In fact, not holding iron ore producer Fortescue, as well as diversified mining and metals companies South32 and Mineral Resources, added 92 basis points to our relative performance. Being underweight to the sector was also a positive.

Cumulative and annualized total return as of July 31, 2024 (%)

	NAV	Market Price	ASX 200 Net Index
Since inception (p.a.)	7.46	7.13	8.41
10 Years (p.a.)	5.47	4.28	4.01
5 Years (p.a.)	7.88	7.10	6.12
3 Years (p.a.)	4.14	(0.90)	3.05
1 Year	12.90	10.28	9.75
Year to date	5.98	8.45	3.80
3 months	11.01	8.67	6.74
1 month	3.52	2.54	1.87

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

Australian equities closed around all-time highs at the end of the quarter ended July. However, they sold off significantly (as did the majority of global equity markets) in the first few trading days of August, as weak economic data from the US prompted increased fears of a US recession. Interest-rate-sensitive sectors, such as banks and wider financials, drove Australian equity returns over the review period, given expectations that Australia will continue to lag the rest of the world in cutting interest rates. The only sectors in negative territory were commodity-linked sectors, such as materials and energy, which continued to be weighed down by falling commodity prices.

The domestic economic picture remained clouded by mixed data. Despite the Reserve Bank of Australia's cash rate remaining at 4.35% for the last nine months, house prices continued to rise, while stubbornly high inflation persisted. Annual inflation for the second quarter of 2024 stayed above target, with the consumer price index

[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.

For current holdings information, please visit abrdn Australia Equity Fund - Portfolio Holdings.

accelerating 3.8% year on year. That said, the quarter-on-quarter rise of 1.0% (0.8% for the core measure) may have allayed fears of inflation significantly reaccelerating. In addition, the jobless rate ticked up to 4.1% in June due to increased labour supply. Consumer sentiment remained muted, with the Westpac-Melbourne Institute Index of Consumer Sentiment falling 1.1% month on month to 82.7 in July.

Activity

In the quarter, the portfolio added ALS, a global testing, inspection, and certification company serving the life science and commodities sectors. The company has done well in reconfiguring its business to be less cyclical and increased its exposure to the higher-quality food, pharmaceutical,
and environmental testing subsectors. The company is well-positioned to benefit from the new PFAS regulation and will benefit from the recovery in spending on mineral exploration.

The fund also exited Charter Hall to control the exposure to interest rate movements and our waning conviction regarding its acquisition pipeline.

Outlook

The RBA recently held its policy rate at 4.35%, as expected, stating that further tightening or easing of monetary policy will depend on the data and its evolving assessment of risks. It also increased the inflation forecast and lowered the unemployment rate forecast.

More broadly, whilst the domestic backdrop remains somewhat challenging, there are reasons to get more optimistic. Namely, more muted inflation measures (including wages) will provide some stability to corporates, the prospect of wage cuts, government subsidies to the consumer, stage 3 tax cuts, and the potential for rate cuts. We will continue with our strategy to opportunistically take advantage of market movements to add to quality companies that are in a position to succeed when the impact of these tailwinds shows tangible benefits whilst keeping a mindful eye on valuations.
We remain biased towards businesses with strong pricing power and defensive business moats, and we favour businesses with clear growth prospects that are leveraged to long-term structural shifts.

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 abrdnIAF.com.

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