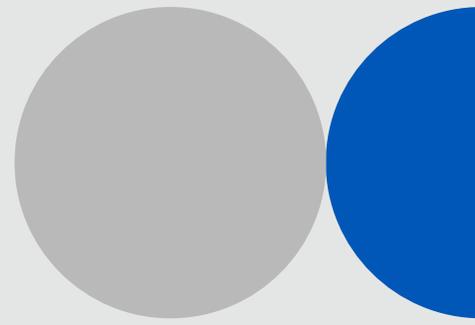


Evergrande Note

October 2021



The situation within the Chinese real estate sector is fluid, with property developer Evergrande at the epicenter. While we expect a restructuring of Evergrande, we believe that this will proceed in a more orderly manner than the market currently fears. Risk aversion is extreme, with the market pricing in a default rate of approximately 40% (in addition to Evergrande). We feel that this is an opportunity for investors to look past near-term volatility and uncertainty.

We see limited risks of financial contagion impacting global markets from an Evergrande default in China. The financial exposure to Evergrande debt and equity is predominantly held within China, making it a domestic issue. Even China's offshore bond market is unique in that domestic investors account for nearly 90% of the holdings of the U.S. dollar-denominated bonds issued by Chinese companies.

We think that the financial contagion scenario is unlikely. The objective of the policies which have caused the Evergrande situation are to improve the financial stability of the property sector because it is so important to China's economy. Ninety percent of Chinese families own property, which accounts for 70% of their household wealth.

Chinese property development comprises as much as 30% of China's GDP and, significantly, developer land-buying accounts for about 30% of revenues for local governments. The Chinese government is a proponent of maintaining social and financial stability; therefore, it would require either a policy error or reversal to allow a downside scenario to develop without government intervention.

It is important to remember that defaults and credit losses are the result of a policy shift in 2018 and thus, are new phenomena for Chinese investors. Risk aversion is now extreme, and China B bonds offer an average spread of 2,500 bps above comparable-duration U.S. Treasuries, which implies a roughly 40% default rate (in addition to Evergrande). By comparison, most international markets are at the upper ends of their valuations. In our view, the current environment is an opportunity for investors to look past near-term volatility and uncertainty and add exposure to stronger Chinese companies.

As of September 30, 2021, the Aberdeen Asia-Pacific Income Investment Company Limited has only minimal (less than 1%) exposure to Evergrande.

Important information

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.

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the Fund's portfolio. The net asset value (NAV) is the value of an entity's assets less the value of its liabilities. The market price is the current price at which an asset can be bought or sold. There is no assurance that the Fund will achieve its investment objective. Past performance does not guarantee future results.

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