aberdeen Investments

abrdn Life Sciences Investors

Quarterly Commentary

Quarter ended March 31, 2025

Fund performance

The equity portion of the Fund fell (gross of fees) and underperformed its benchmark, the NASDAQ Biotechnology Index.[1]

The top three detractors were Sarepta Therapeutics, Regeneron Pharmaceuticals and Vaxcyte. Sarepta underperformed after reporting a patient death from acute liver failure linked to Elevidys, its gene therapy for Duchenne Muscular Dystrophy — a development that raised significant investor concern. Regeneron declined amid continued pressure from the anticipated launch of generic competitors to Eyelea, its leading ophthalmology therapy. Vaxcyte also weakened after the release of mixed clinical data on its pneumococcal vaccine for children, compounded by broader uncertainty around regulatory and government vaccination policies.

The top three contributors were Amgen, Gilead Sciences and Vertex Pharmaceuticals. Amgen rebounded strongly despite a weak end to 2024, with its shares rising even amid mixed sentiment around its GLP-1 antibody, maritide — an impressive move given broader equity market softness. Gilead gained on growing optimism for its twice-yearly HIV pre-exposure prophylaxis drug, which has demonstrated near-complete efficacy and strengthened investor confidence. Vertex advanced significantly, led by the Food and Drug Administration's approval of Journayvx — the first non-opioid acute pain treatment approved in over two decades — alongside continued robust demand for its cystic fibrosis therapies.

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 March 31, 2025 (%)

	NAV	Market price
Quarter to date	-5.23	0.22
Year to date	-5.23	0.22
1 year	-2.54	6.76
3 years (p.a.)	3.21	2.14
5 years (p.a.)	5.68	6.84
10 years (p.a.)	2.98	2.04

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. NAV return data includes investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions. abrdn Inc. (the "Adviser") became the Fund's adviser on October 27, 2023.

For periods prior to that date, the returns reflect performance information from a prior, unaffiliated adviser. The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

[1] The NASDAQ Biotechnology Index is a modified capitalization-weighted index that includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as biotechnology or pharmaceuticals.

For current holdings information, please visit **abrdn Life Sciences Investors - Portfolio Holdings**

Market review

US equities ended the quarter notably down. Against a backdrop of lingering inflationary pressures and a relatively buoyant labour market, the US Federal Reserve (Fed) maintained the target range for the federal funds rate at 4.25–4.50% during the quarter. The central bank's chair, Jerome Powell, reiterated the Fed's commitment to sustainably lowering annual inflation – as measured by its preferred measure, the core Personal Consumption Expenditures Price Index – below the 2% target. However, the Fed aims to proceed cautiously, taking a data-dependent approach as it seeks greater clarity on underlying economic trends given persistently high inflation data and the potential inflationary impact of President Trump's policies, particularly his tariff announcements. Despite this, following some softer US economic data, investors are now factoring in the possibility that rates could be cut at a slightly faster pace than previously expected.

The performance of the US healthcare sector notably outpaced that of the S&P 500 Index over the quarter. This was due to the relatively defensive nature of healthcare stocks, along with other sectors such as utilities and real estate that also outperformed. Investor risk aversion increased amid concerns that President Trump's recent tariff announcements could prove inflationary and weigh on US economic growth. There were also heightened geopolitical tensions due to the ongoing wars in Ukraine and the Middle East. The energy sector outperformed too, supported by its perceived role as an inflation hedge, the Trump administration's 'energy dominance' policy, and heightened geopolitical tensions. Materials also fared well, as fears of a potential trade war and geopolitical uncertainty supported gold prices. Elsewhere, the consumer discretionary sector was the main laggard, reflecting mounting concerns about the health of the US consumer. Information technology also notably underperformed, as the prospect of interest rates staying higher for longer weighed on the sector, given its large weighting to growth companies whose future discounted earnings would be negatively affected.

Activity

During the first quarter of 2025, we made several changes to the portfolio. Generally speaking, the portfolio management team identified relative value differentials favoring smaller-cap equities over large-cap pharmaceutical and biotechnology companies. Additionally, concerns over pending tariffs led us to adopt a more cautious stance toward the large-cap pharmaceutical and biotechnology sector. Consequently, we initiated several positions in predominantly small- and mid-cap pre-commercial or early product launch companies. Examples of new initiations include Incyte, Arbutus Biopharma, Immunic, Cidara Therapeutics, ARS Pharmaceuticals, Centessa Pharmaceuticals, Mereo BioPharma, NewAmsterdam Pharma, Tempus AI, Korro Bio, and Sionna Therapeutics. We also made a new investment in a pre-public, venture-backed company, Abcuro.

We sold several positions for various reasons. Some sales were motivated by a lack of confidence in the companies' forward growth prospects, while others resulted from failed clinical trials. Over the past several quarters, we have been increasing the Fund's allocation to smaller-cap equities and decreasing its allocation to large-cap equities; as a result, we sold some positions fitting these criteria. Examples of sold positions include Biogen, Eli Lilly, Thermo Fisher Scientific, Intra-Cellular Therapies, Natera, BeiGene, Avantor, 89bio, Moderna, AstraZeneca, and Marinus Pharmaceuticals.

Outlook & strategy

With Donald Trump securing his second term, uncertainty around election results has been replaced with policy ambiguity. Tax cuts and deregulation are supportive of GDP growth, but incremental tariffs and immigration restrictions could mute these gains. This combination of looser fiscal policy coupled with potential supply-side shocks raises inflation expectations. As a result, we expect Fed rate cuts to slow in 2025 while we await increased visibility over the policy agenda and its resulting impact on inflation.

In general, the near- and long-term outlooks for healthcare companies remain favourable. Long-term demographic trends of an aging population should continue to support the growing demand for new healthcare products and therapies. Due to the healthcare sector's generally defensive characteristics, its relative underperformance in the short term should position it favourably, especially if the US and global economies slow down.

Important Information

Investments in HQL may be subject to additional risks including limited operating history, security selection, concentration in the healthcare industries, pharmaceuticals sector, biotechnology industry, managed care sector, life science and tool industry, healthcare technology sector, healthcare services sector, healthcare supplies sector, healthcare facilities sector, healthcare equipment sector, healthcare distributors sector, healthcare REIT, interest rate, credit/default, non-investment grade securities, key personnel, discount to NAV, anti-takeover provisions, related party transactions, non-diversification, government intervention, market disruption, geopolitical, and potential conflicts of interest. Please see the Fund's most recent annual report for more information on risks applicable to the Fund. As of 9/30/2023, Tekla Capital Management LLC was the Fund's investment manager. Effective immediately after the market close on 10/27/2023, abrdn Inc. became the Fund's investment manager. Destra Capital Advisors LLC, a registered investment advisor, is providing secondary market servicing for the Fund.

Please see the Fund's most recent annual report for more information on risks applicable to the Fund.

For more information visit aberdeeninvestments.com

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