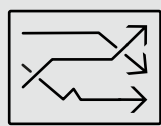


abrdn Japan Equity Fund

Quarterly Commentary

Quarter ended January 31, 2025

Fund performance



The net asset value of the Fund rose by 2.50% over the quarter against 1.92% for the Topix benchmark index (net basis). Selection was notably positive in consumer discretionary and information technology, while it was weak in financials and industrials.¹

At the stock level, Mitsubishi UFJ Financial Group was a notably strong performer on investor expectations that the interest rate hike by BoJ would lift the bank's earnings. Shares in Ryohin Keikaku rallied strongly on better-than-expected results led by robust demand for the company's reasonably priced, high-quality products. Pan Pacific International Holdings also did well due to its firm monthly same-store-sales data and news about Japan's plans to ease visa requirements for Chinese visitors, which will likely produce a tailwind for inbound demand.

On the negative side, the weakest-performing position was in Union Tool. The stock's share price slumped on weak results and concerns that Nvidia could further delay the delivery of Blackwell chips. Shares in Nippon Paint detracted as results fell short of expectations due to weak demand in China. Tokio Marine Holdings fell on investor concerns over the impact of the California wildfires. However, we expect the impact to be limited considering the company's reinsurance exposure and risk controls.

Cumulative and annualized total return as of January 31, 2025 (%)

	NAV	Market Price	TOPIX Index (Net TR)
10 Years (p.a.)	4.99	4.52	6.14
5 Years (p.a.)	3.41	2.32	5.11
3 Years (p.a.)	1.27	-1.39	5.26
1 Year	7.70	5.62	5.24
Year to Date	1.90	0.87	1.63
3 Months	2.51	1.89	1.92
1 month	1.90	0.87	1.63

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.

Effective February 28, 2020, the TOPIX (Net Dividends) replaced the TOPIX (Gross Dividends) as the Fund's primary benchmark.

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

Japanese equities rose modestly in the three months to the end of January, with the MSCI Japan Index gaining 3.59% in yen terms and by 1.90% in US dollars (USD), as the yen weakened. After experiencing some volatility in the autumn as the LDP and its partner Komeito lost their overall majority for the first time since 2009, the market rallied into the year-end before flattening out in January. Investors were encouraged in December by the Bank of Japan's (BoJ) decision to leave interest rates unchanged at its final policy meeting of the year. The market was also initially supported in January by new US President Donald

¹ The Tokyo Stock Price Net Index is a market capitalization-weighted index of large- and mid-sized companies listed on the Tokyo Stock 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 Japan Equity Fund, Inc. - Portfolio Holdings](https://abrdn.com)



Trump seeming to put potential trade tariffs further down his 'to do' list. However, later in the month, the BoJ decided to raise rates again, by 25 basis points to 0.5%. With headline inflation for December jumping to 3.6% from 2.9% in the previous month, the market became concerned that the central bank might need to raise rates further to ensure that inflationary pressures do not get out of hand. December's headline figure was the highest for almost a year. Core inflation (excluding fresh food prices) also picked up, rising to a 16-month high of 3.0%. The yen recovered a little bit in January but was weaker over the quarter, falling from approximately 150 to 155 against the USD. The 10-year benchmark government bond spiked above 1.25% in mid-January, a 14-year high.

The economy showed some signs of improvement. The BoJ's Tankan Survey's headline large manufacturers diffusion index rose from 13 in the third quarter to 14 in the fourth, marking the highest level for almost three years. Meanwhile, third-quarter GDP was revised higher from 0.2% quarterly growth to 0.3%, mainly due to more resilient private capital expenditure which did not fall as much as originally thought. This translated into an annualised growth of 1.2%, up from an initial figure of 0.9%. Meanwhile, real wages grew for the first time in four months in November, rising by 0.5% on an annual basis, against an original estimate of -0.3%. The sizeable revision reflected much higher growth in winter bonuses than expected.

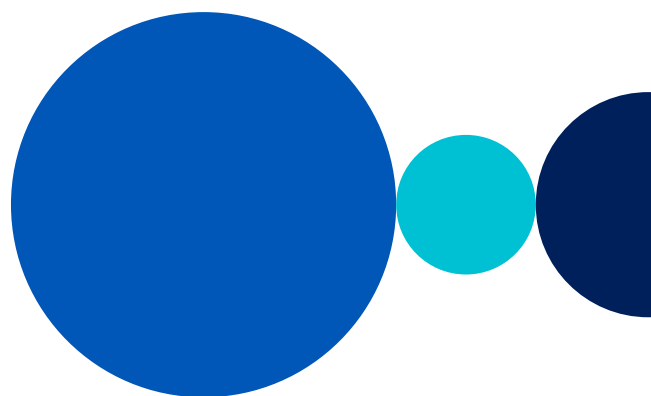
Activity

During the quarter, we initiated positions in process automation system provider Yokogawa Electric and automotive parts maker Musashi Seimitsu. Yokogawa Electric is a leading global player in the process automation market, which has consolidated substantially over the last few decades. The company is well positioned to capture the rising demand for liquified natural gas, clean energy, and other projects related to energy security and transition. In Musashi Seimitsu's case, we look for its nascent business of supplying hybrid super capacitors to experience strong growth over the next several years as it benefits from the rollout of AI servers globally. We also participated in the initial public offering of Kioxia Holdings, previously known as Toshiba Memory. Kioxia is a leading memory maker with a 20% share in the global flash memory market. We expect memory products for AI applications to contribute to Kioxia's earnings over the medium term. The offering was attractively priced, considering the company's cash flow generation.

To fund these initiations, we exited our position in medical guidewire maker Asahi Intecc, automotive lights business Koito Manufacturing and electronic parts manufacturer Kaga Electronics.

Outlook & strategy

2024 was another banner year for Japanese equities, with the MSCI Japan index rising by over 21% in yen terms. While a part of this strong performance was driven by a boost to exporters' earnings from a weaker yen, broader trends such as corporate reforms, and gains from companies tied into structural growth areas, including capital investments related to artificial intelligence, also drove the rise in the market. We are especially encouraged by governance improvements across Japan Inc, as demonstrated by the continued unwinding of cross-shareholdings and stronger emphasis on financial measures such as ROE (Return on Equity) and ROIC (Return on Invested Capital).



Important Information

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. 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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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.

Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

Concentrating investments in the Japan region subjects the Fund to more volatility and greater risk of loss than geographically diverse funds.

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

For more information visit abrdn.com

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