

abrdn Diversified Growth Fund – Investment Report Q3 2022

Fund objectives

To generate a positive return through capital growth and some income over the long term (5 years or more) by investing in a globally diversified portfolio of assets whilst reducing the risk of losses. Invested capital is however at risk and there is no guarantee that this will be attained over any time period.

Performance target

To exceed the return on cash deposits (as currently measured by a benchmark of 1 month SONIA GBP) by 5% per annum over rolling five year periods before charges. The performance target is the level of performance the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the performance target.

The performance target has been chosen as a proxy for the return on cash deposits.

Investment policy

Portfolio securities

- ▶ The fund invests directly in a broad range of assets from across the global investment universe, derivatives, money-market instruments and cash.
- ▶ The fund may also invest in other funds (including those managed by abrdn) to gain exposure to a broad mix of assets from across the global investment universe.
- ▶ Asset classes that the fund invests in may include listed equities (company shares), private equity, property, infrastructure, high yield bonds, emerging market debt, asset backed securities, litigation finance, peer-to-peer lending, aircraft leasing and healthcare royalties.
- ▶ Asset classes such as infrastructure, property or private equity will typically be accessed through investment route such as listed equities

The Fund returned -4.4% over Q3 2022, gross of fees. Over the last 12 months it has returned -8.4%.

The main positive contributors were Emerging Market bonds and absolute return. The main negative contributors were property, listed equity, special opportunities, asset-backed securities and infrastructure

Summary

Investment markets continued to experience losses in Q3. Against this backdrop the fund delivered a return of -4.4% over the quarter and brings the year-to-date fund return to -11.1%

Notable detractors from performance included property, listed equity, special opportunities, asset-backed securities and infrastructure. This was partly offset by positive contributions from local currency Emerging Market bonds and our absolute return allocation.

The global economy is facing multiple, reinforcing headwinds, which is likely to lead to a deeper and earlier global recession. We expect inflation to remain elevated in the short-term but decline in the medium-term as disinflationary forces take hold. We do not believe that markets have fully priced in this more negative scenario. Equity markets have primarily reflected a valuation rerating together with some moderation in earnings growth. Interest rate markets are reflecting a significant tightening in many countries, but risks remain elevated until inflation has clearly peaked. The fundamentals of many alternative asset classes are relatively unaffected by this turn in the cycle. Some have revenues with direct links to inflation or have limited economic sensitivity, for example. As such, we remain relatively cautious on many traditional asset classes and see more compelling risk-adjusted return prospects in a number of alternative asset classes. These include:

- infrastructure assets that have attractive and reliable yields with links to inflation;
- asset-backed securities which currently offer significantly higher spreads than corporate bonds for similar levels of risk and are floating rate;
- Emerging Market bonds offering attractive returns as well as diversification benefits;
- some property investments which can offer attractive, reliable returns; and
- a variety of special opportunities such as healthcare royalties, litigation finance and music royalties.

Performance Data: abrdn Diversified Growth Fund, GBP, ISIN GB00B62J6F31. Performance gross of annual management charges. Date of launch: 1 November 2011.

Source: abrdn, BPSS, Thomson Reuters DataStream. Figures as at 30 September 2022

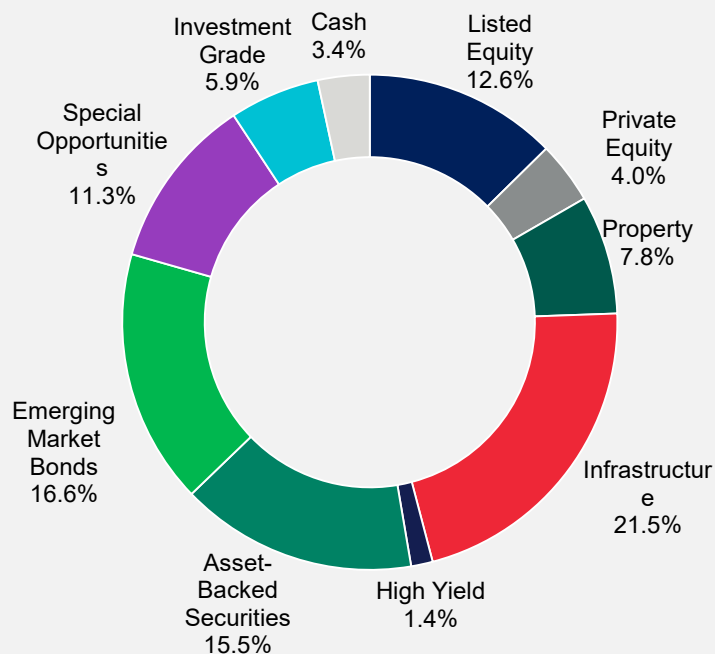
All return data gross of annual management charges. Had such fees been deducted returns would have been lower.

Past Performance is not a guide to future results

abrdn Diversified Growth Fund

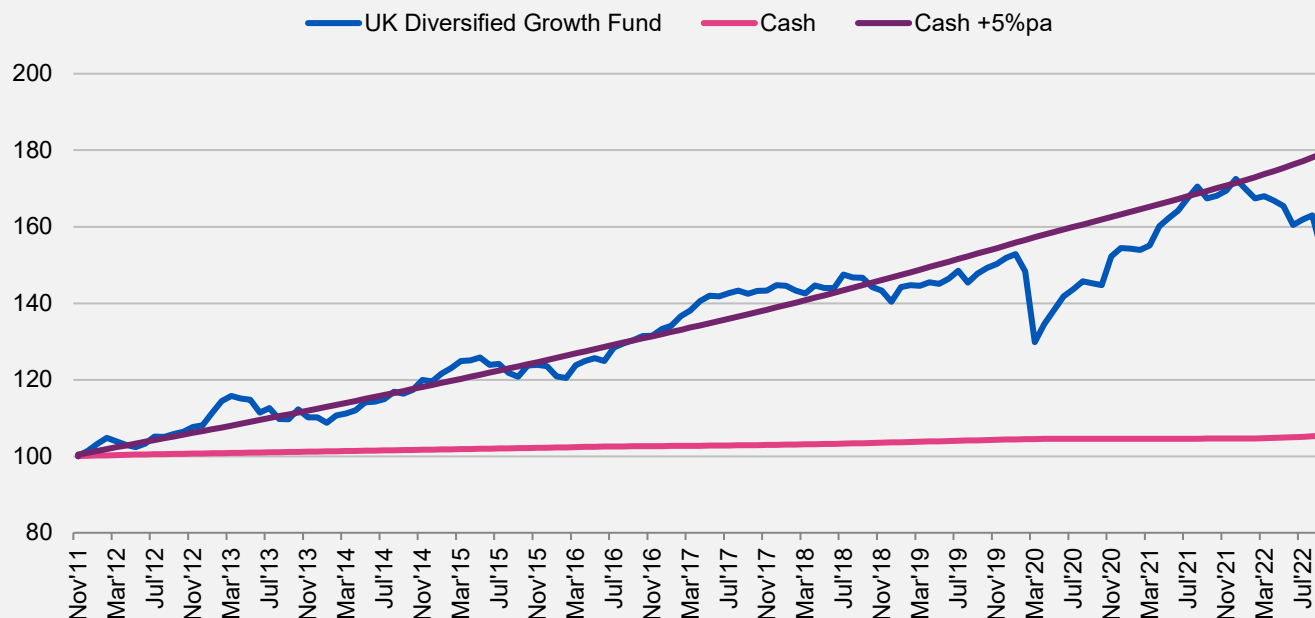
Investment profile

Asset allocation



Source: abrdn, 30 September 2022. Figures may not add up due to rounding.

Long-term performance



Performance Data: abrdn Diversified Growth Fund, GBP, ISIN GB00B62J6F31. Source: abrdn, BPSS, Thomson Reuters Datastream. Figures as at 30 September 2022. Cash represented by 1 month SONIA.

Cash+5% represents an internal performance target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest prospectus. Current target: Cash +5% p.a. gross of annual management charges.

All return data gross of management charges. Had such fees been deducted returns would have been lower.

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Asset class review

Listed Equity

Global equity markets produced a negative return overall and continued to experience high levels of volatility. Equity markets started the quarter strongly, returning over 10% by mid-August. However, this was more than offset by sharp declines in the second half of the period. Key market drivers were consistent with previous quarters with investors concerned about the impact of monetary policy tightening from central banks in light of persistently high inflation as well as what this means for recessionary risks. Markets were also faced with greater concern surrounding the impact of higher energy prices in Europe, UK fiscal policy announcements and weak Chinese growth forecasts.

Against this backdrop, our core equity allocation performed broadly in line with global equities, our EuroStoxx dividend futures allocation outperformed while our UK midcap strategy underperformed.

Emerging Market debt

Our local currency Emerging Market bond allocation produced a positive return when measured against our funding basket, despite continued volatility elsewhere. Income generation and currency gains more than offset modest price declines over the period. Notably, our funding basket has continued to be defensive in a challenging macroeconomic environment.

Infrastructure

Infrastructure produced a negative return with losses almost entirely occurring in the final week of the quarter. Our allocation to infrastructure had performed resiliently throughout 2022 including through most of Q3. We believe this reflected limited economic sensitivity to underlying cashflows, positive contracted inflation linkage across many assets and high power prices – which have benefited our renewable infrastructure allocation in particular. As such, the asset class had provided material diversification benefits for our portfolios.

However, towards the end of the quarter, UK Chancellor Kwasi Kwarteng announced significant tax cuts alongside other changes as part of a “mini-budget”. This was badly received by markets with GBP falling sharply and long-term UK bond yields rising at unprecedented speed to levels not seen since before the GFC. This spilled over to listed infrastructure assets as investors became more focused on what this means for the discount rates used to value the underlying assets and what that means for their valuation. Asset prices did stabilise and begin to recover towards quarter end following Bank of England intervention in the bond market.

We continue to evaluate the potential impact of a materially different yield environment, in particular for investments with greater UK exposure. While it is possible that discount rates could increase over time, infrastructure assets do benefit from positive inflation linkage.

Asset specific news continued to be positive over the period with robust underlying performance from investments. A number of our infrastructure companies released half year results with net asset values increasing overall reflecting positive inflation linkage through subsidies or contracts, strong demand for assets and higher power prices which benefited renewables assets.

Property

Property produced a negative return over the quarter as investors considered the impact of rising interest rates and what this means for both the property valuations and the cost of borrowing for investors. This dynamic was reflected in listed property valuations moving to more significant discounts to net asset values over the quarter with reported asset valuations (which are typically backwards looking) yet to be impacted. Losses were most acute towards the end of the reporting period with large and sharp moves in long-term UK bond yields resulting in declining prices.

Our allocation continues to remain in more specialist areas of the property market which often have positive attributes such as more stable income generation or varying kinds of inflation linkage. Regardless, we also continue to evaluate the potential impact of a materially different yield environment on our specialist property exposure.

Asset-backed securities (ABS)

ABS produced a negative return over the quarter with income offset by lower bond prices as investors factored in a greater probability of recession.

We continue to believe that even the most junior bonds within an ABS structure can withstand significant defaults over time. In addition, the asset class offers a materially higher spread than traditional credit and is floating rate in nature and therefore benefits from rising rates.

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Absolute return

Our absolute return position consists of defensive long USD and JPY positions held against a basket of economically sensitive currencies. Both currencies contributed positively to performance given broader macroeconomic events with our long USD position performing particularly well during the quarter.

Special opportunities

Special opportunities produced a negative return over the quarter.

Round Hill Music, our music royalties investment, announced a half year NAV total return of 7.7% driven by higher revenues from its music catalogues and increased royalty rates following a ruling by the US Copyright Royalty Board earlier this year. The discount rate remained unchanged at 8.5% over the period.

Burford Capital, the litigation finance investor, released half year results to June. In what was a quiet period for investment progress, the company reported \$80m in revenues period driven by unrealised gains on investments and \$11m in profits before tax. It was a busier period for new commitments and deployments with \$295m committed during the period and \$122m deployed to investments.

Our shipping investment, Tufton Oceanic Assets, announced their full year results producing a NAV total return of 32.5%. During the year the company divested nine vessels and acquired nine, with the return from sales materially exceeded the company's targets. This continues Tufton's portfolio repositioning away from containerships, with high charter rates and second-hand values, and towards tankers and bulkers which management believe have more attractive yield and capital growth potential given supply-demand dynamics.

Honeycomb Investment Trust, the specialist lender, completed its merger with manager Pollen Street Capital at the end of September. The result is a combined business with a large balance sheet investment in credit assets and an alternative asset manager.

BioPharma Credit, the healthcare royalty lender, announced half year results with a NAV total return of 5.0%. The company committed \$526m over the period to new loans to three biotechnology companies. Post period end, the company received a number of prepayments from Akebia, Epizyme, Global Blood Therapeutics and most significantly Sarepta.

Our precious metals royalties investments, Franco Nevada and Wheaton Precious Metals, both produced a modest negative return over the quarter with gold and silver prices lower on average. Towards the end of the period, both companies performed well despite a strong dollar and falling equity markets as investors began to focus more on the risk of recession. We continue to believe that these investments offer compelling diversification benefits for our portfolios.

Companies selected for illustrative purposes only to demonstrate the investment management style and not as an investment recommendation or indication of future performance

abrdn Diversified Growth Fund

Performance statistics

The Fund returned -4.5% over the quarter, net of management fees. Since inception the Fund has delivered a return of 3.3% per annum. The Fund's long-term volatility remains well below that of equity at 6.5% p.a.

Performance (%)

	1 month	3 months	6 months	1 year	Annualised		
					3 years	5 years	Since inception
Fund (net)	-5.92	-4.49	-8.88	-8.73	0.85	1.09	3.35
Fund (gross) ³	-5.88	-4.39	-8.69	-8.36	1.26	1.49	4.00
Target (gross) ⁴	0.54	1.60	3.08	5.73	5.39	5.48	5.48

Calendar year performance (%)

	Year to Date	2021	2020	2019	2018	2017
Fund (net)	-11.33	11.25	1.28	7.74	-3.38	8.14
Fund (gross) ³	-11.07	11.69	1.69	8.18	-2.99	8.57
Target (gross) ⁴	4.44	5.06	5.72	5.60	5.30	5.42

Discrete annual returns (%) – year ended 30/09

	2022	2021	2020	2019	2018
Fund (net)	-8.73	14.78	-2.08	0.38	2.51
Fund (gross) [*]	-8.36	15.24	-1.69	0.77	2.93
Target (gross) ^{**}	5.73	5.04	5.39	5.73	5.53

Risk numbers

	Volatility (since inception % p.a.)	Sharpe Ratio (since inception) ⁵	Beta to equities (since inception) ⁶
Fund (gross) ³	6.5	0.5	0.4

Performance Data: abrdn Diversified Growth Fund, Share Class I Acc GBP, ISIN GB00B5MNDD51. Inception date of share class: 1 November 2011

Source: abrdn, BPSS, Thomson Reuters DataStream. Figures as at 30 September 2022

³ Return data gross of annual management charges. Had such fees been deducted returns would have been lower.

⁴ Target is defined as 1 month SONIA GBP +5% p.a. gross of fees.

⁵ Weekly data points, risk-free rate represented by 1 month GBP LIBOR.

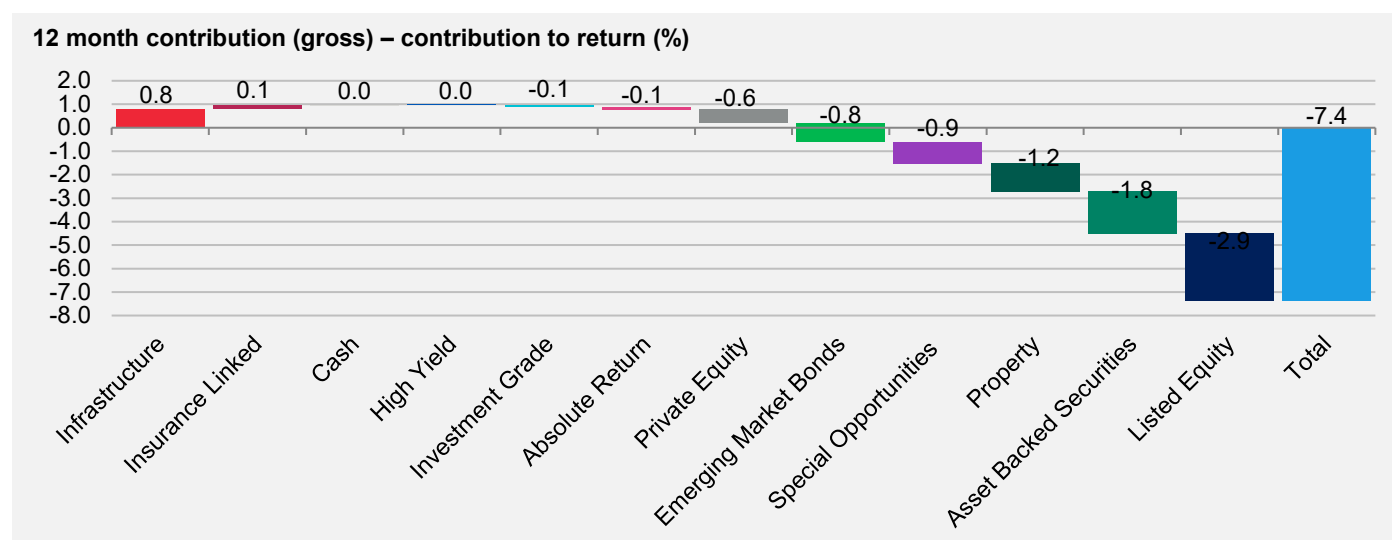
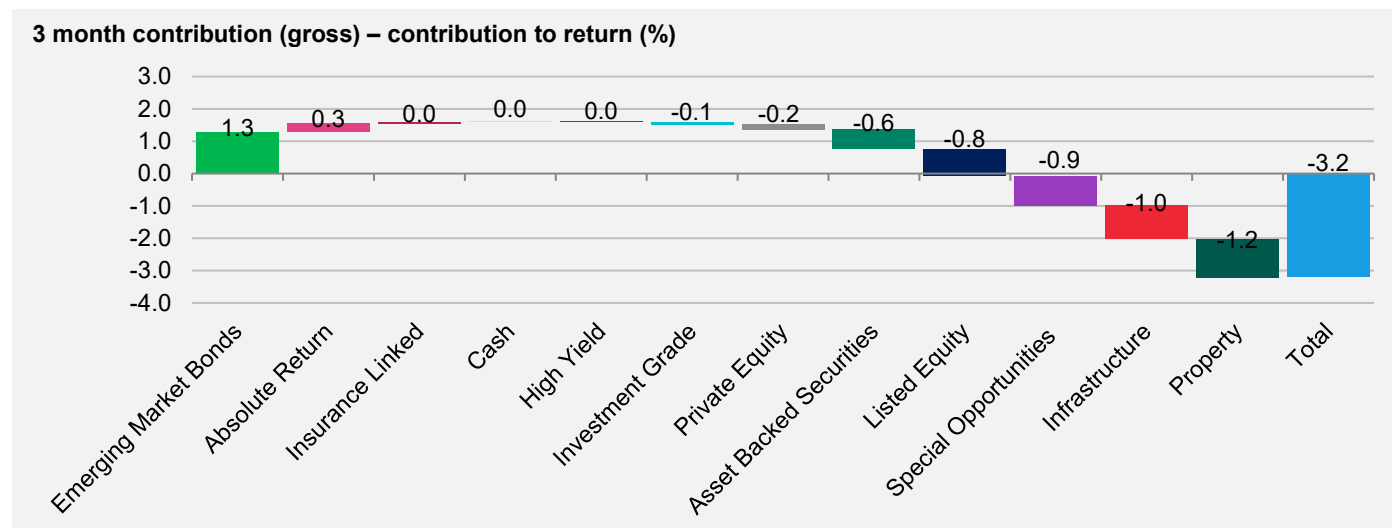
⁶ Equities represented by MSCI World Index (hedged to GBP)

Past Performance is not a guide to future result

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Performance attribution

The main positive contributors were Emerging Market bonds and absolute return. The main negative contributors were property, listed equity, special opportunities, asset-backed securities and infrastructure

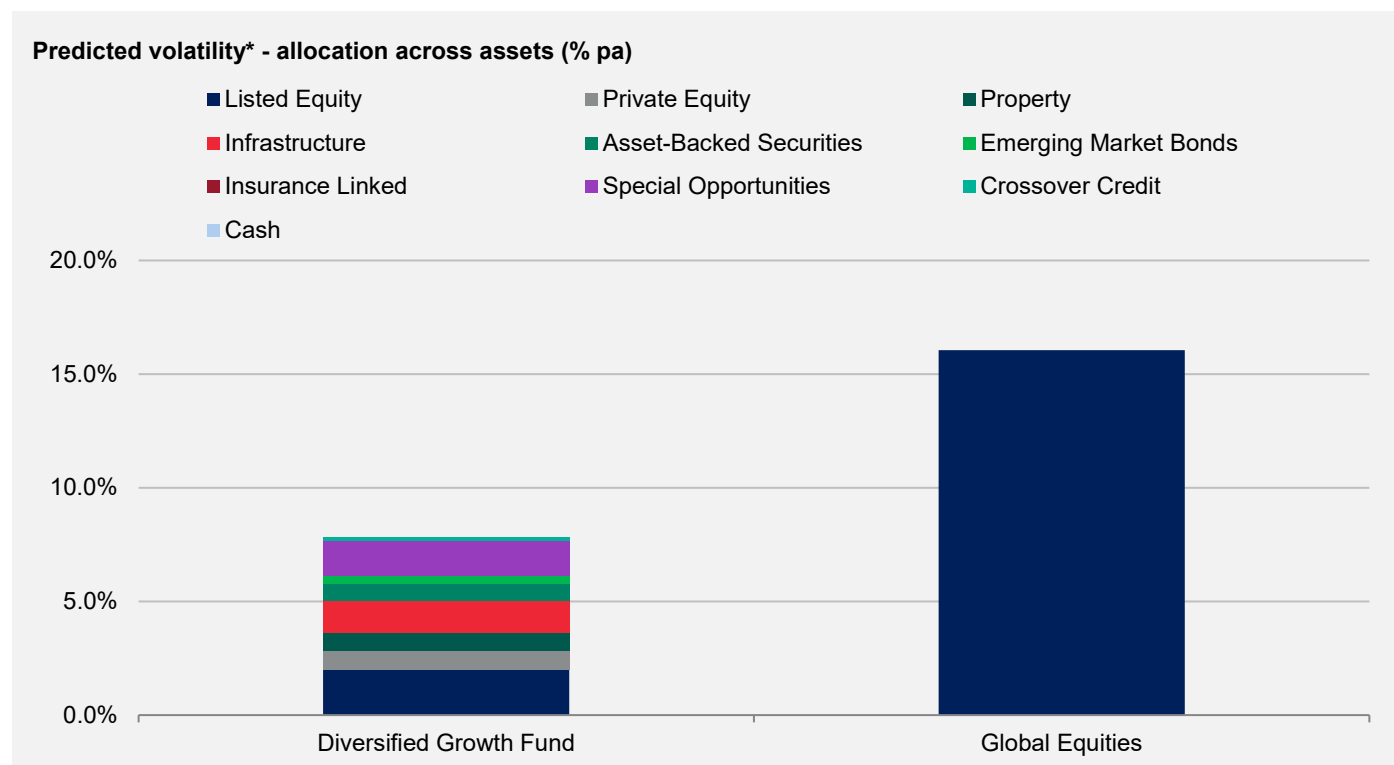


Source: abrdn, BPSS, Thomson Reuters DataStream. Figures as at 30 September 2022.

Past Performance is not a guide to future results

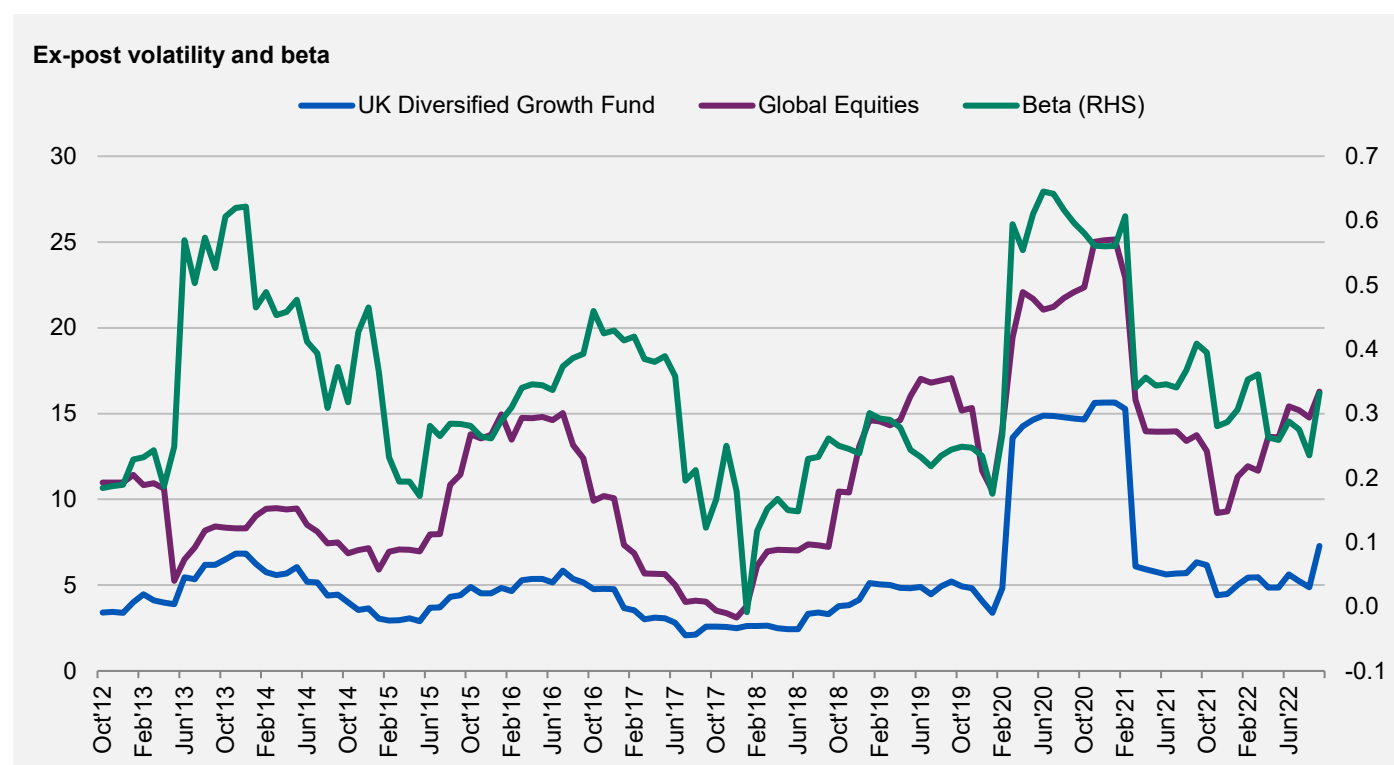
abrdn Diversified Growth Fund

Predicted and ex-post volatility



Source: abrdn, 30 September 2022

* Predicted volatility is based on internal forecasts and is not a reliable indicator of future performance.



Source: abrdn, BPSS, Thomson Reuters DataStream, Bloomberg. Historic fund volatility is from abrdn Diversified Growth Fund, gross of fees, month end data on a rolling 12 month basis. Historic global equity volatility is from MSCI World hedged to GBP, month end data on a rolling 12 month basis. Had such fees been deducted, returns would have been lower. Inception: 1 November 2011. Figures as at 30 September 2022

Historic volatility is based on past performance and is not a guide to future results.

abrdn Diversified Growth Fund

Portfolio

Listed Equity	12.6%
Equity Futures	-0.3%
Sustainable Core Equity	8.0%
Equity Dividend Futures	2.0%
UK Mid Cap Equity	3.0%
Private Equity	4.0%
Listed Private Capital	4.0%
Property	7.8%
Healthcare (Assura REIT)	1.5%
Healthcare (Primary Healthcare REIT)	0.5%
Healthcare (Target Healthcare REIT)	0.7%
Private Rented Sector (PRS REIT)	1.0%
Retail (Supermarket REIT)	0.8%
Social Housing (Civitas REIT)	0.3%
Social Housing (HOME REIT)	0.9%
Social Housing (Residential Secure Income REIT)	0.5%
Social Housing (Triple Point REIT)	0.6%
Student Housing (Unite Group REIT)	1.0%
High Yield	1.4%
High Yield	1.4%
Asset-Backed Securities	15.5%
Mezzanine ABS	3.4%
Collateralised Loan Obligations (Blackstone/GSO)	0.3%
Collateralised Loan Obligations (Fair Oaks Dynamic Credit Fund) OEIC	2.4%
Collateralised Loan Obligations (Neuberger Berman CLO Income) OEIC	1.7%
Collateralised Loan Obligations (Fair Oaks Income)	0.5%
Mezzanine ABS (TwentyFour Income)	0.3%
Mezzanine ABS (TwentyFour Asset Backed Opportunities Fund) OEIC	6.8%
Emerging Market Debt	16.6%
Emerging Market Bonds	16.4%
Indian Bonds	0.2%
Insurance Linked	0.1%
Insurance Linked (Catco Reinsurance)	0.1%
Investment Grade	5.9%
Global Investment Grade	5.9%

Infrastructure	21.5%
Social Infrastructure (HICL)	2.0%
Social Infrastructure (International Public Partnerships)	1.5%
Renewable Infrastructure (Aquila European Renewables Income)	0.8%
Renewable Infrastructure (Bluefield Solar Income)	1.1%
Renewable Infrastructure (Foresight Solar)	0.8%
Renewable Infrastructure (GCP Infrastructure)	0.5%
Renewable Infrastructure (Greencoat Renewables)	1.5%
Renewable Infrastructure (Greencoat UK Wind)	2.0%
Energy Storage Infrastructure (Harmony Energy Income)	0.5%
Renewable Infrastructure (JLEN Environmental)	0.5%
Renewable Infrastructure (Next Energy)	1.0%
Diversified Infrastructure (Pantheon Infrastructure)	1.0%
Renewable Infrastructure (The Renewables Infrastructure Group)	0.9%
Renewable Infrastructure (SDCL Energy Efficiency)	1.0%
Renewable Infrastructure (US Solar)	0.8%
Infrastructure Debt (Sequoia Economic Infrastructure)	1.3%
Energy Storage Infrastructure (Gresham House Storage)	1.0%
Diversified Infrastructure (3I Infrastructure)	1.7%
Digital Infrastructure (Cordiant Digital Infrastructure)	1.4%
Special Opportunities	11.3%
Diversified Opportunities (Aberdeen Diversified Income & Growth)	0.8%
Healthcare Royalties (BioPharma Credit)	2.2%
Music Royalties (Round Hill Music)	1.1%
Precious Metals Royalties (Franco Nevada)	0.8%
Precious Metals Royalties (Wheaton Precious Metals)	0.8%
Litigation Finance (Burford)	2.0%
Opportunistic Credit (CVC Income & Growth)	0.8%
Marketplace Lending (Honeycomb)	0.9%
Asset Financing (GCP Asset Backed Income)	1.1%
Asset Financing (SLF Realisation Fund)	0.1%
Shipping (Tufton Oceanic)	0.8%
Cash	3.4%
Cash	3.4%
Total	100.0%

Source: abrdn, 30 September 2022. Figures may not add up due to rounding.

Positioning and portfolio changes

The main asset allocation, which occurred towards the end of the quarter, was the initiation of a new position in US corporate credit. The allocation is primarily invested in investment grade credit with a smaller allocation to higher quality high yield bonds. The sub-portfolio is managed directly by abrdn's US credit team and is focused on high conviction ideas. With yields and spreads moving wider throughout 2022, the asset class has the potential to offer attractive long-term risk adjusted returns for our portfolios. The allocation to US credit was primarily funded from cash which had been raised in recent months as well as a reduction in our allocation to local currency Emerging Market bonds and a modest reduction in our asset-backed securities exposure.

Over the quarter, we also reduced our allocation to property. This primarily reflected the complete sale of our allocation to logistics assets which we believed offered insufficient long-term risk adjusted returns. In addition, we reduced our exposure to Supermarket Income REIT and Target Healthcare REIT on valuation grounds. This resulted in an increased cash position.

Our overall infrastructure allocation was broadly flat over the quarter. However, there were a number of sub-asset class changes including reducing our allocation to Greencoat Renewables, Greencoat UK Wind and The Renewable Infrastructure Group on valuation grounds and additions to HICL Infrastructure and SDCL Energy Efficiency through equity raises.

Outlook

The global economy is facing multiple, reinforcing headwinds, which is likely to lead to a deeper and earlier global recession. The Fed's rapid policy tightening is expected to tip the US into recession next year. The UK and EU economies are facing a huge real income squeeze amplified by central bank actions. Multiple factors are weighing on the Chinese growth outlook and many emerging economies are caught between their own imbalances and external shocks. The compounding effects of these shocks are now coming together into something like a perfect storm for the global economy.

We expect inflation to remain elevated in the short-term. However, the global recession will weigh heavily on commodity demand. Supply chain bottlenecks continue to improve. As monetary tightening starts to restrict product and labour demand, the scene will be set for disinflation.

We do not believe that markets have fully priced in this more negative scenario. Equity markets so far this year have primarily reflected a valuation rerating together with some moderation in earnings growth, rather than an earnings contraction. Interest rate markets are reflecting a significant tightening in many countries, but risks remain elevated until inflation has clearly peaked.

Many alternative asset classes are relatively fundamentally unaffected by this turn in the cycle. Some have revenues with direct links to inflation or have limited economic sensitivity, for example. As such, we remain relatively cautious on many traditional asset classes and see more compelling risk-adjusted return prospects in a number of alternative asset classes. These include:

- infrastructure assets that have attractive and reliable yields with links to inflation;
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- Emerging Market bonds offering attractive returns as well as diversification benefits;
- some property investments which can offer attractive, reliable returns; and
- a variety of special opportunities such as healthcare royalties, litigation finance and music royalties.

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Important information

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abrdn Diversified Growth Fund

- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments. The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The fund invests in mortgage and asset-backed securities (which may include collateralised loan, debt or mortgage obligations (respectively CLOs, CDOs or CMOs)). These are subject to prepayment and extension risk and additional liquidity and default risk compared to other credit securities.
- The fund's price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities. Dividend payment policies of the REITs in which the fund invests are not representative of the dividend payment policy of the fund.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.
- The shares of small and mid-cap companies may be less liquid and more volatile than those of larger companies.
- The fund may hold money-market instruments, the value of which may be subject to adverse movements in extreme market conditions.
- Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks

All investment involves risk. This fund offers no guarantee against loss or that the fund's objective will be attained.

The price of assets and the income from them may go down as well as up and cannot be guaranteed; an investor may receive back less than their original investment.

A full list of risks applicable to this Fund can be found in the Prospectus, which is available on request or at our website abrdn.com.

Other Important information

The abrdn Diversified Growth Fund is a sub-fund of Aberdeen Standard Unit Trust, an authorised Unit Trust. It is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited.

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