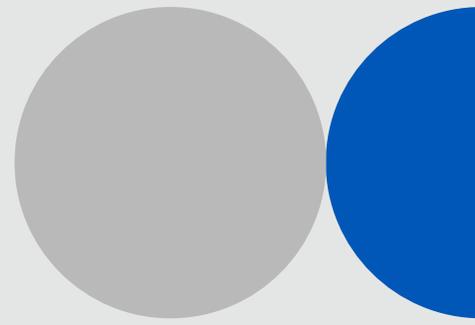


Evergrande Note

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, Aberdeen U.S. Closed-end funds have only minimal (less than 1%) or no 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.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in the market value of an investment), credit (changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral), prepayment (debt issuers may repay or refinance their loans or obligations earlier than anticipated), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase). The above is for informational purposes only and should not be considered as an offer, or solicitation, to deal in any of the investments mentioned herein. Abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations, as he/she may consider necessary or appropriate for the purpose of such assessment.

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