abrdn Healthcare Opportunities Fund

Quarterly Commentary

Quarter ended September 30, 2024

Fund performance

The equity portion of the Fund gained (gross of fees)[1] and outperformed its benchmark[2] over the quarter.

At the stock level, UnitedHealth Group's stock appreciated after the company's second-quarter earnings demonstrated continued strong performance in its business segments. Meanwhile, the medical-loss-ratio pressures seen earlier in the year, as well as the business interruptions due to a cyber attack, have abated. AbbVie also added to returns as its stock performed strongly due to robust sales growth in its immunology and oncology portfolios, particularly in Skyrizi and Rinvoq, as well as better-than-expected earnings and revenue. Additionally, the company raised its full-year EPS guidance, further boosting investor confidence. Inspire Medical Systems' share price was positive over the quarter, primarily on the back of reporting strong second-quarter revenue and earnings growth, despite concerns about the role GLP-1 drugs will play in sleep apnea.

Conversely, Merck & Company's stock declined primarily due to concerns over Gardasil sales in China. Despite an overall strong performance, Merck reported a significant drop in Gardasil shipments from its Chinese distributor, Chongqing Zhifei Biological Products Company. This was attributed to higher-than-normal inventory levels and reduced promotional efforts by the distributor. Additionally, China's ongoing anti-bribery and anti-corruption campaign affected the market for medical products, further weighing on Gardasil's sales. Dexcom was also unfavourable as its shares declined after the company missed second-quarter revenue expectations and issued weak guidance for the full year. Despite making progress with its continuous glucose monitoring systems, Dexcom faced execution challenges that undermined investor confidence. Meanwhile, Edwards Lifesciences' shares declined after disappointing second-quarter sales and weaker-than-expected guidance for the third quarter. While the company remains a leader in cardiovascular technologies, its key growth driver, transcatheter valve repair, has been slowing and facing competition.

Activity

We initiated several new positions due to increased conviction. A few of these included Ventas and Welltower, which are healthcare real estate investment trusts, as well as Tandem Diabetes Care, which is a manufacturer and distributor of insulin pumps.

Conversely, the Fund closed several positions over the quarter, including Zimmer Biomet, Baxter and Charles River Laboratories, due to falling conviction in their near-to-medium-term performance.

[1] **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. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.**

[2] The Fund's blended benchmark comprises 80% S&P Composite 1500 Healthcare Index, 15% S&P 500 HealthCare Corporate Bond Index and 5% S&P Composite 1500 Health Care REITS Index.
The S&P Composite 1500 Healthcare Index includes securities of those companies listed on the S&P Composite 1500 Index classified according to the Industry Classification Benchmark as healthcare. The S&P Composite 1500 Index is a broad market portfolio representing the large-, mid- and small-cap segments of the U.S. equity market.
The S&P 500 Healthcare Corporate Bond Index includes securities of those companies listed on the S&P 500 Bond Index classified according to the Industry Classification Benchmark as healthcare. The S&P 500 Bond Index is an unmanaged index that comprises the corporate debt of those companies listed on the S&P 500 Index, which is considered representative of the U.S. stock market.
The S&P Composite 1500 Healthcare REITS Index includes securities of those companies listed on the S&P Composite 1500 Index classified according to the Industry Classification Benchmark as healthcare REITs.
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 Healthcare Opportunities Fund - Portfolio Holdings**

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 September 30, 2024 (%)

	NAV	Market price
Quarter to date	7.43	11.03
Year to date	16.08	31.48
1 Year	24.66	42.99
3 years (p.a.)	6.62	6.99
5 years (p.a.)	11.84	12.76
Since inception (p.a.)	9.80	8.90

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 data quoted. NAV return data includes investment management fees, custodial charges, bank loan expenses, 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.

Market review

US equities ended higher over the quarter.

The US economy has remained resilient and robust but the labour market has recently shown signs of slowing. Moreover, the US Federal Reserve (Fed)'s targeted inflation measure – the annual core Personal Consumption Expenditures (PCE) Price Index – has trended downwards over the first eight months of 2024. Therefore, at its September 2024 meeting, the Fed lowered the target range for its fed funds rate by 50 basis points (bps) to 4.75-5.00%, the central bank's first cut since the onset of the pandemic in March 2020. Fed Chair Jerome Powell reiterated the central bank's commitment to sustainably lowering inflation below the 2% target. Therefore, the Fed is aiming to proceed cautiously for now, taking a data-dependent approach as it seeks greater clarity on underlying economic trends. However, against a backdrop of easing inflation and, in particular, recent signs of softening in employment data, investors have now factored in the certainty of further rate cuts at the Fed's November and December meetings. Indeed, the Fed signalled a further 50 bps of cumulative cuts over the remainder of 2024 – having previously flagged just one 25 bp cut for the entire year – with more easing expected in 2025 (100 bps) and 2026 (50 bps).

The performance of the US healthcare sector broadly matched that of the S&P 500 Index over the quarter. Relatively defensive sectors such as utilities and real estate outperformed the index as investors factored in further interest-rate cuts before the end of the year given continued disinflation and slowing growth. In contrast, energy was the main laggard due to lower oil prices because of ongoing demand worries. Communication services and information technology also underperformed the index over the quarter due to concerns about high valuations and the need for heavy investment in artificial intelligence.

Outlook & strategy

Macroeconomic factors remain as unpredictable as ever, with intense scrutiny of data and predictions about when a pivot in interest-rate direction will occur. Geopolitical pressures remain elevated throughout the world. Recessionary concerns are all too present, as global growth stagnates while inflationary pressures remain. Our main focus for the portfolio is at the stock level, ensuring the portfolio is well diversified on both a regional and sector basis, and robust enough to preserve capital in periods of market weakness. We aim to have exposure to higher-quality businesses with the financial strength to withstand volatility and with exposure to strong structural drivers for long-term growth.

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 slowdown.

Important Information

Past performance is no guarantee of future results.

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.

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.

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).

Investments in HQH, HQL, THQ, and THW 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, nondiversification,government intervention, market disruption, geopolitical, and potential conflicts of interest.

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. Aberdeen Standard Investments (ASI) 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.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither abrdn nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

abrdn reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

In the United States, abrdn is the marketing name for the following affiliated, registered investment advisers: abrdn Inc., abrdn Investments Ltd., and abrdn Asia Limited.

For more information visit abrdn.com

REF # AA-231024-184810-3