abrdn Healthcare Opportunities Fund

Quarterly Commentary

Second Quarter 2024

Fund performance

The abrdn Healthcare Opportunities Fund returned 0.17%[1] for the second of 2024 on a net asset value basis and outperformed the -0.39% return of its blended benchmark.[2]

At the stock level, Eli Lilly's stock continued to outperform due to its dominance in diabetes and obesity treatments. The company shares what is effectively a duopoly in the GLP-1 area (with Novo Nordisk), which despite upcoming competition, continue to dominate the news and the world's attention, as their respective drugs have the possibility of changing many aspects of healthcare. Eli Lilly is perceived to currently have the best-in-class weight-loss drug. Amgen traded positively after its CEO provided an upbeat statement on the early results of the company's experimental obesity drug, MariTide. An antibody-based approach to obesity has the potential for once-a-month dosing. Intuitive Surgical, a company that makes robotic surgery instruments, saw its share price appreciate on excitement over a new version of its already successful DaVinci Robotic System, which should lead to an attractive upgrade cycle.

Conversely, both Johnson & Johnson and Merck & Co. underperformed from what could be described as a lack of positive catalysts throughout the quarter, despite relatively strong revenue and earnings outlooks. Inspire Medical Systems was adversely affected by Novo Nordisk's clinical data about the long-term effects of the GLP-1 class of drugs on sleep apnea. While the GLP-1 weight-loss class of drugs is expected to shrink the overall addressable market for sleep apnea, the outlook for Inspire's growth remains positive due to the continued unmet medical need.

In terms of activity, we initiated a few new positions in the quarter. In particular, the Fund initiated Neurocrine Biosciences, which is focused on the discovery and development of therapeutics for neuropsychiatric, neuroinflammatory and neurodegenerative diseases and disorders. The company is developing therapeutic interventions for anxiety, depression, Alzheimer's disease, insomnia, strokes, malignant brain tumors, multiple sclerosis, obesity, and diabetes.

The Fund also participated in another round of financing for Endeavor Biosciences, which is seeking to develop therapies for idiopathic pulmonary fibrosis.

Conversely, the Fund sold several positions due to falling conviction, including Agilent, CVS Health, Vertex Pharmaceuticals, Incyte, and Moderna.

[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.

Market review

U.S. equities ended higher over the quarter. The U.S. economy, particularly the labor market, has continued to prove resilient and robust despite slowing. Consequently, annual consumer price inflation was higher than expected over the first three months of this year before meeting expectations in April, although it came in lower than forecast in May. Meanwhile, heightened tensions in the Middle East have brought additional inflationary risks due to the potential effect on crude supplies and shipping costs.

At its June meeting, the U.S. Federal Reserve (Fed) kept the target range for its fed funds rate at a 23-year high of 5.25-5.50%, marking the seventh consecutive time it has left rates unchanged. The latest 'dot plot' from the Fed's committee members forecasted just one rate cut in 2024—whereas three had been predicted back in March—with further easing likely in 2025 and 2026. However, after steadily falling over the course of last year, the Fed's targeted inflation measure—the annual core Personal Consumption Expenditures (PCE) Price Index—has only slightly declined in the first five months of 2024. Against this backdrop, Fed Chair Jerome Powell reiterated at the June meeting that the central bank requires more evidence of core PCE inflation sustainably moving towards the 2% target before considering policy easing. Therefore, the Fed aims to maintain a restrictive policy stance, proceeding cautiously with a data-dependent approach as it seeks greater clarity on underlying economic trends. As a result, investors now anticipate only one or two rate cuts in 2024, starting in the autumn at the earliest. Previously, investors had been factoring in as many as six or seven cuts from June onwards. Moreover, some Fed officials are in favor of further tightening to keep stubborn inflation at bay. However, Fed Chair Jerome Powell has stated that the central bank's next move is unlikely to be a rate hike, which has reassured investors somewhat.

The performance of the U.S. healthcare sector lagged that of the S&P 500 Index over the quarter, as investor risk appetite increased. The information technology and, to a lesser degree, communication services sectors outperformed the index over the quarter. These sectors contain many growth companies, the valuations of which are more exposed to the prospect of interest rates being cut later this year. There was also continued optimism surrounding the growth prospects of companies operating in artificial-intelligence-related areas.

Outlook

Macroeconomic factors remain as unpredictable as ever, with intense scrutiny over data and predictions as to when a pause or pivot in interest-rate direction occurs. 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 exposure to strong structural drivers for long-term growth.

Top 10 Holdings (as of June 30, 2024)

Eli Lilly	10.24
United Healthcare	7.53
Merck	5.10
AbbVie	4.12
Thermo Fisher Scientific	3.49
Johnson & Johnson	3.38
Elevance Health	2.78
Danaher Corp	2.64
Intuitive Surgical	2.63
Abbott Laboratories	2.54
Percent of portfolio in top ten	**44.45**

Source: abrdn 06/30/2024

The above tables summarize the composition of the Fund's portfolio, expressed as a percentage of total assets. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. Figures may not always sum to 100 due to rounding.

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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 June 30, 2024 (%)

	NAV	Market price
Quarter to date	0.23	4.15
Year to date	8.06	18.42
1 Year	11.26	16.75
3 years (p.a.)	4.23	3.13
5 years (p.a.)	9.90	10.39
Since inception (p.a.)	9.26	7.98

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.

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's portfolio. The 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). 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.

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