abrdn Diversified Income Fund

abrdn Investments

31 December 2024

Performance

Asset classes produced mixed returns, with positive contributions from listed equity, private equity, asset-backed securities (ABS) and absolute return offset by negative contributions from infrastructure, property and developed-market government bonds.

Against a positive backdrop for global equities, our ESG enhanced core equity allocation performed broadly in line with global equities. Our private equity allocation outperformed global equities, while our Euro Stoxx dividend futures position underperformed.

Our developed-market government bond allocation produced a small negative return.

Our property allocation is actively managed on our behalf by abrdn's Global Real Estate Investment Trust team. The allocation produced a negative return, with changing rate expectations, rising bond yields and equity-market volatility weighing on the sector.

Within infrastructure, companies generally produced negative returns, with rising bond yields leading investors to question the potential impact on discount rates used to value underlying assets. There was a large number of acquisition and disposal activity in the sector.

Several companies announced third-quarter net asset values, with total returns ranging from flat to mid-single digit positives.

EM bonds produced a broadly flat return. Contributions from accrued interest and foreign-exchange moves (measured against our currency funding basket) were offset by a fall in bond prices.

Our crossover credit allocation is primarily invested in US investment-grade credit with a smaller allocation to higher quality high-yield bonds. The allocation produced a negative return, with income generation more than offset by lower bond prices.

ABS produced a positive return, with income generation driving returns. We continue to see long-term value in the asset class.

Our absolute return position consists of defensive long US-dollar and Japanese-yen positions held against a basket of economically sensitive currencies. This allocation produced a positive return but was characterised by the dollar strength and yen weakness.

Special opportunities includes allocations to a diverse range of exposures with differing return drivers and risk characteristics. While their overall contribution was broadly flat, there was some notable company news.

Pharmaceutical royalty company BioPharma Credit announced several new deals, including new loans to medical device company Alphatec Holdings and Geron, which has a drug for blood cancer, and an increase in its loan to Insmed.

Precious metals royalties' company Wheaton Precious Metals purchased a gold stream from Montage Gold's Koné gold project in Cote d'Ivoire.

Burford Capital, our litigation finance investment, announced third-quarter results. Realisations were US$164 million, up significantly year-on-year, while cash receipts were US$310 million.

Activity

We gradually shifted the portfolio towards asset classes which, in our view, have slightly better prospective long-term risk-adjusted returns.

We increased our allocation to infrastructure, across several companies. We also increased allocations to special opportunities and ABS.

We decreased our allocation to EM debt. Headwinds from changing US policies and slowing or stalling cutting cycles in some EMs mean slightly less attractive long-term risk-adjusted returns than we would have previously expected.

We reduced our allocation to developed-market government bonds, partly due to potentially slower easing cycles and to balance the increased allocation to infrastructure.

While our overall allocation to private equity and property remained broadly static, we made several changes to holdings.

Portfolio positioning and outlook

Global equities exhibited positive performance in sterling terms in the fourth quarter of 2024, although they fell slightly in US dollar terms as a result of the relative strength of the US currency. Markets fell in October, as investors reacted to economic data and speculated on the trajectory of interest rates. Rising tensions in the Middle East also weighed on sentiment. Global equities then rebounded in November. Markets responded positively to Donald Trump's victory in the US presidential election, with expectations growing for a pro-business agenda including tax cuts and deregulation.

Risk factors you should consider before investing:

a. The value of an investment and the income from them can fall as well as rise and is not guaranteed. An investor may get back less than they put in. Past Performance is not a guide to future performance.

b. Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.

c. Bonds are affected by changes in interest rates, inflation and any decline in creditworthiness of the bond issuer. The fund's portfolio may have significant exposure to bonds that typically have lower ratings. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may not be able to pay the bond income as promised or could fail to repay the capital amount used to purchase the bond. Where a bond market has a low number of buyers and/or a high number of sellers, it may be harder to sell particular bonds at an anticipated price and/or in a timely manner.

d. Contingent convertible bonds can automatically convert into shares or be written down if the financial strength of the issuer falls in a certain way. This may result in substantial or total losses of the bond value.

e. The Sub-fund can use derivatives in order to meet its investment objectives or to protect from price and currency movements. This may result in gains or losses that are greater than the original amount invested. The fund does not make extensive use of derivatives.

f. Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your money is at greater risk. The Fund may also invest in Frontier Markets which involves similar risks, but to a greater extent since they tend to be even smaller, less developed, and less accessible than other Emerging Markets.

However, there were concerns in the month regarding Trump's proposed tariffs on imports, particularly from China. Markets then declined in December, affected by hawkish signals from the US Federal Reserve (Fed), which forecast fewer interest rate cuts in 2025 than it had predicted previously.

In fixed income markets, global government bond prices rose marginally in sterling terms over the quarter. In October, the European Central Bank (ECB) cut rates by 25 bps. In November, the Fed and the Bank of England (BoE) both lowered rates by 25 bps. In December, the Fed delivered a widely expected cut of 25 bps. However, analysts were surprised by the Fed's interest-rate forecasts for 2025, which indicated interest rates may remain higher for longer. These updated predictions triggered selling in US Treasuries in the month. The ECB cut its deposit rate by 25 bps to 3.00% in December, citing a slowing economy and a deceleration in inflation amid heightened political instability, particularly in the run-up to Germany's election.

US President-elect Donald Trump is due to take office in late January, and investors will be keeping a keen eye on any policies he introduces regarding tax cuts, deregulation and trade tariffs – as these are likely to affect global market dynamics. Investors will also be monitoring how Trump's policies affect US inflation and how this influences the Fed's rate-cutting cycle in 2025.

In Europe, political instability in both Germany and France is at the forefront of investors' minds. Germany is heading towards an election in February after its coalition government collapsed, while in France, following Michel Barnier's government being ousted in a vote of no confidence, President Macron has now appointed his new prime minister Francois Bayrou.

In the UK, the Governor of the BoE Andrew Bailey has indicated the BoE would employ a "gradual approach" to further easing. The Bank's next meeting is in early February.

g. Investments in REITs and companies engaged in the business of real estate may be subject to increased liquidity risk and price volatility due to a variety of factors, including local, regional and national economic and political conditions, interest rates and tax considerations.

Cumulative and Annualised performance as at 31/12/2024

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %	Since Launch (p.a.) %
Standard Life Diversified Income Fund	-1.9	3.6	-0.1	2.1	1.7

Discrete annual performance year to 31/12

	2024	2023	2022	2021	2020
Standard Life Diversified Income Fund	3.6	6.7	-9.9	9.5	1.8

Fund performance has been calculated net of Annual Management Charge.
Source: abrdn

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