abrdn Diversified Income Fund

abrdn

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Performance

Over the fourth quarter, most assets classes produced positive returns with notable positive contributions from listed equity, private equity, property, infrastructure, US credit, emerging market (EM) bonds and asset-backed securities (ABS).

Equities started the period negatively but rallied strongly from the end of October onwards. Our ESG enhanced core equity allocation performed broadly in line with global equities. Lastly, our allocation to listed private equity outperformed global equities, while our allocation to dividend futures underperformed – but both contributed positively to absolute fund performance.

Our local-currency EM bond allocation produced a positive contribution with higher bond prices and accrued income partly offset by EM currency movements (measured against our funding basket).

Meanwhile, our infrastructure allocation produced strong returns as government bond yields fell. Net asset value (NAV) total returns from our traditional renewable investments were broadly flat to slightly positive. Battery storage investor Harmony Energy produced a 2.3% NAV total return. Foresight Solar Fund announced the sale of a 50% stake in three Spanish solar farms . Bluefield Solar Income Fund (BSIF) announced a strategic partnership with GLIL Infrastructure – a group of UK pension funds.

Within our social infrastructure allocation, HICL Infrastructure produced a NAV total return of 0.9%. International Public Partnerships announced various transactions and 3i Infrastructure released strong half-year results.

Our property allocation is actively managed on our behalf by abrdn's global real estate investment trusts team. Property produced a strong positive return, driven by falling interest-rate expectations. Top performers were Vonovia and Alexandria REIT.

Our crossover credit allocation, primarily invested in US investment grade credit with a smaller allocation to higher quality high-yield bonds, produced a positive return with higher bond prices and accrued income contributing.

Developed market government bonds produced a positive return as bond yields fell across most markets.

ABS produced a positive return with higher bond prices and income generation driving returns.

Our absolute return position consists of defensive long US dollar (USD) and Japanese yen positions held against a basket of economically sensitive currencies. This allocation produced a slight negative return, mainly driven by USD weakness.

Special opportunities, which include allocations to a diverse range of exposures with differing return drivers and risk characteristics, contributed a slight positive return, mainly driven by our allocations to litigation finance and precious metals royalties. Burford Capital performed positively. Elsewhere, LumiraDx, a BioPharma Credit borrower, announced the sale of its point of care diagnostics platform with proceeds to be used to repay lenders including BioPharma Credit.

Activity

There were no significant asset allocation changes during the quarter.

The most notable change was an increase in our defensive US dollar allocation. We increased our allocation to property on valuation grounds. Within infrastructure, we added to our position in The Renewable Infrastructure Group, re-initiated a position in JLEN Environment Assets and reduced our position in Aquila European Renewables, all on valuation grounds. Lastly, in special opportunities, we reduced our holding in Franco Nevada and exited music royalties company Round Hill Music following a cash offer received for the company.

Portfolio positioning and outlook

During the fourth quarter of 2023, global equities experienced a collective increase. In October, equity markets faced declines driven by concerns over the interest rate outlook and the Israel-Hamas conflict. Within the US market, technology giants reported mixed results as investors weighed the potential impact of advancements in artificial intelligence for major companies. November saw a resurgence in equities, fuelled by encouraging inflation data that instilled hopes of potential interest rate cuts in 2024. Additionally, commodity prices, particularly for energy, decreased during the month. In December, the upward trend in equities continued as investor confidence in an impending shift in interest rates grew. Statements from Federal Reserve officials suggested the possibility of rate cuts in 2024.

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.

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.

In fixed income markets, the European Central Bank maintained its main refinancing operations rate at 4.25% in October. Both the Federal Reserve and the Bank of England held rates steady in their November meetings, with the Bank of England maintaining rates at a 15-year high of 5.25% while the US Federal Reserve retained its target rate for the fed funds rate at a 22-year high of 5.25%-5.50%. All three central banks left their rates unchanged in December. November's US Consumer Price Index recorded a 3.1% year-on-year rise in prices, driven by a decrease in annual energy costs and easing food price inflation. In Europe, the European Central Bank reiterated its commitment to holding rates until inflation is under control. While the Bank of England maintained rates in December, a third of Monetary Policy Committee members voted for another 25 basis point hike. The latest Consumer Prices Index reading for the UK showed inflation at 3.9% in the 12 months to November 2023, down from 4.6% in October.

Global equity markets are likely to face enduring challenges marked by subdued growth as a result of the implementation of tighter monetary policy by developed central banks. Investor apprehensions are heightened by geopolitical tensions in Ukraine and the Middle East, along with concerns about the fragility of the Chinese economy. Nonetheless, December witnessed a robust market performance driven by positive inflation indicators, fostering optimism that major central banks may initiate interest rate cuts in 2024.

In fixed income markets, the Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) maintained their rates during their December meetings. The BoE, in reiterating its stance, emphasised the necessity for monetary policy to remain 'sufficiently restrictive' for a 'sufficiently long' period to steer inflation back to the 2% target in the medium term. The ECB adjusted its inflation forecasts downward, expressing expectations of weaker growth while maintaining its commitment to hold rates until inflation is under control.

Cumulative and Annualised performance as at 31/12/2023

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %	Since Launch (p.a.) %
Standard Life Diversified Income Fund	5.8	6.7	1.7	2.7	1.4

Discrete annual performance year to 31/12

	2023	2022	2021	2020	2019
Standard Life Diversified Income Fund	6.7	-9.9	9.5	1.8	6.5

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

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.