

I. Quarterly commentary summary

1. Macro and market commentaries

Amid persistently high inflation and aggressive monetary tightening, global equities and bonds sold off in aggregate.

Global equities suffered a torrid quarter that has left share prices in bear market territory (a greater than 20% fall) for the year to date. US equities fared the worst, but UK, European and Asian markets were all weak. Chinese equities did buck the trend in June, building on gains in May, as major cities such as Shanghai lifted many Covid-19 restrictions and factories resumed production.

In fixed income, global government bonds sold off over the quarter, with bond markets grappling with soaring inflation and higher interest rates. Faced with inflation running at its highest level since 1981, in part due to a booming jobs market, the US Federal Reserve (Fed) took an increasingly aggressive approach that included an increase of 75 basis points (bps) in its key rate in June. Elsewhere, the Bank of England increased its Base Rate twice over the period, while the European Central Bank signalled its intention to start raising interest rates in July. Corporate bonds across high yield (HY) and the IG space were not spared, as corporate spreads widened in addition to rates selling off. It was a quarter where there was nowhere to hide.

2. Performance review

The portfolio returned -8.39%, over the quarter, with most assets contributing negatively. The allocation to absolute return strategies and our Australian government bond positions were the biggest drags on performance, although this was marginally offset by our Chinese equities exposure.

3. Macro and market outlook

We expect investor focus over the next few months to remain firmly on stubbornly high inflation, central-bank action, growth concerns and politics. With the US inflation data for June printing higher than expected, the prospect of the Fed hiking by 75bps or more has increased.

Along with high inflation prompting stronger central-bank action, recessionary fears have driven deterioration in corporate fundamentals and amplified demand destruction. We foresee continued pressure on equities, corporate bond markets and investor sentiment and do not expect sustained reversal here unless the risks around elevated global inflation, Europe's energy security and China's growth outlook have been resolved.

The growth outlook in China is currently being driven by concerns about the government's zero-Covid policy. New Covid-19 cases have been increasing in China and the number of cities with a medium-to-high risk of Covid-19 spreading has risen to 10, as of 5 July.

Counterbalancing this is China's focus on growth recovery through monetary and fiscal stimulus, and we expect China's determination to support growth through policies to eventually outweigh the impact of a resurgence in Covid-19.

On politics, we expect the resignation of the UK's prime minister, Boris Johnson, to add to existing concerns. News flow around Johnson's potential successor is likely to keep European markets volatile, given that it could take a while before the next leader is chosen.

4. High level portfolio positioning

The portfolio is well balanced. We have significant exposure to defensive assets, such as Australian IG bonds, Australian government bonds and Australian inflation-linked bonds, as a layer of cushion. While we are underweight in equity, we focus on markets that are expected to provide more resilience, such as Australian and Chinese equity, as well as healthcare and minimal volatility equity.

Furthermore, we have diversifying strategies in place, such as absolute return strategies that are macro-investment ideas, along with our long-term allocation to listed alternatives that tap into idiosyncratic price drivers, with some of the investments with direct or indirect linkage to inflation. We keep a close watch on any market developments and manage the portfolio actively.

Key information¹

This portfolio aims to achieve a real return equivalent to 5.0% per annum above inflation (before fees) over a rolling 7-year period.

- **Benchmark:** CPI plus 5.0% p.a.
- **Investment Time Horizon:** 7+ Years
- **Portfolio launch date:** 31 August 2020

¹Source: abrdn, 30 June 2022

II. Asset class review

Listed equities:

Global equities performed poorly over the quarter. Central banks reacted to a worsening inflation picture globally, particularly in the US, UK and European economies, with a series of interest-rate rises. This led to market fears over the outlook for economic growth and company earnings, especially as consumers' budgets are under increasing pressure from surging food and energy prices. US, UK, European and Asian markets were all weak. Japanese equities experienced more modest falls than other major developed stock markets over the quarter when measured in yen terms. Chinese indices recovered ground in June, building on more modest gains in May, as major cities such as Shanghai lifted many Covid-19 restrictions and factories resumed production.

Our equity allocation outperformed broad global equity markets, as the portfolio was defensively positioned, with allocation to the healthcare sector, minimum volatility equities, as well as a diversifying allocation to Chinese equities, which benefited from the loose monetary policy and economy reopening.

Emerging Market Debt :

Our allocation to hard-currency emerging-market (EM) bonds produced negative returns, as the asset class suffered with markets grappling with the increased likelihood of a global slowdown. HY and African names experienced pressure to the downside as tight liquidity conditions exacerbated moves across the asset class. In hard-currency debt, the JP Morgan EMBI Global Diversified Index returned -6.21%, with the spread on the index widening by 94bps to 542bps over US Treasuries.

Infrastructure :

Infrastructure delivered a marginal negative return over the quarter, with contributions coming from a number of different holdings.

Our renewable infrastructure investments generally saw valuations increase, reflecting demand for assets that are likely to benefit from the current high power price and inflation environment. These tailwinds were highlighted when several traditional renewable companies published strong first-quarter NAV updates. Our battery storage investments also published exceptionally strong double-digit first-quarter NAV uplifts, which were primarily driven by increased revenue assumptions, reflecting the attractive revenue streams available for battery systems as a result of volatility in the power market.

Of particular note for renewables was that towards the end of the May there were unconfirmed press reports that the UK government was looking to announce a package to help households with the cost of living, and as part of that they were considering a possible windfall tax on more than £10 billion of 'excess profits' of energy companies, including owners of renewable projects. A few days later, the chancellor at the time, Rishi Sunak, delivered the spring statement that highlighted that the windfall tax would only apply to oil and gas companies, although there is ongoing assessment of power generators. While it remains uncertain if, when and how any such tax could be implemented, we do believe that a new proposed tax is likely to have a relatively modest impact on our listed renewables investment companies from a fundamental perspective. Many of these companies derive revenues from certain inflation-linked government subsidies that we wouldn't expect to be affected; many have hedges in place and sell

power forward below current market pricing; and many have been increasing the geographic and technological diversification of their portfolios over time. When the initial press speculation occurred some of our renewable companies experienced mid-single-digit share-price declines, which retraced to varying degrees by the end of the period. Notably, performance is materially positive both year to date and over longer time horizons. We continue to believe investors are getting appropriately compensated for the risks faced when investing in the sector, and that these companies, many of which have strong inflation-linkage in their revenue streams, can play an important part in diversified portfolios.

Turning to other areas of infrastructure, we saw robust full-year results from a number of our social, economic and digital infrastructure investments. Cordiant Digital Infrastructure published its maiden full-year results to end-March, delivering a NAV total return of 10%, driven by portfolio revaluations and discount rate compression. The company has grown significantly over the year and currently owns three digital infrastructure assets in Europe and the US with long-term contracts (fully or partially inflation-linked) with strong counterparties. 3i Infrastructure, the economic infrastructure investor, announced robust full-year results, with a NAV total return of 17%. This strong performance primarily reflected asset outperformance versus expectations. Lastly, HICL, the social infrastructure investor, announced full-year results, with a NAV total return of 12.8%, reflecting higher inflation over the period, the sale of assets at premiums to holding value and improving performance for assets with demand-based revenues.

These companies continue to raise additional capital and find attractive investment opportunities. International Public Partnerships raised £325 million and Gresham House Energy Storage Fund raised £150 million, both through significantly oversubscribed equity issues. 3i Infrastructure announced that it has agreed to acquire a further stake in TCR, a leading provider of ground support equipment for the air industry. International Public Partnerships announced a further investment in Thames Tideway, a 25km super sewer that is currently being built under the River Thames.

Asset Backed Securities:

Asset-backed securities (ABS) produced a negative return over the quarter, as they were affected by increasing spreads as investors began to factor in higher probabilities of recessions in coming months and years, with lower-rated bonds exhibiting the most volatility.

We continue to believe that even the most junior bonds within an ABS structure can withstand significant defaults over time. In addition, the asset class offers a materially higher spread than traditional credit and is floating rate in nature and therefore benefits from rising rates.

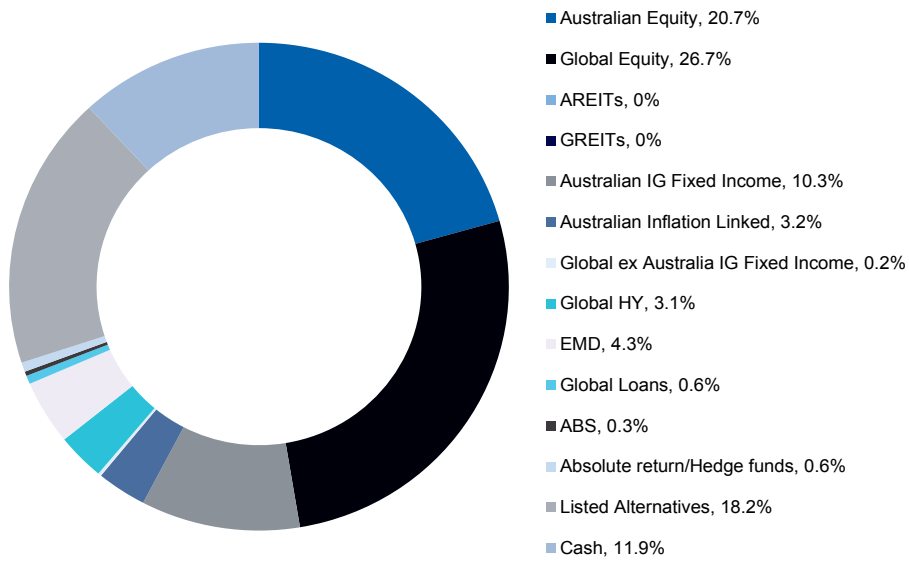
Special Opportunities:

Special opportunities produced a small negative performance over the quarter, although news flow was generally positive.

Round Hill Music, our music royalties investment, released its full-year results to the end of December 2021. The company produced a NAV total return of 17.6%, ahead of the 9-11% p.a. target return. This performance reflected a reduction in the portfolio discount rate as well as positive macro factors such as streaming growth and new digital platforms.



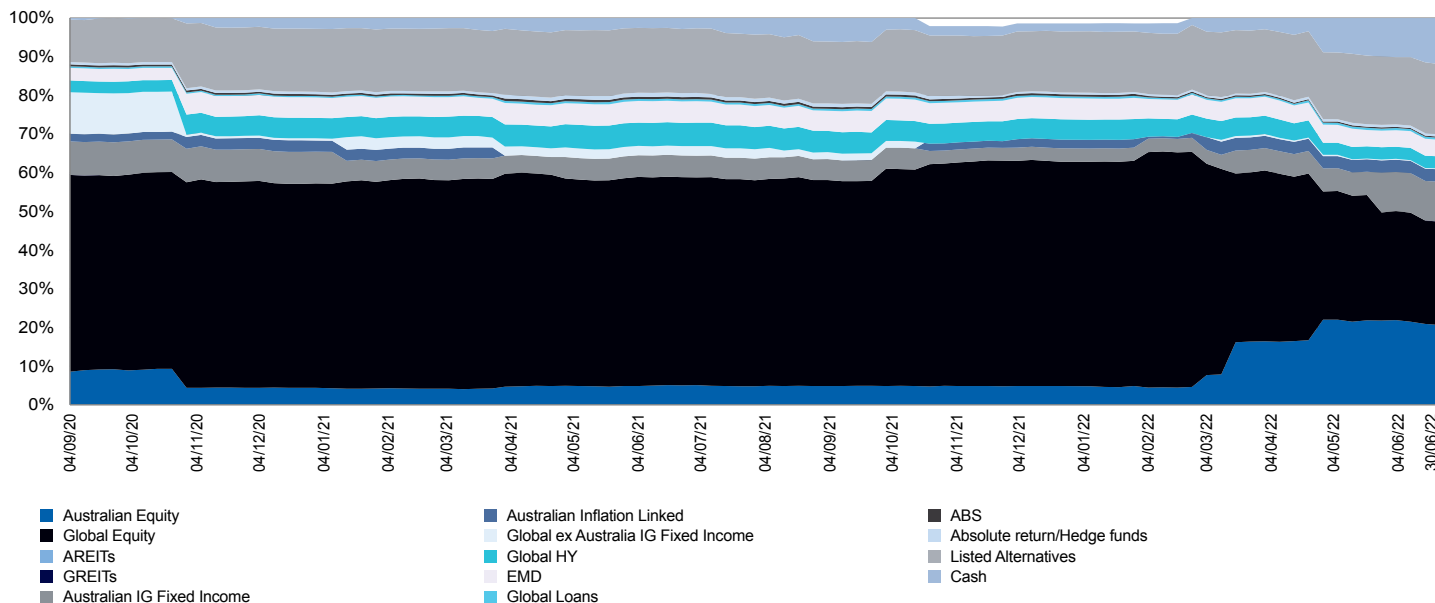
Chart 01: Current asset allocation



Source: abrdn, 30 June 2022



Chart 02: Historic asset allocation evolution



BioPharma Credit, the healthcare royalty lender, announced that one of its borrowers, Epizyme, will repay its US\$110 million loan early. Positively, this will result in additional make-whole fees of US\$3-7 million for BioPharma and highlights a key strength in how the company looks to structure loans to biotechnology companies.

Burford Capital, our litigation finance investment, announced that it had closed a US\$350 million fund to invest in post-settlement cases. This takes total capital raised in the past three months to over US\$1 billion through private funds and debt. In addition, the next round of court submissions for its high profile YPF/Petersen investment progressed, a significant case for Burford.

Lastly, Tufton Oceanic Assets, our shipping investment, announced the acquisition of a product tanker for US\$31.5 million. The vessel will initially be employed in a leading product tanker pool where the net unlevered yield is expected to be above 25%. The ship is in the top quartile of fuel efficiency in its market segment and will be evaluated for further improvement, including the retrofit of energy saving devices. This continues Tufton's portfolio repositioning away from containerships, with exceptionally high charter rates and second-hand values, and towards tankers and bulkers, which management believe have more attractive yield and capital growth potential given supply-demand dynamics.

Property:

Property produced a negative performance over the quarter. This largely came through towards the end of the period and was, in part, driven by investor concern over rising rates and associated increasing property debt costs, and a tightening spread between UK gilts and

property yields. We also saw our logistics exposure particularly affected by Amazon results and profit warnings from e-commerce retailers, which led to concern over weakening consumer demand and the possibility of lower growth in the coming years. A lot of these comments pertained to the US market, with the UK still benefiting from strong demand and limited supply.

More generally, we continue to assess our exposure to property and even though some re-pricing in the sector is expected, we do have a significant exposure to less economically sensitive sectors such as healthcare, student accommodation and social housing.

In social housing, HOME REIT published interim results highlighting an 8% NAV total return to end-February. This was largely driven by the discount achieved on off-market acquisitions and the capitalisation of rental uplifts from inflation-linked leases.



III. Outlook and positioning

The two major risks currently faced by financial markets are the withdrawal of central-bank policy at a time of elevated inflation and declining corporate earnings.

For the former, the market is pricing six to seven further hikes from the Fed within the next six months. Minutes from the Federal Open Market Committee's meeting in June, when the Fed raised rates by 75bps, suggested policymakers were focused on surging inflation. As inflation is likely to remain higher than the Fed's policy goal in the near future, we think the central bank is likely to continue with its tightening campaign. On the other hand, we believe Chinese policymakers will continue with their easing measures to stabilise growth, but measures will be domestically focused and unlikely to create strong tailwinds to the global economy.

For the latter, high inflation and hawkish central banks make financial conditions challenging for consumers and businesses. Leading economic indicators are increasingly showing signs of demand destruction in developed economies. We are staying on our course of trimming risk exposures from corporate bonds and rotating opportunistically between broad-market and late-cycle exposures. We are also monitoring signposts to add to long-end government bonds as a hedge for a recessionary outcome down the road.

We dynamically adjusted our equity position and reduced exposure to risky assets while adding to duration over the second quarter of 2022.

We reduced our equity exposure over the quarter, given the volatility in markets and the rising probability of a contraction in global economy. In April, we rotated from broad equities to late-cycle outperformers, such as low volatility and quality dividend stocks, given the rising risk of growth slowdown and earnings downward revisions due to the hawkish Fed. In May and June, we further tilted our remaining exposure to a defensive style. Recession probability has increased, with the Fed indicating that it may hike above neutral, rising growth concerns and earnings downgrade risk. We took profit from gold and copper miners and rotated into defensive names, such as minimum volatility and world quality dividend ETFs. We also rotated from markets that are more vulnerable to stagflation risk and hawkish central banks, including international developed market (DM) equities as well as specific themes, such as US financials and future mobility. We did add some exposure to Asia-Pacific markets that will benefit from China's reopening, including exposures to China, Singapore and Indonesia, all of which have less inflationary concerns than their DM counterparts.

In fixed income, we reduced our HY and EM debt exposure to reduce credit risk and raise cash. We also rotated away from Treasury inflation-protected securities to nominal bonds, as the former will underperform when inflation likely peaks and moderates going forward.

Elsewhere, we added to listed alternatives exposure, which includes student housing, music royalty, etc.

On foreign exchange, in April, we initiated relative-value trades in long positions in the Indonesian rupiah, Thai baht and Singapore dollar against short positions in the New Taiwan dollar and Chinese yuan as we expect South East Asia currencies to outperform North Asia currencies. We also added to our short position in the Chinese renminbi versus US dollar, given a hawkish Fed and dovish PBoC has narrowed the US/China interest-rate differential. The short Chinese renminbi will also act as a hedge to our long Chinese equities exposure. Later in the quarter, we unwound some long position in the Indonesian rupiah versus the short Chinese renminbi relative-value trade, as carry on the Indonesian rupiah has narrowed significantly and the balance of payments is under pressure lately.



IV. Performance and risk contribution

1. Performance table

The Portfolio returned -8.39% over the quarter. Since inception the Portfolio has delivered a return of -0.81%.

Sterling abrdn CPI+5.0% Portfolio	1 Month %	3 Months %	6 Months %	YTD %	1 Year %	Inception (p.a)%
Portfolio	-3.41	-8.39	-15.14	-15.14	-13.08	-0.81
Benchmark: CPI plus 5.0%p.a.	0.63	2.06	3.93	3.93	7.46	6.86

Portfolio performance is provided net of fees on underlying investments but gross of Advisory/Platform fees.

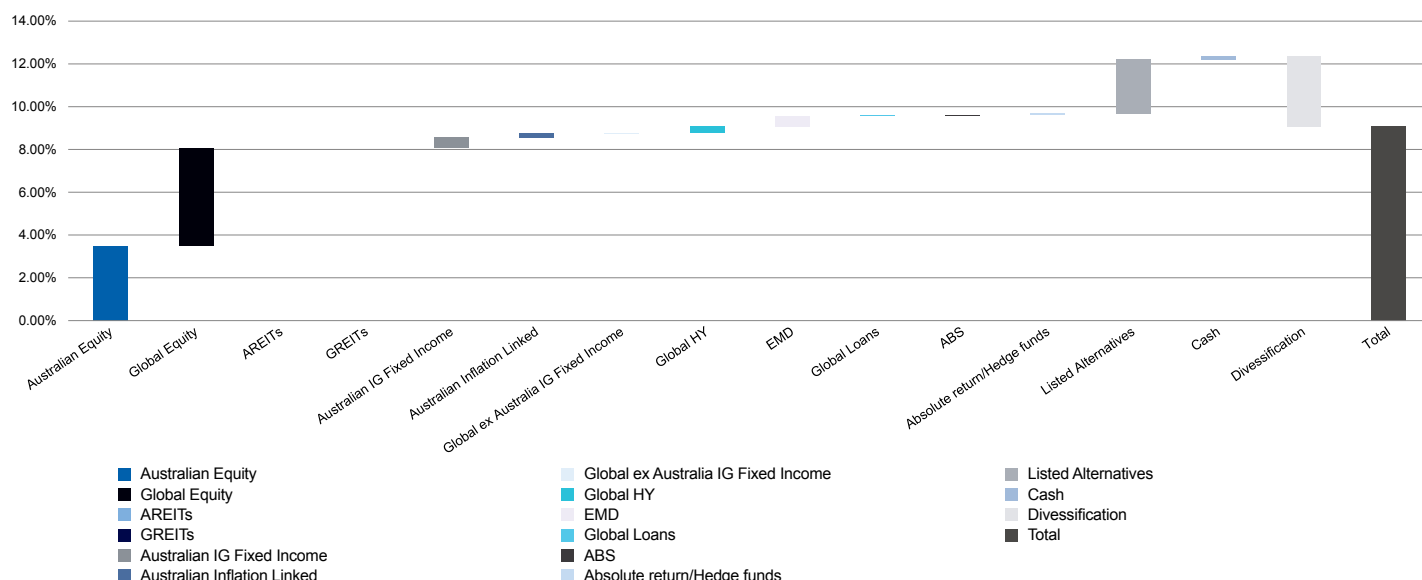
Source: abrdn Lipper, 30 June 2022

Past performance is not a guide to future results

2. Risk Contribution

Our long term proprietary estimations of risk and correlation continue to suggest a high degree of diversification across the various asset classes that compose the portfolio. The portfolio's long-term expected volatility remains well below that of equity at 9.1% per annum.

Chart 03: Risk Contribution



Source: abrdn 30 June 2022

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