aberdeen Investments

abrdn Australia Equity Fund

Quarterly Commentary

Quarter ended January 31, 2026

Fund performance

The portfolio returned 2.06% over the quarter on a net asset value basis, lagging the ASX 200's 7.33% return. The gap was driven primarily by stock-specific weakness in healthcare and consumer discretionary, along with our materials positioning. This was mitigated by positive contributions from industrials and communication services, where stock selection remained firm.[1]

Looking closer at the key drivers of performance, healthcare was the largest detractor. Pro Medicus's share price weakened on softer order flows, with ResMed and Cochlear also weighing on results. Across the sector, sentiment remained fragile as investors reassessed growth expectations and regulatory uncertainty persisted.

Another key detractor was weakness in some of our consumer discretionary holdings, notably Aristocrat Leisure, which was weighed down by weakening gaming trends, and JB Hi-Fi, which suffered from subdued consumer spending.

Materials also lagged despite strong commodity prices, as the lack of exposure to Evolution Mining, South32 and Newmont Corporation detracted from performance. This was partially offset by our holdings in Northern Star, Rio Tinto and Capstone Copper, which all posted solid gains.

Another key stock detractor was Xero, the biggest individual detractor in the portfolio, as its revenues increased healthily, but profit growth lagged expectations. Higher spending on product development and US expansion weighed on margins and near-term profitability. Investors grew concerned about rising costs and slower margin improvement, despite solid subscriber growth and high customer retention.

Cumulative and annualized total return as of January 31, 2026 (%)

	NAV	Market Price	ASX 200 Net Index
10 Years (p.a.)	9.75	10.62	9.74
5 Years (p.a.)	7.82	9.02	7.99
3 Years (p.a.)	7.92	9.44	9.37
1 Year	12.38	19.57	20.35
Year to date	4.06	8.13	6.92
3 months	2.06	6.07	7.33
1 month	4.06	8.13	6.92

PAST PERFORMANCE DOES NOT GUARANTEE 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. NAV return data includes investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.

The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

Expense ratios

Fiscal year ended October 31 (%)

Annual Expenses	Percent of Net Assets	Percent of Managed Assets
Management Fees	0.99	0.92
Other Expenses	0.54	0.50
Fee Waiver	0.00	0.00
Operating Expenses	1.53	1.42
Leverage Costs	0.42	0.39
Total Expenses	1.94	1.80
Total Expenses before Fee Waiver	1.94	1.80

Leverage Costs include interest, fees, and other other up front/ offering costs associated with the leverage structure for the Fund. Gross Operating Expenses include the Fee Waiver and Leverage Costs.

[1] The S&P/ASX 200 Index tracks the performance of the 200 largest stocks (by market capitalization) listed on the Australian Securities Exchange. 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 Australia Equity Fund, Inc. – Portfolio Holdings**

On a more positive note, industrials contributed significantly to performance, as our positions in transport and commercial services benefited from improved operating conditions and clearer earnings visibility. Transurban and ALS performed well, as domestic activity strengthened and infrastructure volumes normalised.

Communication services also contributed, helped by avoiding the benchmark's weaker traditional media stocks.

Market review

Australian equities rose in the January quarter, with the benchmark ASX 200 Index returning 7.33% in US dollar (USD) terms. The Australian dollar (AUD) strengthened from 0.65 to 0.70 against the USD over the period, meaning that returns in USD were higher than those in AUD. The market sold off in early November before recovering through the end of the year and into January. It was on target for a small positive return in AUD for the quarter but eased gently in the final trading days of the period.

Investors were focused on growing inflationary pressures and signs that the Reserve Bank of Australia (RBA) might respond with a rate increase, which it did in early February with a 25-basis-point increase in the cash rate to 3.85%. Although annual inflation fell to 3.4% in November, it recovered to 3.8% in December, ahead of market forecasts, underscoring persistent inflation. Services inflation climbed to a two-year high of 4.1%. For the fourth quarter of 2025, inflation increased from 3.2% to 3.6%.

The economy grew 0.4% in the third quarter of 2025, slowing from the second quarter's 0.7% growth. Nevertheless, this was the sixteenth straight quarter of growth, dating back to the third quarter of 2021. Other economic data indicated a slowly improving economy. Business confidence recovered slightly in December, with the NAB Business Confidence Index rising from 2.0 to 3.0, although this was some way below the 8.0 achieved in July of last year. Meanwhile the S&P Global Australia manufacturing purchasing managers' index for January came in at 52.3, the highest level since last August, as output and new orders recovered, driven mainly by rising overseas demand.

Portfolio activity

We exited Transurban Group in view of better opportunities elsewhere.

Outlook

Growth has firmed, inflation has broadened and capacity constraints are biting harder than the RBA's earlier assessments suggested. The domestic economy still has momentum and the RBA is trying to re-establish a balance without derailing that momentum. The surprise has come from private demand. Consumption strengthened through late 2025, helped by rising real incomes and a housing market that rebounded more quickly than expected. Business investment benefited from data-centre-related spending and resilient balance sheets. These forces pushed GDP growth back towards potential, with signs that the December quarter was even stronger.

Turning to the labour market, unemployment eased slightly to 4.10% in December and firms continued to report difficulty securing labour. Unit labour costs remain elevated, reflecting both persistent wage pressures and still-weak productivity.

Inflation remains the pressure point. Underlying inflation rose to 3.3% in December, which was well above earlier forecasts, and the RBA sees both temporary and persistent drivers. The breadth of inflation across services, retail goods and new dwellings points to real capacity strains. Market pricing has shifted accordingly, with expectations of further rate increases in 2026.

So, we seem to be approaching a macroeconomic backdrop where policy is likely to be tighter, growth may slow from late 2026, and the RBA is expected to continue to keep a careful watch on inflation.

From a portfolio perspective, we will continue with our strategy of opportunistically taking advantage of market movements to add to quality companies that are able to succeed when the impact of the above tailwinds shows tangible benefits, while keeping a mindful eye on valuations.

We remain biased towards companies with strong pricing power and defensive business moats, and we favour businesses with clear growth prospects that are leveraged to long-term structural shifts.

Important Information

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.

There are also risks associated with investing in Australia, including the risk of investing in a single-country Fund. Concentrating investments in the Australia region subjects the Fund to more volatility and greater risk of loss than geographically diverse funds.

Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

Please see the Fund's most recent annual report for more information on risks applicable to the Fund.

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