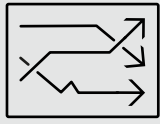


Fund performance



The Fund fell by 0.10% over the quarter on a net asset value basis, lagging the net return of 1.33% from the ASX 200 Index. The relative underperformance was due to the overweight position and weak stock selection in healthcare, along with weak selection in materials.¹

Healthcare was the largest detractor because of its overweight position against the benchmark, as investors continued to favour cyclical and commodity-exposed areas of the market, while higher bond yields weighed on premium healthcare valuations. Among our holdings, Cochlear's shares fell sharply, reflecting concerns over procedure volumes and the company's near-term earnings visibility. Other healthcare stocks, including Pro Medicus and ResMed, also detracted amid broader weakness in medical technology stocks.

In materials, stock selection detracted significantly from performance despite the strength in bulk commodities and energy-linked stocks. Northern Star Resources declined after the company cut its production guidance for financial year 2026, citing persistent operational challenges at the KCGM mill and declining productivity at the Jundee operation. Capstone Copper was affected by lower-than-forecast 2026 production guidance, temporary labour strikes at the Mantoverde mine in Chile, and a technical pullback in copper prices from recent highs. We continue to have conviction in both these stocks over the medium-to-long term, as we believe their growth prospects are mispriced.

Cumulative and annualized total return as of April 30, 2026 (%)

	NAV	Market Price	ASX 200 Net Index
10 Years (p.a.)	8.44	8.48	8.39
5 Years (p.a.)	6.12	3.40	6.58
3 Years (p.a.)	10.56	11.11	12.54
1 Year	13.90	15.35	23.49
Year to date	3.96	2.96	8.35
3 months	-0.10	-4.78	1.33
1 month	5.56	6.68	7.26

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	0.97	0.91
Other Expenses	0.66	0.62
Operating Expenses (net of fee waiver)	1.64	1.53
Leverage Costs	0.36	0.33
Total Expenses (net of fee waiver)	1.99	1.86
Total Expenses before Fee Waiver	1.99	1.86

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.

¹The 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](#)



The negative contributions were partly offset by strength in other areas, including diversified miners. Within materials and energy, Rio Tinto, BHP Group, Santos and Woodside Energy contributed positively as commodity prices remained supportive and cash flows stayed strong. In financials, Insurance Australia Group, ANZ Group and Commonwealth Bank Of Australia added value, supported by resilient earnings and disciplined capital management. CSL also made a positive contribution, owing to our relative underweight position, as its operational execution and margin delivery again came into focus following its results.

Market review

Australian equities fell in Australian dollar (AUD) terms but were higher in US dollars (USD) during the April quarter, with the benchmark S&P/ASX 200 Index down by 1.22% in AUD but up by 1.38% in USD. The AUD strengthened from 0.70 to 0.72 against the USD over the period.

Investors were unsettled by the outbreak of the conflict between the US and Iran at the beginning of March, which drove global energy prices higher and added to fears that domestic inflation was set to rise and prompt the Reserve Bank of Australia (RBA) to tighten further. Annual consumer inflation touched 4.6% in March, the highest rate since September 2023 and up from 3.7% in February, as transport cost inflation surged to almost 9% in March from flat in the previous month. The RBA responded to these rising inflationary pressures by raising its cash rate twice by a combined 50 basis points to 4.1% during the quarter. This took the cash rate back to where it was in early May of last year.

The domestic economy expanded by 0.8% during the fourth quarter on a quarterly basis, higher than the third quarter's 0.5%. The annual growth rate of 2.6% was the strongest for almost three years. However, net trade was a drag owing to the effects of US tariffs. Consumer sentiment waned, with the Westpac-Melbourne Institute Consumer Sentiment Index falling to 80.1 in April, from 91.6 in March, the biggest monthly fall since the Covid years, reflecting the worrying conflict in the Middle East. Similarly, business confidence slumped in March, with the NAB Business Confidence Index down to -29, its lowest level since April 2020.

Portfolio activity

We initiated several positions during the quarter to raise exposure to energy, income, and structural growth themes, while exiting selected holdings where valuations or our conviction had peaked.

Among the initiations, we added Santos, an upstream oil and LNG producer with long-life assets supplying Asian markets, given the disciplined execution of its Barossa and Pikka projects, which should lift production and boost free cash flow as capital spending falls. This will support stronger balance sheet flexibility and the potential for high cash returns to shareholders. We also initiated Paladin Energy, which offers exposure to tightening uranium supply. Operational improvements at its Langer Heinrich mine are progressing faster than expected, while a net-cash balance sheet provides flexibility to fund further growth. Another new holding was Capricorn Metals, a low-cost Australian gold producer. Its disciplined execution, strong cash generation and net-cash position support growth projects while keeping costs towards the lower end of the industry curve.

Elsewhere, we introduced Centuria Industrial REIT, reflecting our ongoing exposure to industrial property with stable cash flows. We also initiated Ventia Services, an infrastructure services provider with long-term, inflation-linked contracts. Its capital-light model, high renewal rates and diversified client base support resilient earnings and strong cash conversion, alongside structural drivers such as infrastructure spending and the energy transition that underpin demand visibility. Finally, we added Generation Development Group, a small-cap Australian wealth manager positioned to benefit from demographic trends, including ageing populations and increasing demand for retirement and wealth solutions.

Against this, we exited JB Hi-Fi, Metcash and WiseTech Global, reflecting our valuation discipline and capital reallocation towards higher-conviction opportunities elsewhere in the portfolio.

Outlook

The RBA raised its cash rate to 4.35% in early May, indicating that it expects inflation to stay above target, with risks on the upside. It noted that Middle East tensions are pushing fuel prices higher, adding to already strong inflation, and likely feeding through into broader goods and services. There are early signs that many firms experiencing cost pressures are looking to increase prices of their goods and services. The RBA sees the economy slowing this year, as higher fuel prices and interest rate increases are expected to lower spending by households and businesses. Regarding the labour market, the unemployment rate is expected to stay around its current low levels until the middle of next year, then increase gradually after that. The RBA stated that it will remain data-dependent and monitor global conditions, domestic demand and the labour market, and that it is prepared to act further if needed.

In that context, the macroeconomic backdrop remains one 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 are being cautious, given the uncertainty and volatility in markets, by lowering factor risk and focusing on stock selection in the medium-to-long term, understanding that short-term movements can lead to mispricing.

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.

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. The net asset value (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.

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