Quarter ended January 31, 2020

Quarterly Commentary

Aberdeen Standard Investments

Aberdeen Australia Equity Fund, Inc. (IAF)

Fund performance

Aberdeen Australia Equity Fund returned 3.27%[1] on a net asset value basis for the three-month period ended January 31, 2020, modestly outperforming the 3.07% return of its benchmark, the S&P/ASX 200 Index.[2]

Fund performance for the quarter benefited from the holding in ResMed, market-leading manufacturer of medical equipment for treating obstructive sleep apnea. The company's most recent quarterly results surpassed market expectations as U.S. demand for its masks was more than double the industry's growth rate, attributable to five new launches within the past fifteen months. Amid the relatively benign regulatory environment, ResMed continued to register margin expansion through efficiencies and an improving product mix. While we expect current growth to taper off as competition heats up, we believe that the company remains well placed over the long term because it continues to promote greater patient awareness, while delivering innovations in both medical devices and software.

Conversely, the Fund's position in Treasury Wine Estates (TWE) detracted from performance as the winemaker and distributor's shares sold off after it downgraded its earnings forecasts for fiscal years 2020 and 2021. Investors were disappointed by yet another negative surprise. Earlier in the review period, TWE's CEO had unexpectedly announced his retirement, and there were key management changes in its U.S. operations. The company's earnings downgrade was due to a lack of leadership stability in the U.S. and competition from the surge in the private label segment that had compelled TWE to respond with more promotions. While our core thesis regarding the premiumization and growth in the demand for wine in China remains intact, our confidence in management has waned. Consequently, we exited the Fund's position in TWE.

We currently prefer to monitor the company from the sidelines and watch for any medium-term turnaround by the new management, as it appears that market dynamics in the U.S. likely will take time to resolve.Strategic changes to the Fund over the quarter included the initiation of holdings in Northern Star Resources, whose main business is gold mining, with assets in Australia and Alaska. We think that the company has a strong track record of value creation and, going forward, a strong production growth pipeline, which we believe is not being properly valued by the market.

We continued to build the Fund's positions in Altium, a printed circuit board design software company, and Aristocrat, a manufacturer of gaming machines, social gaming and social casino apps. These positions were funded from profit-taking in several of the Fund's healthcare names, specifically CSL and Cochlear, but we maintained model weights given our view that these companies will continue to outperform over the long term due to their global leadership positions and strong consistency in cash flows and returns.

As noted previously, we exited the Fund's position in TWE during the review period. Additionally, we reduced the positions in Westpac Banking Corp. and Australia and New Zealand Banking Group. The Fund remains underweight to the major commercial banks, but we are differentiating among the four majors with a preference for Commonwealth Bank (the only bank holding that is overweight, albeit marginally), as the higher-quality franchise (higher returns on equity, margins and better execution) and Macquarie Group as they do not face the same structural challenges as the major commercial banks. We also chose to take some profits in the Fund's holding in Xero following a period of strong stock price appreciation, but we see any material pull-back in its share price as buying opportunities, as we believe that the company provides a very long runway for growth as it penetrates the UK and U.S. and monetizes its broader platform.

[1] ***Past performance is no guarantee of 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. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.***

[2] The S&P/ASX 200 Index is a market capitalization-weighted index of stocks listed on the Australian Securities Exchange from Standard and Poor's. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Aberdeen Standard Investments

Market review

After a relatively quiet October 2019, the ASX 200 Index rallied strongly and recorded a gain of 2.7% in November 2019. Leading the index were information technology, healthcare and consumer staples, closing the month just short of the all-time high. Financials and utilities were the only sectors within the index to finish in negative territory for the month. In particular, weakness in the financials sector was driven by Fund holding Westpac Banking Corp. following allegations by AUSTRAC, the financial intelligence agency, on anti-money laundering (AML) breaches. In macroeconomic news, the Reserve Bank of Australia (RBA) left its benchmark interest rate unchanged at 0.75%. However, previous rate cuts are having an impact on the property market, with national prices rising 1.5% in November.[3] Strongest growth was recorded in Sydney and Melbourne, with 1.4% and 1.8% month-over-month growth, respectively. The NAB business surveys saw reasonable numbers coming through. Business confidence and conditions improved to +1.7 and +3.0, respectively, in October. However, unemployment ticked up to 5.3% from 5.2% after seeing an improvement in September. The commodities market was mixed in November. Gold and silver prices fell 3.2% and 6.2%, respectively. Iron ore recovered some of its losses in October and closed 2.3% higher. The Australian dollar (AUD) retreated 1.7% to US$0.69.

The Australian market ended 2019 on a soft note, with the ASX 200 Index sliding 2.4% in December. The only sector to post a positive return was materials, driven in large part by strength in the gold price, which translated to solid performance for gold equities. Consumer staples was the weakest performer, followed by real estate. The RBA's cash rate remained unchanged at 0.75% and inflation continued to persist at stubbornly low levels. The unemployment rate reverted to 5.2% in November following an uptick to 5.3% in the prior month. Throughout December and into January 2020, severe bushfires raged throughout the eastern states. These fires have caused much devastation and are sure to have a dampening impact on the nation's near-term economic growth. Commodities experienced strong gains in December after a difficult month in November. The West Texas Intermediate (WTI) oil price led the gains, rising 10.7%, while both base and precious metals saw notable upturns in December, gaining 2.6% and 3.5%, respectively. Iron ore continued its rise, gaining 2.7%. The AUD climbed 3.8% TO US$0.70.

The Australian market bounced back in January 2020, and was one of the strongest global performers in January, with the ASX 200 Index returning 4.98% versus the -1.7% return of the MSCI All-Country (AC) World Index. The healthcare sector was the strongest performer, led by Fund holdings CSL Ltd. and ResMed. Utilities and energy were the primary market laggards for the month. A stronger-than-expected labor market pushed Australia's unemployment rate down for the second consecutive month to 5.1% in December, decreasing the likelihood of a rate cut in February. In housing, credit growth appears to have bottomed out, rising 3.1% year over year. Median house prices in both Sydney and Melbourne continued their rise, posting 2.0% and 2.1% mom growth, respectively. The commodity sector was weighed down by escalating coronavirus concerns. Iron ore fell 10.1% due to its exposure to China demand, while gold rallied 4.7%. With the risk-off market sentiment starting to gain hold as the coronavirus outbreak escalates, the AUD fell 4% to US$0.67.

Outlook

The Australian economy has seen weakness in some indicators, while geopolitical uncertainty globally continues to weigh on business and consumer confidence. These factors have partly driven the RBA's recent bout of monetary easing. We feel that the change in monetary policy, combined with measures to relax home loan requirements, should give the property and construction sectors a much-needed boost after a challenging few years of falling house prices. In our view, looser monetary policy, easier lending standards and personal income tax cuts are likely to provide support to many parts of the Australian economy, and by extension, Australian equities, over the coming months. Given this change to the outlook, we are starting to become more optimistic toward domestic residential-related businesses.

Further abroad, the recent outbreak of the coronavirus has driven significant uncertainty into global markets. Therefore, we have become increasingly cautious on the Fund's holdings which are more directly exposed to North Asian consumption, travel and education. Despite this near-term caution, as always, our focus through this period will be on accumulating positions in what we believe are high-quality companies that are led by excellent management and have healthy balance sheets and upbeat long-term prospects, using stock price volatility as an opportunity.

[3] Source: CoreLogic, December 2019

Total Returns as of Jan. 31, 2020*

Cumulative	1 Month	3 Months	YTD
NAV	-0.9	3.3	-0.9
Market Price	1.3	8.9	1.3
S&P/ASX 200	0.0	3.1	0.0

Annualized	1 Year	3 Years	5 Years	10 Years	Since Inception
NAV	15.8	7.6	6.6	4.5	7.4
Market Price	15.2	8.8	7.2	4.2	7.2
S&P/ASX 200	14.5	7.7	6.1	6.0	—**

* **PAST PERFORMANCE IS NO GUARANTEE OF 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 data quoted. NAV return data includes investment management fees, custodial charges, bank loan expenses 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.

** There is no since inception figure for the S&P/ASX 200 Index because the inception date of the Index is April 3, 2000.

Aberdeen Australia Equity Fund, Inc.
Top 10 Holdings***

Holding	%
Commonwealth Bank of Australia	8.6
CSL Ltd.	8.3
BHP Group PLC	8.0
ASX Ltd.	5.4
Telstra Corporation	4.6
Cochlear Ltd.	4.5
Goodman Group	4.1
Xero Ltd.	3.7
Woodside Petroleum Ltd.	3.7
Aristocrat Leisure Ltd.	3.5
Total	**54.4**

*** As of January 31, 2020. Based on total assets. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. The top 10 holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

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