Aberdeen Total Dynamic Dividend Fund (AOD)

Fund performance
Aberdeen Total Dynamic Dividend Fund returned -22.5% on a net asset value basis for the first quarter of 2020, underperforming the -21.4% return of its benchmark, the MSCI All Country (AC) World Index. Overall stock selection and sector allocation detracted from Fund’s underperformance versus its benchmark during the quarter.

From a stock-selection perspective, holdings in the industrials, consumer discretionary and communication services sectors had the largest negative effect on Fund performance for the quarter. The primary individual stock detractors from performance included overweight positions in Cineworld Group, Melrose Industries and Schlumberger. Cineworld Group operates 9,500 movie screens worldwide. With movie theatres shutting down due to the lockdown in response to the COVID-19 pandemic, investors feared the company may experience a liquidity crisis. Cineworld has been in discussions with film studios and landlords to reduce costs and has cut its capital expenditures. Melrose Industries is a London-based company that specializes in buying and improving underperforming businesses. The company has exposures to the automotive and aerospace industries. In order to preserve cash, Melrose Industries cancelled its dividend and lowered its capital expenditures. In addition, the company secured a net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) covenant waiver in relation to the June and December 2020 testing periods to provide flexibility should this be needed.

Oilfield services provider Schlumberger was hampered by sharply falling oil prices. We sold the Fund’s position during the quarter, as we felt that its outlook continued to deteriorate, with oil producers likely to reduce capital expenditure in light of softening prices.

From a sector-allocation perspective, an overweight to energy and an underweight to information technology were the largest detractors from the Fund’s relative performance for the quarter.

In terms of stock selection, the Fund’s holdings in the real estate, information technology and energy sectors enhanced performance for the quarter. The largest contributors to Fund performance among individual holdings included overweight positions in NortonLifeLock, Digital Realty Trust and Cellnex Telecommunications. NortonLifeLock’s share price rallied after the completion of the sale of its enterprise security business to Broadcom. The company used a portion of the proceeds to pay a large special dividend in January 2020. In addition, the current environment of employees working from home may benefit the company’s anti-virus products. Digital Realty Trust is a data center real estate investment trust (REIT). The company’s shares rallied as its acquisition of InterXion was completed during the quarter. In addition, the COVID-19 pandemic lockdown has boosted web traffic and highlighted the need for increased spending on mission-critical data center services, as work-from-home measures have been broadly adopted. We believe this should drive more stable cash flows and continued growth for Digital Realty Trust going forward as customers are forced to continue to upgrade and expand their networks. Cellnex Telecommunications is the largest independent operator of European cellular towers. The company has limited exposure to the COVID-19 pandemic and it continues to execute and consolidate the European cell tower network, and also benefits from a strong order book. Furthermore, the company’s defensive growth strategy appeared to be in favor with investors during the first quarter.

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 MSCI AC World Index is an unmanaged index considered representative of stock markets of developed and emerging markets. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Index performance is not an indication of the performance of the Fund itself. For complete fund performance, please visit aberdeenstandard.us.

3 A bond covenant is a legally binding term of agreement between a bond issuer and a bondholder. Bond covenants are designed to protect the interests of both parties.
In terms of sector allocation, overweights to healthcare and utilities were the largest contributors to the Fund’s relative performance for the quarter.

**Market review**

Global equities tumbled in the first quarter of 2020 amid pandemic fears, particularly in the latter half of the period. The U.S. broader-market S&P 500 Index4 initially touched a record high in the wake of the U.S.-China trade truce and positive data for consumer sentiment and manufacturing. But the spread of the COVID-19 pandemic from China to other parts of the world rattled stock markets. In response, the U.S. government unveiled a $2 trillion stimulus and the U.S. Federal Reserve (Fed) made two emergency interest-rate cuts, which provided some respite for investors. Many other global central banks, from Canada and Australia to Singapore and South Korea, followed suit. On the corporate front, many companies withdrew earlier earnings forecasts as countries closed their borders and imposed lockdowns.

All sectors within the MSCI AC World Index, a global equity market benchmark, recorded double-digit losses for the first quarter. Energy stocks bore the brunt as oil prices slumped. This was initially triggered by an intense oil price war following the failure by countries (OPEC) and Russia to agree on supply cuts, as well as on concerns over the Organization of the Petroleum Exporting Countries (OPEC) and Russia to agree on supply cuts, as well as on concerns over weaker demand stemming from the pandemic. The financials sector also lagged the overall market. The healthcare and information technology sectors saw the smallest declines and were the top relative performers within the index for the quarter.

Dividend-paying companies, despite generally being viewed as defensive, could not avoid the severe market decline during the first quarter. Several companies have reduced, suspended or eliminated their dividend payments. In some cases, this was a proactive effort to protect cash, or to meet current cash needs given the sharp economic downturn. The financial and energy sectors both comprise companies that have high dividend-paying stocks, and these sectors were hit particularly hard by the COVID-19 pandemic. In addition, some countries have pressured banks not to pay dividends in 2020.

**Outlook**

The longer-term implications for the global economy, capital markets and even normal day-to-day life are unknown at this stage; nonetheless, we can be certain that change is coming. Even when the pandemic is brought under control, or a vaccine or effective treatment has been developed, to what extent have business operations, supply chains and consumer spending habits been altered forever? The world was already in the midst of rising nationalism and protectionism. The U.S.–China trade dispute was never fully resolved and we think that there will be lasting restrictions for certain products and sectors in terms of the resourcing of some production or restricting exports, as well as greater scrutiny over foreign direct investment flows.

There will undoubtedly be an ongoing debate around whether we face the prospect of a V- or U- shaped recovery and what the longer-term impact of collapsing activity, surging unemployment and debt levels potentially reaching gargantuan levels will be. Some observers say that recent global government and central bank actions should not be viewed as a traditional fiscal stimulus.

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4 The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market. Indexes are unmanaged and are included for illustrative purposes only. You cannot invest directly in an index.
to pump prime the economy. Social distancing prevents a wide range of economic activities from taking place, so the goal of the income-support and funding measures is to ensure that mortgages are paid and many bankruptcies are avoided. In this sense, we think that they should be viewed more as life support until the virus is contained and activity starts to get back to a normal level rather than traditional stimulus. Global central banks most likely hope that most of these extraordinary recent measures will be temporary. However, a deeper or more prolonged economic contraction, or a disappointing pace of recovery, will have a big impact on public finances, calling into question the sustainability of social safety nets, and raising concerns about whether austerity and higher taxes beckon over the longer term.

Global central banks and governments have implemented monetary and fiscal stimuli, but we find it interesting and worrying that, on occasion, investors have practically shrugged their shoulders and the global markets have continued to decline. Perhaps investors question how helpful an interest-rate cut from near 0% or lower will really be in terms of combatting a global pandemic. Regardless of the answers to these questions, Aberdeen Standard Investments’ approach remains the same. That is, we remain focused on the long term and remember that previous periods of market volatility and weakness have also been periods of opportunity. We believe that the recent volatility is likely to remain in the short to medium term. We will judge each session and each price move on its own merits and will be guided by our investment process. We will try to ignore much of the market noise and seek what we believe are high-quality businesses with strong balance sheets capable of surviving in these times and thriving on the other side. This process sometimes will result in significant portfolio activity and requires caution and patience, which may manifest itself in no activity at all.
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Under U.S. tax rules applicable to the Fund, the amount and character of distributable income for each fiscal year can be finally determined only as of the end of the Fund's fiscal year. The Fund anticipates that sources of distributions to shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. The estimated composition of the distributions may vary from time to time because the estimated composition may be impacted by future income, expenses and realized gains and losses on securities. For more detailed information related to the composition of the Fund's distributions, see aberdeenAOD.com.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, as well as political and economic risks. These risks are enhanced in emerging markets countries. Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

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