Quarterly Commentary

Aberdeen Standard Investments

# Aberdeen Total Dynamic Dividend Fund[1]

### Fund performance

Aberdeen Total Dynamic Dividend Fund returned 4.04%[2] on a net asset value basis for the third quarter of 2018, underperforming the 4.40% return of its benchmark, the MSCI All Country (AC) World Index.[3]

Stock selection in the real estate, telecommunication services and consumer discretionary sectors hampered the Fund's performance relative to the benchmark MSCI AC World Index over the quarter. From a sector allocation perspective, overweight allocations to real estate and utilities were the largest detractors from Fund performance.

The primary individual stock detractors from Fund performance were overweight allocations relative to the benchmark to Vodafone Group PLC, Whirlpool Corp. and Bayer AG, and a lack of exposure to Amazon.com, Inc. (which does not pay a dividend). Vodafone Group is a British multinational telecommunications conglomerate with headquarters in London. Its shares declined due to investors' concerns of a potential reduction in the company's dividend, as well as higher-than-expected costs for the 5G spectrum auction in Italy. Vodafone Group also reported operational weakness in Italy and Spain. Shares of Whirlpool Corp. moved lower as sales volumes were weak in most regions and margins fell short of expectations due to raw material inflation and currency headwinds Bayer's stock price fell sharply as Monsanto Company (which Bayer acquired earlier this year) was hit with a $289 million judgement that found that its Roundup weed-killer product causes cancer. Bayer has announced that it will challenge the ruling and, after the third quarter ended, a San Francisco judge said that she is considering overturning the lion's share of the settlement.

Conversely, the Fund's performance relative to the benchmark for the quarter benefited primarily from stock selection in the financials, industrials and consumer staples sectors. Overall sector allocation had a small positive impact on performance. In particular, an overweight position in industrials and an underweight position in consumer discretionary sector bolstered performance. The largest contributors to Fund performance among individual holdings included the lack of exposure to Facebook Inc. (which does not pay a dividend), along with overweight allocations to Delta Airlines, Inc., Norfolk Southern Corp., and Leidos Holdings Inc. Shares of Delta Airlines advanced as its third-quarter 2018 revenue per available seat mile (RASM) guidance was generally better than expected. Additionally, the company trimmed capacity in some underperforming markets. Norfolk Southern is one of the largest freight railroad operators in the U.S. The company reported second-quarter 2018 results that exceeded expectations and its year-over-year earnings were up sharply. Furthermore, pricing trends remain strong and management provided guidance for improving volumes in the second half of the fiscal year. Leidos Holdings is an American defense, aviation, information technology and biomedical research company. Leidos reported second-quarter results that generally exceeded the market's expectations, driven by improving margins and bookings. Management also provided a strong outlook for the second half of the fiscal year.

[1] ***The Fund acquired all of the assets and liabilities of the Alpine Total Dynamic Dividend Fund (the "Predecessor Fund"), a series of Alpine Equity Trust, in connection with a reorganization that occurred as of the close of business on May 4, 2018. Aberdeen Asset Management Inc. became the investment adviser effective upon the closing of the reorganization. The Predecessor Fund was managed by a different investment adviser. The returns presented for the Fund before May 5, 2018, reflect the performance of the Predecessor Fund.***

[2] ***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***

[3] 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 aberdeen-asset.us.

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## Market review

Global equities, as measured by the MSCI AC World Index, delivered healthy returns in the third quarter of 2018, rising 4.40%. While returns at the start of the quarter remained relatively synchronized, we witnessed growing divergence between individual markets as political- and trade-related headlines continued to dominate the news. The reintroduction of U.S. sanctions against Iran, geopolitical tensions between Turkey and the US, a deterioration in the trade talks between the U.S. and China, as well as an uncertain political situation in the U.K. and Italy, were just a few of the main stories during the quarter. The U.S. market remained the standout global performer, driven by healthy corporate earnings, which have been fueled by tax cuts and a thriving technology sector; providing further signs of an increasingly narrow market. The U.S. broader-market S&P 500 Index finished the quarter up 7.71%, its strongest quarter since 2013. Outside the U.S., market returns fluctuated for most of the quarter before European and Japanese equities recovered lost ground toward the end of September. The primary market laggards were the UK, as it was impacted by political uncertainty, and emerging markets (EMs), which continued to feel the pressure from tightening liquidity and the associated strength in the U.S. dollar.

Strength in U.S. corporate earnings continued through the quarter and remains on track for a full-year earnings-per-share growth of around 18%.[4] Extensive share buybacks remain a feature of the market, with tax cuts, overseas fund repatriation and additional debt combining to push buybacks towards $1.2 trillion for 2018.

U.S. economic data has continued to reflect a strong economy, with unemployment remaining around a historically low level below 4%, which arguably should be viewed alongside the U.S. labor force participation rate[5] remaining around 63%.[6] Inflation rose above the Federal Reserve's (Fed) target on the back of higher energy prices, prompting the Fed to raise rates by an additional 25 basis points (bps) and solidifying expectations for a further hike in December 2018. Second-quarter 2018 gross domestic product (GDP) growth of 4.2% was the strongest in four years, reflecting continued signs of healthy consumer spending; with consumer confidence (as measured by the Conference Board's Consumer Confidence Index) rising to an 18-year high. Additionally, sentiment among U.S. corporations continue to show signs of strength, with the NFIB Index, which tracks the sentiment of small- and medium sized enterprises in the U.S., rising to a 35-year high.

In our view, these positive headline figures raise some question marks when we look at the current dynamics in the bond market, where the 10-year U.S. Treasury yield continued to hover around 3%, before rising above that level towards the end of September. If the market believes in sustained growth levels similar to those experienced recently, interest rates should ultimately be higher. Continued accommodation by the European Central Bank and Bank of Japan, together with a drain of capital from certain EMs, have helped to keep a lid on longer term U.S. government yields despite looming Treasury

**Aberdeen Total Dynamic Dividend Fund Total Returns (%)***

| | Cumulative as of Sept. 30, 2018 | | | Annualized as of Sept. 30, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 Mo | 3 Mo | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception 01/27/07 |
| NAV | -0.3 | 4.0 | 3.1 | 8.9 | 12.4 | 9.5 | 5.1 | 0.9 |
| Market Price | -0.6 | 2.3 | -1.8 | 5.2 | 14.5 | 10.4 | 4.7 | -0.6 |
| MSCI AC World Index[4] | 0.8 | 4.4 | 4.3 | 10.3 | 14.0 | 9.2 | 8.8 | 5.8 |

*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. 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. Returns for periods less than one year are not annualized.

**Top Ten Issuers (as of Sept. 30, 2018)***

| | % of Fund |
|---|---|
| Apple | 2.4 |
| Broadcom | 1.6 |
| FedEx | 1.4 |
| Delta Air Lines | 1.3 |
| Leidos Holdings Inc. | 1.3 |
| Nextera Energy Inc. | 1.3 |
| Nestle | 1.3 |
| Norfolk Southern Corp. | 1.3 |
| Vodafone Group PLC | 1.3 |
| Cellnex Telecom | 1.3 |
| **Percent of Portfolio in Top Ten** | **14.4** |

*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 ten holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

[4] Source: Bloomberg consensus for S&P 500 Index, September 2018.
[5] The labor force participation rate is expressed as a percentage of the U.S. population aged 16 years and older working or actively seeking work.
[6] Source: U.S. Bureau of Labor Statistics, September 2018

debt issuance. As a result, the U.S. yield curve continued to flatten throughout the quarter, nearing inversion[7] at certain points. Short term yields rose further, but at a slightly slower pace than earlier in the year. The widely watched spread between 10- and two-year Treasury yields contracted to as low as 24 bps during the third quarter, which is almost on par with levels seen in Japan and roughly 70 bps below that of German Bunds.

Politics and the looming Brexit deadline continue to dominate headlines in the UK, with Prime Minister Theresa May vying to unite her cabinet around the so-called "Chequers" plan. In our opinion, this uncertain environment is not conducive for corporations' investment planning and poses a risk of having a negative impact on the near-term attractiveness of the UK. Nonetheless, the Bank of England saw fit to raise its benchmark interest rate in August by 25 bps, while stressing that any further policy tightening would be gradual and unlikely before the Brexit deadline in March 2019. Against this backdrop, the UK large-cap equity market benchmark, the FTSE 100 Index, fell nearly 2% in U.S. dollar terms over the quarter.

The upswing in economic growth and activity witnessed across Europe towards the end of 2019 has continued to moderate throughout 2018. Eurozone GDP slowed to 2.1% in the second quarter, as hope of renewed investment spending, following that of 2017, has failed to materialize. Following the recent easing in trade-related rhetoric with the U.S. administration, most sentiment indicators improved in August, with the composite Eurozone Purchasing Managers Index (PMI) of manufacturing activity remaining above 54. However, Germany's key auto industry has shown a few signs of stress recently, with a major tire manufacturer reducing its full-year 2018 forecasts for sales and margins and a large automaker reducing its margin guidance for this year.

In southern Europe, the political situation in Italy continues to keep the market on edge. On the last trading day of the third quarter, the new Italian government triumphantly announced an agreement to set the 2019 budget deficit target at 2.4% of GDP, above the 2% threshold considered by the market to be the limit of the government's ability to balance election promises with state finances. This announcement also caused Italy to breach European Union (EU) budget rules and most likely will result in additional tough rhetoric between the Italian government and the EU.

Global trade tensions and U.S. dollar strength continued to weigh on investor sentiment around EMs, with U.S.-China relations deteriorating further following President Donald Trump's announcement of an additional set of tariffs on $200 billion of Chinese goods. The Turkish economy remained under pressure throughout the quarter, with a widening current account deficit closing in on 6% of GDP. This fragile position was further affected when the U.S. increased tariffs on Turkish steel and aluminum products in response to the Turkish government's imprisonment of a U.S. citizen. What followed was a policy vacuum where the market increasingly lost confidence in the independence of the central bank and monetary policy. Elsewhere, equity returns in Latin America remained volatile over the quarter and declined after a strong start in July. Weaker currencies and an uncertain political situation in Brazil weighed on investor sentiment, with the right-wing candidate Jair Bolsonaro garnering a plurality of the first round of votes in early October. The second round of voting in late October is expected to be tighter between Bolsonaro and ex-President Luiz Inácio Lula da Silva's replacement candidate, Fernando Haddad.

## Outlook

As we move into the last quarter of 2018, we remain cautious on the growing divergence across global markets, with strength in U.S. macroeconomic data contrasting with slowing growth across other economies and markets. With the U.S. economy gradually moving closer towards full capacity, propelled by tax cuts and healthy corporate earnings, the Fed maintains its tightening stance and is expected to continue in a similar vein with an additional three rate hikes in 2019. In Asia, China continues to balance further trade-related responses towards the U.S. with managing and maintaining its closely monitored economic growth rates. When combined with the potential for further political volatility as Brazil heads to the polls, the Italian government testing the limits of the EU relationship and the rapidly approaching sharp end of the Brexit negotiations, there are likely to be further pockets of market volatility into the end of 2018.

In this uncertain environment, we remain committed to finding companies that we believe have proven and sustainable business models and for which management teams have a conservative mindset toward balance sheet structure. We continuously look to strengthen the Fund with businesses that have moats[8] and strong positions which will diversify[9] the Fund's overall exposure, while remaining cognizant about current valuations, which we continue to view as stretched in certain areas of the market.

[7] An inverted yield curve is an interest-rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality. This type of yield curve is considered to be a predictor of economic recession.

[8] A moat refers to the ability of a business to maintain competitive advantages over its competitors in order to protect its long-term profits and market share from competing firms.

[9] Diversification does not ensure a profit or protect against a loss in a declining market.

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***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.***

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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