Six-month period ended September 30, 2018

Monthly Commentary

Aberdeen Standard Investments

Aberdeen Asia-Pacific Income Fund

Fund performance

Aberdeen Asia-Pacific Income Fund returned -4.60%[1] and -1.45% on a net asset value basis for the second and third quarters of 2018, respectively, with a cumulative return of -5.99% for the six-month period ended September 30, 2018. The Fund's blended benchmark[2] recorded returns of -2.93% and -0.41% for the second and third quarters, with a cumulative return of -3.33% for the six-month period. Our local-currency strategies in Asia, where the Fund is overweight relative to the benchmark, detracted from performance for the semiannual period as regional government bonds and currencies endured a challenging environment. The losses were mitigated by the Fund's exposure to Asian U.S. dollar-denominated credit, which outperformed local-currency government debt.

In Asian local-currency bonds, including high-yield bonds, the declines seen in the Sri Lankan, Indian and Indonesian currencies hurt the Fund's relative performance due to its overweight allocations to these bond markets. The underweight to Korean bonds also dampened performance as the market rallied. Mitigating the losses was the overweight to Chinese onshore bonds, which performed well over the reporting period on the back of falling yields. The underweight to the Singapore dollar also had a positive impact on performance as the currency weakened during the period.

In Australia, where the Fund's exposure comprises 35% of net assets, yield effects contributed positively to performance; however, the Australian dollar's weakness pared these gains.

The Fund's 36% exposure to Asian U.S. dollar-denominated credit contributed to both the absolute and relative performance for the reporting period, particularly security selection in high-yield industrial credit, as well as the overweight to high-yield financial and investment-grade[3] oil-and-gas credits.

Market review

The six-month reporting period was marked by heightened global market volatility. The U.S. Federal Reserve's (Fed) ongoing rate-hike cycle and rising U.S. Treasury yields towards multi-year highs saw capital outflows accelerate from emerging markets (EMs). This was exacerbated by worsening China-U.S. trade tensions; concerns over global economic recovery; and contagion fears sparked by the currency crises in Argentina and Turkey. Against this backdrop, Asia-Pacific bond market returns were generally muted.

The U.S. dollar's strength was a bane for most G10 and EM currencies. In Asia, currencies facing widening current-account deficits and falling foreign-exchange reserves were particularly vulnerable. The Indian rupee (down 10.1% for the six-month period), Sri Lankan rupee (-8.0%) and Indonesian rupiah (-7.6%) fell to record lows, and this weighed on the total returns in their respective government bond markets. In India, investor sentiment was further dampened by rising energy prices following Venezuela's supply issues and the reimposition of U.S. economic sanctions on Iran. This posed a threat to India's balance of payments and fiscal target as it imports most of its oil needs. The Reserve Bank of India hiked its policy rate twice over the reporting period. Indonesia also raised interest rates, but mainly to rein in the free-falling rupiah, although five successive moves were relatively ineffective. Meanwhile, the Philippine peso's decline (-3.4%) was less dramatic but still weighed on Philippine bonds, as yields in that market moved higher in tandem with the central bank's rate hikes.

Elsewhere, government bond returns were positive despite weaker currencies. In Malaysia, investors' concerns that the new government would miss its fiscal deficit target hampered the ringgit (-6.5%) over the reporting period, but bonds found some reprieve from good demand amid moderating second-quarter gross domestic product (GDP) growth.

[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 Fund's blended benchmark comprises 35% Bloomberg AusBond Composite Index; 40% J.P. Morgan Asian Credit Diversified Index; 15% Markit iBoxx Asia Government Index; 5% Markit iBoxx Asia Government India Index; and 5% Markit iBoxx Asia Government Indonesia Index. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

[3] Companies whose bonds are rated as "investment-grade" have a lower chance of defaulting on their debt than those rated as "non-investment-grade." Generally, these bonds are issued by long-established companies with strong balance sheets. Bonds rated BBB or above are known as investment-grade bonds.

Chinese bond yields fell on the back of cuts to banks' reserve ratios and economic stimulus measures to support growth, but the yuan languished (-8.5%) as the central bank infused the banking system with liquidity. Korean bond yields also declined despite the weaker won (-3.9%) and calls for a rate hike. Australian bonds again proved relatively defensive in the face of rising geopolitical risks, even as the Australian dollar (-5.9%) followed the yuan lower, given the economy's close links with China.

Meanwhile, Australia government bonds again proved relatively defensive in the face of rising geopolitical risks, even as the Australian dollar declined, given the economy's close links with China. Yields ended the semiannual reporting period narrowly mixed, with the short- and mid-dated part of the curve falling slightly and the longer end trending higher. The economy expanded by a robust 0.9% over the second quarter of 2018, in part because of resilient consumer spending, although unemployment remained elevated and housing market weakness persisted.

Regional U.S.-dollar credit markets in aggregate were outperformed local-currency government debt for the six-month period. Overall, hostile U.S. foreign policy, particularly trade protectionism against China, was counterbalanced by a buoyant primary market as regional borrowers stepped up debt sales in an effort to circumvent higher funding costs expected with rising U.S. Treasury yields. Investment-grade[3] bonds outperformed their high-yield counterparts on a total-return basis. Despite tightening initially, spreads generally ended wider over the period, most notably in the high-yield segment, where investor sentiment was partly dampened by looming Chinese debt maturities that were due for refinancing and an anticipated wave of supply.

Outlook

EMs have borne the brunt of investors' concerns about tightening U.S. monetary policy, the stronger U.S. dollar, volatile oil prices, and unresolved global trade tensions. We have seen companies in Asia become more cautious, while investors are increasingly positioned for a further deterioration in market confidence, given the unwinding of risk trades and the shift back to a long U.S.-dollar stance.

We have tempered our outlooks and now believe that global economic growth will slow from 3.8% this year, to 3.4% in 2019 and 3.2% in 2020, with an escalation in trade wars likely.[4] For EMs in aggregate, we expect growth of 4.4% next year, well below consensus expectations for 5% growth, with China likely to see some of the greater downside growth risks.[5] We believe that the Fed will persist with its rate-hike trajectory but may be compelled to pull back slightly in 2019. In recent months, as the Fed hiked rates, the London Interbank Offered Rate (Libor) has been largely flat but has now started to move higher again. For EMs, we think that this could mean further pressure on currencies and capital flows.

Nevertheless, many Asian economies have healthy external balances and foreign-currency reserves. Institutional frameworks are noticeably more robust than a decade ago. Unlike its regional peers, China's central bank is also generally expected to continue with targeted monetary easing measures and cuts to reserve requirement ratios to keep growth on an even keel, combined with personal income tax cuts that should support consumption. Meanwhile, the softer economic growth outlook and a rise in inventories have driven a sharp unwinding in aggressive speculative trading in Brent crude oil, which has fallen by over 10% from its recent peak, providing support for some markets such as India. In Australia, we anticipate that the central bank likely will keep interest steady well into 2019 as good GDP growth supported by consumer spending is being offset by housing-sector weakness and tightening credit conditions. We think that employment growth may add a positive countervailing force to housing-market weakness, but we do not expect labor conditions to tighten before the end of 2018. Overall, while we expect volatility to persist, we are nevertheless looking for and taking advantage of opportunities, such as those in the credit and high-yield markets, as valuations cheapen.

[4,5] Forecasts and estimates are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially.

Total Returns* (%)

NAV	Cumulative	Annualized
Since inception (April 1986)	1,000.7	7.7
Ten years	66.8	5.3
Five years	5.6	1.1
Three years	12.9	4.1
One year	-5.4	

Market price	Cumulative	Annualized
Since inception	861.4	7.2
Ten years	73.6	5.7
Five years	3.1	0.6
Three years	19.6	6.2
One year	-12.0	

* 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.

Top Ten Equity Holdings*

Holding	%
Australia Government Bond	4.0
Australia Government Bond	3.2
Indonesia Government Bond	2.5
Australia Government Bond	2.4
Queensland Treasury Corporation	2.4
Queensland Treasury Corporation	2.1
China Development Bank	2.0
Australia Government Bond	1.4
India Government Bond	1.4
India Government Bond	1.2
Total	**22.6**

*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.

Visit us online
aberdeenstandard.com

IMPORTANT INFORMATION

Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Company'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 Company's portfolio. 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 Company will achieve its investment objective. Past performance does not guarantee future results.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities, and are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in the market value of an investment), credit (changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral), prepayment (debt issuers may repay or refinance their loans or obligations earlier than anticipated), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Derivatives are speculative and may hurt the portfolio's performance. They present the risk of disproportionately increased losses and/or reduced gains when the financial asset or measure to which the derivative is linked changes in unexpected ways.

The above is for informational purposes only and should not be considered as an offer, or solicitation, to deal in any of the investments mentioned herein. Aberdeen Standard Investments (ASI) does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations, as he/she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither ASI nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

ASI reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

In the United States, Aberdeen Standard Investments is the marketing name for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc., Aberdeen Asset Managers Ltd., Aberdeen Asset Management Ltd., Aberdeen Asset Management Asia Ltd., Aberdeen Asset Capital Management, LLC, Standard Life Investments (Corporate Funds) Ltd., and Standard Life Investments (USA) Ltd.