abrdn Japan Equity Fund

Quarterly Commentary

Quarter ended January 31, 2024

Fund performance

The abrdn Japan Equity Fund returned 18.11%[1] on a net asset value basis for the three-month period ended January 31, 2024, outperforming the 17.49% return of its benchmark, the Tokyo Stock Price Net Index[2].

Notably, in the period, the market appeared to suggest we are nearing an inflection point in the current interest-rate cycle. Comments from Federal Reserve (Fed) officials, indicating a peak in rates, resulted in a sharp strengthening in the yen, from ¥152 to the dollar at end October, to ¥141 on New Year's Day. As a result, companies that benefited from currency gains in recent years started underperforming, while better quality corporates, which are less susceptible or have worked to reduce currency risks to their businesses, started outperforming.

For perspective, we have been wary on companies that have relied on foreign exchange movements, as these are outside management control and can lead to volatile earnings. While we do not consider the macroeconomy as a major factor in our day-to-day analysis, Japan has been undergoing what is perhaps the most extreme shift in macroeconomic trends in the past two decades. From the start of 2021 to October 2023, the yen sharply weakened, from ¥103 versus the dollar to ¥152, as Japan's interest-rate policy has diverged from the U.S.. If the Bank of Japan (BoJ) starts tightening policy, as it has suggested, and the Fed starts to lower rates, the yen could stabilize or strengthen. This, alongside continued fundamental improvements of our invested holdings, should provide some tailwind for our style of investing.

That said, the yen has yet again weakened in 2024, falling to ¥152 in mid-February. Our gains, however, have held up, partly due to our stock selection and portfolio construction, and partly from our belief that the market is growing more cautious of chasing previous winners. We are confident that our stock selection, portfolio construction, and position sizing will prevail.

Looking at individual stocks, semiconductors featured heavily in our top performers. JEOL, which produces equipment for scientific and metrology semiconductor production, benefited from investments in leading edge manufacturing, Tokyo Electron is expected to benefit from investments in the production of memory chips, as demand and prices are expected to pick up in 2024. Fuji Electric outperformed as investors see rising demand from its products used in hybrid and electric vehicles, and its energy management systems. These investments are informed not only by our fundamental work in Japan, but also collaboration with global investment teams researching the complex semiconductor supply chain.

Conversely, Asahi Group underperformed the index, as several Japanese financial institutions offered 6.6% of its outstanding shares for sale as part of the unwinding of these institutions' equity holdings—a trend that we are likely to see more of as part of Japan's governance reforms. Hachijuni Bank and Mitsubishi UFJ Financial Group were also among the main laggards. The former fell due to weak second-quarter results, as the company incurred one-off losses related to integrating its recent acquisition Nagano Bank, while investors took profits in Mitsubishi UFJ Financial Group, after strong performance earlier in 2023.

We initiated positions in Nintendo and NH Foods. Demand remains firm for Nintendo's games and Switch console, despite being at the end of a typical console's lifecycle. We believe the market undervalues the Nintendo's intellectual property opportunities, such as through film, theme parks,

[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 Tokyo Stock Price Net Index is a market capitalization-weighted index of large- and mid-sized companies listed on the Tokyo Stock 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.

and a new game console to launch in 12 to 18 months. NH Foods has begun restructuring its low-margin meat processing and overseas businesses. The company's newly redeveloped baseball stadium, and its surrounding infrastructure, are beginning to contribute to the company.

To fund these initiations, we exited Astellas Pharma due to our disappointment on the progress of its pipeline and its recent acquisitions, which depleted its balance sheet. We also exited skincare company Shiseido, due to its lackluster restructuring efforts amid weaker demand, and concerns about the company's ability to sustain its market share in China.

Top 10 Fund holdings (as of December 31, 2023)

Hitachi Ltd	4.5
Shin-Etsu Chemical Co Ltd	4.1
Sony Group Corp	4.1
Tokyo Electron Ltd	4.0
Tokio Marine Holdings Inc	4.0
Toyota Motor Corp	3.8
Mitsubishi UFJ Financial Group Inc	3.8
Keyence Corp	3.5
Pan Pacific International Holdings Corp	2.8
Asahi Group Holdings Ltd	2.7
Percent of Portfolio in Top Ten	**37.4**

Source : abrdn 12/31/2023.

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.

Compositions are subject to change. The above tables summarize the composition of the Fund's portfolio, expressed as a percentage of net assets.

P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the annual earnings per share.

Figures may not always sum to 100 due to rounding.

Cumulative and annualized total return as of December 31, 2023 (%)

	NAV	Market Price	TOPIX Index (Net TR)
Since inception (p.a.)	2.09	1.56	n/a[3]
10 Years (p.a.)	4.75	3.86	5.07
5 Years (p.a.)	5.08	4.50	6.45
3 Years (p.a.)	-6.55	-7.43	0.71
1 Year	17.67	16.87	19.58
Year to Date	17.67	16.87	19.58
3 Months	10.36	9.21	7.97
1 month	5.40	5.32	4.60

[3] There is no since inception figure for the Tokyo Stock Price Index (Net) because the inception date of the Index is December 29, 2000.

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Effective February 28, 2020, the TOPIX (Net Dividends) replaced the TOPIX (Gross Dividends) as the Fund's primary benchmark.

The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

abrdn Japan Equity Fund distribution rates as of December 31, 2023 NAV (unaudited) and market price

Net Asset Value per share	$6.83
Market price	$5.74
Discount to Net Asset Value	15.96%

The following tables set forth the estimated amounts of the sources of the distributions for purposes of Section 19 of the 1940 Act and the rules adopted thereunder. The tables have been computed based on generally accepted accounting principles. The tables include estimated amounts and percentages for the current distributions paid this month as well as for the cumulative distributions paid relating to fiscal year to date, from the following sources: net investment income; net realized short-term capital gains; net realized long-term capital gains; and return of capital. The estimated compositions of the distributions may vary because the estimated composition may be impacted by future income, expenses and realized gains and losses on securities and currencies.

The Fund's estimated sources of the current distribution paid this month and for its current fiscal year to date are as follows:

Estimated Amounts of Current Distribution per Share

Fund	Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[5]		Net Realized Long-Term Gains		Return of Capital	
JEQ	$0.1000	–	–	$0.0020	2%	–	–	$0.0980	98%

Estimated Amounts of Fiscal Year[4] to Date Cumulative Distributions per Share

Fund	Distribution Amount	Net Investment Income		Net Realized Short-Term Gains[5]		Net Realized Long-Term Gains		Return of Capital	
JEQ	$0.1000	–	–	$0.0020	2%	–	–	$0.0980	98%

[4] JEQ has a 10/31 fiscal year end.

[5] Includes currency gains.

Where the estimated amounts above show a portion of the distribution to be a "Return of Capital," it means that Fund estimates that it has distributed more than its income and capital gains; therefore, a portion of your distribution may be a return of capital. A return of capital may occur for example, when some or all the money that you invested in a Fund is paid back to you. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income."

The amounts and sources of distributions reported in this notice are only estimates and are not being provided for tax reporting purposes. The final determination of the source of all distributions for the current year will only be made after year-end. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during the remainder of the fiscal year and may be subject to change based on tax regulations. After the end of each calendar year, a Form 1099-DIV will be sent to shareholders for the prior calendar year that will tell you how to report these distributions for federal income tax purposes.

The following table provides the Fund's total return performance based on net asset value (NAV) over various time periods compared to the Fund's annualized and cumulative distribution rates.

Fund Performance and Distribution Rate Information

Fund	JEQ
Average Annual Total Return on NAV for the 5 Year Period Ending 10/31/2023[6]	1.15%
Current Fiscal Period's Annualized Distribution Rate on NAV	6.78%
Cumulative Total Return on NAV[6]	8.10%
Cumulative Distribution Rate on NAV[7]	6.78%

[6] Return data is net of all Fund expenses and fees and assumes the reinvestment of all distributions reinvested at prices obtained under the Fund's dividend reinvestment plan.

[7] Based on the Fund's NAV as of October 31, 2023.

Shareholders should not draw any conclusions about a Fund's investment performance from the amount of the Fund's current distributions or from the terms of the distribution policy (the "Distribution Policy").

Market review

Japanese equities rose over the three months, as investors globally grew more optimistic amid hopes that interest rates have peaked, particularly in the U.S. The BoJ kept interest rates unchanged but recent rhetoric suggested that rates could soon be raised from their negative levels, due to the prospect of higher wages. December's core consumer price index recorded a 2.3% year-on-year rise, in line with expectations, and which has eased from 2.5% in November and 2.9% in October. The monthly au Jibun Bank Flash Japan Composite Purchasing Managers' Index report returned to growth towards the end of the period, with improving sentiment in both services and manufacturing.

The Tokyo Stock Exchange (TSE) announced a list of almost 50% of companies that are taking steps to improve capital efficiency and stock prices. For our holdings on the list, we are seeking further clarity and disclosure on this issue, which will inform our upcoming proxy voting decisions.

Outlook

We remain optimistic on the Japanese equity market, as several positive structural changes are currently underway. Foremost, Japan's decades-long deflationary mindset is gradually shifting as higher prices are becoming more entrenched, resulting in a firmer domestic outlook. Meanwhile, a labor shortage is putting upward pressure on wages, which could result in a virtuous cycle of economic growth. Geopolitics is also putting Japan in the spotlight; 'friend-shoring' has led to rising investment from global semiconductor companies within the country. These all bode well for the prospects of Japan's companies and its economy.

It is also encouraging that Japanese corporates continue to place a strong emphasis on profitability, alongside the return of excess capital to shareholders, accelerated by the TSE's reform proposals. Companies have embraced measures, such as return on invested capital and return on equity, as they divest from assets that do not meet their hurdle rates. Companies are also setting targets to reduce cross ownership, reinvesting proceeds or returning cash to shareholders. We believe it is important to focus on companies with firm fundamentals that are also embracing change, which will allow them to better tackle this challenging period and, over time, outperform their peers.

Important Information

Past performance is no guarantee of future results.

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 Fund will achieve its investment objective. Past performance does not guarantee future results.

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. Concentrating investments in the Japan 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.

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