Quarter ended October 31, 2018

Commentary

Aberdeen Standard Investments

Aberdeen Income Credit Strategies Fund

Fund performance

Aberdeen Income Strategies Fund returned -3.34% on a net asset value basis[1] for the three-month period ended October 31, 2018, and underperformed the -0.42% return of its benchmark, the Bank of America Merrill Lynch Global High Yield Constrained Index.[2]

The main contributors to the Fund's relative performance for the quarter included independent power producer Talen Energy, as improved operating results, a new five-year collective bargaining agreement with a union, and a cash tender boosted the price of its bonds. TDC Group's new issue traded higher folllowing the Danish telecom's deleveraging disposal.

Oil and gas company California Resources' bonds and term loan[3] were bolstered by significantly better-than-expected earnings, lower leverage, and a debt buyback. The Fund's holding in European defaulted debt purchaser Garfunkel also performed well, benefiting from a relatively high coupon rate.

Conversely, the Fund's position in integrated mining and metals company Nyrstar weighed on performance due to a decline in the zinc price and investors' concerns that its balance sheet was over-leveraged. The bonds of oil exploration and production company Sanchez Energy's bonds underperformed due to poor drilling performance. Retail drugstore and pharmacy operator Rite-Aid's bonds declined after shareholders surprisingly voted against the acquisition of the company by Albertsons.

We continue to see value in the European market, both as a result of the relative spread pickup for like for like risk, but also due to the hedge gains currently enjoyed by swapping euros or sterling into dollars.

As of July 31, 2018, the Fund's currency distribution included 22% of net assets in the euro, 16% in sterling, and the balance of 62% in U.S. dollars. By the end of the three-month period, the euro and sterling exposure had increased to 29% and 20%, respectively, while U.S. dollar exposure had fallen to 51%. The energy sector now represents 18% of Fund assets, down slightly from 20% at the beginning of the period (and 24% six months earlier).

During the quarter, we initiated positions in automotive parts manufacturer Adient; French retailer Casino Guichard Perrachon; Thomas Cook Group Airlines; Canadian mining and metals company First Quantum, and Garfunkel. We took some profits on a large position in Bausch Healthcare (formerly Valeant), and also reduced holdings in TDC, California Resources subordinated bonds, offshore drilling contractor Shelf Drilling, and oil exploration and production company Bruin E&P Partners.

Market review

The late-summer months of August and September proved to be relatively stable for global credit markets. The sharp rally in the oil price, driven by the threat of sanctions on Iran's production, drove a positive tone for energy-exposed companies. However, in early October, the oil price began to inexorably reverse as investors' concerns mounted over slowing global economic growth. Equities sold off and cyclical sectors such as homebuilders, auto manufacturers and chemical companies saw large declines in their stock prices. Market sentiment for credit risk changed significantly and was not helped by the return of negative headlines from Italy, where the new populist government is confronting the European Union over the level of budget deficit it wishes to propose. While the three month period suggests modest underperformance for global credit markets, the October sell-off accelerated. In the three-month period, in a classic risk-off move, higher rated credit outperformed its lower-rated counterpart. There was a sharp and general repricing of lower-rated credit risk in October, as several bond prices moved lower. For any company whose results did not meet the market's expectations, the decline in bond prices tended to be severe.

[1] The ICE Bank of America Merrill Lynch (BofA ML) Global High Yield Constrained Index tracks the performance of U.S. dollar-, Canadian dollar-, euro- and sterling-denominated, below-investment-grade corporate debt publicly issued in the major domestic or eurobond markets.

[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] A term loan is a loan from a bank for a specific amount that has a specified repayment schedule and a fixed or floating interest rate.

Outlook

Global credit markets have enjoyed an extraordinary period of several years in which low government bond yields, low inflation and decent economic growth have underpinned demand for credit as well as positive returns. Looking at the landscape today, global economic growth is no longer synchronized, yields are rising, and spreads have also been widening in the majority of credit markets. Volatility has increased and idiosyncratic event risk has returned. Economic growth is slowing in western markets and a strong dollar creates a headwind for emerging markets. While the sharp correction in the oil price heightens risks for those weaker oil producers, for the majority of companies and consumers, the benefits of cheaper energy are greater. A lower oil price puts downward pressure on inflation, U.S. Treasury yields and ultimately, the dollar, thereby creating a form of shock absorber. While growth is slowing in the U.S., a recession is not expected for some time. In Europe, the European Central Bank (ECB) will finish its bond-buying program in December 2018, but interest-rate hikes remain some way off and monetary conditions are still accommodative. While spreads have widened, when comparing regions by credit rating, they have moved far more in Europe and emerging markets than in the U.S. high-yield market, which now looks relatively expensive. The move in credit spreads has been sharp and while some capital structures now look vulnerable, we feel that there are opportunities. As we look at the year ahead, credit is now significantly cheaper than 12 months ago, discounting an environment that is likely too bearish and, therefore, has the scope to generate stronger returns than in the past year, in our view.

Total Returns* (%)

NAV	Cumulative	Annualized
Since inception (June 1986)	57.9	6.1
Ten years	N/A	N/A
Five years	30.1	5.4
Three years	30.9	9.4
One year	2.3	

Market price	Cumulative	Annualized
Since inception	40.2	4.5
Ten years	N/A	N/A
Five years	31.1	5.6
Three years	38.6	11.5
One year	-0.8	

* 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 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. Aberdeen Asset Management Inc. (the “Adviser”) became the Fund’s adviser on December 1, 2017. For periods prior to that date, the returns reflect performance information from a prior, unaffiliated adviser.

Top Ten Equity Holdings**

Holding	%
Altice	4.0
CYBG PLC	3.5
California Resources Corporation	3.5
Sable Permian Resources LLC	2.6
Nemean Bondco PLC	2.4
Talen Energy Supply	2.3
Voyage Care BondCo PLC	2.3
Mizzen Bondco Ltd.	2.3
Unilabs Subholding	2.2
Hexion Inc.	2.2
Total	**27.3**

**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.

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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.

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