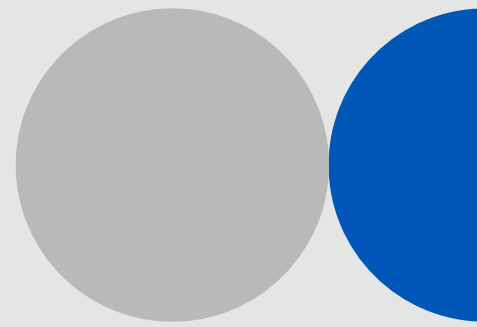


abrdrn Index MPS

Quarterly commentary

Q1 2024



Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

This report is only for use by a financial adviser or a client who has received advice on investing in this managed portfolio service. It is not for use by non-advised investors or any other third party. For full important information and key risks, please refer to the end of this document.

Objective

The abrdrn Index MPS aims to achieve a total return from both income and capital growth through a diversified portfolio of collective investment funds over the long term. It is intended for investors with a very low through to a medium high attitude to risk. The portfolio invests in a wide variety of assets, typically in equities, fixed interest, alternatives and money markets. This blend of assets should help to dampen down volatility over the long term.

Discrete annual returns - year to 31/03

	2020	2021	2022	2023	2024
abrdrn Index MPS 1	n/a	11.40%	0.90%	-5.25%	5.85%
ARC £ Cautious	-2.29%	11.34%	1.62%	-4.25%	4.66%
abrdrn Index MPS 2	n/a	16.62%	2.57%	-3.86%	8.87%
ARC £ Cautious	-2.29%	11.34%	1.62%	-4.25%	4.66%
abrdrn Index MPS 3	n/a	21.69%	5.78%	-2.80%	11.02%
ARC £ Balanced Asset	-5.44%	17.86%	3.46%	-4.52%	7.31%
abrdrn Index MPS 4	n/a	26.69%	7.71%	-2.07%	13.08%
ARC £ Steady Growth	-7.71%	23.53%	4.64%	-4.52%	9.29%
abrdrn Index MPS 5	n/a	31.92%	10.00%	-0.34%	15.71%
ARC £ Equity Risk	-9.65%	30.35%	4.84%	-4.61%	11.06%

Portfolio performance is based on abrdrn Index MPS hosted on the abrdrn Wrap platform. Performance figures are net of the abrdrn Portfolio Solutions Ltd management fee and underlying funds OCF. Source: abrdrn, Financial Express. As at 31.03.2024. ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Market commentary

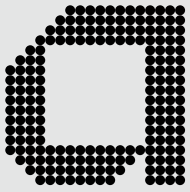
During a quarter in which the majority of domestic markets' focus was fixed on inflation and its various guises, it was refreshing that towards the end of the period we received an update on how the reading is actually calculated.

The ever-changing basket of goods that the Office for National Statistics uses not only helps track price changes but also offers an invaluable insight into current fashions and spending habits. March's rebalance saw the departure of a number of popular pandemic items such as hastily bought

hand sanitiser and takeaways coffees, replaced by trendier must-haves, such as air fryers and gluten-free bread.

However, there is also one item that has been added that will be music to many investors' ears. Vinyl is back after a 32-year absence – a reflection of the revival that physical music continues to enjoy. According to data from the British Phonographic Industry (BPI), vinyl purchases rose by 11.7% to 5.9 million units last year, the 16th increase in a row, driven higher by popular vinyl releases from artists such as Taylor Swift and the Rolling Stones.

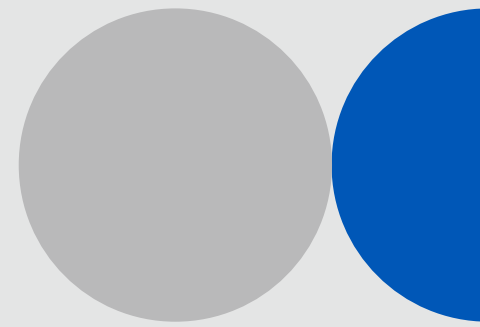




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With all this talk of vinyl during the quarter, it was only apt that investors saw a few records of their own, as stock markets around the world hit a multitude of new highs. They took a while to get into the groove however, with January seeing a buoyant start to the year albeit more muted gains than the strong rally seen in late 2023. Whilst economic data increasingly suggested the global economy may see a soft landing instead of the hard recession many had predicted last year, there were also signs that central banks would take more time to cut interest rates than previously envisaged.

Getting markets in something of a spin, commodity prices made their way higher during the first month of the year, with oil pushing above \$80 a barrel following tensions in the Red Sea as Houthis continually attacked cargo vessels in the area. The continued interference either brought about delays for goods coming from Asia to Europe through the corridor or forced them to be rerouted completely, potentially driving up transportation costs and ultimately inflation.

Despite this, all major western central banks seemed to have pressed pause on any more rate hikes, with the US Federal Reserve (Fed) in particular acknowledging recent strong wage data whilst being quick to highlight easing inflation. Governor Jay Powell and co all but quashed hopes of a March rate cut early in the year, causing yields on government debt to rise, although investment grade corporate bonds generally performed slightly better.

If January acted as a strong debut for markets in 2024, then there were no worries of a difficult second album for February, as a mix of strong economic data and corporate results allowed markets to continue their strong run.

The Bank of England (BoE) was the only major central bank to meet during the month, once again holding rates against a mixed backdrop of economic data. GDP figures for the final quarter of 2023 showed the UK fell into a technical recession, with the economy having contracted for two consecutive quarters. Despite the negative news, inflation readings for the previous month came in lower than expected, though rose slightly to 4% on an annual basis.

Topping the charts for the month was the US market, riding high after an upbeat earnings season for the technology sector. The meteoric rise of new artificial intelligence (AI) darling Nvidia continued after it announced results far beyond Wall Street's expectations for earnings and sales, and also forecast revenue during the current quarter to be higher than many had anticipated. In total, the company's total revenue rose 265% from a year ago, based on strong sales for its AI chips for processors and servers. With the company having passed the \$1 trillion market cap level last year, an immediate 10% rise on the back of its results helped push US indices to yet more all-time highs.

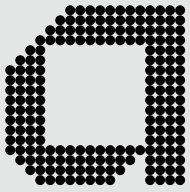
The B side to such strong US earnings was to be found in Europe during the month, where corporate results were largely disappointing, with around half of those companies announcing their numbers missing expectations. However, hope that the European Central Bank (ECB) would soon move to cut rates allowed most countries' indices to rise, including Italy, Germany, France and Switzerland.

With markets refusing to change their tune, March saw yet more record highs breached for a host of global equity markets. Central banks remained a focal point, with investors' optimism that a rate cut in June would be up the sleeves of most central banks.

Keeping hopes on track, the UK's rate of inflation fell to 3.4% for the final reading of the quarter, making progress in synch with other CPI readings around the world and closing in on the 3.2% the US saw during the same period. Whilst price rises materially slowed throughout the first quarter, hawkish remarks from central banks led government and corporate bond prices to largely rise during March, with riskier credit outperforming higher-rated issues.

One economy that was dancing to a different beat however was Japan. Japanese workers secured their largest pay rises in over three decades during organised Spring wage negotiations across a range of industries. The practice, known as 'shunto', began in 1956 when Japan's postwar economy was booming, with unions demanding improvement in wages





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and job conditions by resorting to strikes in big cities. The marked increases could spell the end of years of anaemic inflation for Japan, forcing the Bank of Japan to end eight years of negative interest rates by declaring its first hike in 17 years and raising borrowing costs by 0.1%. It must be noted that such a move still keeps rates around zero in Japan and its fragile economy will likely force the central bank to take its time with any subsequent increases.

Staying in the Pacific area, stronger-than-anticipated economic data from China helped lift its index out of doldrums it plumbed for much of the quarter. With the nation's voracious appetite for natural resources, commodity markets finished March strongly, in turn moving the needle for the mining-heavy UK blue chip index, which moved within just a few percent of its greatest hits.

Portfolio commentary

Global equity markets started 2024 well with robust performance in the first quarter, particularly from the US, Japan, and Europe ex UK. Indeed, all growth assets apart from Emerging Markets Local Currency Bonds (EMD) delivered positive returns over this period.

After a particularly good finish to 2023, Defensive assets were not as strong with broadly flat returns across all the asset classes thanks to sentiment being impacted by stickier inflation.

This was a good quarter for portfolios and the stronger equity markets were heavy contributors to returns. US, Japan, and Europe ex UK Equities were up 11.6%, 12% and 6.9% respectively and these were significant in the attribution to portfolios.

The stark difference in performance between Growth and Defensive assets was reflected in the five risk levels and as per the full 12 months of 2023; risk was rewarded commensurately with Risk 1 returning 1.41% and Risk 5 delivering 6.93% for the quarter.

We continue to have conviction in our pro rate-sensitive (higher duration) allocation which is most evident in lower-risk portfolios and believe that this will pay off in the medium term as interest rates are adjusted downwards by Central banks. The US economy continues to do well and the likelihood of a soft landing continues to increase although the risk of sticky inflation is still present. The Chinese economy remains weak and there is the risk of elections to factor in but overall, we believe that a well-diversified portfolio will continue to prove appropriate with the focus still on maintaining the appropriate level of risk at each level.

Outlook

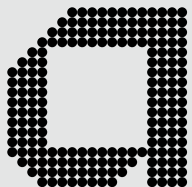
Despite hopes of a rate cut being persistently rebuffed by central banks, investors seemed largely unperturbed. They pushed their expectations back until June and their continued purchasing of risk assets allowing markets to hit a number of record highs during the period.

Throughout the quarter, the balance of probabilities shifted to the point where we now believe the US economy is likely to avoid a recession. Activity has been remarkably resilient in the face of higher interest rates, helped by strong consumer and corporate balance sheets, positive supply shocks and looser fiscal policy. Although these tailwinds are likely to fade in 2024, we still believe growth will moderate to below trend.

With inflation continuing to fall in a synchronised way across most developed economies, we expect the Fed, ECB and BoE to each make an initial move to cut rates in June, although those chances could easily dissipate if we see further stronger inflation and economic data releases as the year progresses.

However, no matter what the future holds, much like vinyl once again appearing in inflation calculations, investors would be hard pressed at this time into finding a better solution than a long-term, diversified and well-researched portfolio to navigate the challenges ahead.

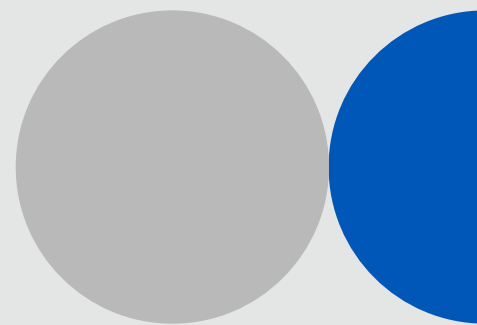




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Risks

All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

Credit risk: The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk: The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Equity risk: The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

Emerging Markets risk: The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Derivatives risk: The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

High Yield Credit risk: The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

For more information visit abrdrn.com

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