abrdn Healthcare Investors

Quarterly Commentary

Quarter ended September 30, 2024

Fund performance

The equity portion of the Fund gained (gross of fees)[1] but underperformed its benchmark[2] over the quarter.

At the stock level, Biogen's share price underperformed for a variety of reasons, though the main challenge facing Biogen is the lacklustre uptake of its Alzheimer's drug, Leqembi. Additionally, the ramp-up of Skyclarys, a drug used to treat Friedrich's ataxia, appears to have moderated over the last several months. Sarepta Therapeutics was also unfavourable. Despite receiving approval in late June to expand its Duchesne muscular dystrophy drug, Elevidys, to a broader population, the company's third-quarter share-price performance was weak, eventually returning to levels seen before the label expansion. Meanwhile, Moderna's share price fell due to lower-than-expected sales of its next-generation Covid-19 vaccines and slower progress in developing other key pipeline products. Despite growth in respiratory vaccines, the company has struggled to sustain revenue growth since the pandemic.

Conversely, Gilead Science's share price appreciated after the company announced that its twice-yearly injectable HIV-1 capsid inhibitor, Lenacapavir, demonstrated a 96% reduction in HIV infections in the PURPOSE 2 trial. Illumina's stock performed well due to better-than-expected earnings, with adjusted earnings per share significantly surpassing estimates. Additionally, the company saw strong growth in its sequencing service revenues and successfully integrated new technologies. Furthermore, the long-debated issues and concerns regarding Grail moving into the rearview mirror also contributed to the positive sentiment. Argenx was also positive as its shares rose on multiple positive clinical readouts, including those for idiopathic thrombocytopenia, as well as additional data in myasthenia gravis. These successful trial results have been pivotal in advancing antibody fragment Efgartigimod's development and boosting investor confidence in Argenx.

Activity

We initiated several new positions due to increased conviction. These included Elevance, which operates as a healthcare insurance provider, and Summit Pharmaceuticals, which is developing a bispecific antibody in oncology that targets both the PD1 and VEGF checkpoint targets. We also initiated a holding in Edgewise Therapeutics, a smaller-capitalisation, pre-commercial-stage biotechnology company seeking to develop therapies in rare diseases such as obstructive hypertrophic cardiomyopathy.

Conversely, the Fund disposed of Zimmer Biomet, Jazz Pharmaceuticals and Charles River Laboratories due to falling conviction in their near-to-medium-term performance. We also sold one of our venture-capital investments, after the acquisition of Invetx by Dechra Pharmaceuticals for up to $520 million in total consideration on a cash-free and debt-free basis.

[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 80% NASDAQ Biotechnology Index and 20% S&P Composite 1500 Health Care Index.
The NASDAQ Biotechnology Index is a modified capitalization-weighted index that includes securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as biotechnology or pharmaceuticals.
The S&P Composite 1500 Health Care Index includes securities of those companies listed on the S&P Composite 1500 Index classified according to the Industry Classification Benchmark as healthcare. The S&P Composite 1500 Index is a broad market portfolio representing the large- mid- and small-cap segments of the U.S. equity market.
Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

For current holdings information, please visit **abrdn Healthcare Investors - Portfolio Holdings**

Performance

The latest available performance figures have been calculated net-of-fees in U.S. dollars for the period:

Cumulative and annualized total return as of September 30, 2024 (%)

	NAV	Market price
Quarter to date	6.21	9.98
Year to date	12.60	23.42
1 year	21.22	34.58
3 years (p.a.)	2.52	-0.56
5 years (p.a.)	9.97	10.31
10 years (p.a.)	5.77	5.22
Since inception (p.a.)	9.85	9.36

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For periods prior to that date, the returns reflect performance information from a prior, unaffiliated adviser. The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

Market review

US equities ended higher over the quarter.

The US economy has remained resilient and robust but the labour market has recently shown signs of slowing. Moreover, the US Federal Reserve (Fed)'s targeted inflation measure – the annual core Personal Consumption Expenditures (PCE) Price Index – has trended downwards over the first eight months of 2024. Therefore, at its September 2024 meeting, the Fed lowered the target range for its fed funds rate by 50 basis points (bps) to 4.75-5.00%, the central bank's first cut since the onset of the pandemic in March 2020. Fed Chair Jerome Powell reiterated the central bank's commitment to sustainably lowering inflation below the 2% target. Therefore, the Fed is aiming to proceed cautiously for now, taking a data-dependent approach as it seeks greater clarity on underlying economic trends. However, against a backdrop of easing inflation and, in particular, recent signs of softening in employment data, investors have now factored in the certainty of further rate cuts at the Fed's November and December meetings. Indeed, the Fed signalled a further 50 bps of cumulative cuts over the remainder of 2024 – having previously flagged just one 25 bp cut for the entire year – with more easing expected in 2025 (100 bps) and 2026 (50 bps).

The performance of the US healthcare sector broadly matched that of the S&P 500 Index over the quarter. Relatively defensive sectors such as utilities and real estate outperformed the index as investors factored in further interest-rate cuts before the end of the year given continued disinflation and slowing growth. In contrast, energy was the main laggard due to lower oil prices because of ongoing demand worries. Communication services and information technology also underperformed the index over the quarter due to concerns about high valuations and the need for heavy investment in artificial intelligence.

Outlook & strategy

Macroeconomic factors remain as unpredictable as ever, with intense scrutiny of data and predictions about when a pivot in interest-rate direction will occur. Geopolitical pressures remain elevated throughout the world. Recessionary concerns are all too present, as global growth stagnates while inflationary pressures remain. Our main focus for the portfolio is at the stock level, ensuring the portfolio is well diversified on both a regional and sector basis, and robust enough to preserve capital in periods of market weakness. We aim to have exposure to higher-quality businesses with the financial strength to withstand volatility and with exposure to strong structural drivers for long-term growth.

In general, the near- and long-term outlooks for healthcare companies remain favourable. Long-term demographic trends of an aging population should continue to support the growing demand for new healthcare products and therapies. Due to the healthcare sector's generally defensive characteristics, its relative underperformance in the short term should position it favourably, especially if the US and global economies slowdown.

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 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.

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.

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).

Investments in HQH, HQL, THQ, and THW may be subject to additional risks including limited operating history, security selection, concentration in the healthcare industries, pharmaceuticals sector, biotechnology industry, managed care sector, life science and tool industry, healthcare technology sector, healthcare services sector, healthcare supplies sector, healthcare facilities sector, healthcare equipment sector, healthcare distributors sector, healthcare REIT, interest rate, credit/default, non-investment grade securities,, key personnel, discount to NAV, anti-takeover provisions, related party transactions, nondiversification,government intervention, market disruption, geopolitical, and potential conflicts of interest.

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