# abrdn Asia-Pacific Income Fund, Inc.

## Fund Update

June 2022

FAX aims to provide monthly income by investing primarily in locally researched Asian and Australian debt securities.

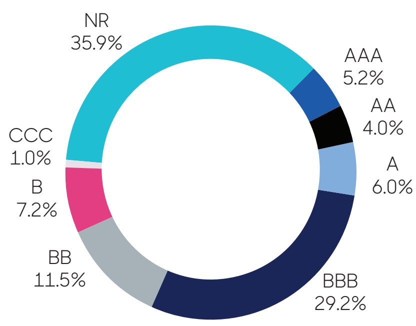
Based on the Fund's market price and NAV as of June 30, 2022 the annualized distribution rate on market price is 11.3%, while the annualized distribution rate is 9.8% based on the Fund's NAV.

The Fund uses leverage strategically to support its income generation objective. The amount of leverage deployed as of June 30, 2022 is 32.9%. The Fund benefits from a positive interest rate differential. In other words, the yield on the invested portfolio (5.5%) is higher than the yield on the borrowings (3.7%).

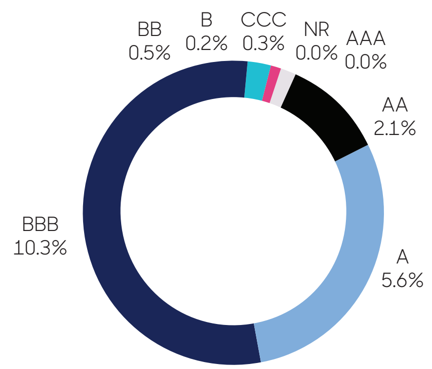
The Investment Manager undertakes a fundamental credit assessment for all corporate securities held in the portfolio. This analysis incorporates both a quantitative and qualitative assessment of the company's financial position, industry positioning, management strategy and outlook among other factors to determine the fundamental credit assessment.

44% of the securities held in the portfolio are rated investment grade (BBB- or better) by one of the three ratings agencies (Moody's, S&P, Fitch). Many sovereign bonds, especially those issued in local currencies do not have an issue ratings, however the ratings agencies do provide issuer ratings. Of the 35.9% of issues that do not have a rating, 18.8% are sovereign issues, which do have a sovereign issuer credit rating.

**Using the issue ratings, the ratings distribution* is:**




**The country credit ratings distribution of the unrated sovereign issues** is:**



## Commentary

It has been a difficult first half of 2022, not just for FAX; but for most asset classes. Within fixed income, the challenges have been across developed and emerging markets; sovereign and credit markets. The Asia Pacific region has not been insulated from these.

There have been a number of factors that combined have contributed to this, but the pre-eminent among those is the sharply rising inflationary pressures. Inflation was initially characterized by policy makers as transitory, but is now becoming more acute and sustained. This has forced policy makers to accelerate their tightening response. Furthermore, supply side factors, exacerbated by the war in Ukraine and the lock downs in China (as they pursue a zero Covid strategy) have contributed to sharply higher energy and food prices. As we have seen in recent days, the market has been surprised by much higher inflation rates, and has begun to reprice aggressively the likely policy response by many central banks around the world, led by the US, but also including many in the Asia Pacific region as well.

The repricing of policy rate expectations has seen government bond yields rise aggressively. With UST yields up c.150-250 bps, the total return for the UST asset class is -9.1% YTD (Bloomberg US Treasury Index to 6/14).

Market participants have switched to now contemplating a scenario where central banks are tightening to push the economies into recessionary territory to break the back of the inflationary challenge. This has not been conducive to the credit sector as deteriorating fundamentals are anticipated. YTD US IG performance is -13.9% (Bloomberg US Corporate Bond Index), while US HY is -13.1% (Bloomberg US Corporate High Yield).

This global backdrop sets a fairly tumultuous environment for FAX. Across the Asia Pacific region, for many of the same reasons noted above, bond yields in Asian local currency bond markets have risen; and in many instances, the short-end of the curves are pricing far more aggressive tightening cycles than where many central banks will likely get to. The one key outperformer has been the onshore China sovereign bond market, denominated in renminbi (where we have exposure, +1.7% in renminbi terms, vs -3.9% in US dollar terms, Markit iBoxx China Onshore Bond Index), where the continued lock-downs and sluggish economic outcomes allow policy makers to pursue a different policy to many other central banks. Asian sovereign bond markets have outperformed the UST. As a result, on a hedged basis the return is -3.6% YTD, but with a stronger USD, the USD return is -9.1% YTD. (Markit iBoxx Asian Local Bond Index, hedged and unhedged, respectively).

The US dollar denominated credit markets in Asia, again have been driven down by the general global trend, but movements have been exacerbated by continued liquidity challenges and distress in the Chinese real estate sector. *** YTD Asian credit performance is -11.8% (JP Morgan Asia Credit Index).

Outside of Asia, emerging market debts market have also been dealing with these policy challenges, but also have been negatively impacted by the direct impacts on the sector from the war in the Ukraine, subsequent sanctions and also a series of economies struggling with excessive external debt. Hard currency EM sovereign debt is -22.4% YTD (JP Morgan EMBI Global Diversified Index), Hard currency EM corporate debt -11.0% (JP Morgan Corporate EMBI Composite Index ) and EM local currency -17.9% YTD (JP Morgan GBI-EM Global Diversified Index).

With all of these headwinds, and the increased likelihood of tighter monetary policy, the US dollar has been well supported.

To the end of June the investment portfolio of FAX has returned c. -12%, and as the fund deploys leverage strategically the impact of leverage has amplified the negative returns. Nevertheless, the market to market impact of the swap positions used to lock in the cost of leverage (though subsequently unwound recently)**** have added value in line with the rising interest rate environment.

For the investment portfolio, FAX's shorter than benchmark duration exposure and overweight to the better performing Chinese local currency bond market has contributed positively to performance relative to the broader market which makes up FAX's investment universe, however an overweight exposure to Asian US dollar denominated credit including Chinese hard currency credit has offset these relative gains. The Fund does have limited exposure to the EMD asset class but this exposure has performed better than the broader EM market.

While great uncertainty remains, bond markets, especially the government bond markets have very aggressively priced for likely tightening cycles, and are looking relatively attractive. The next phase is likely to see the interest rate cycle peaking out. Notwithstanding the challenges faced in the past 6 months, Asia's relatively robust economic foundations stand it in good stead to ride out this adjustment phase and any recessionary pressures that may follow, reinforced by strong intra-regional trade linkages, and policy discipline.

* Generally the credit ratings range from AAA (highest) to D (lowest). Where bonds held in the Fund are rated by multiple rating agencies (Moody's, Fitch and S&P), the lower of the ratings is used. Quality distribution represents ratings of the underlying securities held within the Fund, and not ratings of the Fund itself.

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*** The Chinese real estate sector market as part of the USD denominated Asian credit markets, has experienced the combined negative impact of the rising treasury yields plus the widening of credit spreads. Unlike the onshore market, it doesn't benefit from the divergent path of government bond yields.

**** Due to the rapid increase in swap yields, the manager was able to crystallise the benefit of rates rising in excess of 3%.

## Important information

### Cummulative and annualised total return as of June 30, 2022 (%)

| | NAV | Market Price |
|---|---|---|
| Since inception (p.a.) | 6.8 | 6.4 |
| 10 Years (p.a.) | -- | -1.6 |
| 5 Years (p.a.) | -1.2 | -2.1 |
| 3 Years (p.a.) | -4.2 | -3.6 |
| 1 Year | -20.9 | -27.9 |
| Year to Date | -17.8 | -19.6 |
| 3 Months | -10.5 | 1.2 |
| 1 Month | -5.2 | -3.3 |

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 Holdings (%)

| Issuer Name | Maturity Date | Coupon | % of Market Value |
|---|---|---|---|
| People's Republic Of China | 11/19/2030 | 3.27 | 2.90% |
| Commonwealth Of Australia | 6/21/2039 | 3.25 | 2.60% |
| United Mexican States | 5/31/2029 | 8.5 | 1.70% |
| Republic Of Indonesia | 5/15/2031 | 8.75 | 1.70% |
| Federation Of Malaysia | 6/14/2024 | 3.48 | 1.60% |
| People's Republic Of China | 5/21/2030 | 2.68 | 1.50% |
| Hutchison Whampoa Ltd | 8/1/2027 | 7.5 | 1.40% |
| Federative Republic Of Brazil | 1/1/2029 | 10 | 1.40% |
| Republic Of Indonesia | 5/15/2028 | 6.13 | 1.40% |
| Republic Of India | 1/14/2029 | 7.26 | 1.30% |
| **Total** | | | **17.50%** |

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 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 to be paid 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 distributions to be paid 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** | | Net Realized Long-Term Gains | | Return of Capital | |
| FAX | $0.0275 | $0.0158 | 57% | - | - | - | - | $0.0117 | 43% |

| Estimated Amounts of Fiscal Year to Date Cumulative Distributions per Share | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Fund | Fiscal Year* to Date Distribution Amount | Net Investment Income | | Net Realized Short-Term Gains** | | Net Realized Long-Term Gains | | Return of Capital | |
| FAX | $0.2475 | $0.1412 | 57% | - | - | - | - | $0.1063 | 43% |

* FAX has a 10/31 fiscal year end.

**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 of 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** | **Average Annual Total Return on NAV for the 5 Year Period Ending 06/30/2022[1]** | **Current Fiscal Period's Annualized Distribution Rate on NAV[2]** | **Cumulative Total Return on NAV[1]** | **Cumulative Distribution Rate on NAV[2]** |
| FAX | -1.15% | 9.79% | -17.95% | 6.53% |

1. 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.

2. Based on the Fund's NAV as of June 30, 2022.

**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").**

## 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 closedend 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 Australia 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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