abrdn Income Credit Strategies Fund

Quarterly Commentary

Three-month period ended January 31, 2023

Fund performance

The abrdn Income Credit Strategies Fund returned 12.34%[1] (on a net asset value basis) for the fourth quarter of 2022, outperforming the 7.24% return of its benchmark, the I.C.E. Bank of America (BofA) Global High Yield Constrained Index (hedged to U.S. dollars).[2]

Sector wise, consumer cyclicals performed well, particularly our holdings in gaming company Gamenet and retailer Mobilux. Consumer non-cyclicals also contributed to performance, with Loxam (construction) and Biogroup (healthcare) notably outperforming the benchmark. Elsewhere, technology, media & telecommunications were positive, with our exposures to United Group Holdco bonds and Altice performing well. On the downside, our exposure to oil and utilities detracted from performance. However, the energy sector was an area of strong relative performance earlier in the year, benefitting from the strong rally in oil and gas prices.

In terms of ratings[3], Bs and CCCs contributed the most to performance. We used the strength in the lowest rated parts of the market to further increase the credit quality of the fund as the period progressed.

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

Alice France Holding SA 6% 2028	2.7
Galaxy Finco 9.25% 2027	2.7
Summer BidCo 9% 2025	2.3
Summer BC US Holdco A 9.25% 2027	2.3
Albion Financing 2Sarl 8.75% 2027	2.2
Stichting AK Rabobank 6.5% Perp	2.1
Virgin Media Vendor Fin 4.875% 2028	2.0
Societe Generale 9% 2023	1.9
Garfunkelux Holdco 3 Sa 7.75% 2025	1.8
Banff Merger Sub 8.375% 2026	1.8
Percent of Portfolio in Top Ten	21.9

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.

Figures may not always sum to 100 due to rounding.

1 **The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800-387-6977 or visiting abrdn.us.**

2 The ICE BofA Global High Yield Constrained Index tracks the performance of U.S. dollar-, Canadian dollar-, British pound- and euro-denominated below-investment-grade corporate debt publicly issued in the major domestic or eurobond markets. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Index performance is not an indication of the performance of the Fund itself. For complete fund performance, please visit abrdn.us

3 S&P Global Ratings, Fitch Ratings and Moody's Investors Service are independent, unaffiliated research companies that rate fixed income securities on the basis of risk and the borrower's ability to make interest payments. S&P and Fitch assign ratings ranging from AAA (reliable and stable) to D (high risk) to communicate the agency's opinion of relative level of credit risk. Moody's credit ratings range from Aaa to C, with Aaa being the highest quality and C the lowest quality.

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

	NAV	Market Price
Since inception (p.a.)	2.95	3.14
10 Years (p.a.)	1.98	2.65
5 Years (p.a.)	-2.45	0.37
3 Years (p.a.)	-3.86	0.09
1 Year	-14.98	-10.51
Year to date	7.01	15.74
3 months	12.36	26.71
1 month	7.01	15.74

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. NAV return data includes investment management fees, custodial charges 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 Standard Investments 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.

Market overview

The fourth quarter in 2022 saw a reversal of fortune for high yield (HY) investors. After two positive total return months, December recorded a modestly negative total return. Investor-concerns about a persistently hawkish U.S. Federal Reserve (Fed) were muted by the consumer price index print in mid-November, which came in below expectations. Signs that peak inflation is behind us turned investor sentiment positive and jumpstarted an impressive rally in Treasuries that spurred an equity market rally and tighter corporate credit spreads. Emerging markets outpaced their developed market counterparts. This was largely driven by significant outperformance in the Asian HY market as bonds of both Chinese property and Macau gaming companies performed exceptionally well. The impressive rally into the year-end halted the streak of negative total returning quarters at four. Returns were aided by a coinciding rally in government bond markets that propelled yields lower.

In terms of ratings, even though higher government rates usually weigh more heavily on the higher rated portion of the market, BBs were the best-performing rates class, with CCCs the worst, in December. This is a slight departure from what we saw earlier in the year when BBs underperformed amid rising rates and is an indication of increased concerns around how credit will behave in a weaker growth environment. As evidence of this point, CCCs in the U.S. were down nearly 16% in 2022, but this drop was exceeded by that of U.S. BBBs. For context, the overall global HY market was down nearly 11% for the year.

Supply continued to be minimal despite an effort by investment banks to unload deals on their balance sheet to the market. For the full year, U.S. dollar HY supply was down 78% on a year earlier, reaching $102 billion of issuance compared to $465 billion in 2021.

Moving on to 2023, the global HY asset class kicked off the year with an impressive start, posting the best total returns for the asset class in the month of January since 2019. A mix of favorable technicals, in the form of inflows and light supply, encouraging economic data that showed inflation rolling over and wage pressures abating, and corporate earnings largely in line with expectations, all served as a positive backdrop for HY. In the U.S., the 5-year Treasury yield declined by 40 basis points during the month, from 4% to 3.6% on the back of expectations around a less hawkish Fed going forward. Emerging Markets again outperformed developed markets as the risk-on theme was pervasive. Consistent with that narrative, the lowest quality portion of the market was a clear outperformer during the month as investors scrambled to add credit risk to portfolios, leading CCC rated securities to outperform the overall market by a substantial margin.

Primary activity picked up in the back half of the month after a quiet start to the year, but was still light in comparison to previous years during what is typically a busy month of January. According to Credit Suisse, this was the slowest January for the primary market since 2019. In the U.S., new deals totaled $19.4 billion. The majority of the supply came from BB rated issuers, with very little CCC rated new issues coming to the market.

Outlook

We expect 2023 to be a far better environment for HY investors than 2022, even in the face of a looming recession across developed markets. Last year, total returns were negatively affected by the combination of higher government bond yields and wider corporate credit spreads. While we expect credit spreads to trend wider over the coming months as the market grapples with slowing growth and weaker corporate earnings, the offset of lower government bond yields in combination with an elevated running yield will support total returns for HY investors. We expect corporate defaults will continue to tick up from historically low levels, but remain contained (approximately 4-5% versus historical default peaks of low/mid double digits) in 2023 given the balance sheet improvement over recent years. Not only did companies lock in historically low coupons while terming out their debt during the 2020/2021 refinancing boom, but the market itself purged many of the weakest credits in the default cycles of 2016 (energy) and 2020 (leisure), leaving today's market with few offenders. Typically, in a default cycle, there is a sector that stands out as vulnerable versus the rest, but we fail to identify a sector on precarious footing at the moment due to relatively rational behavior by both corporates and investors over recent years.

In an environment of slowing economic growth, wider credit spreads and manageable defaults, we see mid-single digit total return potential for the asset class in 2023. While it won't be a straight line, we believe those that remain disciplined and are able to stomach a bit of volatility will be rewarded. At a yield of over 8% at a market level, investors are being compensated for the risks on the horizon, particularly if they invest with a manager focused on quality at the moment with the ability, and willingness, to add risk throughout the year at more attractive valuations.

Important Information

Past performance is not an indication 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 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 Company will achieve its investment objective. Past performance does not guarantee future results.

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).

Derivatives are speculative and may hurt the portfolio's performance. They present the risk of disproportionately increased losses and/or reduced gains when the financial asset or measure to which the derivative is linked changes in unexpected ways.

Non-investment-grade debt securities (high-yield/ junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities, and are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries.

Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus, or download at abrdn.us. Please read the summary prospectus and/or prospectus carefully before investing any money.

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