

# abrdn Position Statement – Business ethics and governance

September 2021

**We believe that strong governance principles and risk-management practices translate into sustainable long-term investment performance. As such, we invest in companies that have high corporate governance standards and strong risk frameworks that support ethical business practices. They also adhere to regulations across jurisdictions.**

## The issue

Accountability and trust in corporations can't be taken for granted. While ethics is a broad and subjective topic, we assess a number of areas when integrating environmental, social and governance (ESG) factors into our investment approach. These include:

- Behaviour and culture
- Bribery and corruption
- Sustainability
- Diversity and inclusion
- Exploitation
- Donations and political contributions

Business ethics and governance issues are easy to identify, and are frequently reported on in the media. As a large leading asset manager, we believe that we have a responsibility not just to our clients, but to society as a whole. We believe that effective governance and business ethics are positive for our clients' long-term prospects. We are working towards changing wider market standards, policies and regulations to make the financial system more sustainable. Strong corporate governance fosters a culture of integrity, leading to positive performance. It signals that management and stakeholders' interests are aligned. And this means that it can give businesses a competitive advantage. From a financial perspective, business ethics are equally important in catalysing an investment's success.

- An organisation's leadership is key to its long-term success and is accountable for ensuring ethical behaviour.
- Having a robust code of ethics and ensuring professional conduct mean companies operate more effectively, particularly when it comes to ethical principles governing decision-making.

- Regulators and businesses need to collaborate to be transparent to outsiders.

Unethical behaviour by individuals can have serious personal consequences. Such conduct by market participants and investment professionals can damage investor trust, thereby impairing the sustainability of global capital markets as a whole.<sup>1</sup>

## Our expectations for investments

We draw on a number of international, legal and voluntary agreements for guidance on business ethics and governance. Our primary source is the OECD's Guidelines for Multinational Enterprises,<sup>2</sup> which reflect governments' expectations as to how responsible businesses should act.

Ethical principles, like laws and regulations, control the tendency to pursue self-interest that could harm the interests of others. While laws and regulations often aim to guide people towards ethical behaviour, they don't cover all such instances of unethical actions. Ethical behaviour is frequently distinguished from legal conduct by describing legal behaviour as what is required, and ethical behaviour as conduct that is morally right. Ethical principles go beyond what is legally sufficient, and encompass what is the right course of action.

We expect all businesses in which we invest to have policies in place to support the following:<sup>3</sup>

### 1. Corporate governance

A supportive environment starts at the top, with ethics at the heart of an organisation's governance.

### 2. Prevention of bribery and corruption

Organisations should be committed to doing business in an ethical manner by having a zero-tolerance policy on bribery and corruption.

<sup>1</sup> CFA Institute: <https://www.cfainstitute.org/en/ethics-standards/codes/standards-of-practice-guidance/ethics-and-investment-industry>

<sup>2</sup> <http://www.oecd.org/about/>

<sup>3</sup> Institute of Business Ethics: What is doing ethical business?



# Position Statement – Tobacco – Cont.

## 3. Pay

How people are rewarded influences their behaviour.

## 4. Respect for human rights

Every human has the right to be treated with dignity whatever their race, creed or gender.

## 5. Tax transparency

Tax avoidance is an ethical issue. While the practice remains legal, it is up to each business where it draws its ethical line.

## 6. Treatment of employees

Ethics training brings ethical values to life and guides staff on how to tackle ethical dilemmas.

## Our approach to investment

Stewardship is a natural part of our investment approach. We integrate it – along with environmental, social and governance (ESG) factors – into our investment process across all asset classes. We achieve this primarily by identifying and understanding the specific risks associated with an individual investment. These guidelines provide a flexible but robust framework to guide our investment teams in fulfilling our stewardship responsibilities. The guidelines include our views on matters such as values, business practices and accountability.

## Engagement

For our actively managed investments, we engage with our portfolio companies to do the following:

- a. Gain a better understanding of how they manage business ethics and governance
- b. Ensure compliance with regulations
- c. Encourage improvement in business-ethics practices and governance

## Voting

We vote in line with our principles and, where appropriate, will support shareholder resolutions that require investee companies to improve business ethics and governance standards, and implement better policies and practices. We believe that strong business ethics and governance generate positive outcomes for our investments and their stakeholders.

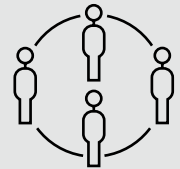
### Sustainable investing at abrdn

As a leading global asset manager, we believe that investing sustainably can help generate long-term value for our clients. How and where the world chooses to invest has critical implications for the wellbeing of society and our planet. Equally, investments that could have negative social and environmental impacts can pose risks for the investment performance we can deliver for our clients.

Environmental, social and governance (ESG) considerations are an integral part of our decision-making when investing your capital. By understanding how ESG factors affect our investments, we believe that we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG investment team works closely with colleagues across all asset classes. Dedicated ESG asset-class analysts provide an additional layer of expertise.

Please visit our website for more detail.



**“Stewardship is a natural part of our investment approach.”**

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