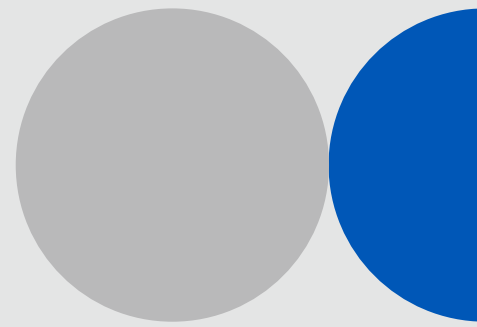


abr dn Position Statement – Fossil Fuels

September 2021



Fossil Fuels – Our Approach for Investments

Financial risks related to fossil fuels are becoming more material as pressure to decarbonise the global economy is growing. At abr dn, we fully acknowledge the role of fossil fuels in causing and exacerbating climate change. We support the goals of the Paris Agreement, are members of the Net Zero Asset Manager initiative and believe that urgent action is required to limit global warming to 1.5°C. This means aiming for a global net-zero-emissions economy by 050, in which fossil fuels will only play a minor role.

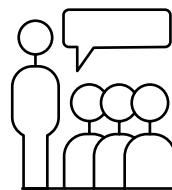
On the path to that world, we need to transition to a low-carbon economy, in which fossil fuels are phased out and replaced with cost-effective and reliable alternatives. This needs to be a 'just' transition in which effects on communities, workers and energy security are carefully considered. We are aware that in some regions and certain industries, such as steel and cement, alternatives to fossil fuels are still costly and sometimes not yet available. Strong policy signals are needed to make the transition happen.

At abr dn, consideration of climate-change risks and opportunities is an integral part of our investment process across all asset classes and sectors. We carefully consider fossil-fuel-related risks and the ability to transition to alternatives in our investment decisions. We undertake in-depth analysis on the financial implications of different climate scenarios and the risk of demand destruction, particularly for fossil-fuel-related assets. More on this is provided in our white paper on climate-scenario analysis. Not all fossil fuels are equal, as we detail below.

- **Coal** is the most carbon-intensive fossil fuel, and using it has significant negative implications for air pollution and biodiversity. Unabated thermal coal used for electricity production should be eliminated as soon as it is practical. In line with the Intergovernmental Panel on Climate Change 1.5°C special report, global power generation should be free from thermal coal by 2050, and by 2030 for Organisation for Economic

Co-operation and Development (OECD) countries, preferably even earlier. We are members of the Powering Past Coal Alliance (PPCA) and strongly encourage the phasing out of coal within these timelines. But we also need to understand the impact it will have on communities and employment in regions that are heavily reliant on coal. Metallurgical (bituminous) coal, which is used mainly for steel production, is more difficult to replace and will therefore require a more considerate phase-out.

- **Oil** is still used significantly in transportation and industry, but alternatives are emerging and growing. It is likely that oil demand will peak in the next decade if policies are implemented to achieve the goals of the Paris Agreement. This creates a stranded-asset risk, meaning that infrastructure assets and reserves lose their value. We want to see oil & gas companies reduce their investments in fossil-fuel exploration and shift it towards low-carbon energy sources.

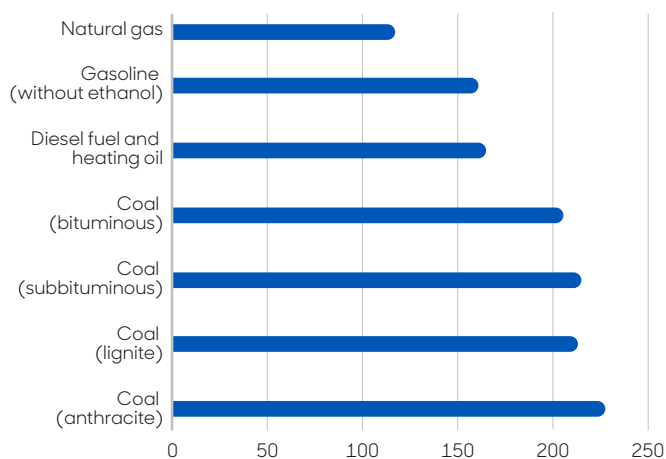


"At abr dn, consideration of climate-change risks and opportunities is an integral part of our investment process across all asset classes and sectors. We carefully consider fossil-fuel-related risks and the ability to transition to alternatives in our investment decisions."



- **Natural gas** has the lowest carbon intensity of all the fossil fuels. It is an important transition fuel in many regions, and we support the transition from more carbon-intensive fuels to gas where alternatives are limited. However, we also consider the risk of gas utilities and infrastructure becoming stranded in the medium to long term. Transitioning directly to low-carbon energy sources such as renewables is our preference – one we strongly encourage.

Pounds of CO2 emitted per million British thermal units (Btu) of energy

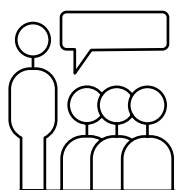


Source: EIA, 9/1/2020.

It is also important to differentiate between conventional and unconventional production methods for oil and gas as they have different risks and impacts. For example, oil sands and unconventional gas have higher risks, so involvement should be minimised.

As a large asset manager, we have an important role to play in influencing the transition to a low-carbon world and in reducing the reliance on fossil fuels. In our view, the solution is not simply to divest from all fossil fuels today.

That said, where clients wish to minimise exposure to carbon-intensive industries in their portfolios, we have specific products available that enable them to do so.



“In our actively managed investments, corporate engagement is essential to enable and support a ‘just’ energy transition.”

How do we help reduce reliance on fossil fuels?

1. Engagement on aligning with the goals of the Paris Agreement

In our actively managed investments, corporate engagement is essential to enable and support a ‘just’ energy transition. We believe that engagement on climate and Environmental, social and governance (ESG) issues with fossil fuel-related companies allows us to better understand their exposure and management of climate change risks and opportunities. It also provides us with the ability to influence and outline our expectations in relation to alignment with the goals of the Paris Agreement and the PPCA. We want to steer companies towards setting ambitious targets and increasing capital allocation towards low-carbon solutions. For example, we have engaged with European oil majors on aligning their strategies and investment plans with the Paris Agreement and setting targets that include Scope 3 emissions.

We also engage collaboratively with other asset managers and asset owners as part of Climate Action 100+, a five-year initiative to engage and influence high-emitting companies collaboratively.

We believe that engagement is more powerful for an effective energy transition than an absolutist approach to fossil-fuel divestment. Divestment would simply transfer our ownership to another investor who may not take their stewardship responsibilities in relation to influencing fossil-fuel companies as seriously as we do. We set clear milestones for our engagements and expect to see evidence of action. If we find that there is limited progress in response to our engagement, our investment teams will carefully consider the consequences. This may mean reducing our positions or completely selling our holdings in fossil-fuel-related companies.

2. Investing in low-carbon transition leaders

Many of today’s energy companies need to become the leaders of a successful energy transition and align themselves with the Paris Agreement to limit warming to 1.5°C. We want to support companies in their transformation where they have or are developing credible strategies to become transition leaders. In our view, companies that successfully manage climate-change risks and reduce their emissions will perform better in the long term.

To identify the highest-emitting companies in our portfolios, we have developed the capability to analyse the carbon footprint of portfolios and incorporate this into our investment process. This includes Scope 3 emissions, which are important as they represent 85% of the oil & gas industry’s greenhouse-gas emissions. We also use the analysis undertaken by the Transition Pathway Initiative to assess the quality of management and targets in relation to Paris Agreement goals.

3. Voting and shareholder resolutions

As active managers, we have another important means of influencing when our engagement hasn't succeeded: escalation via voting and support of shareholder resolutions. That's how we can publicly reflect our view on the need for a Paris-aligned low-carbon transition. At abrdn, we have a well-resourced stewardship team with dedicated proxy-voting capability that can provide escalation on climate-related matters. We have developed an approach to provide informed voting on the increasing number of climate-related shareholder resolutions. In 2020, we voted in favour of 62% of these shareholder resolutions, demonstrating that we are actively analysing and considering these resolutions and not just applying a blanket tick-box approach.

4. Investing in low-carbon infrastructure and real estate

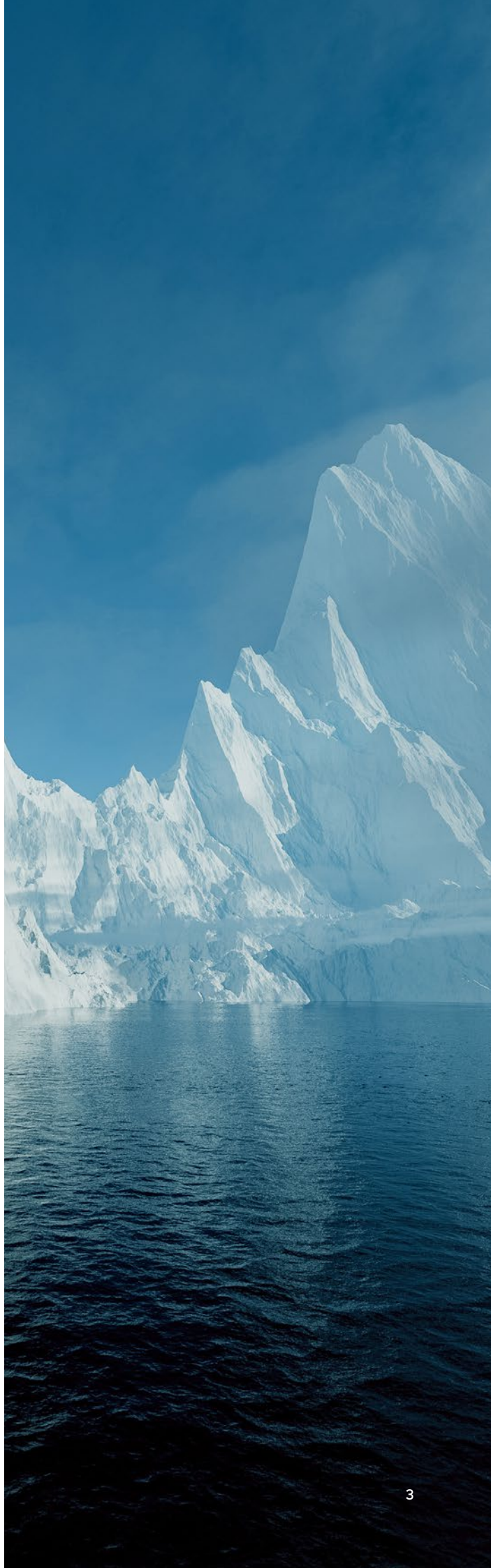
While it is critical to influence the capital allocation of fossil-fuel companies, we also invest capital directly in low-carbon assets to help reduce reliance on fossil fuels. We have increased our investment in green infrastructure, such as renewables, and have committed to net-zero-carbon-emission buildings by 2050 in all our real estate investments.



For more detail, please see our publications:

Climate Change – Our Approach for Investments and Climate Scenarios

A rigorous framework for managing climate financial risks and opportunities.



For professional investors (in Switzerland for Qualified Investors) only. Not for use by retail investors.

This content is available in the following countries/regions and issued by the respective abrdn group members detailed below. abrdn group comprises abrdn plc and its subsidiaries:

(entities current as at 27 September 2021)

Europe, Middle East and Africa

United Kingdom (UK): Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, and Sweden:** Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL, and Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated by the Financial Conduct Authority in the UK. **Switzerland:** Aberdeen Standard Investments (Switzerland) AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM"):** Aberdeen Asset Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 764605, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. For Professional Clients and Market Counterparties only.

Asia-Pacific

Australia and New Zealand: abrdn Australia Limited ABN 59 002 123 364, AFSL No. 240263. In New Zealand to wholesale investors only as defined in the Financial Markets Conduct Act 2013 (New Zealand). **Hong Kong:** abrdn Hong Kong Limited. This document has not been reviewed by the Securities and Futures Commission. **Japan:** abrdn Japan Limited Financial Instruments Firm: Kanto Local Finance Bureau (Kinsho) No.320 Membership: Japan Investment Advisers Association, The Investment Trusts Association, Type II Financial Instruments Firms Association, Japan Securities Dealers Association. **Malaysia:** abrdn Malaysia Sdn Bhd (formerly known as Aberdeen Standard Investments (Malaysia) Sdn Bhd), Company Number: 200501013266 (690313-D). This document has not been reviewed by the Securities Commission of Malaysia. **Taiwan:** Aberdeen Standard Investments Taiwan Limited, which is operated independently, 8F, No.101, Songren Rd., Taipei City, Taiwan Tel: +886 2 87224500. **Thailand:** Aberdeen Asset Management (Thailand) Limited. **Singapore:** Aberdeen Standard Investments (Asia) Limited, Registration Number 199105448E.

Americas

Brazil: abrdn is the marketing name in Brazil for Aberdeen do Brasil Gestão de Recursos Ltda. which is an entity duly registered with the Comissão de Valores Mobiliários (CVM) as an investment manager. **Canada:** Aberdeen Standard Investments ("ASI") is the registered marketing name in Canada for the following entities, which now operate around the world under the abrdn brand: Aberdeen Standard Investments (Canada) Limited, Aberdeen Standard Investments Luxembourg S.A., Standard Life Investments Private Capital Ltd, SL Capital Partners LLP, Standard Life Investments Limited, Aberdeen Standard Alternative Funds Limited, and Aberdeen Capital Management LLC. Aberdeen Standard Investments (Canada) Limited, is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. **United States:** abrdn is the marketing name for the following affiliated, registered investment advisers: Aberdeen Standard Investments Inc., Aberdeen Asset Managers Ltd., abrdn Australia Limited, Aberdeen Standard Investments (Asia) Ltd., Aberdeen Capital Management, LLC, Aberdeen Standard Investments ETFs Advisors LLC and Aberdeen Standard Alternative Funds Limited 4.

For more information visit abrdn.com

GB-200821-155550-4

abrdn.com

STA0921320508-001