



Sustainable Index Equity Investment Approach

April 2023

The Investment Approach applies to:

- abrdn Sustainable Index UK Equity Fund
- abrdn Sustainable Index World Equity Fund
- abrdn Sustainable Index American Equity Fund

The Sustainable Index Equity fund range combines abrdn's experience of passive index management with a deep understanding of sustainable and responsible investment. The funds seek to generate strong, long term returns by investing in indices that target improved outcomes in ESG, carbon and clean technology solutions. Each index focuses on managing exposure to both long term financial risks and opportunities.

Summary

The Sustainable Index Equity range of funds are index tracking products that aim to closely replicate the constituents and risk / return outcome of a specified index. The indices in question have been customised by abrdn in partnership with the calculation agent MSCI, a global leader in index design and provision of ESG data and analytics. The approach varies from traditional market cap through the exclusion of companies who undertake specific adverse activities and then optimising the remaining universe of stocks to target enhanced outcomes in ESG, carbon and clean technology.

Both the exclusions and the targeted sustainable outcomes aim to improve the long term financial returns in each fund by helping to manage emerging risks and benefiting from transition activities.



Investment Performance

Deliver returns in line with the target index
in order to minimise tracking error



Climate Risks & Opportunities

Exclude companies identified as having long term financial risks
and target material improvements in
quantifiable, robust and meaningful metrics



Engagement

Ensure active stewardship in place across all portfolios leveraging
abrdn voting and engagement strengths



Environmental, Social and Governance (ESG) Framework

Embedded ESG assessment utilising
on-desk expertise and analytic tools



Client Outcome

Maintain features of passive investment strategies but with
enhanced ESG & carbon outcomes

Assessment criteria

Our investment approach follows two key steps in shaping the sustainable outcomes from each strategy.

Sustainability targets

The Sustainable Index Equity fund range aims to achieve clear and material enhancements to its target outcomes when compared to traditional index tracking funds. The range of target outcomes focuses on minimising long term risks associated with ESG and climate as well as benefitting from opportunities arising from the transition to cleaner technologies.

Each fund in the range will target the key outcomes listed below.

	ESG Outcomes	Climate Risks	Climate Opportunities
Objective	Aim to improve ESG scores relative to the parent index	Aim to materially reduce carbon intensity relative to the parent index	Aim to enhance green revenues scores relative to the parent index
Metrics	MSCI ESG Score (0-10)	Carbon Intensity (tCO ₂ e / \$m Sales) Potential Carbon Emissions (tCO ₂ e / \$m invested)	Clean Technology Solutions Revenue
Target	10% (UK, Europe, Japan) 20% (World, US, Asia, EM Markets)	50%	50%
Description	Weighted average ESG Score, indicating how well companies manage their most material environmental, social & governance risks relative to sector peers, 10 (best) to 0 (worst).	Carbon Intensity: scope 1 & 2 carbon emissions divided by total sales Potential Emissions: energy related fossil fuel reserves data	Weighted average % revenue derived from any of the six clean tech themes including alternative energy, energy efficiency, green building, pollution prevention, sustainable water and sustainable agriculture

**Please note that the indexes and stated outcomes are rebalanced on a quarterly basis.*

Each of the above improvement targets is relative to the equivalent MSCI traditional market cap index. For example, the enhancements to the Sustainable Index World Equity fund are measured relative to the equivalent metrics for the MSCI World index.

Investment in financial derivative instruments, money market instruments and cash may not adhere to this approach.

Sustainability targets

abrdn Sustainable Index Equity range of funds applies negative criteria to avoid investing in companies involved in certain industries and activities that our customers are concerned with. We will avoid investment in companies involved in the activities listed below:

- are involved in controversial weapons covering;
- cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, depleted uranium ammunition and blinding lasers.
- have a revenue contribution of 5% or more from tobacco or are tobacco manufacturers.
- have a revenue contribution of 5% or more from thermal coal extraction and thermal coal based power generation.
- have a revenue contribution of 5% or more from unconventional oil and gas extraction.
- have failed to uphold one or more principles of the UN Global Compact.
- are involved in very severe environmental, social and/or governance controversies.

Full detail of the screening criteria and methodology applied by the abrdn Sustainable Index Equity range of funds can be found in MSCI ESG Select Climate Solutions Indexes Methodology on <https://www.msci.com/index-methodology>.

Engagement

All abrdn passive portfolios benefit from abrdn's stewardship activities covering both engagement and voting. abrdn's engagement with company management teams provides us with a more holistic view of a company including current and future ESG risks that a firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss any areas of concern, share best practice and drive positive change within the business.

The stewardship activity also incorporates voting and all abrdn passive portfolios benefit from abrdn's voting policy. In addition abrdn has adopted a bespoke template for proxy voting which is designed to ensure a consistent application of abrdn's views and concerns.

Stock Lending

abrdn ESG funds take part in our Stock Lending programme, details of which can be found in the prospectus. Collateral held on behalf of ESG funds is currently restricted to Government bonds and securities issued by constituents of the MSCI ESG Screened indices; further detail on these indices can be found at <https://www.msci.com/esg-screened-indexes>.