Active Ownership Report

Q4 2021

abrdn.com

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"Our quarterly Active Ownership report provides a summary of our research, company engagement and voting activities. The report's objective is to inform, disclose and create discussion. We welcome comments and observations."

Andrew Mason
Stewardship Director, ESG Investment

Engagement summary for Q4 2021

Area	Company	Topics discussed
UK	Darktrace	Corporate governance Engagement on cladding
	Corbion (UK)	Environment, Labour Management, & Corporate Governance
EU	Sanofi	Product Quality & Supply Chain Management
	Amplifon	Remuneration
US	The Procter & Gamble Co (USA)	Supply Chain Management
GEM/Asia	Sasol	Climate Change & Human Rights
	ACME Solar Holdings	Human Rights & Stakeholders, Environment & Corporate Governance
	AIA	Climate Change
	Yunnan Energy New Material	Environment & Labour Management

The companies chosen are for illustrative purposes only, in order to demonstrate our ESG investment process. They are not intended to be an indication of performance, investment recommendation or solicitation.

Introduction

Over the year, economies have emerged from the global pandemic and there has been further growth in ESG investment. abrdn has continued to play its part in supporting sustainable growth through active stewardship. This ranges from our net zero commitment to pushing greater diversity and inclusion within our investee businesses.

Andrew Mason

Stewardship Director,
ESG Investments

During the first quarter, we detailed our commitment to net zero and membership of the newly established Net Zero Asset Manager Initiative. The UN Race to Zero has continued to gather pace as economies, businesses and investors around the globe are committing to net zero 2050 targets. It is estimated that reaching net zero by 2050 will require around $1-2 trillion of investment every year. Investors have a critical role to play in making net zero happen through their capital allocation and engagement activities. During the year, we also took part in COP26 in Glasgow, which included contributions to the World Climate Summit and the Green Horizon Summit. Ambitions were outlined at a very high level at COP26, but we still need evidence that these ambitions are backed by legislation. We believe rich countries failed to provide substantially more financial support to developing countries to help them transition and adapt to climate change.

As part of our commitment, we will continue to vote and engage with investee companies to drive change. We will engage with the highest-financed emitters across our equity and credit holdings. We are looking for transparency on progress against clear transition milestones, assessed against relevant standards – such as the Climate Action 100+ net zero benchmark. abrdn will divest from companies where, after two years, it considers insufficient progress has been made against the transition milestones set (unless this is not in line with the client mandate).

Human rights and labour practices also featured highly over the year. As the impact of Covid-19 remained, we continued to engage with companies to encourage support for employees and the wider society. Numerous initiatives were launched by different companies to support customers and the wider society. These ranged from offering free access to the internet in schools to prioritising grocery shopping for those most at risk from the virus.

We also focused on China and its approach to human rights. As part of our investment process, we research and analyse sustainability and other risks arising from the labour and supply chain practices of all companies, regardless of where they are based. China is integral to the supply chains of many companies and it has been a focus of our engagement for some time now. Companies we engage with are increasingly aware of, and responsive to, investors' concerns. While we have found that many companies have policies on supply chain labour practices, disclosure may be lacking. We believe that constructive engagement with, and transparent disclosure by, companies is the best way to drive improvements in working practices and employee rights.

In the labour market, we continued our drive for greater diversity and inclusion (D&I) in our investee companies across geographies. Following the publication of our position statement in 2020, we have built on existing voting and engagement strategies and expanded our scope in relation to diversity and inclusion. These strategies include: a multi-asset investment approach, which is focused on companies with positive D&I standards; the promotion of ethnic diversity on boards in the UK; a drive to increase gender diversity on boards across emerging markets; and the publication of award-winning research on diversity and inclusion practices.

During the year, we released our first annual review of our approach to active ownership and alignment with the UK Stewardship Code. Of the 189 applicants to become signatories of the code, we were pleased that abrdn was one of the 125 that received approval. Our commitment is not only to meet the requirements of the UK Stewardship Code but to go beyond them.

You can find out more about the topics listed above on our website, along with a series of podcasts outlining our views on ESG issues. Within this report, we provide details of our engagement in areas ranging from diversity measures at a Dutch food and biochemicals company, to palm oil supply chain risks at a consumer-product manufacturer.

"We believe that constructive engagement with, and transparent disclosure by, companies is the best way to drive improvements in working practices and employee rights."

"Our commitment is not only to meet the requirements of the UK stewardship code but to go beyond them."

Andrew Mason
Stewardship Director, ESG Investments

Examples of engagement

Throughout the quarter, we have engaged on a range of issues across multiple geographies. The following section of the report offers further detail on the companies that we have engaged with and the topics discussed.

1 **Supply Chain Management**
The Procter & Gamble Co (USA)

2 **Corporate governance**
Darktrace (UK)

3 **Environment, Labour Management, & Corporate Governance**
Corbion (UK)

4 **Engagement on cladding**
(UK)

5 **Product Quality & Supply Chain Management**
Sanofi (France)

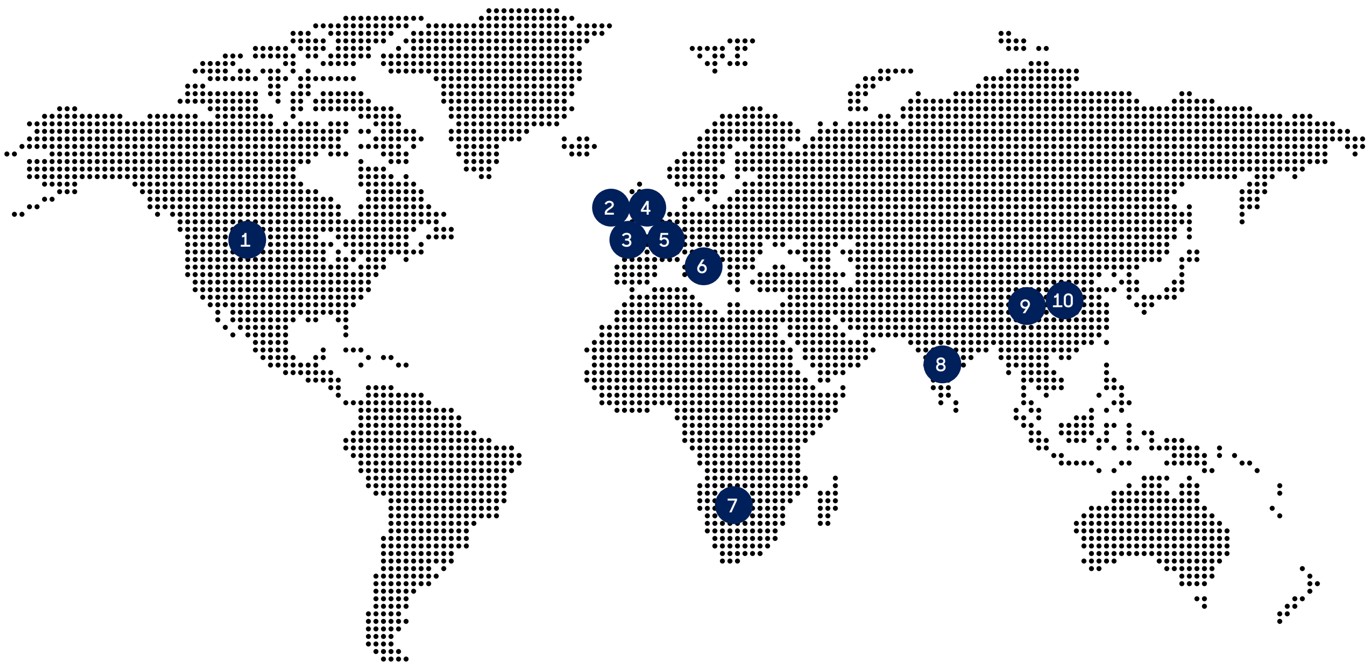
6 **Remuneration**
Amplifon (Italy)

7 **Climate Change & Human Rights**
Sasol (South Africa)

8 **Human Rights & Stakeholders, Environment & Corporate Governance**
ACME Solar Holdings (India)

9 **Climate Change**
AIA (Hong Kong)

10 **Environment & Labour Management**
Yunnan Energy New Material (China)



Source: abrdn, January 2022.

Companies selected for illustrative purposes only to demonstrate abrdn engagement with the companies on ESG issues and not as an investment recommendation or indication of future performance.

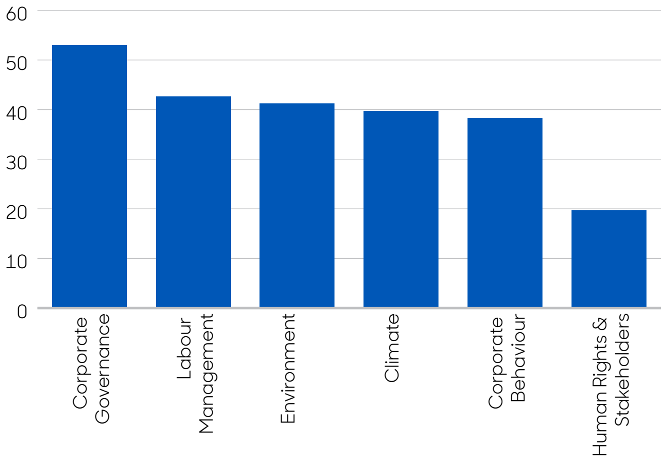
ESG voting and engagement summary

Voting summary Q4 2021	Total
Shareholder meetings at which our clients' shares were voted	1,215
Percentage of meetings with at least one vote against or abstention	32.2%
Number of resolutions voted	7,775
Percentage of resolutions voted with management recommendations	86.8%
Percentage of resolutions voted against management recommendations	10.4%
Percentage of abstentions	2.8%

Engagement statistics

During the quarter, we had 717 company meetings where ESG topics were discussed. The chart below shows the percentage of meetings where ESG topics were covered. The table offers examples of companies we engaged with, and on what specific ESG topics, and the percentage of meetings where topics were discussed.

% of meetings where topic discussed



Source: abrdn, January 2022.

Engagement summary Q4 2021

Name																				
ACTIVISION BLIZZARD INC				●		●										●				
ADDUS HOMECARE CORP		●				●									●	●				
ALPHABET INC-CL A							●												●	●
AMADEUS IT GROUP SA	●	●		●			●											●		
AMERICAN TOWER CORP				●			●													
ATLANTIA SPA							●						●			●				
BELLWAY PLC	●					●	●		●			●	●		●	●				●
CAIXABANK SA							●		●				●							
CEMEX							●		●								●			
CIE AUTOMOTIVE SA						●						●		●						●
CIKARANG LISTRINDO TBK PT		●				●	●			●										
CORBION NV							●			●	●	●			●	●				●
CREDIT AGRICOLE SA							●													
DANONE		●		●																
ELECTRICITE DE FRANCE							●		●				●							
ENDAVA PLC- SPON ADR		●		●																
FACEBOOK INC-CLASS A																			●	
FLOOR & DECOR HOLDINGS		●				●	●				●	●		●	●	●		●		●
GLENCORE PLC	●	●		●			●		●							●	●			●
HEADHUNTER GROUP PLC-ADR		●		●	●	●										●		●		
HILL & SMITH HOLDINGS PLC						●	●									●				
JET2 PLC		●	●		●		●													
JOHNSON & JOHNSON	●															●			●	
KERNEL HOLDING SA							●		●	●		●	●							
KOMAX HOLDING AG-REG			●			●	●			●	●	●		●		●				●
LIGAND PHARMACEUTICALS									●	●						●				●

- Corporate Behaviour Controversies
- Board Issues
- Accounting and Audit
- Remuneration
- Ownership and Control
- Disclosure Issues
- GHG Emissions and Business Model
- Air Quality
- Energy Management
- Water and Wastewater Management
- Waste Management
- Supply Chain Management and Material Sourcing
- Ecological Impacts
- Labour Practices
- Employee Health and Safety
- Employee Engagement, Diversity and Inclusion
- Human Rights and Community Relations
- Customer Privacy and Data Security
- Product Quality and Safety
- Supply Chain Management

List of companies above is for illustrative purposes only to demonstrate abrdn engagement with the companies on ESG issues and is not intended to be an indication of performance, investment recommendation or solicitation.

Engagement summary Q4 2021

Name	Corporate Behaviour Controversies	Board Issues	Accounting and Audit	Remuneration	Ownership and Control	Disclosure Issues	GHG Emissions and Business Model	Air Quality	Energy Management	Water and Wastewater Management	Waste Management	Supply Chain Management and Material Sourcing	Ecological Impacts	Labour Practices	Employee Health and Safety	Employee Engagement, Diversity and Inclusion	Human Rights and Community Relations	Customer Privacy and Data Security	Product Quality and Safety	Supply Chain Management
LOGO YAZILIM SANAYI VE TICAR		●		●	●	●										●		●		
MARSHALLS PLC		●		●			●					●								●
METINVEST BV		●					●								●					
MICROSOFT CORP																●				
MILLICOM INTL CELLULAR-SDR											●						●			
MIURA CO LTD		●				●	●								●				●	●
NATWEST GROUP PLC							●									●				
OCI NV		●					●									●				
OMEGA GERACAO SA					●	●							●		●					
PATRIZIA AG		●	●	●			●		●	●	●	●				●	●			●
PROCTER & GAMBLE CO/THE						●										●				●
SAMSUNG ELECTRONICS CO LTD	●	●	●		●		●				●		●	●						
SANTOS LTD							●													
SASOL LTD							●		●					●						
SEA LTD-ADR						●								●		●		●		
SEGEZHA GROUP PJSC							●		●			●	●							
SINBON ELECTRONICS CO LTD				●		●	●				●	●				●				●
SIRIUS REAL ESTATE LTD				●		●	●													
SKP RESOURCES														●	●		●			
SUNGROW POWER SUPPLY CO LT-A							●		●		●			●						●
SYNTHOMER PLC	●					●	●	●		●	●	●	●							●
TATA POWER CO LTD						●			●	●										
TECHTARGET		●		●			●		●			●		●		●		●		●
TELECOM ITALIA							●							●		●				
TELECOM PLUS PLC						●			●					●		●				
TENAGA NASIONAL BHD						●	●		●	●			●							
YUNNAN ENERGY NEW MATERIAL-A							●						●	●	●					

- Corporate Behaviour Controversies
- Board Issues
- Accounting and Audit
- Remuneration
- Ownership and Control
- Disclosure Issues
- GHG Emissions and Business Model
- Air Quality
- Energy Management
- Water and Wastewater Management
- Waste Management
- Supply Chain Management and Material Sourcing
- Ecological Impacts
- Labour Practices
- Employee Health and Safety
- Employee Engagement, Diversity and Inclusion
- Human Rights and Community Relations
- Customer Privacy and Data Security
- Product Quality and Safety
- Supply Chain Management

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Engagement summary Q4 2021

Engagement lifecycle

We believe it is important that engagement activities lead to improvements in our investments. This includes the manner in which they manage and mitigate risks. It also informs our investment decisions. We therefore record concerns and issues raised with our investments. We also set timeframes within which we expect our investments to address our concerns. To do this, we have defined the following 'lifecycle' steps.

- **Identify** – we have identified specific concerns or issues that we want to raise with those responsible for the investment.
- **Acknowledge** – those responsible for the investment have acknowledged the concern.
- **Plan** – there is a credible plan to address our concerns.
- **Execute** – the investment is executing the plan to address our concerns.
- **Close** – the investment has successfully executed the plan, thereby addressing our concerns.

Using these lifecycle steps, we are able to track how our investments are addressing our concerns and issues. This, in turn, feeds into our overall analysis and investment decision-making.

Darktrace

Ben Holden
Stewardship Manager

Rebecca Maclean
Investment Director

Darktrace was founded in Cambridge in 2013 by cyber-defence experts and Invoke Capital. The company specialises in cyber-defence artificial intelligence, and it has over 6,500 customers and 1,700 employees. Invoke Capital is Mike Lynch's investment vehicle and he has been subject to a formal extradition request from the United States since 2019. He is accused of fraudulently inflating the value of Autonomy before its sale to Hewlett Packard.

Despite Darktrace performing well financially, abrdn does not hold shares in its active funds due to concerns about Mike Lynch's involvement, corporate governance, and labour markets – among other factors. But we chose to engage and met with the company twice over the quarter. The engagements centred largely on corporate governance and behaviour relating to the recent news of subpoena requests from the US Department of Justice to seven ex-Autonomy employees – including Darktrace's CEO, Poppy Gustafsson, and four other Darktrace executives – and the end of Darktrace's lock-up period for inside investors selling stakes.

The chairperson, Gordon Hurst, is also the chairperson of Feature Space, an artificial intelligence company that has some similarities to Darktrace. We heard from the company about Mike Lynch's involvement, which is now limited to his positions as a shareholder and on the science and technology committee.

The ruling on his extradition request is expected at the end of the year. The company is comfortable that its associated risks are minimal (the allegations are focused on Autonomy) and that ex-Autonomy personnel are sparse on the financial side after chief financial officer Cathy Graham was hired externally and has built her team around her.

The chairperson is focused on culture and believes it is important to create an environment of openness and transparency. Poppy Gustafsson sets the tone from the top as an open leader with a devolved style of management. In 2020, Darktrace took an external employee survey and earned certification as one of the UK's 'Great Places to Work'. Furthermore, one of the company's key priorities is its people. It has initiatives, such as a coaching programme, a matching initiative, and an employee engagement non-executive director.

We spoke to the company about its board, which includes two shareholder representatives from private equity. This is normal with newly listed companies and it will change as the relevant shareholders sell-down their stakes. At this point, we expect to see the technology experience added and the board diversity enhanced.

Like others in the technology sector, Darktrace is not immune to competition for talent and wage inflation. However, the company believes that being based in Cambridge with access to talent is key to its success. The location helped to increase developer headcount significantly in 2021.

We will continue to engage with Darktrace to understand how its focus on employees is being managed. We will encourage the evolution of its governance, in line with its premium listing as private equity representatives leave the board.

Key driver
Internal mandate

Key outcome
On track to meet objectives

Topic(s)
Labour management, D&I, human rights and stakeholders, corporate behaviour, corporate governance and disclosure

Engagement lifecycle status
Plan

Issue
Corporate governance

ESG impact on investment thesis
Investment view unchanged

"Like others in the technology sector, Darktrace is not immune to the effects of competition for talent and wage inflation."

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Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

Corbion

Tzoulianna Leventi
Investment Analyst

Andrew Paisley
Head of Smaller Companies

Corbion is a Dutch food and biochemicals company based in Amsterdam. The company uses unique expertise to deliver sustainable bio-based solutions for the preservation of food and food production. It has a unique bio-plastics offering, which benefits from the circular economy trends. Its innovative plastics solution "PEF" is 100% bio-based plastic. The plastic is able to support a variety of uses, such as packaging, food maintenance, while also reducing food waste.

We engaged with Corbion as part of our ongoing process. We discussed a number of topics, such as its practices around chemical disposal, water management, and diversity and supply chain matters.

Corbion is not a typical chemicals company as it has very few toxic emissions and thus it does not have an elaborate disposal scheme. It appears that it hasn't communicated in detail the difference between its own practices and those of other chemical companies that use catalytic chemistry and this has led rating agencies, such as MSCI, to mark Corbion down.

The nature of Corbion's products means it is a water-intensive business. The water is used for cooling but there is no direct pollution of water. The company is working on water recycling and it is also reducing its water consumption. In addition, the company is on track to meet targets for reducing carbon emissions.

Corbion produces large amounts of gypsum, a byproduct of lactic acid, which is a low-value commodity. The company has a competitive advantage, as it is the only company that has a gypsum-free process/ patent that is environmentally friendly.

The company's social and governance disclosure has improved over time. Corbion has published a statement about human rights on its website, which references its code of business conduct and supplier code. The company highlights data platforms and questionnaires that its using to monitor social performance. Corbion is also working on its gender diversity strategy and continues to carry out work to formalise this – including a target to achieve 35% of women in management roles.

Finally, we asked Corbion about its supply chain due diligence. The company suggested that an area worthy of close attention is the supply of sugar, given it's an agricultural commodity. Corbion follows the Bonsucro standards, which is one of the key ways to check sugar suppliers. Bonsucro standards are stringent and Corbion has a target of responsibly sourcing 100% of its cane sugar by 2025.

We believe that the meeting was very satisfactory. We encouraged the company to further enhance its ESG profile by working on its water management targets. We also recommended that Corbion publicly communicates its position with regards to using, handling and disposing chemicals, in order to increase transparency and to avoid poor ratings from rating providers. Overall, this was a positive engagement and we will continue to engage with Corbion to monitor its progress.

Key driver
Internal mandate

Key outcome
On track to meet objectives

Topic(s)
Highlight L2 topics discussed e.g. water management and chemicals disclosure

Engagement lifecycle status
Plan – there is a credible plan to address our concerns

Issue
Environment

ESG impact on investment thesis
Satisfactory meeting that is representative of the very good ESG quality of the stock. To enhance its profile, it will need to work on water management targets and publicly communicate its position with regards to chemicals

"Corbion is also working on its gender diversity strategy and it will continue to carry out work to formalise this – including a target to achieve 35% of women in management roles."

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Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

Amplifon

Joanna Sulc
Senior Stewardship Manager

Sasha Kachanova
Investment Analyst

Amplifon retails and fits hearing aids, and supplies services aimed at the resolution of problems related to hearing loss. A global leader in hearing care retail, the company operates in 26 countries.

In recent years, investors have held boards to account on an increasing number of ESG topics. However, one long-standing – often complex and regularly controversial – topic remains that of executive remuneration. Even when remuneration awards are not headline grabbing, we are persistent in our efforts to engage with companies to assess the alignment of pay and performance, to improve reward structures where needed, and to promote increased transparency. We are mindful of varying and developing market practice but we aim to promote best practice.

At the 2021 annual general meeting for Amplifon, abrdn voted against the company's remuneration policy and remuneration report, given concerns about discretionary awards and disclosure. During the quarter, we engaged with the company to provide feedback on where we think improvements should be made to address concerns and to enhance disclosure.

Executive remuneration arrangements at Amplifon consist of fixed and variable remuneration in the form of short and long-term awards. The company's short-term award is determined by annual performance in relation to three financial metrics, with an adjustment to the final outcome based on individual and sustainability targets. The long-term plan is determined by three-year performance against two financial metrics.

At abrdn, it is important that companies provide visibility of performance targets, to allow us to assess their stringency. We have reservations that the performance targets that apply to Amplifon's incentive awards are not disclosed retrospectively. The company explained its views regarding the sensitivity of targets and the fact that this disclosure is not common practice in Italy. We encouraged more transparency on the nature of the targets and disclosure of the details when they are no longer sensitive.

We discussed the company's approach to exceptional awards, noting that a €2 million special cash award will be granted to the chief executive officer in 2023, subject to continued employment but with no further performance conditions. We expressed our concerns regarding this exceptional award as it was outside standard policy and it was not subject to long-term performance hurdles. We also highlighted our reservations that the short-term incentive award was wholly discretionary in view of the difficulty in calculating a target during the year in the context of the pandemic.

While we recognise that it may be appropriate for remuneration committees to have the power to exercise some discretion, we expect the level of flexibility to be limited. Amplifon's 2021 remuneration policy allows for temporary deviation from the standard policy in exceptional circumstances. We were particularly sensitive to this given the use of discretion in 2020 and therefore encouraged the company to tighten the ability to deviate from policy.

We will review any changes made to the policy and disclosures prior to voting at the 2022 annual general meeting.

Key driver
Internal mandate

Key outcome
On track to meet objectives

Topic(s)
Corporate governance and disclosure

Engagement lifecycle status
Plan

Issue
Remuneration

ESG impact on investment thesis
Investment thesis will be enhanced if milestones are met

"In recent years, investors have held boards to account on an increasing number of environmental, social and governance (ESG) topics. However, one long-standing – often complex and regularly controversial – topic remains that of executive remuneration."

Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

Sanofi

Kathleen Dewandeleer
Stewardship Manager

Sanjeet Mangat
Investment Director

Sanofi is a global healthcare company, with a focus on prescription pharmaceuticals and vaccines.

We contacted Sanofi as part of our annual engagement. Sanofi rates well on our house ESG score, which is reflected in a good governance and operational score. The board is mostly independent, well-diversified (with a high percentage of women) and represents different nationalities. We questioned the tenure of the chairperson and the former chief executive officer, Serge Weinberg. He will not stand for re-election in 2022 as he will have achieved 12 years' tenure, the legal limit allowed by the French governance code. Its committees are all independent. We discussed the over-boarding of some non-executive directors. Gilles Schnepp, chairperson of Danone, is currently on the board of four companies, but will step down at the board of Legrand. Sanofi has an interesting shareholder structure in that L'Oréal, the main shareholder, has 9.3% of the shares but 16.8% of the votes. The extra voting rights have been awarded to long-term owners. We are not supporting this structure as we favour a 'one-vote one-share' principle.

Sanofi aims to be net zero by 2050. It is currently refreshing its methodology and will re-submit to the Science Based Targets initiative (SBTi) next year. Scope 1 and scope 2 relate to the fleet (electric vehicles or hybrids) and renewable sourcing of electricity. Scope 3 is focusing on its 100 biggest suppliers. Sanofi has also teamed up with nine other pharmaceutical companies to look at reducing carbon usage.

Product quality and safety rate as high risk in the ESG house score. Pharmaceutical companies are exposed to product safety risks. In Sanofi's case, there were several controversial cases in the last three years. We discussed some of these cases. One case relates to its epilepsy drug Depakine, which allegedly caused birth defects. Sanofi has asked for labelling changes as it can't change the labels itself. Another controversy relates to a vaccination programme in the Philippines, where fatalities allegedly occurred because of 'reckless imprudence'. Until a settlement is reached, the score will not improve.

Supply chain management and the sourcing of materials also carry a high-risk score. Sanofi explained that the Duty of Vigilance law (2017) applies to all French companies. Sanofi uses a risk-based approach for its own operations and supply chain. The supply chain risk is broken down into 250 categories. Audits are undertaken by its own teams and third parties. Sanofi's own teams focus on ingredients, contract manufacturing and warehousing. Along with other pharmaceutical companies, Sanofi shares its key assessments in order to create a greater industry response.

Sanofi established Global Health, a non-profit organisation that offers access to 30 essential medicines in 40 of the world's poorest countries. It operates at small regional margins. Profits are re-invested to finance access-to-health programmes. We are comfortable with the current house ESG score.

Key driver
Client mandate

Key outcome
On track to meet objectives

Topic(s)	Human Rights and Stakeholders
Engagement lifecycle status	Close
Issue	Product quality and supply chain management
ESG impact on investment thesis	Investment thesis will be enhanced if outstanding controversies settled

"Sanofi is a global healthcare company, with a focus on prescription pharmaceuticals and vaccines."

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Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

The Procter & Gamble Co

Fionna Ross
Senior ESG Analyst,
North America Equities

Fran Radano
Investment Director,
North America Equities

Procter & Gamble (PG) manufactures and markets consumer products globally. It makes products across fabric and home care, beauty, healthcare, grooming and baby, and feminine and family care.

PG faces significant risks associated with its palm oil supply chain. The harvesting of palm oil, if not managed responsibly, has long been associated with numerous high-profile environmental and social issues. In 2020, the United States Customs and Border Protection (CBP) issued an order against Malaysian palm oil producer FGV Holdings Berhard (FGV), a joint-venture partner of PG, to block shipments of palm oil into US supply chains. This followed alleged instances of forced labour occurring at the group. Rather than end its relationship with FGV, PG took the steps to continue to invest in the supplier's longer-term human rights remediation efforts, in tandem with the Fair Labor Association (FLA).

We have been engaging with PG over the past year to monitor progress being made with FGV. This allows us to understand how it is managing these ongoing concerns and to ensure that PG is upholding its human rights obligations.

Our most recent engagement during the quarter built on previous conversations. We were pleased with the efforts and progress that PG continues to make. It is improving human rights standards along its palm oil supply chain, while recognising additional challenges faced during the pandemic. We learned about PG's efforts to eliminate deforestation and forest degradation within its palm oil and pulp supply chain. We also learned more about practices in place to ensure the sustainable harvesting of forests. This includes greater monitoring of environmental compliance of its palm oil supply chain through work with Earthqualizer, which deploys satellite technology to track and investigate potential deforestation.

We expect PG to continue to face risks around its palm oil supply chain. We also appreciate that its relationship with FGV Holdings Berhard (FGV) may continue to draw negative attention. However, we understand the risks faced by the company in continuing its relationship as opposed to walking away. We support its commitment to address industry-wide issues in the palm oil industry. Further, our engagements in recent months with PG have given us confidence that the company is being proactive in its approach to addressing and managing risks along its palm oil and timber supply chains, which contributed to our decision to upgrade the company.

Key driver
Internal mandate

Key outcome
On track to meet objectives

Topic(s)	Human rights
Engagement lifecycle status	Close
Issue	Supply chain management
ESG impact on investment thesis	Enhances

"We expect Procter & Gamble (PG) to continue to face risks about its palm oil supply chain. We also appreciate that its relationship with FGV Holdings Berhard (FGV) may continue to draw negative attention. However, we understand the risks faced by the company in continuing its relationship as opposed to walking away. We support its commitment to address industry-wide issues in the palm oil industry."

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Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

Sasol,

Kate McGrath
ESG Analyst Fixed Income

Kathy Collins
Investment Director

Sasol is a South African company that produces oil and chemical products. The company also operates coal mines in South Africa and uses the coal as feedstock for its synthetic fuels and chemicals plants.

In September 2021, Sasol held a capital markets day. It was almost entirely devoted to climate change risk and they also announced more ambitious targets. The key short-term target is a 30% reduction (from a 2017 base) in scope 1 and 2 emissions in global operations by 2030. Longer term, the company is committed to being net zero by 2050. To achieve this, Sasol will ramp up its renewables capacity to 1,200 megawatts at its main plant, Secunda, by 2027. It will become the largest buyer of renewable power in South Africa.

We were concerned that Sasol had not stated a coal phase-out date. Therefore, we met with the company to better understand how it plans to achieve these ambitious goals, with coal still in its energy mix.

However, it is pertinent not to take a Eurocentric view with regard to coal usage in this emerging market. Sasol explained that it would be irresponsible for the group to simply sell-off coal assets, because a new owner may operate the coal mines less responsibly. Moreover, Sasol employs a vast number of staff and coal mining sustains around 4,000 jobs, so decommissioning is not an option in a 'just transition' context. In order to retain jobs, the company aims to responsibly run its coal mines until the end of their life, while gradually upskilling employees for the green hydrogen opportunity.

The Covid-19 pandemic has exacerbated South Africa's health, social and economic challenges. For example, as we spoke to the company, team members were suffering power outages. Sasol has the ambition and drive to decarbonise, but it is situated in a country with a plethora of challenges that inhibit the transition to a low-carbon economy. In particular, South Africa lacks the infrastructure and the financing required to subsidise low-carbon initiatives.

Sasol spoke at length about how important the 'just transition' is, and its aim of protecting and fostering employment opportunities. With this in mind, we discussed coal phase-out timelines. Sasol mines coal for both exporting (from high-quality mines) and for internal use (from lower-quality mines). The high-quality mines are anticipated to naturally decline by 2030, but the company is likely to continue to use coal at the Secunda plant internally until 2050. We suggested that Sasol sets a coal phase-out date for the burning of coal internally, but gained comfort that the company is not seeking to purchase coal externally or to open new mines.

The company believes that South Africa holds significant promise for renewables and low-cost green hydrogen production for internal and export opportunities. Sasol is heavily involved in multi-stakeholder partnerships to realise this aspiration.

This meeting enhanced our view of Sasol. Originally, we set up the meeting as we were encouraged by Sasol's targets, but somewhat disappointed that it still mines and burns coal with no phase-out date. But South Africa's slow trajectory to a low-carbon economy must be viewed in an emerging market context. A lack of infrastructure and investment is compounded by wider socio-economic concerns, including ongoing power shortages and health issues. Therefore, via engagement, we were assured that Sasol has a credible and responsible decarbonisation plan that fully considers the 'just transition' in the South African context.

Key driver
Internal meeting

Key outcome
On track to meet objectives

Topic(s)
Climate change and human rights

Engagement lifecycle status
Acknowledge – those responsible for the investment have acknowledged the concern

Issue
Climate change, human rights and community relations

ESG impact on investment thesis
Investment recommendation remains the same. Decarbonisation is not occurring fast enough to upgrade the investment recommendation

"We were concerned that Sasol had not stated a coal phase-out date. Therefore, we met with the company to better understand how it plans to achieve these ambitious goals, with coal still in its energy mix."

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Our engagement life cycle operates through five distinct levels of engagement; identify, acknowledge, plan, execute, close or escalate.

ACME Solar

Nicole Lim
ESG Investment Analyst

Tai Li-Yian
Investment Manager

Through its subsidiaries, ACME Solar Holdings provides green energy and energy-management solutions in India. The company currently has 2.9 gigawatts (GW) of renewables operating capacity, with a further 2GW underway. It is positioning itself to capture the opportunities in India's energy transition. The company is also looking to tap opportunities in the growing green hydrogen space. Given our participation in ACME's recent green bond issuance, we initiated our first ESG-focused engagement with the company to understand how ESG is managed. More specifically, we wanted to gain insight into how the company is managing supply chain risks.

We raised the issue of supply chain management with ACME Solar, with a focus on ensuring traceability, transparency and integration of ESG considerations. We found that the company has actively responded to the increasing risks of forced labour allegations in the solar supply chain. It has engaged with suppliers via a comprehensive questionnaire that assesses risks up to raw material sourcing (i.e. polysilicon). It is also working with third-party advisors and it is considering a wider due diligence process. The most recent audits by third-party inspections found no evidence of forced labour at the module manufacturing stage. The company advised that there is no direct exposure to controversial suppliers. It is looking to significantly expand domestic panel manufacturing capabilities, in light of the introduction of a 40% import duty on photo-voltaic (PV) modules in April 2022. From our engagement with ACME and a wider review of the renewables sector, we view ACME's management of supply chain risks as adequate.

Beyond that, we see that ACME is taking steps to improve overall ESG management and performance. While it is currently early on its ESG journey, the company has key policies in place (such as ABC (anti bribery and corruption), anti-harassment and discrimination, and whistleblowing) and it is currently working on publishing its first sustainability report. We look forward to improved disclosure and we encouraged ACME to align to international frameworks (such as the Global Reporting Initiative and Task Force on Climate-Related Disclosures. We view increasing disclosure as positive, particularly as bondholders, as it will allow the company to effectively communicate the impact from green issuances.

The renewables sector in India also faces issues pertaining to land rights and biodiversity. For example, the sector currently awaits ruling by the Indian Supreme Court regarding the grounding of transmission lines in the habitat of endangered birds, such as the Great Indian bustard. ACME has clear internal positions and it has taken the necessary steps to mitigate the impact on biodiversity and also its operations. The company advised that none of the assets is located in 'priority areas' and bird diverters will be installed as a mitigation measure.

On land rights, ACME has policies that are in line with peers and sector expectations. Assessments are conducted at a site level to evaluate environmental and social implications. The land leased and acquired is typically barren land, where original landowners and the surrounding community are employed where possible.

Given ACME is a private entity, it is not currently rated by external ESG rating agencies and hence our engagement has provided valuable insight. As a result, we are able to establish an internal house view and rating of ACME Solar, and we have integrated this into our investment process. We will remain proactive in engaging, as we see opportunities for us to assist the company as it progresses along its ESG journey.

Key driver
Internal mandate

Key outcome
On track

Topic(s)
Human rights and stakeholders
Execute

Environment Corporate Governance
Plan

Engagement lifecycle status
Execute Plan

Issue
Supply chain management, human rights and community relations Ecological impacts Disclosure

ESG impact on investment thesis
Improves investment view

> **"Given ACME is a private entity, it is not currently rated by external ESG rating agencies and hence our engagement has provided valuable insight. As a result, we are able to establish an internal house view and rating of ACME Solar, and we have integrated this into our investment process."**

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Yunnan Energy New Material Co. Ltd (恩捷股份)

Fraser Harle
Investment Analyst

Karl Li
Investment Analyst

Mubashira Bukhari Khwaja
Investment Director

Yunnan Energy New Material (Yunnan) operates as the largest battery separator globally, in terms of capacity and sales volume. The company retains around 30% market share in the global market and around 60% domestic market share within China for the wet-process separator market. A separator is one of the four main components of a battery. It is the permeable surface that sits between the anode and cathode within a battery to prevent a short circuit, while allowing lithium ions to pass through and charge or discharge energy stored.

From our initial investment in 2020, we have seen a steady improvement from Yunnan regarding its management of ESG factors – both operationally and with respect to disclosure. This has included its initial inaugural disclosure of a sustainability report. Our view is that while current practices are robust, demonstrating that Yunnan has made strides versus history, there are clear areas where progress can be made. Further action will help to dampen risk, alongside enhancing an attractive investment case with positive environmental outcomes as a member of the climate transition value chain.

Management is seeking to bolster capacity by three billion square metres annually, with an end goal to reach 16 billion square metres of total capacity and a global market share of 50% by financial year 2025. Towards the fourth quarter, we wrote to the board of directors. We underlined what we believe are prudent milestones to ensure that this expansion is undertaken in a responsible manner, and the next steps to enhance ESG-related disclosures.

Our first milestone related to obtaining International Organisation for Standardisation (ISO)certification (ISO14001 & ISO5001) across the full suite of underlying business units. As per the latest disclosure, the company has gained these certifications across certain aspects of the operations, but not the full suite. At abrdn, we use these certifications as a seal of approval for the quality of risk controls. We believe that all-encompassing certification would be viewed positively by the market and may help to cement leadership against peers.

Yunnan presently sets internal carbon emissions, energy consumption, waste intensity, and health and safety incidents at a factory level. However, these targets are not publicly disclosed. Our second milestone relates to the aggregation of these targets to a corporate level, and the public disclosure of these to the wider market.

In our view, the publication of multi-year targets would demonstrate the importance Yunnan ascribes to progress against ESG factors. The nature of the business, and its role within facilitating the energy transition, means that progress would further demonstrate a culture of continuous improvement towards greater positive societal impact.

We have received positive feedback from the secretary to the board of directors about our targeted milestones. We will continue to build on our dialogue at our subsequent engagement with Yunnan. And we will seek further details about the actions and timeline with which Yunnan will meet our milestones.

Key driver
Internal mandate

Key outcome
On track to meet objectives

Topic(s)
Environment and labour management

Engagement lifecycle status
Execute

Issue
Ecological impacts; labour practices; Employee health and safety

ESG impact on investment thesis
Enhances – clear desire to accelerate breadth of ESG progress to date

"Our view is that while current practices are robust, demonstrating that Yunnan has made strides versus history, there are clear areas where progress can be made."

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AIA

David Smith
Senior Investment Director

Joanne Cheng
Investment Manager

AIA is a leading pan-Asian life and health insurer. Headquartered in Hong Kong, the company traces its roots back to 1919 and currently enjoys a strong position in a number of high-growth Asian markets. We've invested in the company since its listing in 2010.

We spoke with the company about climate change and net zero, given the role that the insurance industry can play in managing climate-change risk and the way in which the insurance industry can be affected by climate change. While these issues have been part of our ongoing dialogue with the company over the course of our investment, we wanted to focus on issues around climate change and its implications for the insurance business. We also looked at the way the group thinks about climate change from an investment perspective.

In the context of the group's insurance operations, we discussed the ways that the group is thinking about the climate change impact on life expectancy and mortality risk. While the group believes it is relatively less exposed on this front, it agrees that literature is nascent. It typically focuses on the direct effects of temperature change rather than associated issues, such as a potential increase in the prevalence of vector-borne illnesses, including malaria. Given the role of climate and temperature change on the distribution and prevalence of mosquitoes, for example, this is a key issue for Asia's population – and for the companies that insure that population. It's clear that the group is thinking in a sophisticated way about this, which we found reassuring.

In the context of the group's investment operations, we discussed the ways in which it incorporates physical risk analysis into the investment process. The group has engaged with portfolio companies on the issue and it has asked them to report on where exposures might be, either in terms of assets or operations. Again, research and data are incomplete in this area and scenario analysis can help. They are also looking closely at transition risks, how they can conduct meaningful scenario analyses, and how they can increase engagement with portfolio companies.

We also discussed the group's thinking on net zero. We were reassured that the group is thinking about this is a positive way. At the time of our conversation, the group had already committed to divest from coal by 2021 and 2028 (for equities and fixed income, respectively), and it was studying the portfolio effects of a net zero pledge. AIA wanted to ensure there was integrity behind any pledge made, and that its plans were credible and realistic. When we spoke, the group was considering 2050 targets, across both insurance operations and the investment portfolio. We encouraged them to continue this work and to commit to a net zero target. We discussed the challenges around modelling for net zero, the availability of data, and constraints placed on the firm by national electricity grids in the region.

The call was very encouraging and we came away with the view that the group is thinking very carefully about the issues we discussed. This reinforced our view of AIA as an industry leader in ESG in Asia. Following our call, AIA announced the following measures: it had completed the divestment of directly managed listed equity and fixed income exposure to coal mining and coal-fired power businesses – well ahead of schedule; it was committed to achieving net zero greenhouse gas emissions by 2050; and that it was committed to the Science Based Targets initiative (SBTi). Our conversations on these issues will continue, but these are very positive developments.

Key driver
Internal driver

Key outcome
Influential in achieving change

Topic(s)
Climate change

Engagement lifecycle status
Implement

Issue
Climate change and net zero

ESG impact on investment thesis
Enhances

"We engaged with AIA, the pan-Asian life and health insurer, on climate change and net zero."

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GB-170522-175018-4