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abrdn's approach to sustainability risk integration

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Introduction

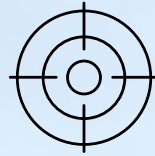
At abrdn, we view sustainability factors as an important element to how we invest. We believe that sustainability factors can be financially material and can meaningfully impact an asset's performance. An asset's ability to generate returns for investors is therefore also dependent on its ability to manage its relationship with the environment, its relationship with society and stakeholders, and on the way it is governed.

For the purpose of this document, we follow the definition of "sustainability factors", as provided in EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR); notably: "sustainability factors' mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters"¹. In line with this, in the following we use the term "sustainability" interchangeably with the term "environmental, social and governance", or in short "ESG".

Sustainability factors can represent both an opportunity as well as a risk to the future return of an investment. Whilst the consideration of potential sustainability-related opportunities is an important part of our investment process, in this paper we only focus on sustainability risks for our investments.

Sustainability risk integration is part of abrdn's Sustainable Investing Strategy which more broadly encompasses Sustainability Research & Insights; Sustainable Investment Standards & Frameworks; Operational Strategy; and Sustainability Products & Client Delivery.

This document outlines our approach and framework in relation to sustainability risk integration. It sets out how sustainability risk integration has been embedded into the processes and operating model of abrdn's investment business.



Products in scope

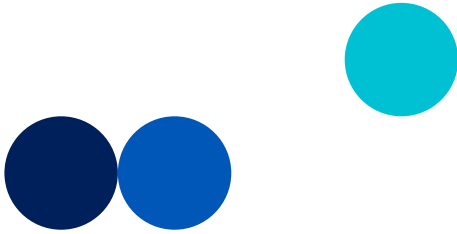
With the exception of certain investment strategies and/or financial instruments, we apply sustainability risk integration to all products, regardless of the products having specific sustainability-related features. The exceptions to which the approach is not applied include (but not limited to) selection of indirect third-party investments, and non ESG-linked derivatives. The reasons for not applying the integration approach include (but may not be limited to) lack of an agreed methodology to assess sustainability risks, lack of data or poor data quality. In addition, clients might ask for a different approach to be followed.

It is important to bear in mind that there are variations of the integration approaches across asset classes. We believe sustainability risks can be a key driver of financial performance for corporate and real assets but may be less relevant to the financial performance of other assets, such as government bonds and currencies. For private market assets, the extent of sustainability risk integration varies within the investment process and is tailored depending on the underlying investment and access route. As a result, our approaches to sustainability risk integration may be more granular for some asset classes compared to others; for instance, some asset classes will consider sustainability risks at the security level whereas other asset classes conduct a broader assessment of sustainability-related matters at portfolio level.

¹ EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), Article 2 (24).



Introduction



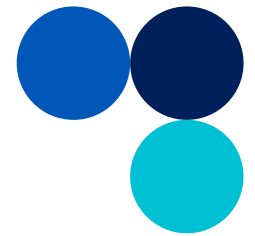
Our regulators' expectations

The EU SFDR has been the first major piece of sustainability-related financial regulation globally. The SFDR places a requirement upon firms to publish policies on the integration of sustainability risks in investment decision-making and disclose the approaches in financial products' precontractual documents. In addition, EU regulators have amended fund managers' fiduciary duties to ensure that sustainability risks are assessed on an ongoing basis and in addition to financial risks. Some key pieces of global regulation and regulatory guidance with regards to sustainability risks include:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability - related disclosures in the financial services sector (EU SFDR);
- Commission Delegated Regulation (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms;
- Guidelines by the Monetary Authority of Singapore (MAS) on Environmental Risk Management for Asset Managers;
- Circular by the Securities and Futures Commission (SFC) of Hong Kong on the Management and Disclosure of Climate-related Risks by Fund Managers;
- FCA Policy Statement 21/24 on enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers (UK).
- At the time of publication of this document, the US SEC is in the process of finalising sustainability-related disclosure requirements and the UK FCA is developing rules on Sustainability Disclosure Requirements (SDR) and investment labels.

This document is intended to address our regulatory obligations in relation to sustainability risk integration.

Understanding and identifying sustainability risks



The EU SFDR defines sustainability risks as follows:

Sustainability Risk

Means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

For the purpose of this document, we use the SFDR terminology of "sustainability risks" and apply the above definition. This definition captures the full range of environmental, social and governance (ESG) matters that might have a material negative impact on the financial return of an investment. In other publications and/or client communications, we may refer to "ESG risks" and "ESG integration" which are more commonly used terms in the market (to note though that "ESG integration" refers to the integration of both ESG risks and opportunities whereas this document focusses solely on sustainability matters as a risk factor to investments).

Sustainability risks differ from the SFDR concept of 'principal adverse impact' which are described in Commission Delegated Regulation (EU) 2022/1288 by means of a list of environmental and social indicators, including employee, respect for human rights, anti-corruption and anti-bribery matters.

Whilst sustainability risks focus on financial materiality and allow a better understanding of a company or asset's development, performance and financial position, the concept of principal adverse impacts focusses on environmental and social materiality and seeks to measure the negative externalities of investments. We consider principal adverse impact in the investment process of only a subset of funds and mandates in scope of EU SFDR; however, some of the principal adverse impact indicators may be equivalent or similar to the metrics we use for our sustainability risk analysis. For abrdn's entities in scope for EU SFDR entity reporting, we issue a separate statement on how principal adverse impacts are considered at the level of the entities. This statement can be found on the websites of the relevant entities.

The identification of the most material sustainability risks is the responsibility of investment managers. They will consider a broad range of risks related to environmental, social or governance matters, and may use external, such as the SASB Materiality Map, and/or proprietary scores to identify the risk to their investments. The actual sustainability risks considered will vary depending on the asset class as well as the sector/company, geography/operating model and financial instrument invested in.

In line with our key principles of sustainability risk integration (set out in the following chapter), a sustainability risk would not in itself prohibit an investment; instead, the analysis of sustainability risks forms part of the overall portfolio risk management process and sustainability risks are one of other risks considered to assess a specific investment opportunity.



Key principles of sustainability risk integration



We define sustainability risk integration as a risk-based assessment, utilising data where available, engagement where possible, and internal and external research & analytical tools to help support an overall investment decision, where it is material to the long-term interests of the client expectations. We have established five key principles that describe what sustainability risk integration means to us. These are:

- **Risk based assessment:** Identifying and assessing sustainability risks and integrating those considerations into investment decision-making is part of our risk analysis and aimed at avoiding or reducing risks to the financial performance of our investments. Funds and products that integrate sustainability risks into their processes are not aimed at achieving a sustainable outcome (unless the fund/mandate has additional sustainability-related features).
- **Financial Materiality:** Financial materiality is the key driver of our sustainability risk assessment. If a sustainability-related matter is deemed relevant, we will assess its impacts or likely impacts on the company's performance and subsequently the financial performance of our investments. This analysis is integrated into our investment decision-making. Unless a fund or mandate has a specific sustainability-related objective or strategy, sustainability risks will not necessarily be the determinative factor for portfolio construction. If a sustainability risk is not deemed financially material, it may not be considered in the investment decision-making.
- **Data:** We use data on sustainability matters to support our risk analysis. Depending on the asset class, we use a number of external data providers and expert advisors, we also rely on insights about investments obtained from direct interaction or engagement with the company, manager or asset. The data we use for our sustainability risk analysis covers a broad range of environmental, social and governance matters. Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality.
- **Research & Analytical tools:** We use external analytical and bespoke internal tools for our integration processes. We have developed bespoke internal tools, in collaboration with external partners, that help us identify and understand the impact of sustainability risks and support our investment decisions. The use of research and analytical tools may not be binding for the investment process.
- **Active ownership:** Engagement with investments is an important part of our sustainability risk integration approach and we will engage if we see a need and an opportunity to gain insights and/or to influence an investment's direction of travel. Where we have rights, we may vote at AGMs of target companies to drive change.



Investment due diligence



Investment due diligence processes

abrdn's investment desks have developed bespoke approaches of integrating sustainability risks into their investment processes. The following provides a high-level outline of those approaches.

Equities

In Active Equities, understanding environmental, social and governance (ESG) factors can complement broader understanding of a business' competitive positioning and help build out an investment case.

Why integrate: We believe that looking at ESG information, including the way we collect ESG information, gives us an information advantage. The way we systematically integrate ESG factors into the investment process contributes to our analytical edge. Incorporating ESG factors into company analysis and using these factors to understand quality, the drivers of value and risks to that value, we gain an analytical edge over the market where peers do not consider ESG factors. Finally, by better understanding the quality of companies, and with ESG being a component of quality, we can act on a more informed and more rational basis during periods of volatility, giving us a behavioural edge. Better understanding the inherent drivers of quality means that we can use volatility to our advantage.

Integrated ESG analysis for us covers qualitative analysis in our research, active ownership and engagement, and investment decisions and portfolio construction.

Qualitative analysis: ESG Quality Rating In Stock/Research

Notes: The stock analyst owns the ESG recommendation and assigns an ESG Quality (ESG Q) rating of 1-5, with 1 being 'best in class' and 5 representing a 'laggard' as part of the stock note. This score is the summary of research into the most material environmental, social and governance risks and opportunities, and an assessment of how the business is managing its exposure to ESG factors. The ESG Q score reflects analyst views on the degree to which the ESG factors impact a company's performance. To conclude on the ESG Quality rating, our analysts answer four key questions:

1. What is our view on the quality of the corporate governance and oversight of the business and management?
2. What are the most material environmental, social, and operational governance issues the company must manage and how are these being addressed?
3. What is our conclusion on how the management of the most material ESG risks and opportunities will impact the business' operational performance and valuation?
4. What is our ESG Q score/rating and how does it factor into the investment conclusion? Does this differ from the abrdn House Score and MSCI? Do we have a differentiated view?

To answer these questions stock analysts must determine which ESG factors are financially material to form a forward looking view on how the business will manage ESG risks and capture ESG opportunities. The analyst is focused on ESG factors that are 'decision useful' and allow the stock analyst to understand any impact on future business performance, financial position, and/or market perception. Stock analysts consider both current and future impacts of material ESG factors on businesses. These factors can vary within the same industry based on multiple factors, such as, geography and company size.

Active Ownership Assessment: ESG integration in

engagement: In our research and analysis of these ESG issues we identify any concerns we may wish to discuss with companies. We then set engagement objectives according to the circumstances at each company. There are two core reasons for engagement:

1. To understand more about a company's strategy and performance.
2. To encourage best practice and drive change.

Investment due diligence



Our engagements also give us an opportunity to source additional information and potentially to:

- **Identify an information gap:** if a company does not disclose ESG information and the market is unable to form a robust view of its quality, its shares may be priced inefficiently. Using our research capabilities including on-site and face to face visits, we are able to develop an informed view of the company and to identify any pricing inefficiency that we find.
- **Close the information gap:** if we own a company that is misunderstood by the market, we can work constructively with the company's management team to encourage improved and enhanced disclosure, allowing the market to better understand, and hence better price, the company's securities.
- As part of our engagement, companies are encouraged to set clear targets or key performance indicators on all material ESG risks to enable performance monitoring.
- **Integrating ESG into investment decisions:** ESG factors are a core component of how we view the quality of a business, and they influence our research discussions and inform our portfolio construction. Peer review provides oversight for all our investment analysis and ESG factors are no different. We have robust debates and challenge each other on our ESG analysis and its relevance to investment cases and decisions. These discussions are then used to support investment decisions across our range of portfolios.

Portfolio construction

ESG factors are a core part of how we define Quality. Portfolio meetings are where we review the outcomes of team-based sector reviews and discuss specific companies that meet a particular fund's mandate. We would expect ESG and material factors to be part of portfolio discussions. Whilst a simplification, the higher quality a company, and the more conviction we have in the company, the more of that company we might elect to buy (whilst being sensitive to valuations and portfolio mandates). ESG is a part of the discussion around 'position sizing', or how much of a company to buy. We then construct a portfolio of Quality companies, having considered ESG factors and their impact on our different Quality outcomes.

Fixed Income

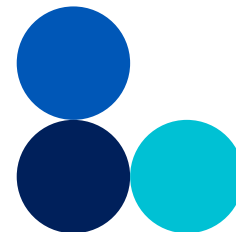
Fixed Income Research Integration: For both public and private credit, analysts provide the ESG assessment of a company and assign an ESG Risk Rating to each issuer ranging from Low, Medium, High (Low is better). This is credit profile specific and represents how impactful they believe ESG risks are likely to be to the credit quality of the issuer now and in the future. A rating of "High" indicates that there are potentially significant risks whose impact and timing could negatively affect the credit profile of a company. This approach is used across the majority of our credit research teams with the exception of Fund Finance which may assesses ESG using a dedicated questionnaire designed to highlight any ESG 'red-flags' and some of our structured credit products.

ESG considerations are hardwired into our sovereign bond investment processes as well. Our Developed Market ("DM") and Emerging Market ("EM") teams use proprietary models that assess the performance of a country's ESGP factors, where P stands for politics, highlighting the importance of political drivers in sovereign analysis. Pillar scores combine under a quantitative approach and generate a country score of 0-100 (100 being the best). Although there are a number of common data sources, DM and EM models are tailored to represent the different dynamics of each asset class. For our emerging markets model, in addition to quantitative indicators, we assign a 'Direction of Travel' (DoT) Score (positive, neutral or negative), which is based on qualitative internal research, to gauge whether a country is on an improving or deteriorating ESGP trend.

Portfolio Construction: At a company level, ESG factors can influence the size of positions we take – either positively or negatively. Thematic research – including environmental management, climate change, human rights, and labour practices – contributes to our sector assessments and top-down views, both of which influence portfolio risk themes. Our portfolio analysts have access to a combination of tools (where relevant to the asset class), for more detail please refer to the Additional tools and metrics section below.

For government bond strategies, it is the responsibility of portfolio managers to carefully analyse whether or not a country's performance across ESG factors is material and relevant to the investment case for a country's debt.

Investment due diligence



In many cases while ESG concerns can be significant, exogenous forces (like quantitative easing) can completely dominate other potential bond market drivers.

Active Ownership: The Fixed Income Team actively engage with many companies on ESG issues. This provides a forward-looking view of the ESG strategy. This can help to highlight future risks and opportunities that should be factored into valuations. Importantly this also provides the ability to actively influence a company's management of ESG issues in line with best practices.

Engagement also allows us to gain a better understanding of the investment risks and opportunities posed by environmental social and governance factors affecting a country. Sovereign engagements may be held with a variety of different sovereign stakeholders including a nation's Debt Management Office, Central Bank or Ministry of Finance. In the sovereign space, engagement outcomes can be harder to attain on issues such as climate policy due to: 1) lack of access to the relevant policy decision markets and 2) inherent politics. However sovereigns regularly seek feedback on their labelled bond frameworks and here we can play a much more active role in shaping outcomes. Given the relatively low levels of individual investor influence in the sovereign debt market, collaborative engagements play a vital role when engaging with sovereigns.

Engagement activities in Private Credit can be split into two stages of the process 1) Initial due diligence & underwriting prior to investment and 2) ongoing monitoring of the investment. During the initial due diligence phase we engage to understand the risk and opportunities the underlying assets or companies are exposed to. We may do this via direct conversations with management or technical advisors where applicable e.g. in Commercial Real Estate debt we will have access to specialist environment reports. Our greatest ability to set milestones for our Borrowers occurs prior to investment where we may be able to negotiate certain ESG KPIs, ESG reporting or other ESG related structuring requirements into the legal documentation governing the investment.

Following initial investment, there are regular opportunities to engage with management and where material, ESG will be discussed as part of this ongoing dialogue.

Direct Real Estate

This asset class is not accessible to retail investors.

ESG forms an integral part of the abrdn Real Estate investment process, from the due diligence phase and throughout the ownership period. The ESG approach groups material sustainability indicators into four main categories: (i) Environment & Climate, (ii) Demographics; (iii) Governance & Engagement; and (iv) Technology & Infrastructure. This approach allows the identification and promotion (where relevant) of material ESG risks and opportunities relevant to a fund's investment strategy, sector and geography.

The ESG considerations are incorporated in the investment due diligence through a standardised ESG due diligence checking which includes an assessment of factors such as flood risk, contamination risk, alignment with regulatory requirements and identification of opportunities (e.g. decarbonisation).

During the ownership period and the life of a fund, ESG risks and opportunities are considered through the Asset Management Plans and the fund Strategic Plans. The Asset Management Plans includes an ESG section to capture ESG actions for each asset where applicable and appropriate (such as energy, water and waste related improvements). The annual fund Strategic Plans sets the focus and strategy of the fund and includes (1) ESG performance and risks, as well as (2) longer term strategic goals. The Annual Strategic Plans are approved by the Investment Strategy Committee.

To further enhance ESG consideration in the investment management analysis, abrdn has created a bespoke proprietary solution (the "ESG Impact Dial") to assist in further defining ESG aspirations and targets and measure performance against these targets.



Infrastructure

This asset class is not accessible to retail investors.

The abrdn Infrastructure investment management team assesses ESG factors in the investment process in line with the below principles. The consideration of ESG factors aims to mitigate material risks and promote positive ESG outcomes in support of the investment objective of the funds and assets managed.

- Identify material ESG risk factors when screening investment opportunities with the help of an internally developed ESG Screening Tool;
- Identify and capture opportunities to deliver positive outcomes and solutions for society, which support long term value creation;
- Agree specific objectives to set strategic direction and work with portfolio companies' management teams to ensure execution. Each investment will have a ESG Value Creation Plan defining the actions that will be taken to address any material ESG risks, if applicable.

Focus lies on factors material to direct infrastructure investments. These vary depending on an asset's sector and geography but can include the safe and sustainable operation of assets that provide essential services to the public, supporting climate change mitigation and adaptation, and social and employee matters including respect for human rights, anti-corruption, and anti-bribery concerns. Engagement with the leadership of each of the portfolio companies consists of: challenge and encouraging leadership teams to set appropriate targets, to put in place robust and transparent management processes, and to meet best practices in their operations. This process is designed to minimise ESG risks and enhance and protect long term value through ensuring the asset is attractive for future owners and doesn't become obsolete.

Private Equity

This asset class is not accessible to retail investors.

The abrdn Private Equity team's incorporation of ESG principles into their investment process centres their ESG analysis on the operations of the underlying private equity manager. Taking into account the diverse nature of the private equity asset class, each fund will have varying degrees of exposures to ESG-related risks and opportunities and there will be variations of the manager's approach to take these considerations into account. An ESG analysis is undertaken for each investment as part of the investment due diligence and portfolio construction processes aiming to identify ESG risks and opportunities:

- Primary investment: Assessment typically includes analysing private equity manager's ESG cultural buy-in, its ESG process, procedures and reporting, its engagement with underlying portfolio companies and the internal Operational Due Diligence review of the manager and the fund.
- Co-investment: Assessment includes a detailed review of the underlying company taking into account sector and company analysis using both internal and external expertise.
- Secondary investment: Leverages primary investment and/or co-investment processes depending on the transaction characteristics. If the secondary is concentrated in a small number of underlying portfolio companies then it may follow the co-investment process. The primary ESG assessment of the private equity manager will be taken into account where possible. It is recognised that there is little scope in most secondary transactions to change the structure or governance of the funds being acquired or of their managers.



Multi-asset

Multi Asset Investment Team has embedded ESG experts within the team and set up an ESG steering group to coordinate investment activities. The team also draws on abrdn Investment Sustainability Group (see details on page 14), which provides bespoke research on areas such as environmental responsibility, climate change, human rights and governance issues. ESG integration varies across portfolio management approaches.

Where multi-asset strategies use abrdn's active equity and credit funds (see points above), ESG integration and active ownership are applied. When using derivatives or passive index trackers, the opportunity to integrate ESG can be limited. In some cases, ESG factors play a role in background thinking about structural economic trends (e.g. demographic shifts, the transition to a low carbon economy). In other cases, ESG can be a primary driver of strategy selection, for example, when making thematic allocations to green technologies. The investment managers use a variety of ESG metrics to help to identify including ESG scores, materiality mapping, controversy flags and carbon intensity metrics. Climate scenarios are also used to support long-term expected return forecasts for Strategic Asset Allocation. In addition, where appropriate the multi-asset team may also follow a comparable process to the indirect/fund of fund strategies.

Liability solution driven

This asset class is not accessible to retail investors.

Where the funds integrate a growth component by investing in Multi Asset strategies, the same processes described above apply. The pure LDI as well as the LDI component of the integrated funds invest primarily in UK government bonds (gilts), gilt-based instruments (such as repurchase agreements and TRS) and other OTC derivatives (IRS, inflation swaps).

The role of ESG considerations is important due to the long-term nature of many contracts that the funds enter into (e.g. swap contracts). As such, ESG risks are taken into account in selecting and reviewing our counterparty panel of banks (ISDA and GMRA). abrdn uses an internal standardised credit framework to assess ESG risk across counterparties; the framework produces a score on several ESG elements which then feed into an overall score and risk rating for each counterparty.

Decisions (e.g. to halt trading with a counterparty) have been taken on ESG grounds.

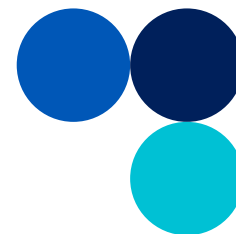
Regarding sovereigns, the UK government's recent issuance of green gilts represents a way to incorporate sustainability into LDI allocations. Proceeds from green gilts will be allocated towards Eligible Green Expenditures in accordance with the UK Government Green Financing Framework. Our LDI funds' allocation to green gilts is a function of a range of factors and our considerations are outlined in our thought leadership pieces on the topic. Within the same legal umbrella as the LDI funds (abrdn Liability Solutions ICAV), we also have buy & hold credit funds. For ESG integration in relation to those funds, please refer to the Fixed Income section on page 8.

Indirect/Fund of Funds strategies

This asset class is not accessible to retail investors.

As part of investment process, the research team reviews each 3rd party fund manager's approach towards ESG-related issues at both the Firm- and the Fund-level. The Investment Team survey all Approved managers annually (at a minimum), using an ESG questionnaire which focuses on understanding the managers' adherence to industry principles, evolution of ESG policies and key ESG risks of the investment and how they are being addressed. Depending on the investment strategy and asset type, in order to identify and track key ESG risks, the team may use a materiality matrix based on the Sustainable Accounting Standard Boards (SASB) Framework. Based on this analysis and the questionnaire each fund or target investment gets an ESG Score or rating. Given the indirect nature of the investments, governance is a key focus area for assessment.

Whilst a low ESG score at either the Fund- or Company-level does not necessarily prevent an investment, it is taken into overall consideration during investment decision making. We are always keen to note a Firm's willingness to engage and consider improving upon areas which we deem to be relevant but where we deem it to be deficient. It is difficult for fund of fund businesses to dictate the underlying fund's policies around Environmental and Social areas, but there is a strong encouragement for the underlying fund managers to adhere to industry standards and principles (e.g. as set out by UNPRI or benchmarks such as GRESB, where applicable).



Depending on the asset class of the underlying manager, the investment teams may be able to drill down further, at a holdings level, using the third-party data providers to analyse portfolio exposure from an ESG perspective. Results are combined in order to assess portfolio level positioning, track trends and benchmark responses.

Active ownership

Active ownership is an important part of our sustainability risk integration approach. For example, when we invest in corporate assets, engagement can provide a forward-looking view on the management of sustainability risks and the ability to encourage value enhancing best practice standards. It allows the setting of milestones to encourage best practice or to identify leaders and laggards within a sector. Engagement enhances our investment process at multiple stages:

- **Research:** Meeting with key company stakeholders enhances our insights into the management of sustainability factors, their future planning and importantly provides us with the opportunity to raise any concerns - setting milestones to track and for companies to deliver to. Insights gained can impact an analyst's assessment of a company.
- **ESG data:** ESG data can often be backward-looking, and some asset classes have lower coverage. Engagement is a useful tool to enhance data transparency. For example, we can seek to obtain information on; revenue contributions to activities; how any historical/current controversies are being managed; CAPEX commitments and decarbonisation targets. This enhances our view of a company and in some circumstances enables us to invest in the positive direction of travel of these companies.

Where relevant, we engage with all our investments (beyond companies) and further details on this can be found in the outline of desks' integration processes.

Portfolio construction: Conducting thematic research leads to broad based engagement with multiple companies on material ESG themes. This has a number of benefits;

- we can identify the leaders and laggards managing to this risk / opportunity;
- provides a feedback loop to enhance our proprietary models by reflecting our conclusion of materiality to change model weights, add or remove E & S factors or in some instances directly adjust an individual companies ESG score based on our robust bottom-up assessment.

Investments desks will set their own engagement priorities which will depend, amongst others, on the type of sector/companies invested in, targets set by clients, and/or controversy flags. Investments desks will decide in line with their desk-level processes if engagement on a sustainability risk will be carried out.

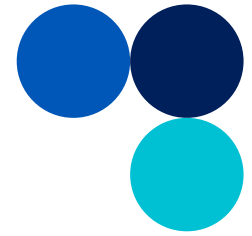
Additional tools and metrics

With a view to supporting investment teams in this process, abrdn have developed a number of tools and capabilities. The use of these tools is not mandatory and as such the below may not be part of the investment process. The degree to which these tools are used in the investment process and are influencing investment decision-making also depends on the tools' relevance for a specific asset and the sustainability-related characteristics or objectives of the product (as specified in the documentation of the product).

Our additional tools to support the investment process include (non-exhaustive):

Climate change tools

- **Carbon metrics:** The analysis of carbon metrics enables portfolio managers to understand the carbon intensity and absolute emissions of their portfolios and holdings over time and it provides a baseline for benchmarking and decarbonisation. In 2021, we expanded our carbon metric capabilities to sovereign bonds.



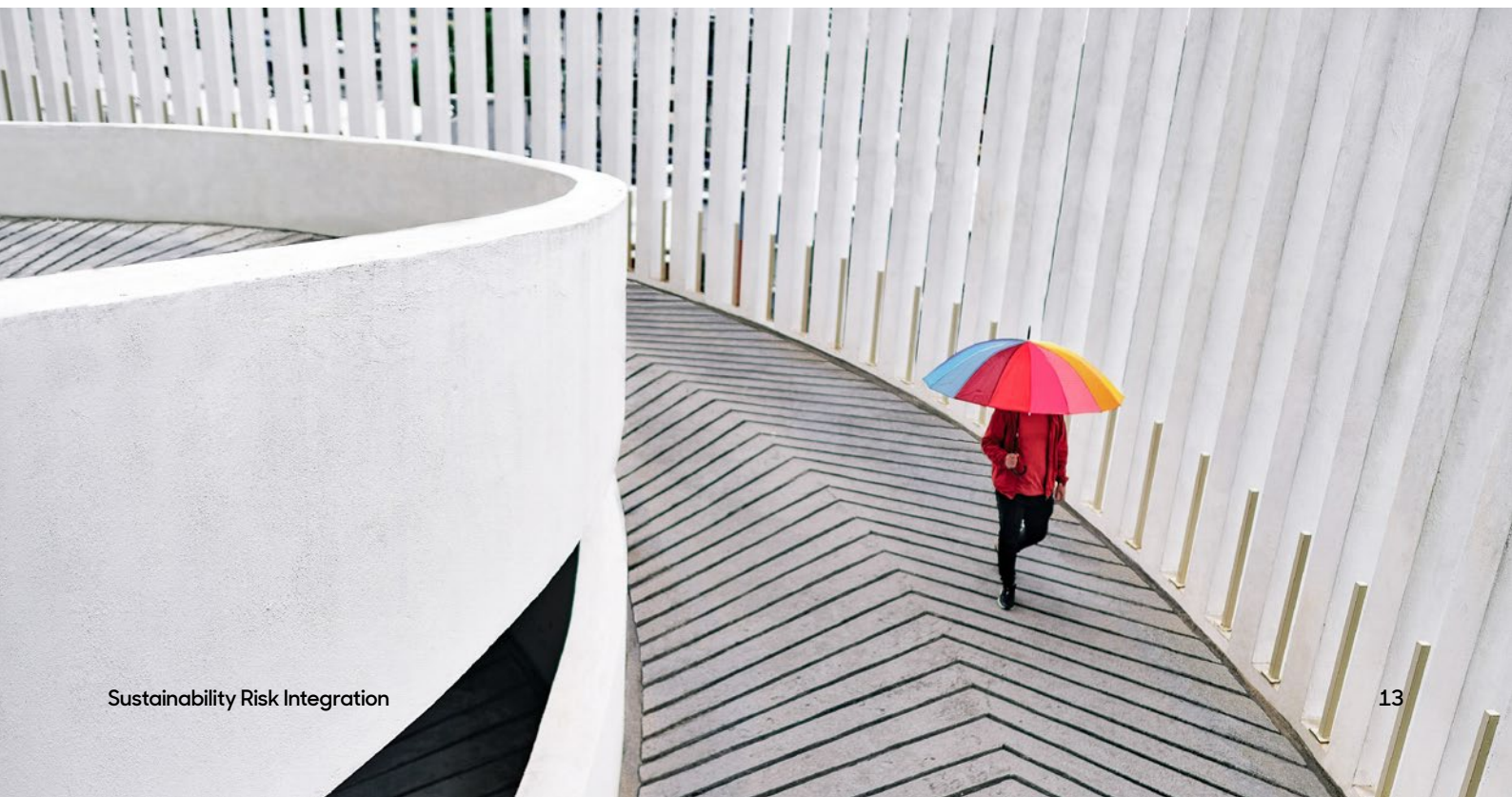
- **Climate scenario analysis:** Provides a forward-looking view on the risks and their impact by geography, sector, and individual company level. This enables us to assess the impact on future pricing and to consider the outcomes for:
 - Climate-resilient portfolio construction: make current investment portfolios more climate-resilient to different pathways by incorporating the risks and opportunities identified in the climate scenario analysis into our portfolio-construction process.
 - Climate-driven solution development: develop new climate-driven products and benchmarks to enable clients with climate-specific goals to achieve these in a research-founded, measurable manner.
- **Climate policy index:** We have developed an index which builds on the IIGCC-recommended Climate Change Policy Index, incorporating it into our in-house climate policy expertise and adding a weighting to reflect the central role of policy action in the energy transition.

Thematic research

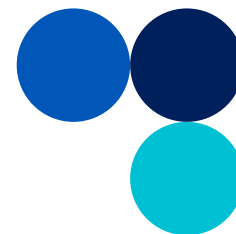
abrdn's Investment Sustainability Group (see details on page 14) carries out forward looking sustainability research and thought leadership across four pillars (Climate Change, Nature, Society and Governance).

ESG House Score

abrdn has developed a scorecard for companies using over 100 key performance indicators (KPIs) across six core areas: climate change, environment, labour management, human rights and stakeholders, corporate behaviour and corporate governance. The ESG score provides a view on the company's ESG risk level relative to peers.



Sustainable investing governance



In 2022, abrdn appointed a Chief Sustainability Officer to lead the sustainable investing strategy for abrdn's investment business. The Chief Sustainability Officer heads the Investment Sustainability Group (ISG) which consists of four specialised teams:

- Sustainability Insights & Climate Strategy
- Sustainable Investing
- Active Ownership
- Sustainability Investment Specialists (APAC and Americas resources and Sustainability Institutes sit within this function).

In addition, to ensure consistency in setting and applying the sustainability-related strategy and framework, a Sustainable Investing governance structure was created, consisting of the Sustainability Council, the Strategy Groups and the Enablers (explained in the following).

Sustainability Council and Strategy Groups

The Sustainability Council has been set up to uphold abrdn's ambition with regards to Sustainable Investing, through the delivery of sustainability-informed investment solutions and outcomes. The Council oversees the sustainability investment activity, including investment products and strategies, and it provides an escalation mechanism for all sustainable investment matters. The Council is chaired by abrdn's Chief Sustainability Officer who is also a member of the Investment Business Executive.

The following '**Strategy Groups**' are a key part of the governance structure and feed into the Sustainability Council (non-exhaustive list of Strategy Groups):

- **Sustainable Investing Strategy Group (SISG)** – The SISG supports the development of the overall ESG and Sustainable Investment strategy across all asset classes. The cross-functional group provides the relevant expertise and insight to pursue the best long-term outcomes for our clients within the Investment Vector. This Strategy Group is chaired by the Head of Sustainable Investing and its members are the Heads of ESG of all asset classes, the Head of Active Ownership and the Head of Sustainability Insights.

- **Sustainable Product Strategy Group (SPSG)** – The SPSG supports the development of the Sustainability Fund Range offered by abrdn. The cross-functional group provides the relevant expertise and insight to guide the development of the existing range and new additions. This Strategy Group is chaired by the Global Head of Product Strategy and comprises of product, client and ESG asset class representatives.
- **Sustainability Institutes, APAC & Americas** – The Institutes' mission is to set and manage the regional sustainability strategy, deliver regional-centric sustainability solutions and insights, build local sustainable investing knowledge community and contribute to regional progress. The Institutes are chaired by the regional Heads of Sustainability Institutes.

There are further '**Enablers**' that support the Strategy Groups of the Sustainability Council. Some of these include (non-exhaustive list):

Sustainability Research Forum – The Forum produces, discusses and promotes delivery on research priorities set by SISG and promotes sustainability insights across asset classes.

Sustainable Standards Group (SSG) – The SSG's remit is to uphold standards in abrdn's investment process to ensure they stand up to scrutiny, reflect client objectives and ensure rigorous internal standards with focus on screening and standards breaches (including potential cases of controversies). The SSG is chaired by the Head of Sustainable Investing and is composed of colleagues from the Investment Sustainability Group and has representation from Product and Compliance.

ESG Regulatory Taskforce – The Taskforce assesses new regulatory developments and market standards across all abrdn investment business jurisdictions with ad-hoc working groups to mobilise business engagement and understand implications for the business. The Taskforce brings together colleagues from global Compliance teams, Public Affairs, Corporate Sustainability, the Investment Desks, and the Investment Sustainability Group.

Sustainable investing governance

Three lines of defence

abrdrn operates a 'three lines of defence' in the management of sustainability risk ensuring that there are clearly defined roles and responsibilities within our Enterprise Risk Management Framework:

First line: Investment teams have the primary responsibility for identifying, assessing, and managing sustainability risks, alongside other risks to investments. Sustainable investing governance committees, support investment desks with regards to the overall sustainability risk integration framework and its implementation and supporting investment teams in understanding the regulatory environment.

The Investment Sustainability Group supports the investment desks in the implementation of their sustainability risk integration processes, for instance, with research and engagement activities.

They assess 'ESG claims' prior to publication, using a dedicated framework to test if these claims are clear, fair and not misleading.

Second line: Investment Risk oversees ESG-related portfolio composition factors. The overall RAG status of funds as well as action taken to address moderate / high risks are reported to boards, and relevant committees as required, on a regular basis.

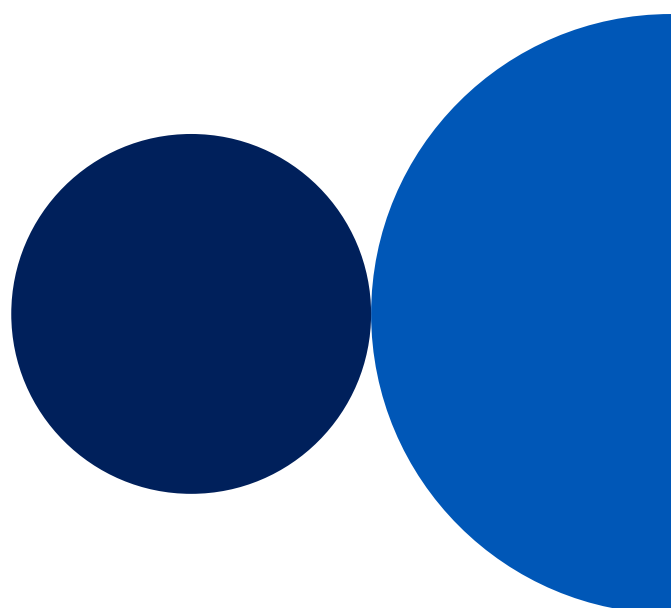
Compliance Teams assess sustainability-related, global regulatory developments and monitor abrdrn's compliance with those rules. Compliance teams further review fund material including marketing material to ensure that sustainability related statements are clear, fair and not misleading.

A dedicated Monitoring & Oversight team operates a risk-based programme, which incorporates sustainability-related regulations, to provide assurance to senior management over the effectiveness of controls to ensure regulatory compliance. The outcome of the reviews is reported to the relevant entity boards and other governance forums, including the Risk and Capital Committee, Group Audit Committee and Executive Leadership Team Controls meeting. Assurance activities include thematic reviews of risk or regulatory topics and focused reviews on specific regulatory or customer outcomes.

Disclosure documents, including regulatory and product marketing material are subject to a risk-based compliance sign-off to ensure material is fair, clear and not misleading as well as consistent and proportionate with sustainability-related statements.

Third Line: abrdrn's Internal Audit function conducts internal audits of sustainability rule implementation as part of its internal audit agenda.

In addition, as part of the abrdrn group audit plan methodology, risk assessments are carried out considering various factors including changes to regulations and developments impacting the firm, which may result in reviews relating to greenwashing.



Approach to Anti-Greenwashing



Our Stance

We maintain a firm commitment to preventing greenwashing risk at abrdn.

What is Greenwashing?

As a general approach, abrdn defines greenwashing in the context of the finance industry as the misrepresentation of sustainability credentials, whether deliberate or inadvertent.

Greenwashing may manifest in various risk categories including regulatory, compliance, legal, strategic and reputational risks for the firm. In addition, greenwashing has significant negative consequences for the broader financial markets and could impede the green transition as well as undermine the effective allocation of capital.

It is imperative that abrdn is able to identify, monitor and manage these risks and their potential drivers with care by understanding how greenwashing may arise in our investment process and product offerings.

Due to the evolving nature of greenwashing, we refer to guidance provided by various regulators on what greenwashing means to help ensure our business is aware of the latest relevant interpretations. For example, standards and regulations that can be used to help identify and prevent greenwashing fall into categories such as:

1. Disclosure and reporting standards;
2. Labelling standards;
3. Firm-level standards for governance, oversight and risk integration;
4. Standards for providers of ESG ratings and ESG data products;
5. Green taxonomies; and
6. Net zero integrity standards.

We continue to monitor the evolution of the term greenwashing by tracking the statements and guidance issued by regulators and other international bodies and assessing their impact on our firm's practices. We believe that these regulatory developments play a critical role in helping our clients to be comfortable that the products and services they use do indeed deliver the outcomes they expect.

How We Address Greenwashing

abrdn is committed to ensuring transparency of our intentions in relation to Sustainable Investment by continuously reflecting on and evaluating our governance, product development, due diligence, disclosures and marketing communications strategies.

We apply regulatory guidances where applicable such as the UK FCA guidance on tackling greenwashing to ensure that our ESG-related claims are clear, fair and not misleading.

Accordingly, abrdn will ensure that our sustainability-related claims are:

- Correct and capable of being substantiated;
- Clear and presented in a way that can be understood;
- Complete – they should not omit or hide important information and should consider the full life cycle of the product or service; and
- Fair and meaningful in relation to any comparisons to other products or services.

In order to do this, we acknowledge the need for robust governance and oversight and leverage on the wider sustainability risk integration framework to address greenwashing as a key risk.

This includes leveraging on the three lines of defence model for key processes including product development, due diligence, disclosures and marketing communications strategies.

In particular for oversight of disclosures and marketing materials, a risk-based approach is applied with a key check being the review of any information promoting sustainability-related aspects of a fund. The information is checked to ensure that it is consistent with the information included in the legal and regulatory documents, which would include but not be limited to checking that information on sustainability-related aspects does not outweigh the extent to which the fund integrates sustainability-related characteristics and/or objectives.

We do not condone any form of intentional greenwashing-related activities and seek to ensure that our external disclosures, marketing material and customer communications do not mislead customers as to our Sustainable Investment and/or ESG credentials.



We believe that increasing awareness is a key method of managing greenwashing risk.

abrdn has a range of methods in place which help to educate our stakeholders. This includes but is not limited to:

- Development of internal ESG training programme (Grow Sustainably Academy) – the programme aims to ensure that relevant staff across the Investments business have the minimum level of knowledge on ESG issues and provides content for specific teams and functions that is tailored to their roles and responsibilities, local regulatory requirements, client needs and expectations. Greenwashing is a key risk to asset managers, like abrdn, and as such, is an 'essential' training session rolled out to Investment teams and client-facing colleagues on an ongoing basis. Furthermore, the Marketing Risk team within abrdn provide social media training for staff who use social media as part of their role with abrdn.
- Delivery of training to certain entity boards on the risks of greenwashing;
- Making a detailed sustainability risk integration approach available externally;
- Development of clear documentation to explain our investment approach (e.g. how Principle Adverse Impacts (PAIs) are considered within our investment process).

Regulatory Change Across Jurisdictions

We recognise that the topic of greenwashing risk is continuously evolving, including the treatment and view of what are considered greenwashing risks across jurisdictions.

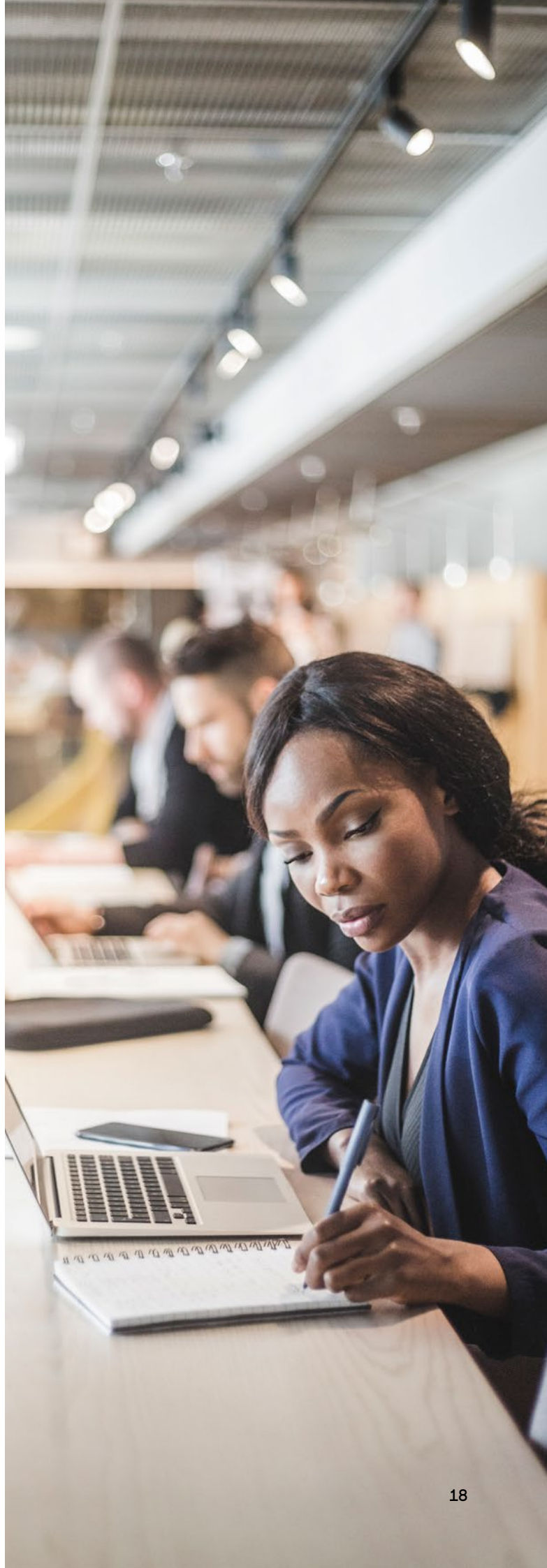
Accordingly, we regularly review our approach to ensure that we remain aligned with the interests of abrdn's clients, our needs and regulatory expectations.



Risk management

Sustainability risk management starts with the investment teams who have the primary responsibility to identify, assess, manage and mitigate sustainability risks in their portfolios. The risk management may include the assessment of the potential impact of the risks on an asset's credit profile and therefore the fair value pricing of an investment; supporting diversification by investing in disruptors impacting competition within sectors; and mitigating unintended portfolio correlations with overarching ESG themes able to impact interlinked companies and sectors such as regulation on carbon pricing, social reforms on minimum wages or working practices.

All investments made by any abrdn entity are subject to our position statement on controversial weapons (primarily cluster munitions and anti-personnel landmines) which can be found on abrdn's website.





At abrdn, we use a variety of sources to obtain data in relation to sustainability matters. These vary depending on the type of asset invested in (such as corporate, real asset, sovereign) and include company direct disclosure (annual reports, sustainability reports, etc.); company indirect disclosure (government agency published data, etc.); insights obtained directly from companies through our engagement with them; data obtained from the properties we invest in; publicly available data in relation to sovereigns from sources such as the World Bank and the United Nations Development Program.

We work with several third-party ESG data providers and use their data points both as inputs into derived analytics, such as internal ESG house scores, as well as in raw format, for example in screening. As part of our onboarding process, we ensure that these providers have appropriate quality assurance in place. On an ongoing basis we have both qualitative governance and challenge processes as well as quantitative checks to understand quality of data, data inputs and gaps where appropriate.

Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality. Where data is unavailable, we may choose to leverage estimated metrics.



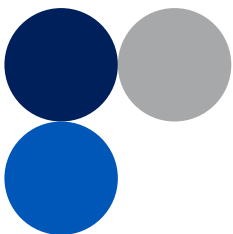
Conflicts of interest



abrdn's Conflict of Interest Group Policy requires each Business, Business Region and Functional Area to adhere to applicable laws and regulations. This also applies to sustainability-related requirements and relevant regulations in this regard include (but are not limited to):

- Commission Delegated Regulation (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

Conflicts of interest in relation to sustainability can arise in different situations, including during product design, sustainability risk assessment and management, voting and engagement, etc. Conflicts of interest in relation to sustainability can result in unfair treatment of clients and customers, such as greenwashing practices, and other adverse outcomes. abrdn follows the existing processes to identify, assess and manage conflicts of interest in relation to sustainability matters. Conflicts identified are captured in our conflicts of interest register.



Important Information

The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

This document is strictly for information purposes only and should not be considered as an offer, investment recommendation, or solicitation, to deal in any investments or funds mentioned herein and does not constitute investment research. abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Applying ESG and sustainability criteria in the investment process may result in the exclusion of securities within the universe of potential investments. The interpretation of ESG and sustainability criteria is subjective meaning that products may invest in companies which similar products do not (and thus perform differently) and which do not align with the personal views of any individual investor. Furthermore, the lack of common or harmonised definitions and labels regarding ESG and sustainability criteria may result in different approaches by managers when integrating ESG and sustainability criteria into investment decisions. This means that it may be difficult to compare strategies within ostensibly similar objectives and that these strategies will employ different security selection and exclusion criteria. Consequently, the performance profile of otherwise similar vehicles may deviate more substantially than might otherwise be expected. Additionally, in the absence of common or harmonised definitions and labels, a degree of subjectivity is required and this will mean that a product may invest in a security that another manager or an investor would not.

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(entities as at 04 December 2023)

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