



This is a marketing communication.

For Professional and Institutional Investors.

In Switzerland, for Qualified Investors.

In Australia, for Wholesale Investors.

Not authorised for distribution to retail investors.

# abr dn Core Infrastructure

Approach to Sustainability  
Integration – February 2024

[abr dn.com](https://www.abr dn.com)

# Contents

Introduction and purpose

3

Approach to sustainability

4



Sustainability factors can be highly material to performance for infrastructure assets. We aim to mitigate material sustainability risks and promote positive sustainability outcomes in support of our investment objectives.





# Introduction and purpose

## Introduction and Scope

abrdrn's Core Infrastructure team is a direct infrastructure investor. Since 2015, our strategy has provided clients with access to core/core-plus, small- to mid-market infrastructure with the objective of delivering stable, long-term returns. We invest in assets across the energy, utilities, transport and digital sectors in Europe. We take a majority or significant minority position in all investments, ensuring strong governance rights.

This approach document applies to the direct funds and investments managed by the team and is reviewed annually.

## Our vision and purpose

As long-term infrastructure investors, we need to understand and assess the risks and opportunities presented by a dynamic and changing world. This has many dimensions including markets, policy, politics, technology, demographics, and the physical environment. Having the tools and expertise at our disposal to analyse and price assets, and to drive positive change during ownership, are key to delivering the best outcomes for our clients.

Long-term investment performance is our objective. Investment in new and existing infrastructure assets is vital to address many societal and policy imperatives. These include energy security and affordability, decarbonisation, mobility and digital connectivity. Sustainability factors<sup>1</sup> can be highly material to performance for the infrastructure assets providing these services. We therefore aim to

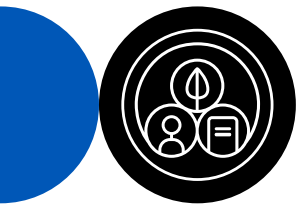
mitigate material sustainability risks and promote positive sustainability outcomes in support of our investment objectives.

Our approach is underpinned by two fundamental principles, detailed below.

- **Financial materiality.** Sustainability factors can be material to long-term value for infrastructure investments. We therefore assess them alongside all other relevant risks and opportunities.
- **Active ownership.** Board representation and our hands-on approach enable us to influence long-term value during ownership. We always have board representation, appoint an independent non-executive and work proactively with management teams and partners.

This document describes how the team integrates these principles throughout the investment lifecycle.

<sup>1</sup> 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."



# Approach to sustainability

## Sustainability throughout the investment lifecycle

Our investment and asset management process integrates the analysis of sustainability factors, alongside all other material considerations<sup>2</sup>.

### 01 Research, insight and industry engagement

We work with our advisers to monitor sector and policy trends in our key markets. We engage with industry groups and track wider sustainable finance and policy developments.

### 02 Investment screening

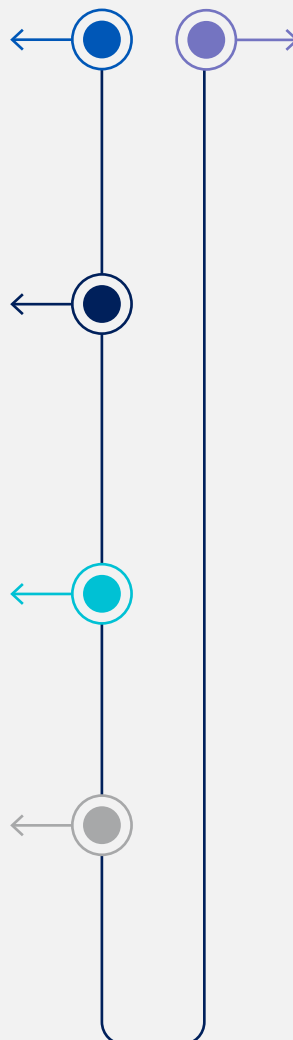
Our sustainability screening tool guides us through a long list of indicators to efficiently identify any deal breakers. The tool informs our view about how to price risks and opportunities and highlights areas for detailed due diligence.

### 03 Due diligence

We define a transaction-specific scope of work and engage expert consultants to support our understanding of risks and opportunities.

### 04 Approval and completion

Before review by the investment committee, the team ensures that material sustainability risks and opportunities are addressed and mitigated if necessary. We set clear objectives and define a value creation plan with management.



### 05 Active ownership

#### Governance

At the outset, we review governance, management structures and remuneration to ensure alignment. We assign responsibility for sustainability to management and the board.

#### Monitoring and action planning

Throughout ownership, we collect data on material sustainability factors to monitor performance and identify opportunities to create value. This process forms part of the remit of our Asset Management Committee.

#### Reporting and disclosure

Performance against agreed sustainability key performance indicators is reported to the board of each portfolio company. At the fund level, we report in line with international standards where applicable.

#### Exit

Our active asset management aims to deliver our business plan and to position assets on a sustainable long-term pathway to maximise value at the point of exit.

<sup>2</sup> Note that our approach has evolved and matured since the first direct fund was launched in 2015. The pre-investment elements of our approach apply only to funds launched since 2022. Prior to this, a higher-level assessment of sustainability risks and opportunities was undertaken in the investment process.



# Approach to sustainability

## Stage 1: research, insight and industry engagement

We work closely with a network of senior advisers across Europe to understand infrastructure market trends and dynamics. We monitor policy changes that affect infrastructure investment as well as market and technological developments. This context enables us to identify and assess opportunities efficiently and effectively.

We are members of a wide range of industry groups and committees on sustainability, and we participate in several voluntary benchmarks. This includes representation by our Head of Sustainability on GRESB's Infrastructure Standards Committee and on the Institutional Investor's Group on Climate Change (IIGCC) Infrastructure Committee. We proactively collaborate with industry stakeholders to improve how sustainability performance is measured and benchmarked and to ensure our approach reflects best practice.

Our approach is conducted with reference to the following standards and frameworks, to the extent applicable:

- UN Principles for Responsible Investment
- UN Global Compact
- IIGCC Net Zero Investment Framework
- IFC Performance Standards and similar best practice standards
- The Partnership for Carbon Accounting Financials
- OECD Guidelines for Multinational Enterprises
- The principle of 'do no significant harm', as introduced under the EU Sustainable Finance Framework





# Approach to sustainability

## Stage 2: investment screening

During the early stages of evaluating an investment opportunity, our investment team conducts an assessment as part of our comprehensive deal screening process. This helps confirm the compatibility of the opportunity with the fund strategy and identifies any potential sustainability red flags. This stage is supported by a bespoke in-house screening tool, which includes questions related to the following topics:

### Climate change and energy

- Existing and potential revenues from climate solutions (with reference to EU Taxonomy criteria)
- Greenhouse gas emissions (GHG) intensity and reduction potential
- Energy consumption intensity and reduction potential
- Exposure to climate transition risk (policy and legal, market, technology, reputation)
- Exposure to physical climate risk (acute and chronic hazards)

### Environmental

- Risk of air, water or ground pollution and hazardous waste exposure

### Social and governance

- Potential for social benefits
- Corruption and modern slavery risk
- Management/operations & maintenance quality and governance arrangements

## Compliance with exclusion list

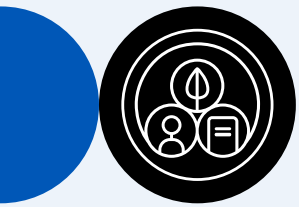
- Bespoke exclusion list based on the International Finance Corporation list and client requirements

This exercise is necessarily high-level given that information availability is often limited at the screening stage. However, it identifies issues that may cause us to stop pursuing an investment. It also highlights deal-specific risks and opportunities that require detailed assessment at the due diligence stage. We have team-wide deal screening meetings every week where formal decisions are made by the Investment Committee (IC) on whether to proceed to due diligence or not.

## Stage 3: due diligence

At this stage, we appoint external due diligence consultants to undertake a detailed assessment of risks and opportunities that could have a material financial impact on the investment. The scope of work for sustainability due diligence is tailored to the transaction and is based on the outcomes of the screening stage. Given the financial materiality and technical nature of many sustainability factors, this work is undertaken as part of, or in strong alignment with, technical and commercial workstreams. Risks and opportunities are analysed and any implications for cashflow modelling and valuation are considered.





# Approach to sustainability

## Stage 4: approval and completion

After deal screening and as due diligence progresses, our IC follows a three-stage approval process:

1. Deal qualification (DQM)
2. Preliminary investment recommendation (PIR)
3. Final investment recommendation (FIR)

At each stage, the investment team presents a paper that details how all material sustainability risks will be mitigated and highlights any outstanding areas for further due diligence before FIR. Throughout this process, we also consult our senior advisory panel, which acts as a sounding board for specific issues.

To receive approval, the investment team must satisfy the IC that material sustainability-related risks and opportunities have been sufficiently addressed in our offer and our business plan. They must also demonstrate how our approach to active ownership and governance will be implemented post-completion.

Before completion, we also ensure that legal documentation related to the transaction includes any necessary provisions on sustainability and the reporting of data throughout ownership.

## Stage 5: active ownership

### Governance

We use a range of operating models to ensure good governance of our investments. Some investments have a local management team on the ground (e.g., our district heating and utilities businesses). Others employ an operating or development partner (e.g., our operational renewables and rolling-stock assets).

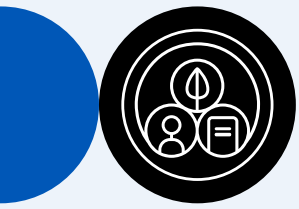
Across each operating model, we establish a clear strategy at acquisition, with early non-executive expertise. The investment team maintains a regular dialogue with management teams and operators, and we have at least one seat on the supervisory board of all our investments.

We assign responsibility for material sustainability factors to management and the board and set objectives and key performance indicators. This is reviewed regularly to ensure good governance structures are maintained and that there is ownership and accountability for sustainability.

### Monitoring and action planning

Throughout ownership, sustainability risks and opportunities are regularly reviewed and monitored as part of each investment's asset management plan. This process forms part of the remit of our Asset Management Committee (AMC) which meets at least 10 times per year. It is chaired by one of our Senior Investment Directors and our Head of Sustainability has a standing right to attend. Each meeting includes a deep dive into the business plan for several assets on a rotating basis such that each asset is reviewed in detail at least twice a year. Each meeting also undertakes a review of cumulative risks at the fund level and any ad-hoc issues that require attention. This provides a forum for in-depth debate and challenge on each asset and to plan for any upcoming asset management events. The AMC's activities are underpinned by fund and asset risk registers maintained by each asset management team and reviewed regularly.

Sustainability-related risks and opportunities form part of this process alongside all other relevant factors.



# Approach to sustainability

## Data, reporting, and disclosure

Performance against agreed sustainability key performance indicators is reported regularly by management to the board of each portfolio company to support continual improvement.

We have established a sustainability data platform to facilitate the collection and monitoring of data from portfolio companies, inform action planning and support regulatory disclosure requirements. As part of this, we undertake bottom-up GHG (greenhouse gases) accounting across our portfolio, based on activity data collected from investments. This ensures consistency of methodology and allows us to report standardised GHG metrics at the investment and fund level in line with international standards including the Taskforce for Climate-Related Financial Disclosures, Partnership for Carbon Accounting Financials and the Principle Adverse Indicators under SFDR.

Our quarterly Manager Reports highlight ongoing sustainability activities for each investment, and we disclose a full set of GHG metrics to our clients annually to support their own disclosure requirements.

## Exit

Our approach to active asset management aims to deliver our business plan and position assets on a sustainable long-term pathway to maximise value at the point of exit. As part of this, we maintain appropriate information on sustainability factors to provide potential buyers with transparent information as part of vendor due diligence.

## Governance of our approach

### Roles and responsibilities

Our Head of Sustainability is dedicated to the abrdn infrastructure team and reports to one of the Senior Investment Directors. They have overall responsibility for the team's approach to sustainability, which includes ensuring that the investment team has the tools and expertise to analyse and assess sustainability factors and meet voluntary and regulatory disclosure requirements.

The team works closely with the abrdn's central investments sustainability team. It is represented on cross-asset class groups and committees related to sustainable investment and climate change.

Our philosophy is to embed sustainability into business-as-usual investment activities as part of everyone's role while ensuring we also have subject-matter expertise within the team. We make selective use of external expert resources on sustainability to supplement this approach.

### Training

The Head of Sustainability is responsible for ensuring the investment team has the necessary knowledge and skills in relation to sustainability factors. They keep the team up to date with industry themes, policy trends and new regulations as part of weekly team meetings and run regular training sessions.



## Important Information

The value of an investment is not guaranteed and can go down as well as up. Past performance is not a guide to the future. This communication constitutes marketing, and is available in the following countries/regions and issued by the respective abrdn group members detailed below. abrdn group comprises abrdn plc and its subsidiaries: (entities as at 04 December 2023)

### United Kingdom (UK)

abrdn Investment Management Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated in the UK by the Financial Conduct Authority.

### Europe<sup>1</sup>, Middle East and Africa

<sup>1</sup> In EU/EEA for Professional Investors, in Switzerland for Qualified Investors - not authorised for distribution to retail investors in these regions

**Belgium, Cyprus, Denmark, Finland, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, and Sweden:** Produced by abrdn Investment Management Limited which is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK. Unless otherwise indicated, this content refers only to the market views, analysis and investment capabilities of the foregoing entity as at the date of publication. Issued by abrdn Investments Ireland Limited. Registered in Republic of Ireland (Company No.621721) at 2 -4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland. **Austria, Germany:** abrdn Investment Management Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated by the Financial Conduct Authority in the UK. **Switzerland:** abrdn Investments Switzerland AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM"):** abrdn Investments Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 764605, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. For Professional Clients and Market Counterparties only. **South Africa:** abrdn Investments Limited ("abrdnIL"). Registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen AB10 1XL. abrdnIL is not a registered Financial Service Provider and is exempt from the Financial Advisory And Intermediary Services Act, 2002. abrdnIL operates in South Africa under an exemption granted by the Financial Sector Conduct Authority (FSCA FAIS Notice 3 of 2022) and can render financial services to the classes of clients specified therein.

### Asia-Pacific

**Australia and New Zealand:** abrdn Oceania Pty Ltd (ABN 35 666 571 268) is a Corporate Authorised Representative (CAR No. 001304153) of AFSL Holders MSC Advisory Pty Ltd, ACN 607 459 441, AFSL No. 480649 and Melbourne Securities Corporation Limited, ACN 160 326 545, AFSL No. 428289. In New Zealand, this material is provided for information purposes only. It is intended only for wholesale investors as defined in the Financial Markets Conduct Act (New Zealand). **Hong Kong:** abrdn Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission. **Japan:** abrdn Japan Limited Financial Instruments Firm: Kanto Local Finance Bureau (Kinsho) No.320 Membership: Japan Investment Advisers Association, The Investment Trusts Association, Type II Financial Instruments Firms Association. **Malaysia:** abrdn Malaysia Sdn Bhd, Company Number: 200501013266 (690313-D). This material has not been reviewed by the Securities Commission of Malaysia. **Thailand:** Aberdeen Asset Management (Thailand) Limited. **Singapore:** abrdn Asia Limited, Registration Number 199105448E.

For more information visit [abrdn.com](https://abrdn.com)

AA-120324-175363-3 © abrdn plc 2024. All rights reserved.

**abrdn.com**

STA0224434088-001