



Responsible Investing

ESG integration in Fixed Income

January 2022

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

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

We are responsible investors. At abrdn, our goal is simple. Make a difference – for our clients, society and the wider world.

This means ensuring we embed environmental, social and governance (ESG) considerations across all aspects of our business. For us it's about doing the right thing – while aiming to help our clients achieve their long-term financial goals.

Here's how we apply our responsible investment approach to fixed income.

Our core beliefs – why responsible investing is essential

Why is it so vital to integrate ESG factor into our fixed-income process? There are three reasons:

1. ESG is financially important. ESG factors directly affect corporate performance. We believe, companies that take their ESG responsibilities seriously tend to outperform those that don't.
2. It makes us better investors. Understanding ESG risks and opportunities, alongside other financial metrics, helps us to make more informed investment decisions for our clients.
3. It makes companies better too. Informed and constructive engagement helps corporations improve practices – protecting and enhancing the value of our clients' investments.

Our engagement process

Engaging with issuers is essential to how we assess their ESG capabilities. Our process is made up of four interconnected stages, each as important as each other.

01

Monitor

Ongoing due diligence

- Business performance
- Company financials
- Corporate governance
- Company's key risks and opportunities

02

Contact

Frequent dialogue

- Senior executives
- Board members
- Heads of departments and specialists
- Site visits

03

Engage

Using our voice

- Maximise influence as asset owners to drive positive outcomes
- Where possible, leverage equity holdings to vote on issues

04

Act

Consider all options

- Increase or decrease our holdings
- Collaborate with other investors
- Take legal action if necessary

Investment strategy and process

We integrate ESG factors into every stage of our fixed income investment process. This helps us identify the risks and opportunities for any given investment.

How we do it

Our extensive fixed-income ESG network includes experienced credit analysts and portfolio managers. They drive ESG research integration and discussion of ESG risk, helping to set our ESG priorities and agenda. This ensures a comprehensive approach to ESG within fixed income.

- We rate each issuer with an ESG risk of low, medium or high, using our bespoke risk framework. We provide a rating for each E, S & G component according to what we believe will be the impact on the creditor over different timeframes. This rating tool is particularly powerful when running portfolios with a certain maturity/target/strategy.
- We use sector frameworks to identify material market risks, trends and drivers of performance.
- We score companies on our internal responsible investing (ESG) metrics. We look at factors such as environmental management, climate risks assessment, board structure and strength and stakeholder management.
- We carry out thematic research on global trends which have the potential to affect our investments.
- We regularly engage with the management teams of companies we invest in – encouraging them to remain 'good' companies and become even better businesses.



Capability & collaboration

We're committed to continuous improvement as responsible investors – as individuals and as a company.



We consider ESG in role descriptions, performance management and continued professional development for all relevant investment staff.



We work as a team. We facilitate the timely and effective sharing of information, skills and insights on relevant ESG factors across all abrdn fixed income functions. We do this through the ESG Fixed Income Network and the relevant support teams.



We want to be part of the wider ESG conversation. The Fixed Income team collaborates with clients, industry partners and abrdn's central ESG team, to create market-leading research and thought leadership. These insights drive development of new investment solutions for our clients.

Transparency & integrity

It's not enough to say we're responsible investors. We know clients want to see evidence of it in our actions. We preach what we practice.



We're committed to being transparent and acting in the best interest of our clients at all times.



We stay connected with clients and stakeholders on ESG topics, making sure that products and fixed income solutions are tuned to their aspirations and financial goals.



We have a duty to actively promote policy, regulation and industry standards, which we take seriously. We believe this helps us contribute to a better future for our clients, the environment, and society as a whole.

How does this look in practice?

We look at many ESG risks when assessing a company's credit profile.

For example, when we engaged with one European manufacturing company, we discussed its management of, and attitude to, energy usage, business ethics and corporate governance.

The company has a reputation for industry-leading policies in areas including health & safety, reducing toxic emissions, biodiversity management and cutting carbon emissions. However, it has faced questions over remuneration and revenue/expense-recognition policies.

Following in-depth research, we gave the company an overall 'low' ESG risk rating. We found that risks were well managed, so the company's credit profile was not materially undermined.

Our Fixed Income team

Our fixed income team harnesses the full spectrum of fixed income markets, issuers and credit quality – across public, private and alternative credit.

With more than 150 fixed income specialists, we have a depth of knowledge and experience, which allows us to build a wealth of solutions – from semi-passive to highly active – to accommodate all investor objectives and requirements.

Central to our capability is a disciplined, research-driven and team-based approach. This ensures investment consistency and allows us to target reliable and repeatable outcomes for clients.

Our team doesn't work in isolation. It's supported by our experienced ESG Investment team, which undertakes sector and thematic research, engagement and voting.



"Why would you not use ESG factors to look to the future? – without them you're only looking at half of the story"

Samuel Bevan
Investment Manager

Our commitment to responsible investing

As our client, we're committed to helping you accomplish your long-term goals through our core capabilities:

- ESG specialists and ESG Champions are an integral part of every team
- Thematic sector and asset-level research help us make more informed investment decisions
- Engagement leadership of our holdings across all asset classes – and voting on every shareholder resolution globally
- Raising global standards by engaging with governments, regulators and industry bodies, working with other stakeholders to improve company practices
- Continually working to develop innovative client solutions.

ESG principles at abrdn

Stewardship and ESG considerations are at the heart of everything we do at abrdn



... in our investment process

we integrate and appraise ESG factors in how we invest, to help generate the best long-term outcomes for our clients.



... in our client journey

we're committed to clarity and transparency with our clients – defining how we act in their interests delivering our stewardship and ESG principles and reporting on our actions to meet those interests.



... in our investment activity

we act as stewards of our clients' capital, and actively take steps to deliver long-term, sustainable value consistent with their objectives.



... in our corporate influence

We aim to deliver a better outcome for our clients, the environment and society. To do this we actively advance policy, regulation and industry standards.

About abrdn

As a leading global asset manager, we're dedicated to creating long-term value for our clients.

As a client of abrdn, your investment needs are at the heart of everything we do. That's why considering ESG factors is fundamental to our equity process. It's vital to how we assess every investment case.

We offer a comprehensive range of investment solutions, and the very highest level of service and support.

150

fixed-income specialists

50+

50+ ESG specialists company-wide

£132.7

* (€154.6 billion/\$183.4 billion) in fixed income assets under management

Source: abrdn as at 30 June 2021.



"Taking account of ESG factors gives us a more complete view of corporate issues and the risks and opportunities they present – to the ultimate benefit of our clients".

Craig McDonald
Head of Fixed Income

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(entities as at 1 January 2022)

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