

# Sustainable Investment Approach

abr dn MyFolio Sustainable Index Fund range

July 2022

## This approach applies to the following funds:

- abr dn MyFolio Sustainable Index I
- abr dn MyFolio Sustainable Index II
- abr dn MyFolio Sustainable Index III
- abr dn MyFolio Sustainable Index IV
- abr dn MyFolio Sustainable Index V

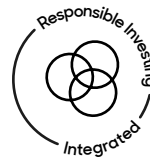
The MyFolio Sustainable Index is a range of five risk targeted, multi-asset, fund of funds. The range is deliberately designed to be closely aligned with the MyFolio Index range with the addition of sustainability considerations. Each MyFolio Sustainable Index fund aims to generate growth over the long term (5 years or more) while being MyFolio Sustainable Index funds managed to a defined level of risk. In addition, the funds will invest in a manner that seeks to account for long-term environmental and social risks and opportunities and to promote good corporate governance, through investment in other funds.

The MyFolio Sustainable Index range lets clients access investments which aim to do more good and less harm, compared funds without an explicit sustainable mandate, whilst retaining all the benefits of a multi-asset portfolio, at a level of risk they are comfortable with.



## What type of investor is MyFolio Sustainable Index designed for?

abr dn categorises its funds by looking at the types of needs which the fund has been designed to meet. MyFolio Sustainable Index is targeted at a mainstream client audience and whilst it may appeal to a small number of Values, Thematic, or Impactful investors indirectly, it is most suitable for Sustainable Investors, as described below.



**ESG-integrated investors** want to know that their investments incorporate environment, social and governance (ESG) risks and opportunities as standard.



**Values investors** want their portfolio to accurately reflect their personal ethics or sustainability values and are often keen to avoid and/or select certain industries or companies based on their beliefs.



**Sustainable investors** want their investments to consider and manage risks to people and planet more proactively than traditional investments, typically expecting links to certain industries and behaviours to be reduced or removed, and to support better business practices.



**Thematic investors** typically want to invest in companies that have a specific ESG theme alongside a strong financial return.



**Impact investors** want to invest in companies that intentionally deliver products or solutions that have a measurable beneficial social or environment impact, as well as earning a return.



## What is MyFolio Sustainable Index trying to do?

<h3>Avoid harm</h3>	<h3>Back better companies</h3>	<h3>Develop and improve</h3>
<p>MyFolio Sustainable Index doesn't use funds which put money into companies whose business practices or the industry they're in are deemed to be controversial.</p> <p>That means MyFolio Sustainable Index avoids companies which:</p> <ul style="list-style-type: none"> <li>• Manufacture controversial weapons</li> <li>• Don't meet UN standards on human rights, labour, environment and anti-corruption (UN Global Compact)</li> <li>• Produce tobacco</li> <li>• Produce thermal coal.</li> </ul>	<p>MyFolio Sustainable Index uses funds which invest more in companies which treat people and the planet well and run their business better.</p> <p>That means MyFolio Sustainable Index:</p> <ul style="list-style-type: none"> <li>• Seeks lower risks around people and planet</li> <li>• Can help companies with lower scores to change (see Develop).</li> </ul>	<p>MyFolio Sustainable Index uses active funds whose managers meet with companies to understand how they're run and treat people and the planet - and put pressure on them to change if needed.</p> <p>That means MyFolio Sustainable Index expects its managers to:</p> <ul style="list-style-type: none"> <li>• Work with companies to drive sustainable business practices</li> <li>• Raise ESG issues with company bosses</li> <li>• Vote against policies we think drive the wrong behaviours in companies.</li> </ul>
<h4>Key screens &amp; exclusions</h4>	<h4>Sustainable Funds</h4>	<h4>Governance and engagement</h4>

## Applying our sustainable investment criteria

### 1. Avoiding harm: using exclusions

The MyFolio Sustainable Index funds seek to avoid companies which are involved in the following activities:

- **Controversial weapons**<sup>1</sup> - Have any tie to controversial weapons covering; cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, white phosphorus, non-detectable fragments, incendiary devices, depleted uranium ammunition or blinding lasers
- **Tobacco**<sup>1</sup> - have a revenue contribution of 5% or more from tobacco production
- **Thermal coal**<sup>2</sup> - have a revenue contribution of 5% or more from thermal coal extraction and power generation and are directly investing in new thermal coal capacity
- **UN Global Compact**<sup>3</sup> - Fail to uphold one or more principles regarding human rights, labour, environment and anti-corruption.

For more details please visit our website at [abrdn.com](http://abrdn.com) under "Sustainable Investing" where we have position statements on various ESG-related issues.

The above sets out the screens that are applied for this Fund. We cannot exhaustively list screens that are not applied and it is important for investors to be clear that the interpretation of ESG and sustainability criteria is subjective, meaning that the fund may invest in companies which do not align with the personal views of individual clients and investors.

<sup>1</sup> Data Source: MSCI.

<sup>2</sup> Data Source: MSCI and investment research.

<sup>3</sup> We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.

Because MyFolio Sustainable Index uses funds from a range of managers, we use a two-step process to make sure that we do not breach any of our stated exclusions. Firstly, we perform rigorous due diligence on all the underlying funds we use, which includes surveying managers on their exclusionary policies and any exposure to any of the categories outlined above. This helps us to understand how effective any underlying managers are likely to be at meeting our exclusions. Then, to ensure these standards are being met, our managers monitor the underlying individual holdings and cross reference these monthly to ensure that the companies held are not involved in any of our excluded activities.

No more than 0.5% of any of the five MyFolio Sustainable Index funds can be exposed to underlying funds in breach of these exclusions at any one time.

As the exclusions utilised are specific to the MyFolio Sustainable Index range, not all underlying funds will have identical exclusionary policies. Where an underlying fund does not apply formal exclusion criteria, or applies exclusion criteria that differ from MyFolio Sustainable Index, we will only invest where we judge that ownership this fund would not be in contravention of the objectives, process and philosophy of MyFolio Sustainable Index.

In the event that portfolio exposure to the exclusions outlined above breaches 0.5% for a specific risk level, then the team will seek to take corrective action. This will involve validating the nature of the breach, discussing the breach with its source (underlying fund / manager) and, if required, adjusting exposure to the underlying manager for that specific MyFolio Sustainable Index risk level. We will resolve any issue soon as is practicably possible following its identification.

## 2. Back better companies: using sustainable funds

The majority of the underlying funds that MyFolio Sustainable Index uses aim to provide wide-ranging, diversified market access whilst explicitly considering and embedding positive environmental, social, and governance factors. We use a combination of our own in-house funds from abrdn, and external managers, and use both active and enhanced passive funds.

**Enhanced Passive Sustainable Funds:** Given the cost constraints and desire to provide sufficient diversification, a cornerstone of MyFolio Sustainable Index will be the use of enhanced passive funds. These funds are designed to have a low tracking error versus a standard benchmark for the relevant asset class. We would expect such holdings to display positive ESG characteristics, relative to a market capitalisation benchmark in areas such as carbon intensity and overall provider ESG score / rating.

**Active Sustainable Funds:** We will look to utilise actively managed funds that have ESG and sustainability as a clear and embedded feature of their investment approach (although not exhaustive, strategies such as carbon reduction or improved MSCI ESG scores versus their parent index) where we believe that this can be combined with a reasonable expectation of index outperformance, and is superior to passive alternatives.

These funds are selected to help deliver growth over the long term (5 years or more) while being managed to a defined level of risk and the sustainability credentials outlined above.

## 3. Neutral funds

MyFolio Sustainable Index will use vehicles classified as neutral funds; funds which have no specific ESG or sustainability criteria within their investment objective or process. These funds are utilised to ensure that each of the MyFolio Sustainable Index funds can be appropriately diversified and meet their long-term volatility objectives.

Neutral funds will be employed in asset classes where it is not possible or difficult to identify suitable funds with appropriate sustainable investment approaches: these are currently funds representing global government bonds (nominal and index linked), short dated sterling corporate bonds, global REITs, cash and money markets Funds.

Investment in neutral funds may not adhere to this sustainable investment approach outlined above.

## 4. Active Stewardship

Any abrdn funds used within MyFolio Sustainable Index will be subject to the active stewardship policy which abrdn follows across all its assets. MyFolio Sustainable Index may invest in funds managed by other managers. As part of our managers' due diligence, we assess those funds' active

engagement policy and how they evidence adherence to the policy, in order to ensure a base level of consistency with abrdn's own approach as described.

## Active Ownership

In our view, good governance and stewardship are vital to safeguard the way in which a company is managed and to ensure that it operates responsibly in relation to its customer, employees, shareholders, and the wider community. We also believe that markets and companies which adopt best practices in corporate governance and risk management – including the management of environmental and social risks – are more likely to deliver sustainable, long-term investment performance. More details can be found in our Governance and Active Ownership available on [abrdn.com](http://abrdn.com) under "Sustainable Investing".

Where we are direct owners of companies, the process of stewardship is a natural part of our investment approach as we seek to benefit from their long-term success on our clients' behalf. Our fund managers and analysts regularly meet with the management and non-executive directors of companies in which we invest. Where we do not invest in companies directly, we carefully assess and monitor the engagement approach of the underlying fund management firm including their voting actions and levels of company engagement.

## Voting

Voting analysis is carried out for all general meetings in actively-held companies. Vote instructions on our holdings are decided by analysts in our regional and ESG investment teams. We subscribe to proxy research providers IVIS and ISS and use their research to support our own analysis rather than automatically following recommendations of any third party. Our decisions will reflect our knowledge of companies, and insights gained through engagement. The involvement of our investment managers in voting decisions allows us to ensure proxy voting remains an integral part of the investment process.

Where we are not direct owners of companies, we monitor the voting actions of our underlying managers.

## 5. Disinvestment Approach

Disinvestment from any underlying funds is required:

- If it becomes in breach of any of our excluded activities
- Has more than 0.5% tolerance across our excluded activities

Should the review of a security result in it being deemed non-compliant, the intention would be exit as soon as is practicably possible, but generally never longer than 3 months, allowing for market conditions.

## 6. Summary

	Risk Level				
	I	II	III	IV	V
<b>Neutral Funds</b>	Up to 45%	Up to 35%	Up to 30%	Up to 25%	Up to 20%
<b>Sustainable</b>	At least 55%	At least 65%	At least 70%	At least 75%	At least 80%

All our funds meet our avoid harm: using exclusions and Develop and improve: checking governance and engagement criteria.

### Important Information

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested. Please consider the below risk factors:

- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund's price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

Subscriptions for shares in the fund may only be made on the basis of the latest Prospectus and relevant Key Investor Information Document (KIID) which can be obtained free of charge upon request or from **abrdn.com**.

**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.

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

GB-270622-177065-1

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