



Sustainable Index Equity Investment Approach

May 2024

The Investment Approach applies to:

- abrdn Sustainable Index UK Equity Fund
- abrdn Sustainable Index World Equity Fund
- abrdn Sustainable Index American Equity Fund

The funds seek to generate long term returns by investing in indices that target improved outcomes in Environmental Social and Governance (ESG) area , carbon footprint reduction and clean technology solutions.

Summary

The Sustainable Index Equity range of funds are index tracking products that aim to closely replicate the constituents and risk / return outcome of a specified index. The indices in question have been customised by abrdn in partnership with the calculation agent MSCI, a global leader in index design and provision of ESG data and analytics. The approach varies from traditional market cap through the exclusion of companies who undertake specific adverse activities and then optimising the remaining universe of stocks to target enhanced outcomes in ESG, carbon and clean technology.

Both the exclusions and the targeted sustainable outcomes aim to improve the long term financial returns in each fund by helping to manage emerging risks and benefiting from transition activities.

Investment Performance

Deliver returns in line with the target index in order to minimise tracking error

Climate Risks & Opportunities

Exclude companies identified as having long term financial risks and target material improvements in quantifiable, robust and meaningful metrics

Environmental, Social and Governance (ESG) Framework

Embedded ESG assessment utilising on-desk expertise and analytics tools

Client Outcome

Maintain features of passive investment strategies but with enhanced ESG & carbon outcomes

Assessment criteria

Our investment approach follows two key steps in shaping the sustainable outcomes from each strategy.

Sustainability targets

The Sustainable Index Equity fund range aims to achieve clear and material enhancements to its target outcomes when compared to traditional index tracking funds. The range of target outcomes focuses on minimising long term risks associated with ESG and climate as well as benefitting from opportunities arising from the transition to cleaner technologies.

Each fund in the range will target the key outcomes listed below.

	ESG Outcomes	Climate Risks	Climate Opportunities
Objective	Aim to improve ESG scores relative to the parent index	Aim to materially reduce carbon intensity relative to the parent index	Aim to enhance green revenues scores relative to the parent index
Metrics	MSCI ESG Score (0-10)	Carbon Intensity (tCO ₂ e / \$m Sales) Potential Carbon Emissions (tCO ₂ e / \$m invested)	Clean Technology Solutions Revenue
Target	10% (UK, Europe, Japan) 20% (World, US, Asia, EM Markets)	50%	50%
Description	Weighted average ESG Score, indicating how well companies manage their most material environmental, social & governance risks relative to sector peers, 10 (best) to 0 (worst).	Carbon Intensity: scope 1 & 2 carbon emissions divided by total sales Potential Emissions: energy related fossil fuel reserves data	Weighted average % revenue derived from any of the six clean tech themes i.e. alternative energy, energy efficiency, green building, pollution prevention, sustainable water and sustainable agriculture

Each of the above improvement targets is relative to the equivalent MSCI traditional market cap index (parent index). For example, the enhancements to the Sustainable Index World Equity fund are measured relative to the equivalent metrics for the MSCI World index.

Investment in funds (including abrdn funds) which are not part of the fund's benchmark index, financial derivative instruments, money market instruments and cash may not adhere to this approach.

Negative screening

abrdn Sustainable Index Equity range of funds applies negative criteria to avoid investing in companies involved in certain industries and activities that our customers are concerned with. We will avoid investment in companies involved in the activities listed below:

Screen	Criteria:
	The Fund excludes investments that:
Controversial weapons	Are involved in controversial weapons including cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons) and companies involved in manufacture of components exclusively designed for nuclear weapons (warheads, missiles, delivery platforms)
Thermal Coal	Have a revenue contribution of 5% or more from thermal coal mining or unconventional oil/gas including oil sands/shale, shale gas

Tobacco	Are involved in tobacco production & distribution (companies that derive 5% or more aggregate revenue from the manufacture, distribution, retailing, licensing, and supply of tobacco products)
ESG Controversy Score	Are involved in very severe environmental, social and/or governance controversies and have failed to uphold one or more principles of the UN Global Compact

Full detail of the screening criteria and methodology applied by the abrdn Sustainable Index Equity range of funds can be found in MSCI ESG Select Climate Solutions Indexes Methodology on <https://www.msci.com/index-methodology>.

Divestment Approach

The indices alignment to the stated outcomes and the negative screening criteria is completed on a quarterly basis. As a result, disinvestment from the non-compliant securities will also happen at this point and generally never longer than 3 months, allowing for market conditions.

Engagement

All abrdn passive portfolios benefit from abrdn's stewardship activities covering both engagement and voting. abrdn's engagement with company management teams provides us with a more holistic view of a company including current and future ESG risks that a firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss any areas of concern, share best practice and drive positive change within the business.

The stewardship activity also incorporates voting and all abrdn passive portfolios benefit from abrdn's voting policy. In addition abrdn has adopted a bespoke template for proxy voting which is designed to ensure a consistent application of abrdn's views and concerns.

Stock Lending

abrdn ESG funds may take part in our Stock Lending programme, details of which can be found in the prospectus. Collateral held on behalf of ESG funds is currently restricted to Government bonds and securities issued by constituents of the MSCI ESG Screened indices; further detail on these indices can be found at <https://www.msci.com/esg-screened-indices>.

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.

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