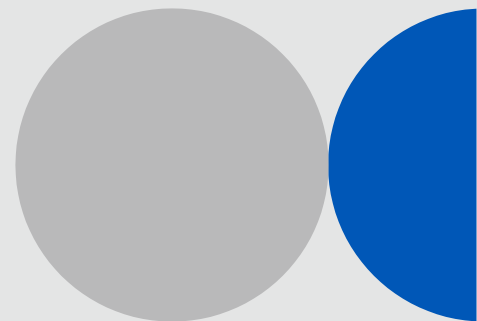


abrdn SICAV II

Total Return Credit Fund

June 2023



Summary

The Total Return Credit Fund aims to deliver long-term performance by investing in debt and debt-related securities that are listed or traded anywhere in the world (including in Emerging Markets), including government and corporate bonds, asset backed securities, sub-investment grade bonds and inflation-linked bonds. The Fund may also invest in other transferable securities, floating rate notes, money-market instruments, deposits, cash and near cash, derivatives (including currency forwards, interest rate and credit default swaps) and collective investment schemes.

The portfolio is underpinned by our well-established active management approach of security selection tailored to the overall environment, which combines fundamental and environmental, social and governance (ESG) considerations into our individual name, sector and top-down portfolio construction decisions. An assessment of a company's sustainability is supported by proprietary company rating models and a deeply embedded ESG framework utilising on-desk Fixed Income and central ESG resources.

The Fund is classified under SFDR as Article 8 and therefore promotes Environmental & Social characteristics and investments follow good governance practices.

The Fund will:

- Exclude companies with poor ESG business practices. This is achieved through a set of exclusions, which identify controversial business activities and ESG laggards i.e. companies rated poorly based on their management of ESG risks within their business.
- Engage with companies to gather a forward-looking insight into management of ESG risks, opportunities and actively influence the management of these factors in line with best practice standards.
- Target a lower carbon intensity than the reference benchmark.

The reference benchmark is used to define the investment universe for ESG exclusions and portfolio commitments but is not used for the purposes of performance comparison, portfolio construction or for setting risk constraints. The composition of the reference benchmark has been selected based on the Fund's long-term asset allocation. The reference benchmark is: 50% Bloomberg Global High Yield Corporate Index, 30% Bloomberg Global Aggregate Corporate Bond Index & 20% JP Morgan CEMBI Broad Diversified Index.

The Investment Framework

The Fund seeks to:

- Generate consistent risk-adjusted outperformance using our active management approach of stock selection tailored to the overall environment.
- Benefit from our active engagement with companies, where we encourage positive changes in corporate behaviour.
- Construct a portfolio that invests in companies with strong Environmental, Social and Governance practices.
- Leverage the support and insights of our large, dedicated Fixed income team and embedded ESG specialists' resources.



ESG Assessment Criteria

The Fund uses a number of ESG Assessment Criteria:

ESG Laggards

The Fund excludes companies rated poorly based on their management of ESG risks within their business. This is drawn from the insights of our credit analysts and central ESG investment function. In this regard we utilise two proprietary models to screen the investment universe:

ESG Risk Rating

Our credit analysts apply an ESG Risk Rating of Low, Medium, High (Low is better) to each issuer. This is credit profile-specific and represents how impactful we believe ESG risks are likely to be to the credit quality of the issuer now and in the future. The key areas of focus are the materiality of the inherent Environmental and Social risks of the sector of operation (e.g. extraction, water usage, cyber security) and how specific companies manage these risks, combined with the quality and sustainability of its corporate governance. This materiality assessment is combined with a judgement on the timeframe over which these ESG risks may have an impact. Our analyst utilises an ESG Risk Rating Framework to support making these assessments. This is a proprietary tool designed to help focus the knowledge and expertise of credit analysts in a systematic way to substantiate the overall ESG Risk Rating (low/medium/high) assigned to debt issuers.

The Fund will exclude companies where an analyst's governance assessment drives the overall ESG Risk Rating to be assigned as High.

ESG House Score

Our proprietary ESG House Score, developed by our central ESG investment team in collaboration with the Quantitative investment team, is used to identify companies with potentially high or poorly managed ESG risks. The score is calculated by combining a variety of data inputs within a proprietary framework in which different ESG factors are weighted according to how material they are for each sector. This allows us to see how companies rank in a global context.

The abrdn ESG House Score was designed so that it can be broken down into specific themes and categories. The ESG score comprises of two scores; the Operational score and Governance score. This allows a quick view of a company's relative positioning on its management of ESG issues at a granular level.

- The Governance score assesses the corporate governance structure and the quality and behaviour of corporate leadership and executive management.
- The Operational score assesses the ability of the company's leadership team to implement effective environmental and social risk reduction and mitigation strategies in its operations.

To complement this, we also utilise our active stewardship and engagement activities.

The Fund excludes companies with the highest ESG risks, as identified by the ESG House Score. This is implemented by excluding the bottom 5%¹ of issuers with an ESG House Score that are in the reference benchmark. The ESG House Score associated with the bottom 5% will be the hurdle rate portfolio holdings will have to be higher than, to be considered for investment.

¹ State Owned Entities (SOEs), Asset Backed Securities (ABS) & Collateralised Loan Obligations (CLOs) are excluded from the bottom 5% calculation. This is due to lower levels of disclosure resulting in inaccurate scores or not enough information to generate a score. Please note SOEs, ABS & CLOs are still captured by all of the other sustainability screens i.e. the Controversial Business Actives and the Credit ESG Risk Rating.



Portfolio Commitments

Carbon Footprint²

The Fund will target a Carbon Intensity that is lower than the reference benchmark as measured by the abrdn Carbon Footprint tool (which uses Trucost data for Scope 1&2 emissions)³. This tool enables analysis of company, sector and the overall portfolios carbon footprint.

Sustainable Investments

The SFDR provides a general definition of “Sustainable Investment”. This definition applies to Funds which have a sustainable investment objective. In addition, Article 8 Funds may also set a minimum proportion of Sustainable Investments but they do not have a specific sustainable objective. This Fund does not make a commitment to a minimum proportion in sustainable investments.

In line with the SFDR definition, abrdn has developed an approach on how to satisfy the three criteria for Sustainable Investments in the relevant Funds as set out below. The three criteria are:

1. **Economic Contribution** - The economic activity makes a positive contribution to an environmental or social objective.
2. **No Significant Harm** - The investment does not cause Significant Harm (“Do No Significant Harm”/“DNSH”) to any of the sustainable investment objectives.
3. **Good Governance** - The investee company follows good governance practices.

If the investment passes all of the above three tests, it can then be deemed as a Sustainable Investment. Additional information on the Article 8 approach to making Sustainable Investments is detailed in the SFDR Annex, appended to the Fund prospectus.

² The Carbon Footprint calculation excludes instruments with no data and therefore excludes Cash, Government Bonds and Derivative Holdings for the portfolio.

³ Our current approach is to consider Scope 1, 2 and 3 emissions at company and sector level. We use Scope 1 and 2 emissions for calculating the portfolio's carbon footprint in order to avoid double counting and data inconsistencies as recommended by TCFD.



Exclusions and Restrictions Criteria

The investment universe is screened to exclude companies with poor ESG business practices. This is achieved through a set of exclusions, which identify controversial business activities and ESG laggards (detailed above). We use negative criteria to avoid investing in certain industries and activities that our customers are concerned with. The Fund avoids investing in areas that are set out in the table below.



For more details please visit our website at www.abrdn.com under "Sustainable Investing" where we have position statements on various ESG-related issues.

Screen	Criteria The Fund excludes investments that:	Data Source
UN Global Compact	Fail to uphold one or more principles ⁴ .	We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.
Weapons	Have any tie to controversial weapons ⁵ 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.	MSCI
Tobacco	Have a revenue contribution of 5% or more from tobacco wholesale trading or are tobacco manufacturers ⁶ .	MSCI
Thermal Coal	Have a revenue contribution of 5% or more from thermal coal extraction. and/or Have a revenue contribution of 20% or more from thermal coal power generation unless identified as a 'Transition Focused Company' (see below). and/or Are directly investing in new thermal coal capacity in their own operations.	MSCI, investment research

⁴ Ten Principles of the UN Global Compact <https://www.unglobalcompact.org/what-is-gc/mission/principles>

⁵ https://www.msci.com/eqb/methodology/meth_docs/MSCI_Global_ex_Controversial_Weapons_Indexes_Methodology_Nov2019.pdf

⁶ This is supported by the MPOWER strategy developed in 2007 by the WHO to cut tobacco use and raise taxes on tobacco products.



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 investors.

Environmental screens and Transition Focused Companies methodology details

Environmental screens:

For all the environmental screens an exemption will be made for Labelled bonds including Green, Social, and Sustainable. This does not extend to Sustainability-linked bonds. This approach will only apply to an individual bond and not the issuer in its entirety.

Each bond considered needs to clearly evidence that the proceeds of the financing are going towards improving environmental or social impacts and also pass our own internal labelled bond framework.

Transition Focused Companies:

To successfully support the energy transition, companies in higher emitting sectors including Oil & Gas and Utilities will require capital to invest and change their operations. The aim of the Transition Focused approach is to distinguish between companies with ambitious and credible targets to decarbonise their operations and those that don't. Each entity considered would need to demonstrate that they were on track to be compliant with the relevant ESG criteria by 2030 for Developed Markets and 2040 for Emerging Markets. This is to be determined by a formalised review process with milestone tracking.

A maximum of 10% of the portfolio can be invested in a combination of labelled bonds generating exemptions from environmental screens and Transition Focused Companies. Of the 10%, no more than 5% can be exposure to Transition Focused Companies.

Investment in Government Bonds, Money Market instruments, Cash and Derivatives used for the purposes of (a) Efficient Portfolio Management (b) Hedging (c) Risk Mitigation (including Diversifiers), may not adhere to this approach.

In regard to Government Bonds, ESG considerations are integrated within our investment research and aided by proprietary Environmental, Social, Governance and Political (ESGP) rating models to assess ESG risks and opportunities.

Derivatives used for directional credit market exposure will be subject to the Fund's ESG exclusion criteria on a look-through basis. Where possible the Fund will aim to use derivatives that most accurately reflect the ESG criteria. If not available, the Fund may take long positions on indices that may not entirely align to the exclusion criteria, in order to meet the investment objective and manage risk. The Fund will limit any long exposure to companies which are non-compliant with the ESG criteria to 3% in aggregate of the Fund's NAV.⁷



⁷ Reporting of derivative exposure will be calculated based on the 'commitment approach' (i.e. this will include 'cash').

Active Stewardship

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.

As 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.

ESG Engagement

Engagement with company management teams is key and a standard part of our equity investment process and ongoing stewardship programme. It provides us with a more holistic view of a company, including current and future ESG risks that the firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss areas of concern, share best practice and drive positive change. Priorities for engagement are established by:

- The use of the ESG House Score, in combination with
- Bottom-up research insights from investment teams across asset classes, and
- Areas of thematic focus from our company level stewardship activities.

Stock Lending

abrdn ESG funds 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>.

Divestment Approach

Disinvestment from an issuer is required:

- If they become in breach of any of the exclusions. OR
- If an analyst's governance assessment drives their overall ESG Risk Rating to be assigned as "High". OR
- If they no longer meet the ESG House Score hurdle.

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.



Additional Disclosures

For further information about the Fund, including the prospectus, annual report and accounts, half-yearly reports, the latest share prices, or other practical information, please visit www.abrdn.com where documents may be obtained free of charge.

Further information can also be obtained from:

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L-1855 Luxembourg

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The rights of investors in this Fund are limited to the assets of this Fund.

For further information about Paying agents, Depositories, Custodians and Administrators, please refer to the Prospectus.

abrdn Investments Luxembourg S.A. may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the Prospectus for the Fund.

