

# Sustainable Investment Approach

ASI MyFolio Sustainable Fund range

March 2022

This approach applies to the following funds:

- ASI MyFolio Sustainable I
- ASI MyFolio Sustainable II
- ASI MyFolio Sustainable III
- ASI MyFolio Sustainable IV
- ASI MyFolio Sustainable V

ASI's MyFolio Sustainable funds let customers access investments which aim to do more good and less harm<sup>1</sup> whilst retaining all the benefits of a multi-asset portfolio, at a level of risk they are comfortable with. It does this by investing in a range of carefully chosen funds which meet our rigorous sustainability standards.

The objective of the funds is to generate growth over the long term (5 years or more) while being managed to a defined level of risk. The fund is part of the ASI MyFolio Sustainable range, which offers five funds with different expected combinations of investment risk and return that follow the ASI MyFolio Sustainable Investment Approach.

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

ASI categorises its funds by looking at the types of needs which the fund has been designed to meet. ASI MyFolio Sustainable is targeted at a mainstream customer audience and whilst it may appeal to some ESG-integrated, Values, Thematic, or Impactful investors due to the approach taken, it has been designed to most closely align to the needs of 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 portfolios 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 positive impact on 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 environmental impact, as well as earning a return.

<sup>1</sup>10-30% allocation means ASI MyFolio Sustainable takes a meaningful stake in impactful companies without changing the characteristics of the portfolio to the extent that it becomes aligned to different investor needs.

## What is ASI MyFolio Sustainable trying to do?

			
<h3>Avoid harm</h3>	<h3>Back better companies</h3>	<h3>Contribute to solutions</h3>	<h3>Develop and improve</h3>
<p>MyFolio Sustainable 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 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 uses funds which aim to invest more in companies who treat people and planet well and run their business better.</p> <p>That means MyFolio Sustainable:</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 uses funds which put money into companies whose aim is to make a positive, measurable difference in the world.</p> <p>That means MyFolio Sustainable can help to:</p> <ul style="list-style-type: none"> <li>• Actively do good in the world</li> <li>• Protect the planet</li> <li>• Support people and communities</li> </ul>	<p>MyFolio Sustainable uses 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 expects their 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 they think drive the wrong behaviours in companies</li> </ul>
<h3>Exclusions</h3>	<h3>Sustainable funds</h3>	<h3>Impact funds</h3>	<h3>Governance and engagement</h3>

## Applying Our Sustainable Investment Criteria

### 1. Avoiding harm: using exclusions

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

- Manufacture or sell controversial weapons (specifically as a minimum cluster munitions, anti-personnel landmines, chemical and biological weapons)
- Production of tobacco products (specifically deriving more than 5% of their turnover from the manufacture of tobacco products)
- Production of thermal coal (specifically deriving more than 5% of their revenues from either mining of thermal coal or thermal coal based power production)
- In violation of the UN's Global Compact Principles regarding human rights, labour, the environment and anti-corruption (specifically as identified by MSCI ESG global norms screening)

Because ASI MyFolio Sustainable 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 four 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.

ASI MyFolio Sustainable may occasionally have a small, temporary exposure to investments that do not meet the criteria outlined above, for example, due to technicalities such as changes in categorisation of criteria in the underlying funds. To manage this

effectively, we allow a total of 0.5% tolerance across our excluded activities, in order to accommodate these temporary or small scale exposures. In the event this tolerance is breached, our managers have a process to either address the issue directly with the manager of the underlying fund causing the breach, or to reduce or remove the allocation to the culpable fund, in order to bring the ASI MyFolio Sustainable fund or funds back within tolerance. Where reduction or removal is required, the Manager will seek to sell the investment as soon as reasonably possible, normally within 90 days.

### 2. Back better companies: using sustainable fund

The majority of the underlying funds that ASI MyFolio Sustainable 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 ASI, and external managers, and use both active and enhanced passive funds.

**Enhanced Passive Sustainable Funds** are typically weighted towards companies with higher environmental, social and governance (ESG) scores and/or lower carbon emissions than other companies in the parent index, or they are tracking a parent index which is weighted towards those sorts of companies. This means they usually display positive ESG characteristics versus standard index funds

**Active Sustainable Funds** aim to outperform their benchmark and adhere to strategies which the manager believes are likely to offer improved sustainability credentials compared to traditional investments (for example, higher ESG scores, or lower carbon emissions)

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. Contribute to solutions: using impact funds

ASI MyFolio Sustainable has a meaningful allocation of 10-30% of the portfolio to impact investing, which aims to deliver measurable, positive environmental and social impact alongside financial returns<sup>2</sup>. In order to be included in the impact portion of ASI MyFolio Sustainable, a fund has to meet three key measures: Intentionality, Implementation and Quantification.

**Intentionality:** An Impact fund should have clear and specific objectives with regard to social or environmental issues

**Implementation:** The investment process must offer unambiguous evidence of security selection criteria that gives pre-eminence to the environmental and social impact of the target companies

**Quantification:** The strategy should be able to provide evidence of the impact delivered by their investments. All Impact funds utilised in ASI MyFolio Sustainable must produce some form of 'Impact' reporting, which must give us enough quality information to allow us to adequately assess their impact outcomes.

We monitor the impactful nature of these investments through our ongoing dialogue with managers, reviewing their engagement activity, analysing holdings data on a regular basis, and assessing their impact reporting measures, as part of our fund due diligence process.

### 4. Develop and improve: checking governance and engagement

We believe that good governance and stewardship are vital to safeguard the way in which a company is managed and to ensure that it operates responsibly. 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 well-placed to deliver sustainable, long-term investment performance.

To make sure all funds held within ASI MyFolio Sustainable are using their voices to drive positive change, we regularly monitor and assess funds' active engagement policy and how they evidence adherence to the policy as part of our due diligence.

Any ASI-managed funds used within ASI MyFolio Sustainable will be subject to the active stewardship policy which ASI follows across all its assets. You can find out what our policy is in our Stewardship document, and how we're evidencing it on our Voting pages, which can be found on [www.abrdn.com](http://www.abrdn.com) under "Sustainable Investing".

### 5. Neutral funds

In order to make sure the ASI MyFolio Sustainable funds meet their broader objectives around growth, risk, and diversification, we also invest in neutral funds. We define these as funds with no specific ESG or sustainability criteria within their investment objective or process, but which will not breach the exclusionary criteria specified for the ASI MyFolio Sustainable range.

We only use these where suitable sustainable funds are not available (currently developed government bonds<sup>3</sup> and cash only) and their use is capped<sup>4</sup>. You can find out the current level of neutral funds being used in each ASI MyFolio Sustainable fund through our regular reporting.

### 6. Summary

For complete clarity, we have provided a table showing the proportions of different sorts of funds we use to make up ASI MyFolio Sustainable, for different risk levels.

	Risk level				
	I	II	III	IV	V
Neutral funds	Up to 35%	Up to 25%	Up to 15%	Up to 10%	Up to 5%
Sustainable funds	At least 35%	At least 45%	At least 55%	At least 60%	At least 65%
Impact funds	10-30%	10-30%	10-30%	10-30%	10-30%

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

<sup>2</sup> 10-30% allocation means ASI MyFolio Sustainable takes a meaningful stake in impactful companies without changing the characteristics of the portfolio to the extent that it becomes aligned to different investor needs.

<sup>3</sup> Nominal and index-linked

<sup>4</sup> Between 35% at risk level I down to 5% at risk level V on a sliding scale

## 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.

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