

March 2023

Sustainable and Responsible Investment Equity Approach



This approach applies to:

abrdn UK Sustainable and Responsible Investment Equity Fund

abrdn Global Sustainable and Responsible Investment Equity Fund

abrdn Sustainable and Responsible Investment equity strategies seek to generate strong long-term performance by allocating capital to companies which demonstrate that they are sustainable leaders and improvers versus their peers, through their management of environmental, social and governance (ESG) risks and opportunities.

Summary

Our sustainable and responsible investment equity portfolios contain high-quality companies that have been identified through our bottom-up equity research process which takes into consideration the sustainability of the business in its broadest sense and the company's ESG performance. Within our equity investment process, every company that we invest in is given a proprietary overall **Quality rating** and a component of this is the **ESG Quality rating** which enables portfolio managers to identify sustainable leaders and improvers and to build well-diversified, risk-adjusted portfolios.

To complement our bottom-up research, portfolio managers also use our proprietary **ESG House Score** to identify and exclude those companies exposed to the highest ESG risks within high and medium risk sectors. Finally for this range of products, binary exclusions are applied to exclude the particular areas of investment detailed below.

Integrated ESG analysis

There are three core principles which underpin our integrated ESG approach and the time we dedicate to ESG analysis as part of our overall equity research process:



ESG factors are financially material, and impact corporate performance



Understanding ESG risks and opportunities alongside other financial metrics allows us to make better investment decisions



Informed and constructive engagement helps foster better companies, enhancing the value of our clients' investments



As part of their company research, our stock analysts evaluate the ownership structures, governance and management quality of the companies they cover. They also assess potential environmental and social risks that the companies may face. These insights are captured in our company research notes.



Our stock analysts work closely with dedicated ESG specialists who sit within each regional investment team and provide industry-leading expertise and insight at the company level. These specialists also mediate the insights developed by our central ESG Investment team to the stock analysts, as well as interpret and contextualise sector and company insights.



Our central ESG investment team provides thought leadership, thematic and global sector insights, as well as event-driven research. The team is also heavily involved in the stewardship of our investments and supports company engagement meetings where appropriate.

Assessment criteria

Identifying sustainable leaders and improvers

We use our proprietary research framework to identify companies which we believe to be sustainable leaders or improvers.

Leaders are viewed as companies with the best in class ESG credentials or products and services which address global environmental and societal challenges, whilst improvers are typically companies with average governance, ESG management practices and disclosure with potential for improvement.

We analyse the foundations of each business to ensure proper context for our investments. This includes the durability of its business model, the attractiveness of its industry, the strength of its financials and the sustainability of its economic moat. We also consider the quality of its management team and analyse the environmental, social and governance (ESG) opportunities and risks impacting the business and appraise how well these are managed. We assign a proprietary score (1 indicates leaders and 5 indicates laggards) to articulate the quality attributes of each company.

Companies eligible for inclusion in our Sustainable and Responsible Investment equity range must be rated 3 or better on both overall **Quality** and **ESG Quality**.

ESG House Score

Our Sustainable and Responsible Investment equity strategies use our proprietary ESG House Score, developed by our central ESG investment team, 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. Our Sustainable and Responsible Investment equity strategies exclude companies with the highest ESG risks, as identified by the ESG House Score, in sectors identified as medium or high risk by our central ESG investment team.

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

Negative screening

The focus of each Sustainable and Responsible Investment equity portfolio is to identify sustainable leaders and improvers through bottom up fundamental research. In addition, binary and norms-based exclusions are applied.

We will not invest in companies which:

- have failed to uphold one or more principles of the UN Global Compact

- are involved in controversial weapons covering: cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, depleted uranium ammunition and blinding lasers
- have a revenue contribution of 10% or more from the manufacture or sale of conventional weapons or weapons support systems
- have a revenue contribution of 10% or more from tobacco or are tobacco manufacturers
- have a revenue contribution of 10% or more from gambling
- have any revenue contribution from thermal coal extraction
- have a revenue contribution of 10% or more from unconventional oil and gas extraction or are investing in new unconventional extraction capacity in their own operations
- are primarily involved in conventional oil and gas extraction and do not have a significant revenue contribution from natural gas or renewable alternatives
- are directly involved in electricity generation which has a carbon emission intensity inconsistent with the Paris Agreement 2 degrees scenario
- are directly investing in new thermal coal or nuclear electricity generation capacity in their own operations
- are state-owned enterprises in countries subject to international sanctions or that materially violate universal basic principles
- We target a minimum 20% exclusion of the fund's benchmark investable universe, through a combination of in-house proprietary scoring tools and negative screening.

Carbon Footprint

The funds are expected to have a Carbon Intensity lower than the benchmark as measured by abrdn Carbon Footprint tool (which uses Trucost data for Scope 1&2 emissions)¹.

Stewardship

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 customers, 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. Our approach to stewardship is set out more fully in the abrdn UK Stewardship Code disclosure.

For more information please visit our Website at [abrdn.com](https://www.abrdn.com) under Sustainable Investing.

¹ 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. Financial derivative instruments are exempt from this approach. Data is sourced from MSCI, ISS, Bloomberg and Trucost

Engagement

Engagement with company management teams is a key and 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 any areas of concern, share best practice and drive positive change. Priorities for engagement are established by:

- (1) the use of the ESG House Score, in combination with
- (2) bottom-up research insights from investment teams across asset classes, and
- (3) areas of thematic focus from our company-level stewardship activities.

Important Information

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.

The information herein should not be considered an offer, investment recommendation, or solicitation to deal in any financial instruments or engage in any investment service or activity. The information is provided on a general basis for information purposes only, and is not to be relied on as advice, as it does not take into account the investment objectives, financial situation or particular needs of any specific investor.

Please consider the below risk factors:

abrdn Global Sustainable and Responsible Investment Equity Fund:

- 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 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 fund may invest in companies with Variable Interest Entity (VIE) structures in order to gain exposure to industries with foreign ownership restrictions. There is a risk that investments in these structures may be adversely affected by changes in the legal and regulatory framework.
- Investing in China A shares involves special considerations and risks, including without limitation greater price volatility, less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, 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.

abrdn UK Sustainable and Responsible Investment Equity Fund:

- 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
- A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The fund's investments are concentrated in a particular country or sector.
- The shares of small and mid-cap companies may be less liquid and more volatile than those of larger companies.
- 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.

United Kingdom (UK): Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority.