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This document is intended to address our regulatory obligations in relation to sustainability risk integration.

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ESG risk integration approach for Multi-Asset and Alternative Investment Solutions (MAAIS)

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This document aims to provide further detail about our approach to ESG risk integration within Multi-Asset and Alternative Investment Solutions (MAAIS) which can vary owing to the nature and number of investment strategies deployed. Our MAAIS team manages a wide range of strategies and follows diverse investment approaches. Some of these strategies are managed by Aberdeen's equity and fixed income teams where environmental, social and governance (ESG) considerations are included as part of the investment process. Other strategies make use of derivatives, indexing, private markets, indirect/ fund of funds where the opportunities for ESG may be more limited.



Key principles of ESG risk integration

We define ESG risk integration as a risk-based assessment, utilising data, engagement, internal and external research & analytical tools to help inform an overall investment decision. We have established five key principles that describe our approach to ESG risk integration.[1] These are:



Risk based assessment: Identifying and assessing ESG risks and integrating those considerations into investment decision-making is part of our risk analysis, aiming to avoid or reduce risks to the financial performance of our investments. Integrating ESG risks into our investment processes is not aimed at achieving a sustainable outcome.



Financial Materiality: Financial materiality is the key driver of our ESG risk assessment. If a sustainability-related matter is deemed relevant, we will assess its impacts or likely impacts on the company's performance and subsequently the financial performance of our investments. This analysis is integrated into our investment decision-making. Unless a fund or mandate has a specific sustainability-related objective or strategy, ESG risks will not necessarily be the determinative factor for portfolio construction. For funds with sustainability criteria or objectives and in addition to integrating ESG into decision-making, binding sustainability criteria always apply and will be considered as part of the investment process.



Data: We use data on sustainability matters to support our risk analysis. Depending on the asset class, we may use several external data providers and expert advisors. We leverage shared insights about investments obtained from direct interaction or engagement with the company, issuer, manager, or asset. The data we use for our ESG risk analysis covers a broad range of environmental, social and governance matters. Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality.



Research & Analytical tools: We use external analytical and bespoke internal tools for our integration processes. We have developed bespoke internal tools, in collaboration with external partners, that help us identify and understand the impact of ESG risks and support our investment decisions. The use of research and analytical tools may not be binding for the investment process but they may add insights that could be helpful to our clients.

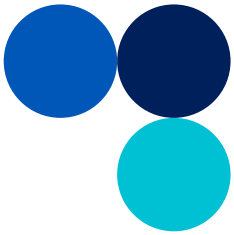


Active ownership: In MAAIS, voting is done centrally on our behalf by the Stewardship team. Engagement at security level is primarily conducted by our equity and fixed income teams, who meet regularly with companies and issuers of capital. Where MAAIS engages directly is at a third party, fund level with managers of funds, investee company or manager in private markets and within alternative investments.

For more information please see Aberdeen's Approach to ESG risk integration on our **website**.

[1] For the purpose of this document, we encompass the SFDR terminology of 'sustainability risks' within our explanation of 'ESG risk integration'. Sustainability risk means an Environmental, Social or Governance (ESG) event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment.

Research, tools and resources



Our MAAIS team operates across many strategies, and as a result, with a variety of teams and their underlying capabilities. By doing so, the team is supported by a broader ESG toolkit which helps to assess ESG risks in the decision making.

Research

Thematic research

Where relevant, we incorporate forward-looking analysis on ESG topics that will affect government, company and sector practices such as climate change and single-use plastics.

Fund research notes

The ESG research activity conducted at a fund level on actively managed funds is primarily undertaken by our Fund Research team with additional ESG research support from our Diversified Assets team who cover the alternative investment vehicles owned.

Investment papers & due diligence reports

In Private Market Solutions (PMS) and Alternative Investment Solutions (AIS), the assessment and monitoring of an investee company or manager's approach to ESG is captured within Investment Committee papers (PMS) and due diligence reports (AIS).

Tools

External ESG Data Providers

We make use of external data providers such as MSCI, for screening on metrics such as ESG Rating, carbon intensity and green revenues.

In our Private Market Solutions team, ESG metrics also include Sustainability Accounting Standards Board (SASB) materiality mapping to identify material ESG issues by sector, along with Sustainable Development Goals (SDG) alignment using Matter data to calculate public sector averages.

In Alternative Investment Solutions, where hedge fund strategies focus on single name corporate credit instruments and listed equities, ESG analysis via RiskMetrics involves aggregating ESG scores, risk ratings (including controversy monitoring and material risk indicators) and carbon metrics across underlying hedge fund holdings to identify potential environmental, social and governance risks.

Aberdeen's Overall Sustainability Assessment (OSA)

The OSA is Aberdeen's proprietary framework for evaluating how companies manage environmental and social standards. Due to the lack of external data in relation to listed alternatives, where there are no external scores or data from external third-party providers, the output of the OSA helps colleagues in Diversified Assets to assign an internal ESG rating. This provides a structured process to follow for our listed alternative investment companies.

Customised ESG Questionnaires

Our various teams within MAAIS have bespoke ESG questionnaires which are utilised from a pre-investment perspective and carried out as part of our annual due diligence. Those sent out by Private Market Solutions and Alternative Investment teams, for example, assess key aspects of ESG such as governance, policies and commitments, climate change disclosures. For Fund Selection, the questionnaire incorporates assessment of ESG criteria in both internal and external funds that may be used in regulated product subject to Sustainability Disclosure Requirement (SDR) and Sustainable Finance Disclosure Regulation (SFDR) requirements, reviewed annually.

Carbon metrics

We primarily use three core carbon metrics to give a balanced view: financed emissions, economic emissions intensity and Weighted Average Carbon Intensity (WACI):

- Financed emissions provide an absolute view of emissions 'owned' by different investors, attributed by the proportion of equity and debt owned by the investor.
- Economic emissions intensity is a useful measure to understand the carbon intensity relative to the value invested and allows for asset management growth of a portfolio to be normalised.
- Weighted Average Carbon Intensity (WACI) provides insight into a company's carbon efficiency per dollar of revenue earned and is a useful metric for comparing carbon-related risks at portfolio, country, sector and company level.

Climate Scenario Analysis (within SAA)

Climate Scenario Analysis provides a forward-looking view of transition, physical risks and opportunities. It quantifies the financial implications of different climate scenarios by sector, region and security, which strengthens the integration of climate-change factors into investment decisions. In MAAIS, we integrate this analysis into our long term expected return forecasts for regional equity indices as part of our Strategic Asset Allocation (SAA) process.

Resources

Multi-Asset & Alternatives Sustainability team

The MAAIS Sustainability team, led by the Head of Sustainability for MAAIS, supports the integration of ESG and broader sustainability considerations across the department. The team provides subject matter expertise, validates and interprets ESG data and highlights potential ESG exposures to help manage potential ESG risks. It works closely with investment desks to ensure sustainability commitments are met, supporting both regulated and client reporting requirements. The quarterly MAAIS ESG Steering Group, chaired by the Head of Sustainability in MAAIS, coordinates department wide ESG activity and ensures alignment with Aberdeen's sustainable investment initiatives.

Fund Selection research team

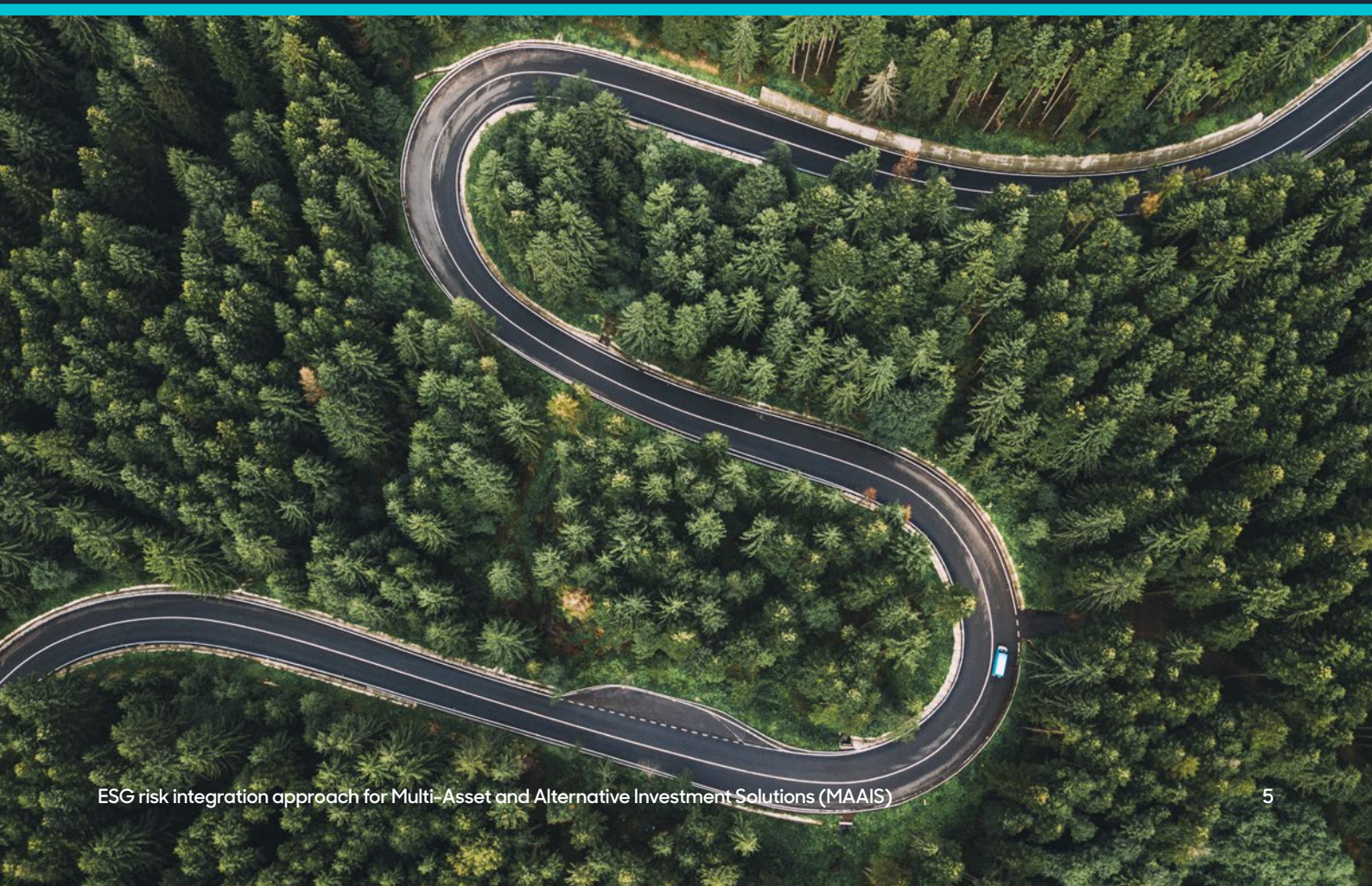
The Fund Selection research team is responsible for assessing the quality, philosophy and ESG integration practices of the fund managers in whom we invest. The team conducts structured due diligence using pre-meeting data collection, in-meeting challenge and post-meeting scoring to evaluate how managers identify and manage ESG risks and opportunities. Their analysis informs fund approval, ongoing monitoring and engagement expectations, ensuring that ESG considerations are embedded within our fund selection process and reflected in portfolio construction.

Sustainable Investment team

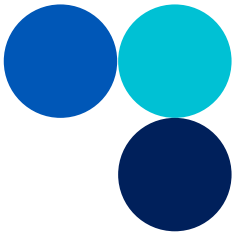
This team aims to maximise the quality and value of ESG engagement, research, and analysis across all asset classes. This team is responsible for setting sustainability standards across Aberdeen Investments, driving active ownership and engagement, sustainability research, and thought leadership.

Asset-class collaboration

We regularly collaborate with other investment teams on ESG matters and officially through forums such as the Sustainable Investment Strategy Group, chaired by the Chief Sustainable Investment Officer.



Key stages of our investment process



In MAAIS we strive to integrate the assessment of ESG factors into the key stages of our investment process which include research, implementation, asset allocation, risk management and stewardship.

Research

We believe high-quality fundamental research underpins the ability to deliver outperformance. In addition to drawing on the bespoke research provided by our Sustainable Investment team, research activity is conducted at a fund level on active funds primarily by our Fund Research team, whereby analysis of ESG criteria enables a qualitative decision to be made on the extent to which ESG is considered in an active fund's management. All approved active funds have clear evidence of their level of ESG integration and as a result we can understand their impact on the portfolios.[2] Colleagues in Diversified Assets also maintain research notes on the listed alternative investments they own, to evaluate ESG factors that are integrated into the broader research framework. In both cases, this permits a means of monitoring the financial materiality of ESG risk which drives the engagement agenda.

Implementation

Our ability to integrate ESG varies across our diverse portfolio management approaches: ESG considerations are included as part of the investment process and backed by an extensive Stewardship process where we allocate to Aberdeen's active equity and credit funds but the opportunity to integrate it can be limited where we allocate to derivatives or passive index trackers. Where we access traditional asset classes through other specialist teams within Aberdeen, we incorporate the ESG capabilities of the underlying investment teams (see table illustrating how ESG is integrated across investment strategies). Firm-wide exclusions on cluster munitions and anti-personnel landmines ("APLs") apply across all our strategies where we have discretion. This is implemented by the Sustainable Investment Team and is supported by legal and compliance teams

Asset allocation

We consider material ESG issues when we form our view of the long-term expected return potential for different asset classes and strategies. In some cases, ESG factors play a role in our background thinking about structural economic trends; macroeconomic shifts in technological disruption (AI, automation), geopolitics and global trade (pressure on supply chains, inflation, interest rates) and socio-cultural factors (affecting consumer demand). In other cases, ESG can be a primary driver of strategy selection, as when making thematic allocations to green technologies or away from certain assets that may have greater carbon intensity. We use climate scenarios to inform our long-term expected return forecasts for SAA.

Risk management

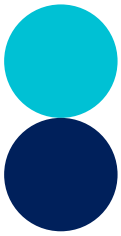
We use a variety of ESG metrics to help us identify potential risks in relevant portfolios including ESG scores, materiality mapping, controversy flags and carbon metrics including Financed Emissions, Economic Emissions Intensity and WACI. Scenario analysis provides a framework for portfolio construction and risk management as it helps us highlight risks associated with climate change, such as risks to fossil fuel companies in a decarbonizing the global economy. We use this in our SAA to help investment managers to improve their understanding of how portfolios could behave in extreme scenarios and to work with clients to develop their risk mitigation strategies. Taking a forward-looking, real-world approach to climate enables us to work with clients to align their portfolios with their climate-related goals.

Active Ownership

As a firm, we always aim to act in the best interests of our clients. In MAAIS, our Multi-manager and Fund Selection teams engage with external fund managers to encourage them to have strong stewardship practices of their own and to encourage robust ESG integration practices by those third parties. In Alternatives, the team reviews each external hedge fund manager's approach to ESG-related issues at both firm and fund level. In Private Markets, engagement is through direct interaction with the investee company or manager and via the central Sustainable Investment team's policy consultations and involvement in industry groups. In Diversified Assets, direct engagement is primarily conducted in alternative investments, but where the team allocate to underlying internal investment teams, engagement is undertaken by that team.

[2] Further information on our ESG ratings can be found within our MAIS Fund Selection Policy, available upon request.

ESG risk integration in MAAIS strategies



ESG integration varies across portfolios. Where multi-asset strategies use Aberdeen's active equity and credit funds, ESG integration and active ownership are applied. When we deploy internal quantitative strategies, ESG risks and opportunities are considered alongside our enhanced factors, though not for passive tracking of standard benchmarks. When using derivatives or passive index trackers, the opportunity to integrate ESG can be limited. When we use government bonds and currencies, ESG factors can play a role in background thinking about structural economic trends (e.g. demographic shifts, the transition to a low carbon economy) but ESG is rarely the primary driver.

Summary of ESG integration by investment approach:

Investment approach	ESG Integration	Active Ownership	ESG dedicated strategies
Active equity and credit	ESG considerations are included as part of the investment process and can be a key driver of performance	Full implementation of Aberdeen's engagement approach and Voting Policy for Listed Companies	Screening, sustainable and impact strategies
Quantitative strategies	ESG risks and opportunities are considered alongside our enhanced factors, though not for passive tracking of standard benchmarks	Full implementation of Aberdeen's engagement approach and voting policy, with focus on overlap with active portfolio	Sustainable Indexation strategies tracking customised equity and fixed income indices with increased sustainability outcomes
Government bonds and currencies	ESG often a background factor, rarely the primary driver outside of emerging markets	Fixed Income desk engages with emerging market local currency government bonds	Screened strategies
External fund managers	ESG assessment made for most third-party allocations. We encourage strong ESG integration by third parties	We engage with external managers and encourage them to have strong Active Ownership practices of their own	Screened fund of funds, sustainable strategies
Private markets	The extent of ESG integration varies within the investment process and is tailored depending on the underlying investment and access route	Stewardship is implemented for direct holdings and engagement is through direct interaction with the investee company or manager	Screened strategies
Indirect/hedge funds	Annual due diligence review of each hedge fund manager and their fund's approach to ESG-related issues	Actively engage with third party fund managers to help advance their own ESG policies	Screened at client request
Listed alternative investment	ESG assessment is made on listed alternative investment companies	Direct engagement is conducted with listed alternative investment companies	Screened strategies
Derivatives	Difficult to integrate ESG with futures, swaps and options. Exploring potential for ESG-enhanced exposures	Not applicable	Derivatives based on screened indices
Managed Portfolio Service	Select and monitor third party funds/ managers that integrate ESG and exclusion screening	Not applicable	Screened model portfolios

Public Markets Solutions

Through the application of our fund selection process, primarily conducted by our Fund Selection team, and engagement with the fund managers in whom we invest, we aim to contribute to improving the impact the industry has on the environment and society by including ESG considerations as a core part of our process.

- **Managed and Modelled Solutions (M&MS):** M&MS integrates ESG through a structured fund selection process, ESG scoring, and active engagement with fund managers. A rating system is maintained to assess ESG risk integration and engagement plans are required for underperforming funds. Monitoring and oversight are conducted by the Head of Research and ESG Investment Analyst.
- **Bespoke Client Solutions (BCS)**: BCS incorporates ESG through a multi-layered approach across mandate design, asset allocation and bottom-up fund selection. Transparency, regulatory compliance, and client engagement are all central to the team's approach to building bespoke multi-asset solutions.
- **Diversified Assets (DA)**: Diversified Assets integrate ESG risks at both top-down and bottom-up levels. From a top-down perspective, climate scenario analysis influences the formulation of the long-term expected returns that drive SAA. The team also adopts a more granular and tailored approach when it comes to listed alternatives, internal capabilities and external funds.
- **Managed Portfolio Service (MPS)**: MPS select and monitor third party funds and managers that integrate ESG and exclusion screening for their model portfolios. MPS was recently brought into Public Markets Solutions and their process is being reviewed with the intention to align the ESG integration approach with that of M&MS.

Private Market Solutions

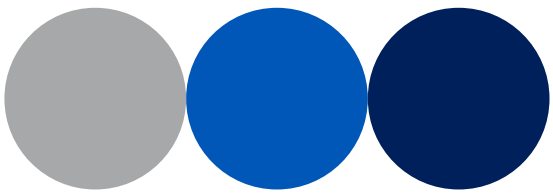
As part of Private Market Solutions due diligence and engagement, the team employ a structured ESG questionnaire to gain a comprehensive understanding of how investment managers currently implement ESG-related policies and practices, enabling assessment of the integration of ESG factors within their investment processes, stewardship activities and organisational frameworks. Beyond initial due diligence, the questionnaire also serves as a key component of ongoing engagement and is issued annually to monitor progress and developments across a range of ESG dimensions over time, helping evaluate how managers are evolving their ESG practices and how they are managing and mitigating risks.

Indirect/Fund of Hedge Funds, Alternative Investment Solutions

For Indirect and Fund of Hedge Fund strategies, we review how third party managers address ESG matters at both the firm and fund level. Approved managers complete an annual ESG questionnaire, which helps us understand their policies, alignment with industry standards, and the key ESG risks relevant to their strategies. The responses inform a qualitative ESG score or rating, with governance remaining a particular focus given the indirect nature of these investments. Where relevant and depending on the underlying asset class, investment teams may also use third party data to assess holdings level ESG performance and exposure. The results help assess portfolio level positioning, track trends and benchmark responses.

Macro Investing

Within the SAA function, we use climate scenarios to inform our long-term expected return (LTERs) forecasts for SAA. LTERs for equities are adjusted with the probability weighted climate scenario impairments and aggregated up from stock level to produce index level data. This provides insight on how climate change could affect the overall performance of an equity investment. Our SAA framework covers a range of ESG-oriented asset classes such as renewable infrastructure and social housing.



Governance and Oversight

The MAAIS ESG Steering Group coordinates and prioritises ESG activity across the department which includes both investment departments of Multi-Asset and Alternative Investment Solutions. The steering group meets quarterly, bringing together ESG representatives of all underlying MAAIS investment desks, product strategy and investment specialists, plus representation from Quants. The Chair of the ESG Steering Group reports sustainability matters into both the Multi-asset Quarterly Governance meeting and the Pan-alternatives Quarterly Governance meeting, chaired by the Head of MAAIS. This formal reporting is on a quarterly basis although the Steering Group Chair may report more frequently, where necessary. In addition, there is a formal quarterly meeting between the Head of MAAIS and the Steering Group Chair.



Important Information

Investment involves risk. The value of investments and the income from them can go down as well as up, and investors may get back less than the amount invested. Past performance is not a guide to future results.

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