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Asian Credit Opportunities Fund

May 2025

Summary

The Asian Credit Opportunities Fund seeks to deliver long-term capital growth and income by investing in bonds issued by corporates, sovereigns and quasi-sovereigns in Asian countries.

The Fund uses our core investment philosophy of 'security selection tailored to the overall environment', which combines our bottom-up fundamental considerations and top-down macro views into our portfolio construction decisions to deliver consistent performance through different market environments. 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 identified as not having sustainable 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 and opportunities and actively influence the management of these factors in line with best practice standards.
- Target a lower carbon intensity than the benchmark.

The Investment Framework

The Fund seeks to:

- Generate consistent risk-adjusted outperformance using our active management approach of security 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 specialist 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 area of focus is 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 analysts utilise 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.

MSCI Score

Developed and provided by MSCI, the scoring identifies companies with potentially high or poorly managed ESG risks. MSCI ESG Ratings range from CCC to AAA (AAA being the best rating).

The MSCI Score can be broken down into specific themes & categories and a rating is provided on an Environmental, Social and Governance level. This enables an assessment 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 Environmental and Social scores assess the ability of the company's leadership team to implement effective risk reduction and mitigation strategies in its operations.

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

We will rely on MSCI ESG Ratings and, within ratings tiers, the MSCI Industry Adjusted Scores to rank issuers in the Asia Pacific context. The Fund will exclude the bottom 5% of issuers with an MSCI Score that are in the benchmark. The MSCI Score associated with the bottom 5% of the benchmark will be the hurdle rate portfolio holdings will have to be higher than, to be considered for investment.

Approach to companies without an MSCI Score:

Where an entity does not have an MSCI Score allocated, the abrdn ESG House Score will be used instead where appropriate. This 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 ESG House Score associated with the bottom 5% of the benchmark will be the hurdle rate that any portfolio holdings with no MSCI Score will have to be higher than, to be considered for investment. If any such position subsequently receives an MSCI Score that does not meet the hurdle rate established for this primary metric then the position will be exited as soon as is practicably possible, allowing for market conditions.

Portfolio Commitments

Performance

To measure financial performance, the Fund's reference index is the JP Morgan Asia Credit Diversified Index (USD). The Fund aims to outperform the index before charges. While the index is representative of the investment opportunities we explore for the Fund, the index is not constructed using any environmental or social criteria.

Carbon Footprint[1]

The Fund will target a Carbon Intensity that lower than the benchmark as measured by the abrdn Carbon Footprint tool (which uses Trucost data for Scope 1&2 emissions)[2]. 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 makes a commitment to a minimum proportion in Sustainable Investments of 15%.

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.

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

[2] 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 or OECD Guidelines for Multinational Enterprises	Fail to uphold one or more principles.	We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.
Controversial Weapons	Have any tie to controversial weapons covering; cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, non-detectable fragments, incendiary devices, depleted uranium ammunition or blinding lasers.	MSCI
Tobacco	Are involved in the cultivation or production of tobacco products.	MSCI
Thermal Coal[3]	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 and/or Are directly investing in new thermal coal extraction or power generation capacity in EU or OECD countries. Unless identified as a 'Transition Opportunity' (see below).	MSCI, Global Coal Exit List (https://www.coalexit.org/), investment research

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.

[3] This excludes metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.

Labelled Bonds, Transition Opportunities and Forward-Looking Basket Methodology Details

Labelled Bonds:

For the screens related to thermal coal, 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 applying this exemption must either be issued under the European Green Bonds Regulation (Regulation (EU) 2023/2631) or must clearly evidence that its proceeds are not financing any of the activities stated in these exclusions. These bonds must also pass our own internal labelled bond framework, and the issuer must adhere to all other screens above.

Transition Opportunities:

We may override thermal coal exclusions where we have identified a credible action plan for the issuer to mitigate the adverse impacts associated with its thermal coal activities. This may be done through engagement with the issuer or additional research. The aim is to distinguish between issuers with ambitious and credible plans to decarbonise and those that don't. Each issuer considered must demonstrate that it is on track to be compliant with the exclusion criteria by 2030 for Developed Markets and 2040 for Emerging Markets. This must include clear and observable milestones that may be used to monitor progress. Transition Opportunities must be ap-proved and monitored through a formalised independent internal oversight process. Issuers must still meet all other fund criteria.

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

Forward-Looking Basket:

Purpose

Given the current gap between ESG standards in Asia Pacific and wider Developed Markets, and the potential for rapid change and transition, the purpose of the Forward-Looking Basket is twofold: to shape positive change in the region and capture alpha opportunities through the identification of companies with improving sustainability characteristics.

The Forward-Looking Basket is designed as a feature of the Fund given the current sustainability characteristics of the Asian Credit market.

Constraints

A maximum of 5% of the Fund can be allocated to the Forward-Looking Basket. All holdings identified as Forward-Looking Basket holdings will be monitored on an ongoing basis in order to ensure compliance with the 5% limit.

Exclusions and ESG Laggards

The Forward-Looking Basket investment universe will be subject to a lower threshold of exclusionary criteria in order to facilitate ongoing engagement with issuers who we assess as having suitable characteristics.

The screen will be achieved by firstly applying exclusions criteria. The ESG laggards standards for the Forward-Looking Basket mean any issuer where an analyst's governance assessment drives the overall ESG Risk Rating to be assigned as High is not permitted.

Forward-Looking Basket Process

For each issuer considered for the Forward-Looking Basket, there will need to be a rationale, based on engagement with the issuer, that the non-compliant screen is likely to improve within a reasonable time frame. Milestones which are clear, credible and observable / measurable shall be established in order to monitor progress toward the goals / commitments believed to support improvement toward the non-compliant screen.

Each name shall be formally reviewed for ongoing suitability on an annual basis. Holdings within the Forward-Looking Basket will be monitored for reports on progress toward milestones in order to test / maintain conviction that the issuer remains on track to become compliant with the non-compliant screen agreed at the point of acceptance of the exemption. An entity shall be removed from the Forward-Looking Basket once it successfully meets the relevant screens or it is no longer deemed suitable.

Investment in financial derivative instruments, money market instruments and cash may not adhere to this approach.

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 MSCI 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-indexes.

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 MSCI 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 no 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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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.