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Asian and Emerging Markets Sustainable Development Strategy Report 2021

Aberdeen Standard SICAV I – Emerging Markets Sustainable Development Equity Fund

Aberdeen Standard SICAV I – Asian Sustainable Development Equity Fund

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Contents

To help you understand this fund and for a full explanation of risks and the overall risk profile of this fund and the share classes within it, please refer to the Key Investor Information Documents available in the local language, and Prospectus available in English, which are available on our website **abrdn.com**. The Prospectus also contains a glossary of key terms used in this document. A summary of investor rights can be found in English on our website **abrdn.com/corporate/legal**.

Introduction

Introducing the 2021 Asian and Emerging Markets Sustainable Development Strategy Report

Over the last two years, the repercussions of the COVID-19 pandemic have reverberated throughout markets and economies – the shock has slowed economic growth across the globe, increased food insecurity and raised poverty levels.

Amidst uncertainties and widening gaps between developed and developing countries, the gamut of large-scale risks facing us has broadened. Complementing the risks of extreme weather events, erosion of social cohesion and failure to deliver climate action, we must now recognise that geopolitical confrontation and economic insecurity have become more pertinent and visible.

The unmet needs behind each of these threats are complex, and their repercussions broad – failure to tackle climate change is likely to result in higher levels of migration, and an uneven recovery from the impact of the COVID-19 pandemic compounds this issue. The World Bank estimates that, in fact, the slowdown catalysed by the virus has reversed the trend of declining poverty observed in the last twenty-plus years.[1]

But while we have learned that the progress we've made towards sustainable development is fragile, so too have the opportunities to deliver meaningful impact come sharply into focus. The setbacks catalysed by COVID-19 need not be permanent, and we firmly believe we are regaining momentum towards outcome-oriented innovation and solutions.

The scale of challenge is daunting, and in many areas we are falling behind. The United Nations' own progress report on the Sustainable Development Goals (SDGs) makes that clear. For instance, the UN estimates that the Asia-Pacific region may not meet its 2030 goals until 2065, a full 35 years behind target. This means that a child born in 2015, the year the goals were released, would be 50 years old before the SDGs were achieved, potentially either a father or mother, or even a grandfather or grandmother, before the region achieved targets on a more equitable and sustainable future.[2]

We need governments to do more, but we also need companies and capital to drive change – whether it be protecting our planet and its resources, ensuring broad-based access to healthcare, or promoting equality of opportunity across communities. The contribution that Sustainable Development and Impact capital can make in public equity markets must not be overlooked. Evidencing to key corporate decision-makers that the market values their efforts to cultivate a fairer more sustainable future for all is invaluable. We want to play our part in this transformation.

Disruptive technologies and greater clarity around government policy in Asian and emerging markets have served as tailwinds for innovative companies with the right products and services, who contribute positively to society and the environment, and are poised to deliver superior long-term returns as these risks become an ever more dominant influence on consumers and businesses. Whilst Asian and emerging economies are at the epicentre of some of the greatest challenges facing the world today, the most innovative corporates in these geographies are already tackling some of the issues head-on, seeking to address urgent demand amongst the local population for solutions and in doing so creating profitable avenues of growth. Now more than ever we need to allocate capital to companies that are delivering solutions to the world's biggest problems.

[1] https://sdgs.un.org/sites/default/files/2020-07/SDO2020_Book.pdf pg. 15

[2] Asia and the Pacific SDG Progress Report 2022: Widening disparities amid COVID-19 (unescap.org)

The importance of SDGs for Asian and Emerging Markets

Almost **all tropical rainforests** in the world are in emerging markets. Without action to preserve these natural resources, the impacts of climate change will accelerate further in coming years.

49 of the 50 most polluted countries globally are emerging markets – and of those, 23 exceed the global average by over 30 times.[3]

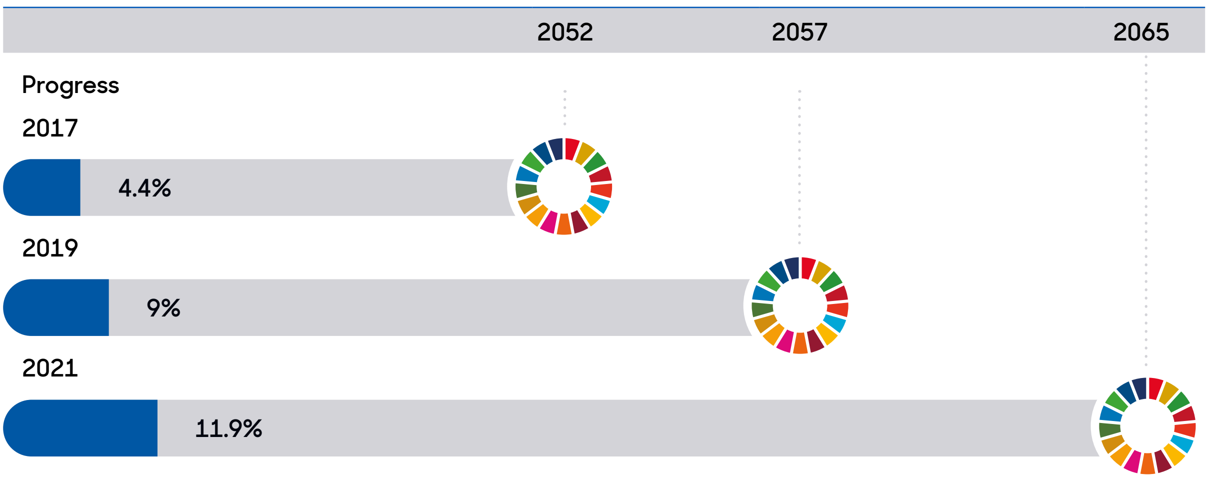
The World Bank estimates that between **88 and 115 million people will have been pushed into poverty** by 2022 compared with levels preceding COVID-19. South Asia will be hit the hardest, with **49 million** moving into extreme poverty, followed by **26 million** in Sub-Saharan Africa.[4]

The simple fact is that while emerging markets are home to over 80% of the world's population, a much smaller share of global financing reaches these countries. When it comes to meeting the objectives set out in the SDGs, the Organisation for Economic Cooperation and Development (OECD) estimates a funding gap of **US$4.2 trillion** annually in developing countries.[5]

The UN describes the SDGs as "the blueprint to achieve a **better and more sustainable future** for all. They address the global challenges we face, including poverty, inequality, climate change, environment degradation, peace and justice."

These goals were adopted by all UN member states in 2015, and require actions undertaken by Asia Pacific countries, industries and companies, with public and private capital coming together to achieve the 17 objectives.

Figure 1.1 Estimated year to achieve the SDGs at the current pace in Asia and the Pacific, 2017-2021



Estimates are offered as opinion and are not reflective of potential performance. Estimates are not guaranteed and actual events or results may differ materially.

Strategy Outcome

How are positive outcomes defined?

We use the United Nations' 2030 Agenda and its 17 Sustainable Development Goals (SDGs) to help us define positive impact and target the most pressing global issues. Ultimately, we are looking for companies providing local solutions to major global problems such as climate change, unsustainable consumption and production, and social inequality.

Our objectives

We have identified eight **pillars of impact** that address these broad challenges and align with the UN's overarching agenda of creating a more peaceful and prosperous society and environment. We aim to invest in companies whose products and services demonstrate clear and material alignment with the SDGs, and who contribute to achieving the UN's sustainable development agenda. While recognising that emerging and Asian markets are at an earlier stage of development, we see a compelling opportunity to make a difference by allocating capital to these companies.

This 'clear and material alignment' is demonstrated by having a **minimum of 20%** of the company's capital expenditure, operating costs or research and development spend linked to the SDGs. Where Asian or emerging market corporates' disclosure on these metrics is insufficiently granular, we turn to a minimum 20% of revenue or profit. In the case of the Financials sector, materiality can be measured on the basis of each corporate's exposure to underserved client groups within their loan or customer mix. We also invest in SDG Leaders – companies that we identify as integral to the value chain for progressing towards the UN's SDGs but don't themselves have a direct positive impact.

Unmet needs

To be eligible for investment, companies need to be addressing a gap in achieving the targets set out in the SDGs. In the process of establishing the credibility of the unmet needs that company can address, we refer to World Bank data, local government statistics, the contrast of local markets versus OECD averages for key indicators, and inter-country regional disparities.

How do we monitor company progress in delivering outcomes?

Company self-disclosure is a crucial aspect of our pathway to impact. We believe that when a company offers a product that addresses environmental or social needs, the outcomes must be reported. However, we know that relatively more limited reporting standards in Asian and emerging markets make this a bigger challenge. For that reason we proactively leverage our long-established corporate relationships to engage with companies and use our conversations with supervisory boards, executive management teams, and divisional heads, to encourage more thorough and appropriate disclosure of impactful activities.

Many of the businesses we have identified as engaging in activities beneficial to societies and the environment are in growth phase. Setting the threshold for materiality requires careful consideration of how best to balance the opportunity set with credible, material, measurable allocation on the part of our investee companies to solve unmet needs in emerging markets.

The following pages offer a snapshot of companies held in the strategy, outlining the relevant pillar for each business and how each corporate's activities address an unmet need aligned to the SDGs, evidencing corporate intentionality, and measuring the operational benefit of resource allocation.

[3] https://www.iqair.com/world-most-polluted-countries

[4] https://openknowledge.worldbank.org/bitstream/handle/10986/34496/9781464816024.pdf

[5] https://www.oecd-ilibrary.org/sites/e3c30a9a-en/index.html?itemId=/content/publication/e3c30a9a-en

Sustainable Development Goals

SUSTAINABLE DEVELOPMENT GOALS	Pillars	Sub-themes
12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 15 LIFE ON LAND	Circular Economy	Resource efficiency Material recovery and reuse
7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION	Sustainable Energy	Access to energy Clean energy Energy efficiency
1 NO POVERTY; 2 ZERO HUNGER; 14 LIFE BELOW WATER; 15 LIFE ON LAND	Food & Agriculture	Access to nutrition Food quality Sustainable agriculture
1 NO POVERTY; 6 CLEAN WATER AND SANITATION; 14 LIFE BELOW WATER	Water & Sanitation	Access to water & hygiene Clean water Water efficiency
1 NO POVERTY; 3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY	Health & Social Care	Access to healthcare & social care Enhanced healthcare Drug development
1 NO POVERTY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES	Financial Inclusion	Access to financial services
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 17 PARTNERSHIPS FOR THE GOALS	Sustainable Real Estate & Infrastructure	Affordable housing Eco-construction Improved access
4 QUALITY EDUCATION; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES	Education & Employment	Access to education and skills development Quality employment and job creation

49 of the **50** most polluted countries globally are emerging markets

Education & Employment

Achieving full and productive employment and decent work for all requires investment in and support for lifelong development of employees, as well as promoting job creation and entrepreneurship. According to the UN, the COVID-19 pandemic has **wiped out 20 years of education gains** and led to the loss of the equivalent of **255 million full-time jobs** – four times as many as were lost during the Global Financial Crises. Global efforts to reduce widening inequalities and 'build back fairer' must have education and employment at their core.

As we look for companies offering fair employment opportunities, we place a premium on wage growth, development opportunities, and job creation in marginalised or vulnerable communities. We also look to ensure companies have appropriate measures to promote safe and secure working environments free from forced labour, slavery and human trafficking.

Positive outcomes from our inclusion under this pillar

6,586

new jobs created by Dino Polska in 2021 in rural regions of Poland, where unemployment and poverty rates are higher than the national average, contributing to the targets within target 8.5 to "achieve full and productive employment and decent work for all women and men".

$7.3 bn

Gross merchandise value of US$7.3 billion sold through e-commerce marketplaces that promote the development of SMEs in emerging economies, supporting entrepreneurship and inclusive growth. Providing a platform for small businesses is in alignment with target 8.3 to "encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services".

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Case study

Dino Polska

Aligned to SDG 8, target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

8 DECENT WORK AND ECONOMIC GROWTH

Materiality: 90% of Dino's capital expenditures is directly linked to improved employment through their ongoing store expansion in rural areas of Poland.

Unmet need

Unemployment rates and GDP per capita across Polish provinces and cities vary significantly. In fact, the OECD reports that Poland has the **sixth highest rate of regional economic disparity** among 29 member countries.[6] While the country faces large disparities across many areas, the inequality of outcomes is particularly pronounced when it comes to employment. Rural areas also have **higher incidence of extreme poverty** as a percentage of their population: 9.5% in 2020 versus just 2.4% in urban areas.[7] As such, Poland would benefit greatly from progress towards the UN's goal to achieve full and productive employment for all, and to substantially reduce the proportion of youth not in employment, education or training.

Addressing the issue

Dino Polska operates a network of 1,800+ supermarkets located mainly in small communities, small and medium cities and in the suburbs of large cities across Poland. The company's policy is to offer a base salary at a premium to the minimum wage, alongside variable compensation for all employees. As of 2021, Dino's average non-executive employee wages were **35% higher than the Polish minimum wage** – a premium that has sustained, and indeed widened, over the years, even as the minimum wage increased. Their headcount has concurrently increased alongside store expansions across the country, and Dino created **6,586 new jobs in 2021**, growing its workforce by 25.5%. From 2016 through 2021, Dino's higher-than-average pay has reaped results: average sales per employee have grown at 5% annually during that time, to end 2021 30% higher than it was five years earlier.

As Dino's strategy is centred around continuous expansion across Poland, its contribution to productive employment in Poland is inherently aligned to the company's long-term goals. Since inception, Dino has not closed a single store it build, and all terminated leases ended have been relocated in the same area, contributing to stable, sustainable and reliable employment.

Notable outcomes

- Growth in store footprint in non-urban areas – In the five years through 2021, Dino more than doubled its store footprint **from 628 stores to 1,815**, with a focus on non-urban areas.
- Workforce expansion – In the meantime, Dino's workforce expanded at a slightly higher pace (25% per annum versus 24% p.a. growth in number of stores).
- Average employee salary versus minimum wage – As of 2021, Dino's average non-executive employee wages were **35% higher than the Polish minimum wage.**

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[6] https://www.oecd.org/cfe/Poland-Regions-and-Cities-2020.pdf

[7] https://stat.gov.pl/en/topics/living-conditions/social-assistance/economic-poverty-rates-in-poland-in-2020,4,8.html

Circular economy

Promoting efficient management of natural resources, waste reduction and recycling

The world generates **2.01 billion tonnes of municipal solid waste annually**. The concept of a circular economy is to move from a 'make, use, dispose' model to one that enhances and extends the lifespan of products and materials and diverts waste away from landfills.

Our Circular Economy pillar targets companies that offer 'closed loop solutions' which keep resources in use for as long as possible. These products are designed to reduce pressure on natural resources and expand recycling services, which is extremely important given at least **33% of global waste** is **not** managed in an environmentally safe manner.

Case study
Mondi

Aligned to SDG 12, sub goal 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Materiality: Segments geared to reduction of plastics and sustainable production contribute 72% of Mondi's EBITDA.

Addressing the need

Mondi is a vertically-integrated paper and packaging producer with sizeable assets in emerging markets. In alignment to the company's stated purpose to "contribute to a better world by making innovative, sustainable packaging and paper solutions", **80% of Mondi's revenues are derived from fully recyclable products**, a category that will continue to grow as the company launches more products targeting plastic replacement. Through their sustainable production of fibre and consumer packaging, Mondi helps to reduce illegal deforestation and plastics usage, aiding the transitions towards a circular economy and responsible production.

The company plans on having **100% of their products be reusable, recyclable or compostable** by 2025, and are internally eliminating waste to landfill from manufacturing sites. In the process, Mondi is allocating capital to non-plastic solutions that will contribute to the urgent need of finding innovative paths to tackle the growing plastic pollution problem. If all rigid plastic packaging was replaced by flexible packaging, all else equal, there would be 26 million tonnes less packaging waste globally – this is **77% less packaging** and up to a **45% reduction in the carbon and water footprints of packaging**.

Notable outcomes

- EBITDA generated from sustainable solutions –
  Fibre Packaging &
  Consumer Packaging contributed **72% of EBITDA in 2021**, and these are aligned to both reduction of plastics and sustainable production.
- CAPEX allocation towards non-plastic solutions – Mondi announced a **€69 million investment project** to convert a Steti mill machine to specialty kraft paper, supported by the drive to replaced plastic carrier bags with paper-based alternatives. The investment will increase the markets capacity for speciality kraft paper by approximately 13%.

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Case study
SCG Packaging

Aligned to SDG 12, sub goal 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Materiality: Recyclable packaging contributes 56% of SCG Packaging's revenues.

Unmet need

Thailand alone generates almost **two million tonnes of plastic waste per year**. Of the total waste that the country generates, **only 34% is separated and reutilised.**[8] When it comes to the remainder, 39% was disposed appropriately during the year, and 27% disposed inappropriately. In Bangkok, which accounts for as much as 17% of country's total waste, the recycling rate is even lower: of the 4.85 million tonnes of waste generated, **only 19% was recycled**. While Thailand has set an aim to recycle 100% of plastic waste by 2027, this number is likely far too optimistic given that the country's current capacity is 25% at most, underscoring the need to increase the recyclability of packaging materials as well as improving collections.

Addressing the need

SCG Packaging is a fully integrated packaging company operating in Southeast Asia – primarily Thailand, Indonesia and Vietnam – and deriving over half of its revenues from paper packaging. As part of its strategy, SCG Packaging emphasises circular economy principles – in 2021, **99.7% of its packaging products were either recyclable, reusable or compostable**. An example of production innovation includes "FybroZeal", a paper packaging product made from natural pulp with a special coating that offers high-quality print finishing, retains strength and durability without the need for plastic film. It is also 100% recyclable and biodegradable.

In addition to emphasising recyclable end-products, SCGP uses recyclable items as raw materials too: for instance, recovered paper (RCP) accounts for 97% of pulp used in manufacturing packaging paper. To this end, the company has **68 recycling centres and over 300 drop off points** which allow it to directly source RCP to be reused as raw material – 25% of total RCP is sourced from these centres.

Notable outcomes

- % of revenue from sustainable products – SCG derives **56% of its revenues from recyclable packaging**, and the company targets 100% by 2025.
- % of recycled raw materials used – Within the paper packaging segment, **97% of pulp used in manufacturing packaging paper is from recovered paper**, and within the plastic packaging segment the figure is 56%.

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[8] http://www.oic.go.th/FILEWEB/CABINFOCENTER3/DRAWER056/GENERAL/DATA0001/00001462.PDF

Thailand alone generates almost two million tonnes of plastic waste per year. Of the total waste that the country generates, only **34%** is separated and reutilised.

Financial Inclusion

Tackle poverty in all its dimensions

Underserved groups are often marginalised or excluded from financial systems, which negatively impacts many other areas of their lives. Financial services act a gateway to improving access to basic necessities like electricity, water, healthcare, housing and education. But there are still **1.7 billion adults** – close to one-third of the global population – that **do not have access to financial products** or services. About half of these adults are women, poor households in rural areas, or those out of the workforce.

The COVID-19 pandemic has led to the first rise in extreme poverty in a generation, with the global **poverty rate projected to be 7% in 2030.** Financial inclusion is one of the more diverse pillars in terms of both the unmet need and the types of positive impact that we identify. Our pillar identifies companies operating in countries and regions where there is low penetration of basic financial services for individuals and for micro, small and medium-sized enterprises (MSMEs), as well as companies that support productive activities and job creation.

Case study
AIA

SDG 8, sub goal 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

8 DECENT WORK AND ECONOMIC GROWTH

Materiality: AIA derives 86% of their revenues from providing access to insurance in emerging economies, which face a significant protection gap.

Unmet need

Asia faces a much larger insurance protection gap than developed regions such as the United States or Europe. According to research by Swiss RE, the health protection gap in Asia reached **US$1.8 trillion in 2017**, affecting 40 million households.[9] This shortfall results in significantly higher out-of-pocket expenses for health expenditure, a higher negative impact from natural catastrophes and a higher risk of individuals falling back into poverty due to the lack of life assurance and pension savings. Products that offer protection from natural or health issues help to combat poverty and drive economic inclusion.

Addressing the need

AIA Group operates in 18 markets across developed and emerging Asia, focusing on the burgeoning middle class. 30% of the value of new business (VONB) written comes from Mainland China, with a further 17% in Thailand and 21% in Malaysia – all in all, a total of **68% of VONB is tied to emerging economies**.

"Helping people live healthier, longer, better lives" is AIA's stated corporate purpose. This is achieved through products that focus specifically on the emerging middle class, and thereby contribute to bridging the protection gap that currently exists in life and health insurance.

Notable outcomes

- Value of new business derived from emerging economies – In 2021, these markets accounted for 76% of AIA's VONB. Relative to 2020, VONB grew by 7% in mainland China, 34% in Thailand and 26% in Malaysia.

Within their investment book, AIA has pledged to reach net-zero greenhouse gas emissions by 2050 and has committed to the Science-Based Targets Initiative. In addition, they have completely divested from coal in their directly-managed listed equity and fixed income exposure.

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

[9] https://www.insurancebusinessmag.com/asia/news/regional-news/asias-trilliondollar-health-protection-gap-is-growing--swiss-re-113177.aspx

Case study

Gentera

Aligned to SDG 1, sub goal 1.4: Access to basic services, natural resources, appropriate new technology and financial services, including microfinance.

1 NO POVERTY

Materiality: Microloans contribute 93% of Gentera's revenues, and 88% of their clients are women.

Unmet need

Access to banking remains significantly restricted in Mexico in comparison to developed and emerging markets. The World Bank reported in 2021 that **only 37% of adults in Mexico have access to a bank account** at a formal financial institution, which compares to 95% in the OECD and 55% across Latin America.[10] The disparities are even more significant for women, with **only 33% of adult women** having access to a bank account compared to 41% of men. This differential is much starker than the OECD average where the numbers are 94% and 95% respectively and even the rest of Latin America where 52% of women have a bank account against 59% of men.

In terms of access to credit only 32% of adults in Mexico have borrowed money in the past year. This compares to 38% in Latin America and 65% in the OECD countries. A similar gender divide exists here, with only 29% of women making use of borrowing. The data also indicates significant use of informal credit as the number of respondents who had **access to credit at a formal financial institution was only 12%**.

Addressing the need

Gentera is a specialist lender providing microfinance loans in Mexico and Peru. At the end of 2021, women accounted for **60% of their loan portfolio**, either through their rural group-lending methodology or through their female entrepreneurial model, ConCredito.

The business began over 30 years ago as an NGO and Gentera describe their social vocation as the development of people and their communities through financial inclusion. As part of their mission, the group places notable emphasis on financial education programmes that go hand-in-hand with their lending.

Notable outcomes

- The number of underserved clients – at the end of 2021 Gentera served over **3 million clients** through 11.3 million disbursements totalling MXN141.7 million.
- The percentage of female clients – of their underserved client base **88% of clients were women.**

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[10] https://www.worldbank.org/en/results/2021/04/09/expanding-financial-access-for-mexico-s-poor-and-supporting-economic-sustainability

The World Bank reported in 2021 that only 37% of adults in Mexico have access to a bank account at a formal financial institution.

Sustainable Energy

Increasing renewables, decreasing emissions and improving accessibility

Energy is central to almost every environmental and social issue the world faces and touches most aspects of daily life—fuels for cooking, heating, mobility, communication, and education. Despite this, **759 million people lack access to electricity** and over 2.6 billion people still use **dangerous and inefficient cooking systems**. And while we've seen laudable global commitments on climate change, further action is needed on modern renewable energy.

Our Sustainable Energy pillar considers three areas of energy: clean energy solutions, initiatives that promote energy efficiency, and services to expand access to energy.

Case study
WEG S.A.

Aligned to SDG 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

Materiality: 30% of CAPEX allocated towards development of renewables businesses.

Unmet need

Brazil's per-capita energy use lags both the OECD average and the levels reported by other BRIC countries. Consequently, **energy demand is forecast to grow at a faster rate** than that of the rest of the world in coming years, increasing the country's share of global energy consumption. To avoid a concurrent rise in greenhouse gas emissions associated with fossil fuels, it is paramount to meet this growing demand sustainability, limiting the emissions-intensive capacity added into the mix. In the context of an unbalanced energy system domestically, which poses risks of volatile electricity prices during periods of hydrological stress, diversification of generation sources is also important.

Addressing the need

WEG is amongst the world's largest manufacturers of electric-electronic equipment, and the largest in Latin America. The company operates across the electricity value chain – from generation to transmission to industrial/domestic use – and defines its business model as having a presence from 'end to end of wire'. WEG's strategic vision to provide complete and efficient solutions closely aligns its business model to **building a more sustainable future and economy**, spanning industrial electricity consumption, sustainable energy generation, and vehicle electrification, among other.

In its Generation, Transmission and Distribution (GTD) segment, WEG produces a wide variety of generators, transformers and turbines designed for use in renewable energy generation, helping to meet increasing Brazilian energy demand sustainably and with a higher breadth of generation sources. This segment contributed **40% of WEG's revenues year-to-date** (through June 2022) and derives over half of its revenues from equipment supporting renewable energy. Importantly, WEG continues to actively grow these products, allocating **30% of capex to the development of renewable-energy equipment**.

Notable outcomes

- Contribution of renewables to group revenues – Renewable equipment contributes **24% of WEG's revenues**, having started from zero in 2013.
- Installed wind capacity – WEG has surpassed **1.3GW of installed capacity** for wind turbines within Brazil, making the company one of the main players in this market.

Renewable equipment contributes 24% of WEG's revenues

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Sustainable Real Estate and Infrastructure

Providing affordable and eco-friendly buildings and improving connectivity

Our Sustainable Real Estate and Infrastructure Pillar focuses on a variety of key issues facing industry, infrastructure and sustainable cities and communities. This includes the provision of affordable housing, efficient building practices, environmentally friendly construction materials and solutions, and increased connectivity. These are all global priorities, and we use the World Bank Database to understand the different types of unmet real estate and infrastructure needs in different regions and countries.

As the global population grows and people move to urban areas in increasing numbers, the built environment has a key role to play in supporting social and environmental goals. The buildings and construction sector accounts for over a third of global energy use and produced 39% of global CO_2 emissions. But further development is needed. **One billion people reside in slums**, principally across Asia and Africa. Only **half the world's urban population enjoys convenient access** to public transportation.

Case study

Container Corporation of India Ltd. (CONCOR)

Aligned to SDG 9, target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Materiality: Rail transport contributes 76% of CONCOR's revenues.

Unmet need

India is currently the **third-highest emitter of carbon globally**, after China and the United States, and whilst per capita emissions are currently modest by global standards, they are predicted to grow. Within India the transport sector is the third-largest emitter of CO2 and, within the transport sector, **road transport contributed more than 90% of total CO2 emissions.**[11] One major hurdle in addressing transport emissions is the high level of freight on India's roads. Currently, around 71% of India's freight is transported by road, and only 17.5% by rail, according to a study by NITI Aoyog, RMI, and RMI India.[12] This compares to over 30% of transport by rail in the United States.[13]

Transporting freight by rail is not only cost-effective over longer journeys, but has a far lower carbon intensity than transportation of freight by road. Rail transport emits the least amount of PM, CO2 and NOx, according to a study from OECD.[14] Moving freight from road to rail will help to bring India closer to achieving its ambitious target of net zero carbon emissions by 2070.

Addressing the need

Container Corp of India (CONCOR) is an Indian logistics company that offers containerised cargo transport by rail. The company is the market leader, with a network of 61 Inland Container Depots and Container Freight Stations in India. In its annual report, CONCOR states the ambition to be India's premier 'green logistics' company. To that end, the company has detailed policies outlining its role in promoting sustainability, including a 'green audit' and a roadmap to reducing emissions, which they track and publish.

In 2020-21, CONCOR handled 3.64 million twenty-foot containers (TEUs) and transported **42 million tonnes of cargo** volume by rail. A McKinsey study on Indian Railways (cited by the company) notes that each tonne of cargo transported by rail instead of road reduces carbon dioxide emissions by 36 gms per tonne per km. Based on CONCOR's cargo volume of 42 million tonnes over an average lead of around 778 km in FY21, the company estimates it has **helped India avoid nearly 1.18 million tonnes carbon dioxide emissions** in the year.

Notable outcomes

- Volume of cargo carried and carbon reduced – In 2021, the use of CONCOR's rail infrastructure **avoided an estimated 1.18 million tonnes of CO2** compared wither means of transportation.
- % of rail freight business – This segment contributed 76% of revenues in 2021.
- % of CAPEX spent to support sustainable infrastructure – 100% of CONCOR's capital expenditures are allocated to the development and expansion of terminals, which enables more efficient rail freight operations.

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

[11] https://assets.researchsquare.com/files/rs-297185/v1/6b5bbc3e-2930-4898-8845-35b1d4a44b72.pdf?c=1646463449

[12] https://www.niti.gov.in/sites/default/files/2021-06/FreightReportNationalLevel.pdf

[13] https://www.bts.gov/content/us-ton-miles-freight

[14] https://www.oecd.org/greengrowth/greening-transport/41380980.pdf

Health & Social Care

Ensuring access to quality, affordable essential care and enhancing care outcomes

While in 2019 the UN's assessment was that we had made major progress ensuring healthy lives and promoting the well-being of people across the world, **the COVID-19 pandemic has reversed progress** in health and shortened life expectancy, with severe disruptions to health systems in most countries. Health workers – already in short supply in many regions – have been stretched to their limits. It is essential to scale up investment in health systems, drug discovery on for priority diseases and preventative medicine, and accessibility and affordability of treatment.

Health and social care standards vary dramatically with each country facing unique issues. The UN focuses its 2030 Agenda on: reproductive, maternal, new-born and child health; specific infectious and non-communicable diseases; mental health and environmental risks; as well as health systems and funding.

Case study

Medikaloka Hermina

Aligned to SDG 3, target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality, and affordable essential medicines and vaccines for all.

Materiality: Hermina allocates 100% of its capex to building hospitals in non-urban areas.

Unmet need

Indonesia's medical infrastructure notably lags that of other countries in Asia, as evidenced by a number of **hospital beds and doctors considerably lower than elsewhere in the ASEAN region** – 37% and 69% below the regional averages, respectively. Concurrently, healthcare spending per capita relative to Gross National Income (GNI) per capita falls below the regional trend.[15] In 2014, to address these pressing issues, the Indonesian government launched a universal healthcare program, known as **Jaminan Kesehatan Nasional** (JKN), which targets 98% coverage of the population by 2024. Meeting this goal will require **a significant step-up in medical infrastructure.**

Addressing the need

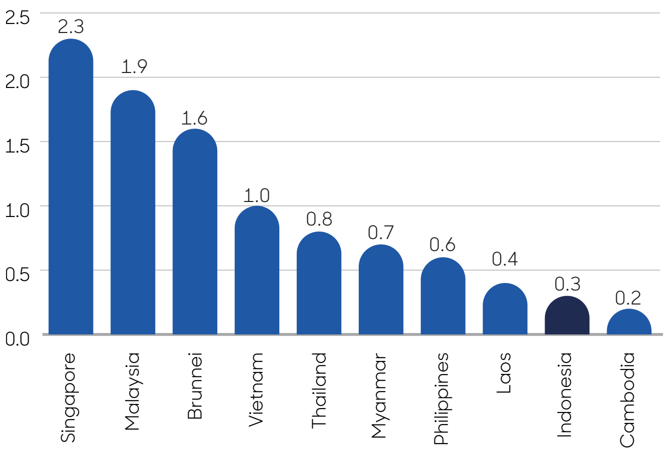
Medikaloka Hermina is the largest hospital operator in Indonesia. Having embraced the JKN from its launch in 2014, 34 of its 42-hospital network are classified as Type C – hospitals that patients must visit before they can be referred to specialists, and therefore crucial to expanding health coverage. With its **widespread footprint across 26 cities** and competitive pricing below peers, Medikaloka Hermina facilitates access to healthcare where it may otherwise be difficult to find, and at more affordable prices.

Within a year of the introduction of JKN, **160 million Indonesians – 60% of the population – were covered by the program**.[16] Today the figure is 82%. In the meantime, the share of out-of-pocket spending on healthcare has decreased markedly, while government-supported health expenditure has been rising, according to World Health Organization data. This amounts to a material benefit to Indonesians, and it can only be achieved through ongoing improvement in the country's infrastructure.

Notable outcomes

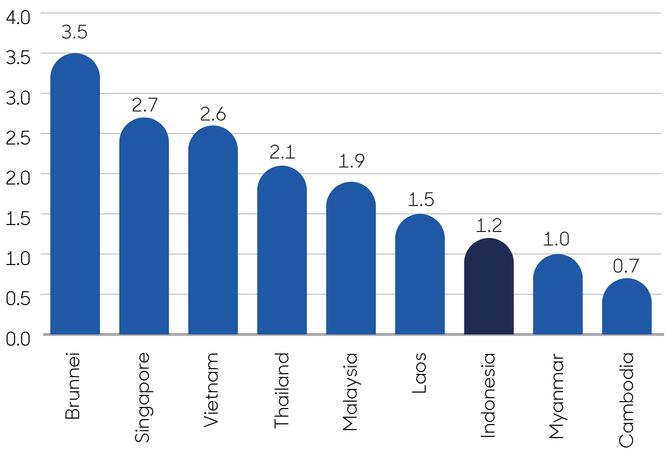
- JKN outpatient and inpatient visits relative to total – Currently **64% of outpatient visits and half of inpatient days** at Medikaloka Hermina's hospital network are covered by JKN.
- Geographical focus of expansion – The company allocates nearly **100% of its capital expenditures** to building new hospitals outside of Java, growing its exposure to cities where medical infrastructure is more precarious.

Figure 23. Doctors per '000 population, Indonesia is amoung the lowest across ASEAN



Source: Citi Research, CEIC Data Company Limited, World Bank, OECD.

Figure 24... and has the lowest hospital beds per capita ('000 people)



Source: Citi Research, CEIC Data Company Limited, World Bank, OECD.

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

[15] Based on figures per 1,000 people. Sourced from OECD, World Bank and CEIC Data Company Limited via Citi Research, on 7 February 2022.
[16] https://documents1.worldbank.org/curated/en/453091479269158106/pdf/110298-REVISED-PUBLIC-HFSA-Nov17-LowRes.pdf pg. 14

Water

Establishing access to safe, clean and sustainable facilities

Water supports all life and is a precious and finite resource; however, data suggests progress on establishing universal access to basic sanitation and encouraging both the protection and responsible use of ocean resources is woefully lagging.

One fifth of the world's river basis are experiencing rapid increase or decreases in surface water area. This is compounded by pollution and the persistent loss and degradation of wetlands and freshwater biodiversity. Approximately **2 billion people lack safely managed drinking water**, and 3.6 billion people lack safely managed sanitation. It is estimated that enabling universal access to water, sanitation and hygiene by 2030 requires **$114 billion a year**.[17]

With a growing global population and the increasing prevalence of extreme weather events, more efficient use and management of water are critical to meeting increased demand and managing risks from droughts and flooding. Our Pillar looks for companies whose products and services improve access to clean water and sanitations and improve efficiencies in existing infrastructure.

[17] https://sdg.iisd.org/commentary/guest-articles/bridging-the-financial-gap-investing-in-sdg-6/

Case study

Eastern Water

Aligned to SDG 6, target 6.4. By 2030, substantially increase water use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce number of people suffering from water scarcity.

Materiality: All of Eastern Water's capex is allocated to improving water security in its regions of operation.

Unmet need

In the recent past, Thailand has evidenced improvement in access to drinking water, having achieved both the sanitation and drinking water Millennium Development Goal targets where 93% of the population now have access to improved sanitation and 96% to improved drinking water. But despite these impressive headline numbers, Thailand faces **increasing water scarcity due to deforestation and global warming**, leading to frequent droughts in parts of the country and excessive floods in others. The World Resources Institute (WRI) Aqueduct database **rates Thailand's water stress as Medium – High**, underscoring the need to appropriately manage water resources.[18]

Addressing the need

Eastern Water's core business is the provision of total water solutions, which includes raw water and tap water supply. The company operates in the eastern seaboard of Thailand, specifically in three provinces: Chachoengsao, Chonburi and Rayong – all of which are identified by WRI as areas facing **Extremely High water stress** owing to the risk of droughts and floods. This region, known as the Eastern Economic Corridor (EEC), is of particular economic significance to the country. Shortages of water in the EEC would significantly affect economic activity, which carries longer-term repercussions for the livelihood of Thailand's population.

Through engagement with Eastern Water, we have discussed various efforts from the company to tackle the challenges of water stress, including channelling water from far-away sources such as the Prasae Reservoir, constructing a new reservoir (Tabma) in the region, and collaborating with the Royal Irrigation Department to construct pipelines to connect Khlong Luang Rachalothorn Reservoir with the company's pipeline. All of these initiatives contribute to managing water supply fluctuations in the EEC of Thailand.

As part of its vision to be the leading total water solutions provider in Thailand, Eastern Water outlines various missions, including to develop and maintain stability of water resources, to expand investment for continuous and sustainable growth, and to be socially and environmentally responsible.

Notable outcomes

- % of revenue from raw water and tap water businesses – These segments, which consist of procurement of water, installation of pipelines, and management solutions, contribute **93% of Eastern Water's revenues.**
- % of capex spent on improving pipeline, pumping stations, new reservoirs – All of Eastern Water's CAPEX is allocated to improving water security in the company's regions of operations. In 2021, CAPEX was equivalent to **61% of the company's revenues**.

Held only in the Asian Sustainable Development Equity Fund.

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

[18] Aqueduct Country Ranking (wri.org)

Food & Agriculture

Combating food insecurity and preventing land degradation

According to the UN, the world's population is projected to reach **9.8 billion in 2050 and 11.2 billion in 2100**, amplifying the demands we place on earth's natural resources. To combat food insecurity and address food shortage, global food and agriculture systems need to change profoundly, as the resources needed to feed the global population are already putting unsustainable demands on land, oceans, forests and biodiversity.

Systems that rely on attenuated global supply chains have been **dramatically disrupted by the COVID-19 pandemic** and the ongoing military conflict in the Ukraine, while climate change is driving erratic weather patterns that lead to poor and unpredictable harvests.[19] Our Food and Agriculture pillar covers both social and environmental concerns. We look at access to nutrition, improved nutrition and services for farmers, as well as how food is produced and the impact of farming practices on the land, water, and biodiversity.

[19] https://www.un.org/sustainabledevelopment/hunger/

Why is it difficult to find ideas in this space?

We believe that to address the challenges around hunger and nutrition, capital needs to be channelled into:

- Alternative proteins that are less emissions-intensive than animal proteins, and which avoid the impacts of extreme weather events and climate change on food supply and security;
- Companies investing into access to nutritious food in areas facing food insecurity, typically rural areas;
- Crop yield enhancing technologies that enhance/improve harvest rates or harvest quantum, or to protect food and harvest supplies from adverse climate events;
- Technologies or systems that enhance consumption and production efficiencies, such as zero wastage, to promote efficient use of natural resources.

The roadblock we've run up against is that ideas within these categories are generally start-ups or at the point of raising venture capital and private equity capital. Within emerging markets public equities, we have struggled to find investable ideas aligned to the relevant SDGs.

While we did identify companies addressing some of the unmet need, they were still at early stages – for instance, some companies sell milk in underserved regions within emerging markets, where the nutritional value of dairy would beneficial to under-nourished populations, but this benefit is outweighed by a much larger portion of revenues from sugary products like ice cream or condensed milk.

In other instances, some of these food production companies that we preliminarily identified, own upstream palm operations. We are very careful when evaluating palm operations and have to make sure that the palm operations are sourced responsibility, using principles from the RSPO and NDPE.

We remain watchful of the space, and will ensure that the company that we invest in will be able to contribute to solving real world issues as identified.

SDG Leaders – investing in enablers

In addition to companies aligned with the eight impact pillars, the strategies can also invest up to 20% in what we call SDG Leaders. These are companies whose products and services **enable part of a wider, SDG-aligned value chain**, facilitating the delivery of solutions in at least one (and most likely many) of our impact pillars. Whilst these businesses are integral to progressing towards the UN's SDGs, they don't themselves have a direct and measurable positive benefit. In creating this basket of SDG Leaders, we avoid double-counting the positive operational outcomes derived along the length of the value chain.

We've been conservative in the way we approach this. In a construct that allows 'SDG Leader' classification for **any** firm that is involved in a value chain, the net is unfairly and unreasonably wide. To counter this, we have instead focused on companies that play an essential and material role in delivering positive social and environmental impact, and without whom many of the products that have a positive effect on our impact pillars would not be possible.

For example, the strategies own a number of companies in the semiconductor value chain, including **Taiwan Semiconductor Manufacturing Company** (TSMC), **ASML**, and **ASM International**. These innovative companies are enabling technological (as well as environmental and social) progress by reducing the dollar cost of computing, whilst also helping to minimise its environmental cost.

TSMC produces some of the most energy-efficient chips in the world, doing so with a focus on minimising the company's water impact, important in the context of water-scarce Taiwan. Further up the supply chain, ASML develops sophisticated extreme ultraviolet (EUV) lithography technology machines that enable TSMC to continue to be at the leading edge of development, again increasing the power of and reducing the environmental cost of semiconductors, helping to enable environmental, social, and technological progress. ASM International is pioneering Atomic Layer Deposition (ALD) that enables transistors to continually shrink, allowing for more transistors per chip, lower power consumption per transistor, and finally lower energy intensity of computing.

All of these companies are playing a central role in achieving the SDGs, but are doing so one step removed from the direct positive change. All three are classed as SDG Leaders given their role in **enabling** rather than **driving** positive change.

While we believe the companies in our strategy are

Engagement: a pathway to impact

actively contributing to achieving the SDGs, our work does not stop once we have determined alignment. Reporting and disclosure standards vary across the globe, and particularly in Asian and Emerging Markets they are not yet where we would like to see them.

We have enviable research resource with a large team of analysts across Asian and Emerging Markets that frequently engage with companies to better understand their alignment to the SDGs and encourage improved evidence of the good work they're doing. Companies that are not disclosing these metrics are being potentially overlooked by the market at large, and we see an **important role here for investors** like us. By working with targeted companies under the strategy to enhance and improve disclosure around alignment, we believe that our inclusion will be increasingly recognised by the market for their positive impact.

When we launched these strategies we thought this might be an effort which took some time to bear fruit. We were very happy to be proven wrong. Our companies have been very receptive to our engagements on disclosure, and since we launched we've seen a number of companies actively disclosing the kinds of metrics we as in investors are looking for, and actively mapping their operations to SDGs. Yet there's still a long way to go. We are embarking on a pathway to impact by a combining abrdn's **long term investment horizon and established corporate relationships** with **concentrated strategy and consistent messaging** around SDG-related disclosures. The hope is that in time we will move from a case study-based report to a more traditional impact-style report for our Asian and emerging markets strategies.

Aberdeen Standard SICAV I – Emerging Markets Sustainable Development Equity Fund

Fund Objective

The Fund aims to achieve long term growth by investing in companies in Emerging Market countries which in our view will make a positive contribution to society through their alignment achieving the United Nation's Sustainable Development Goals ('SDGs'). The Fund aims to outperform the MSCI Emerging Markets Index (USD) benchmark before charges.

Fund manager(s)	Catriona Macnair
Launch date	09/12/2020
Fund size	$26.89m
Base currency	USD
Number of holdings	58 Holdings

Source: abrdn, 31 Aug 2022.

Top 10 Holdings

Company	Pillar	Primary SDG	Weight
TSMC	SDG Leaders	Leader	7.2%
AIA	Financial Inclusion	SDG 1 - No Poverty	4.1%
POWER GRID CORP	Sustainable Energy	SDG 7 - Affordable and Clean Energy	3.1%
WUXI BIOLOGICS C	SDG Leaders	Leader	3.0%
GRUPO FINANCIERO BANORTE	Financial Inclusion	SDG 1 - No Poverty	2.9%
DINO POLSKA SA	Education & Employment	SDG 8 - Decent Work and Economic Growth	2.8%
HOUSING DEVELOPMENT FINANCE CORP	Financial Inclusion	SDG 1 - No Poverty	2.8%
LONGI GREEN EN-A	Sustainable Energy	SDG 7 - Affordable and Clean Energy	2.8%
BANK RAKYAT INDONESIA	Financial Inclusion	SDG 1 - No Poverty	2.6%
LG CHEM LTD	Sustainable Energy	SDG 7 - Affordable and Clean Energy	2.6%

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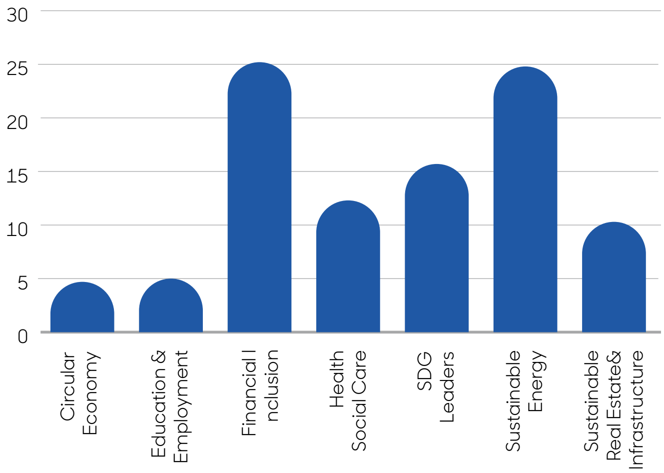
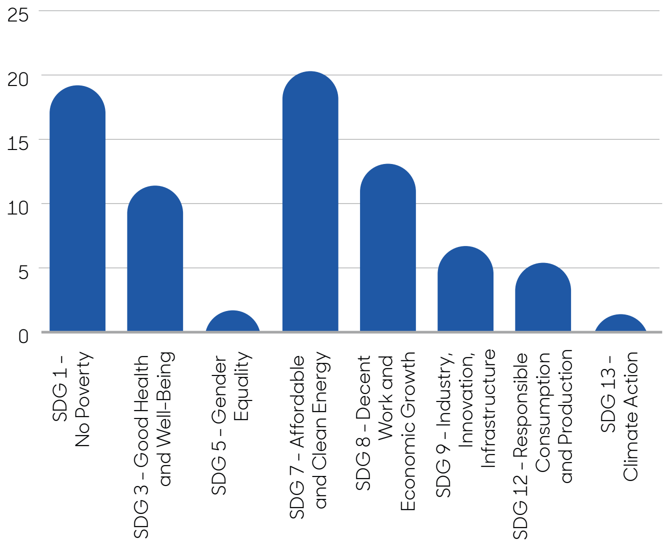
Strategy Positioning

Strategy Weighting by Pillar



Source: abrdn June 30th, 2022.

Strategy Weighting by SDG



Source: abrdn June 30th, 2022.

Aberdeen Standard SICAV I – Asian Sustainable Development Equity Fund

Fund Objective

The Fund aims to achieve long term growth by investing in companies in Asia Pacific (excluding Japan) countries which in our view will make a positive contribution to society through their alignment achieving the United Nation's Sustainable Development Goals ('SDGs'). The Fund aims to outperform the MSCI AC Asia Pacific ex Japan Index (USD) benchmark before charges.

Fund manager(s)	David A Smith
Launch date	25/08/2020
Fund size	$46.03m
Base currency	USD
Number of holdings	56 Holdings

Source: abrdn, 31 Aug 2022.

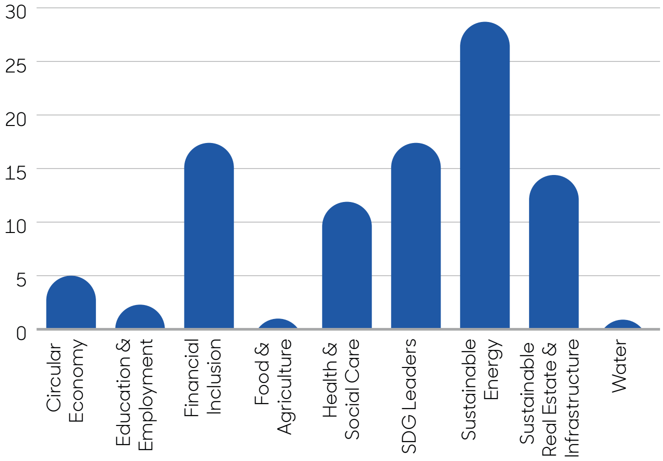
Top 10 inclusion

Holding	Name	Weights	Impact Pillar	Primary SDG
1	TSMC	9.50%	Impact Leaders	SDG Leader
2	AIA	5.50%	Financial Inclusion	SDG 1 – No Poverty
3	CSL LTD	3.80%	Health & Social Care	SDG 3 – Good Health and Well-Being
4	HOUSING DEVELOPMENT FINANCE CORP	3.80%	Financial Inclusion	SDG 1 – No Poverty
5	LONGI GREEN	3.00%	Sustainable Energy	SDG 7 – Affordable and Clean Energy
6	GOODMAN GROUP	2.80%	Sustainable Real Estate & Infr	SDG 9 – Industry, Innovation, Infrastructure
7	LG CHEM	2.70%	Sustainable Energy	SDG 7 – Affordable and Clean Energy
8	POWER GRID CORP	2.50%	Sustainable Energy	SDG 7 – Affordable and Clean Energy
9	ASML HOLDING	2.40%	Impact Leaders	SDG Leader
10	CITY DEVELOPMENTS	2.30%	Sustainable Real Estate & Infr	SDG09 – industry, innovation, infrastructure

Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

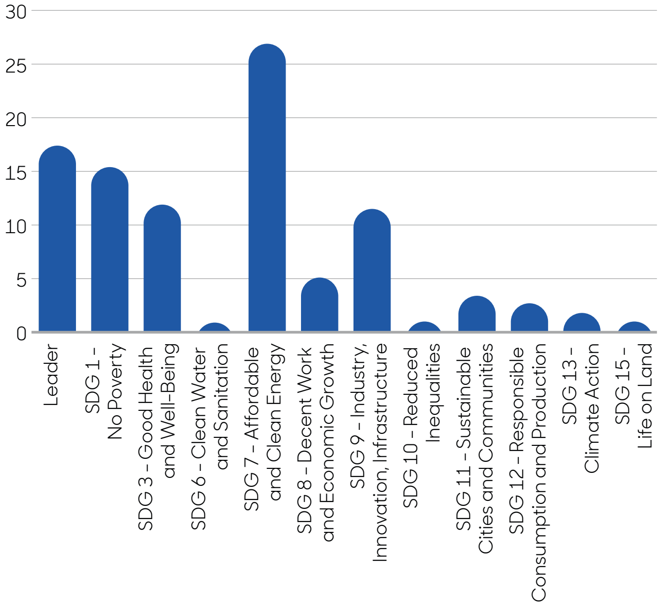
Strategy Positioning

Strategy Weighting by Pillar



Source: abrdn June 30th, 2022.

Strategy Weighting by SDG



Source: abrdn June 30th, 2022.

Contact us

Asian and Emerging Markets Sustainable Development Team

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Fraser Harle

Jerry Goh

Daniel Ng

Investment Objective

The Fund aims to achieve long term growth by investing in companies in Asia Pacific (excluding Japan) countries which in our view will make a positive contribution to society through their alignment achieving the United Nation's Sustainable Development Goals ('SDGs'). The Fund aims to outperform the MSCI AC Asia Pacific ex Japan Index (USD) benchmark before charges.

Portfolio Securities

– The Fund invests at least 90% in equities and equity-related securities of companies based, or carrying out much of their business, in Asia Pacific countries (excluding Japan). – The Fund may also invest in equities and equity-related securities of companies with a connection to a Frontier Market. – The Fund may invest up to 30% of its net assets in Mainland China equities and equity related securities, although only up to 20% of its net assets may be invested directly through QFI regime, the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programme or by any other available means. – All equity and equity related securities will be consistent with our Sustainable Development Equity Investment Approach, which is published at **abrdn.com** under Sustainable Investing. – Financial derivative instruments, money-market instruments and cash may not adhere to this approach. – The Fund will invest in companies with minimum of 20% of their revenue, profit, capital or operating expenditure or research and development linked to the UN's SDGs. For companies classified in the benchmark as "Financials", alternative measures of materiality are used based on loans and customer base. The Fund will also invest up to 20% in SDG leaders. These are companies that are considered to be integral to the supply chain for progressing towards the UN's SDGs, but do not currently meet the 20% materiality requirement. – In addition we apply a set of company exclusion which are related to the UN Global Compact, Tobacco Manufacturing, Thermal Coal, Gambling, Oil & Gas, Carbon Emission and Weapons.

Management Process

– The Fund is actively managed. – The Investment Approach identifies companies which are aligned to the United Nation's Sustainable Development Goals. These goals are designed to address the world's major long-term challenges. These include climate change, growing social inequality, and unsustainable production and consumption. – Engagement with company management teams is a part of our investment process and ongoing stewardship programme. Our process evaluates the ownership structures, governance and management quality of the companies. – The Fund will target a lower carbon footprint compared to the benchmark as measured by the abrdn Carbon Footprint tool. – The benchmark is also used as a reference point for portfolio construction and as a basis for setting risk constraints and does not have any sustainability specific factors. – In order to achieve its objective, the Fund will take positions whose weightings diverge from the benchmark or invest in securities which are not included in the benchmark. The investments of the Fund may deviate significantly from the components and their weightings in the benchmark. Due to the active nature of the management process, the Fund's performance profile may deviate significantly from that of the benchmark over the longer term.

Derivatives and Techniques

– The Fund may utilise financial derivative instruments for hedging and/or investment purposes, or to manage foreign exchange risks. The use of derivatives for hedging and/or investment purposes is expected to be very limited, mainly in those cases where there are significant inflows into the Fund so that cash can be invested while the Fund's investments in equity and equity related securities is maintained.

Equity risk – 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.

Emerging Markets risk – 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.

VIE Risk – 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.

China A / Stock Connect risk – Investing in China A shares involves special considerations and risks, including greater price volatility, a less developed regulatory and legal framework, exchange rate risk/controls, settlement, tax, quota, liquidity and regulatory risks.

ESG Investment Risk – Applying ESG and sustainability criteria in the investment process may result in the exclusion of securities within the fund's benchmark or universe of potential investments. The interpretation of ESG and sustainability criteria is subjective meaning that the fund may invest in companies which similar funds do not (and thus perform differently) and which do not align with the personal views of any individual investor.

Derivatives risk – 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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Details of our Sustainable and Responsible Investment Approach are published at **abrdn.com** under Sustainable Investing.

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Asia Pacific

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