abrdn III ICAV

abrdn Future Real Estate UCITS ETF

December 2024

Summary

Our abrdn Future Real Estate UCITS ETF (the "Fund") invests in companies that have been identified through our rigorous listed real estate research process which takes into consideration the sustainability of the business in its broadest sense and the company's environmental, social and governance (ESG) performance.

This process powers both our investment insights and also our assessment of a company's ESG risks and opportunities to better understand risk and return potential resulting in positively tilted portfolio from sustainability and ESG perspective.

The Fund uses our proprietary ESG House Score, which is primarily a quantitative assessment, to identify and exclude those companies exposed to the highest ESG risks,.

Additionally, binary exclusions are applied to exclude the particular areas of investment detailed below. The Fund is classified under SFDR as Article 8 and therefore promotes Environmental & Social characteristics and investments follow good governance practices.

The Investment Framework

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

ESG factors are financially material, and impact corporate performance.

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

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

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

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

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

ESG Assessment Criteria

The Fund uses a number of ESG Assessment Criteria:

abrdn ESG House Score (Quantitative)

Our proprietary ESG House 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 abrdn ESG House Score was designed so that it can be broken down into specific themes and categories. The ESG House score comprises of two scores; the Operational score and Governance score. This allows a quick view of a company's relative positioning on its management of ESG issues at a granular level.

- The Governance score assesses corporate governance structure and the quality and behaviour of corporate leadership and executive management.
- The Operational score assesses the ability of the company's leadership team to implement effective environmental and social risk reduction and mitigation strategies in its operations. To complement this, we also utilise our active stewardship and engagement activities.

ESG Commitment

The Fund has the following ESG Commitment:

Benchmark exclusion –The abrdn Future Real Estate UCITS ETF will exclude the bottom 20% (minimum) of companies within the FTSE EPRA Nareit Developed Net Index (the "Benchmark Index") from the investable universe.

To achieve this, each constituent of the Benchmark Index is scored using the abrdn ESG House Score, and the bottom 20% of companies will be removed across each of the three regions: (1) UK & Europe, (2) APAC Including Japan, (3) US & Canada. This approach accounts for regional differences in scores to enable a fairer, relative assessment of companies against their peers, with the aim of minimising an exclusion bias against countries less developed in managing ESG factors. Where there are multiple companies with the same abrdn ESG House Score at the exclusion threshold, the Fund can invest in companies with the highest Governance Scores – this aligns with the views of the team, where effective governance is a critical input within the investment process. Notwithstanding, the net effect will always ensure a removal of at least 20% of the Benchmark Index.

abrdn ESG House Score screening criteria

The Fund utilises the abrdn ESG House Score. Only companies scored by the abrdn ESG House Score can be held by the Fund.

Off-benchmark positions scored by the abrdn ESG House Score are permissible and will be subject to the same screening criteria as benchmark securities outlined in the previous section. Where a company is not scored by abrdn ESG House Score,, the Fund will manually assign a score in liaison with the central ESG team in due course.

Performance Targets

To measure financial performance, the Fund's benchmark index is the FTSE EPRA Nareit Developed Net Index. We aim to outperform the Benchmark 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.

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 10%.

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.

Exclusions and Restrictions Criteria

The exclusions and restriction criteria have binding ESG targets and a positively tilted ESG portfolio. The approach also applies binary exclusions to rule out a defined list of unacceptable, controversial activities and behaviours.

The Fund does not invest in controversial areas as described below due to the nature of the Fund's investment universe. Nevertheless, as a part of the Fund governance oversight and monitoring, the ESG Investment team will carry out a negative screen detailed 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[1]	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.
State-owned enterprises[2]	Are majority state-owned enterprises in countries subject to international sanctions or that materially violate universal basic principles.	We utilise a combination of external data sources, including MSCI and our own internal research and insights.
Weapons[3 4]	Have any contribution from controversial weapons covering; cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, white phosphorus, non-detectable fragments, incendiary devices, depleted uranium ammunition or blinding lasers.	MSCI
	Have a revenue contribution of 5% or more from conventional weapons.	MSCI
Tobacco[5]	Have a revenue contribution of 5% or more from tobacco wholesale trading or are tobacco manufacturers.	MSCI
Thermal Coal[6]	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 unless and/or Are directly investing in new thermal coal extraction or power generation capacity in EU or OECD countries	MSCI, Global Coal Exit List (https://www.coalexit.org/), investment research
Unconventional Oil & Gas Extraction	Have a revenue contribution of 5% or more from unconventional oil and gas extraction.	MSCI
Conventional Oil & Gas	Are primarily involved in conventional oil and gas extraction and do not have a significant revenue (at least 40%) contribution from natural gas or renewable alternatives	MSCI, Investment Research
Electricity Generation and alignment with Transition Pathway	Are directly involved in electricity generation which has a carbon emission intensity inconsistent with the Paris Agreement 2 degrees scenario.	Trucost, MSCI

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.

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

The Fund does not expect to hold equity collective investment schemes, but is permitted to invest in them. If investment was made in equity collective investment schemes, the underlying investments would be required to meet the same criteria as direct equity investments.

[1] Ten Principles of the UN Global Compact **https://www.unglobalcompact.org/what-is-gc/mission/principles**
[2] **Countries sanctioned by the UN are used as the initial basis for the screen. This is then combined with abrdn's own internal research and insight to arrive at a final list of excluded countries**
3 **https://www.msci.com/eqb/methodology/meth_docs/MSCI_Global_ex_Controversial_Weapons_Indexes_Methodology_Nov2019.pdf**
4 the UN Programme of Action on Small Arms and Light Weapons (PoA) and the Arms Trade Treaty (ATT).
5 This is supported by the MPOWER strategy developed in 2007 by the WHO to cut tobacco use and raise taxes on tobacco products.
6 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.

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 of our clients' behalf. Our fund managers and analysts regularly meet with the management and non-executive directors of companies in which we invest.

Voting

Voting analysis is carried out for all general meetings in actively-held companies. Vote instructions on our holdings are decided by analysts in our regional and ESG investment teams. We subscribe to proxy research providers IVIS and ISS and use their research to support our own analysis rather than automatically following recommendations of any third party. Our decisions will reflect our knowledge of companies, and insights gained through engagement. The involvement of our investment managers in voting decisions allows us to ensure proxy voting remains an integral part of the investment process.

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 and areas of concern, share best practice and drive positive change. Priorities for engagement are established by:

- The use of the abrdn ESG House 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.

Divestment approach

Disinvestment from companies/stock is required:

- If the abrdn ESG House Score falls below the cut-off level for the relevant region
- If it becomes in breach of any of the negative or norms-based screens.

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 never 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 **abrdn.com** where documents may be obtained free of charge.

For more information visit abrdn.com

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