



## **abrdn's approach to sustainability risk integration**

July 2024

**[abrdn.com](https://abrdn.com)**

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# Introduction

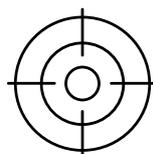
At abrdn, we view sustainability factors as an important element to how we invest. We believe that sustainability factors can be financially material and can meaningfully impact an asset's performance. An asset's ability to generate returns for investors is therefore also dependent on its ability to manage its relationship with the environment, its relationship with society and stakeholders, and on the way it is governed.

For the purpose of this document, we follow the definition of "sustainability factors", as provided in EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR); notably: "sustainability factors' mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters"<sup>1</sup>. In line with this, in the following we use the term "sustainability" interchangeably with the term "environmental, social and governance", or in short "ESG".

Sustainability factors can represent both an opportunity as well as a risk to the future return of an investment. Whilst the consideration of potential sustainability-related opportunities is an important part of our investment process, in this paper we only focus on sustainability risks for our investments.

Sustainability risk integration is part of abrdn's Sustainable Investing Strategy which more broadly encompasses Sustainability Research & Insights; Sustainable Investment Standards & Frameworks; Operational Strategy; and Sustainability Products & Client Delivery.

This document outlines our approach and framework in relation to sustainability risk integration. It sets out how sustainability risk integration has been embedded into the processes and operating model of abrdn's investment business.



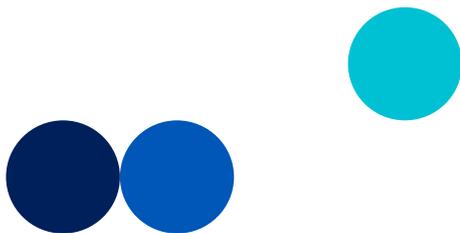
## Products in scope

With the exception of certain investment strategies and/or financial instruments, we integrate sustainability risk to products in addition to those that have specific sustainability-related features. The exceptions to which the approach is not applied include (but not limited to) selection of indirect third-party investments, and non ESG-linked derivatives.

It is important to bear in mind that there are variations of the integration approaches across asset classes. We believe sustainability risks can be a key driver of financial performance for some assets but less relevant for others. The extent of sustainability risk integration varies within the investment process and is tailored depending on the underlying investment and access route. As a result, our approaches to sustainability risk integration may be more granular for some asset classes compared to others; for instance, some asset classes will consider sustainability risks at the security level whereas other asset classes conduct a broader assessment of sustainability-related matters at portfolio level.



# Introduction



## Our regulators' expectations

The EU SFDR has been the first major piece of sustainability related financial regulation globally. The SFDR places a requirement upon firms to publish policies on the integration of sustainability risks in investment decision-making and disclose the approaches in financial products' precontractual documents. In addition, EU regulators have amended fund managers' fiduciary duties to ensure that sustainability risks are assessed on an ongoing basis and in addition to financial risks. Some key pieces of global regulation and regulatory guidance with regards to sustainability risks include:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability - related disclosures in the financial services sector (EU SFDR);
- Commission Delegated Regulation (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms;
- Guidelines by the Monetary Authority of Singapore (MAS) on Environmental Risk Management for Asset Managers;

- Circular by the Securities and Futures Commission (SFC) of Hong Kong on the Management and Disclosure of Climate-related Risks by Fund Managers;
- FCA Policy Statement 21/24 on enhancing climate related disclosures by asset managers, life insurers and FCA-regulated pension providers (UK);
- US SEC finalised sustainability-related disclosure requirements for operating companies and has proposed rules applicable for investment advisers and certain funds.

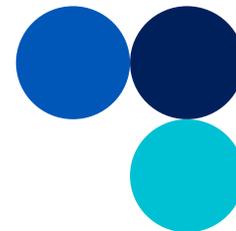
### **This document is intended to address our regulatory obligations in relation to sustainability risk integration.**

For the purpose of EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), this document is applicable to the following regulated entities:

- abrdn Investments Luxembourg S.A.:  
LEI 213800WAVVOPS85N2205
- abrdn Investments Ireland Limited:  
LEI 2138007AHIT6ZR316H03
- abrdn Fund Managers Limited:  
LEI 213800LKZU3XUL41DI38
- abrdn Alternative Funds Limited:  
LEI 549300WSN2YD8Y9VT805
- abrdn Investments Deutschland AG:  
LEI 549300K7SRNSZFCG1N08

Domicile, registration and regulatory details of these companies are available on [abrdn.com](https://www.abrdn.com) or on request.

# Understanding and identifying sustainability risks



The EU SFDR defines sustainability risks as follows:

## Sustainability Risk

**Means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.**

For the purpose of this document, we use the SFDR terminology of "sustainability risks" and apply the above definition. This definition captures the full range of environmental, social and governance (ESG) matters that might have a material negative impact on the financial return of an investment. In other publications and/or client communications, we may refer to "ESG risks" and "ESG integration" which are more commonly used terms in the market (to note though that "ESG integration" refers to the integration of both ESG risks and opportunities whereas this document focusses solely on sustainability matters as a risk factor to investments).

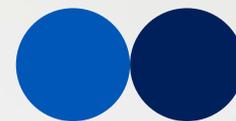
Sustainability risks differ from the SFDR concept of 'principal adverse impact' which are described in Commission Delegated Regulation (EU) 2022/1288 by means of a list of environmental and social indicators, including employee, respect for human rights, anti-corruption and anti-bribery matters.

Whilst our view of sustainability risks focus on financial materiality and allow a better understanding of a company or asset's development, performance and financial position, the concept of principal adverse impacts focusses on environmental and social materiality and seeks to measure the negative externalities of investments. We consider principal adverse impact in the investment process of only a subset of funds and mandates in scope of EU SFDR; however, some of the principal adverse impact indicators may be equivalent or similar to the metrics we use for our sustainability risk analysis. For abrdn's entities in scope of EU SFDR entity reporting, we issue a separate statement on how principal adverse impacts are considered at the level of the entities. This statement can be found on the websites of the relevant entities.

The identification of the most material sustainability risks is the responsibility of investment managers. They will consider a broad range of risks related to environmental, social or governance matters, and may use external data sources, such as the SASB Materiality Map, and/or proprietary scores to identify the risk to their investments. The actual sustainability risks considered and how they are weighed vis-à-vis other risks and opportunities, will vary depending on the asset class as well as the sector/company, geography/operating model and financial instrument invested in.

**In line with our key principles of sustainability risk integration (set out in the following chapter), a sustainability risk would not in itself prohibit an investment; instead, the analysis of sustainability risks forms part of the overall portfolio risk management process and sustainability risks are one of other risks considered to assess a specific investment opportunity.**

# Key principles of sustainability risk integration

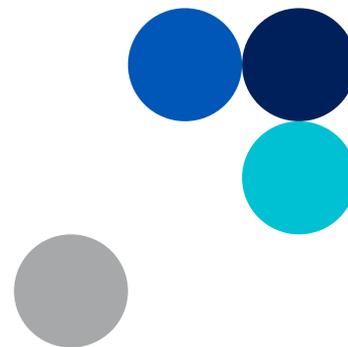


We define sustainability risk integration as a risk-based assessment, utilising data, engagement, and internal and external research & analytical tools to help inform an overall investment decision. We have established five key principles that describe our approach to sustainability risk integration.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

- **Risk based assessment:** Identifying and assessing sustainability risks and integrating those considerations into investment decision-making is part of our risk analysis and aimed at avoiding or reducing risks to the financial performance of our investments. Sustainability risk integration into our investment processes is not aimed at achieving a sustainable outcome (unless the fund/mandate has additional sustainability-related features).
- **Financial Materiality:** Financial materiality is the key driver of our sustainability risk assessment. If a sustainability-related matter is deemed relevant, we will assess its impacts or likely impacts on the company's performance and subsequently the financial performance of our investments. This analysis is integrated into our investment decision-making. Unless a fund or mandate has a specific sustainability-related objective or strategy, sustainability risks will not necessarily be the determinative factor for portfolio construction. If a sustainability risk is not deemed financially material, or is outweighed by other financial opportunities, it may not be considered in the investment decision-making.
- **Data:** We use data on sustainability matters to support our risk analysis. Depending on the asset class, we may use a number of external data providers and expert advisors. We also rely on insights about investments obtained from direct interaction or engagement with the company, manager, or asset. The data we use for our sustainability risk analysis covers a broad range of environmental, social and governance matters. Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality.
- **Research & Analytical tools:** We use external analytical and bespoke internal tools for our integration processes. We have developed bespoke internal tools, in collaboration with external partners, that help us identify and understand the impact of sustainability risks and support our investment decisions. The use of research and analytical tools may not be binding for the investment process.
- **Active ownership:** Engagement with investments is an important part of our sustainability risk integration approach and we will engage if we see a need and an opportunity to gain insights and/or to influence an investment's direction of travel. Where we have rights, we may vote at AGMs of target companies to drive change.



# Investment due diligence



## Investment due diligence processes

abrdn's investment desks have developed bespoke approaches of integrating sustainability risks into their investment processes. The following provides a high-level outline of those approaches.

### Equities

Understanding environmental, social and governance (ESG) factors can complement broader understanding of a business' competitive positioning and help build out an investment case.

**Why integrate:** We believe that looking at ESG information, including the way we collect ESG information, gives us an information advantage. The way we systematically integrate ESG factors into the investment process contributes to our analytical edge. Incorporating ESG factors into company analysis and using these factors to understand quality, the drivers of value and risks to that value, we believe we can gain an analytical edge over the market where peers do not consider ESG factors. Finally, by better understanding the quality of companies, and with ESG being a component of quality, we can act on a more informed and more rational basis during periods of volatility. Better understanding the inherent drivers of quality means that we can use volatility to our advantage.

Integrated ESG analysis for us covers qualitative analysis in our research, active ownership and engagement, and investment decisions and portfolio construction.

**Qualitative analysis: ESG Quality Rating In Stock/Research Notes:** where ESG is integrated, the Active Equities strategies incorporate ESG into the research process. In these instances, the stock analyst owns the ESG recommendation and assigns an ESG Quality (ESG Q) rating of 1-5, with 1 being 'best in class' and 5 representing a 'laggard' as part of the stock note. This score is the summary of research into the most material ESG risks and opportunities, and an assessment of how the business is managing its exposure to ESG factors. The ESG Q score reflects analyst views on the degree to which the ESG factors impact a company's performance. To conclude on the ESG Quality rating, our analysts answer four key questions:

1. What is our view on the quality of the corporate governance and oversight of the business and management?
2. What are the most material environmental, social, and operational governance issues the company must manage and how are these being addressed?
3. What is our conclusion on how the management of the most material ESG risks and opportunities will impact the business' operational performance and valuation?
4. What is our ESG Q score/rating and how does it factor into the investment conclusion? Does this differ from the abrdn House Score and MSCI? Do we have a differentiated view?

To answer these questions stock analysts must determine which ESG factors are financially material to form a forward looking view on how the business will manage ESG risks and capture ESG opportunities. The analyst is focused on ESG factors that are 'decision useful' which allows them to understand any impact on future business performance, financial position, and/or market perception. Stock analysts consider both current and future impacts of material ESG factors on businesses. These factors can vary within the same industry based on multiple factors, such as, geography and company size.

**Active Ownership Assessment: ESG integration in engagement:** In our research and analysis of these ESG issues we identify any concerns we may wish to discuss with companies. We then set engagement objectives according to the circumstances at each company. There are two core reasons for engagement:

1. To understand more about a company's strategy and performance.
2. To encourage best practice and drive change.

# Investment due diligence



Our engagements also give us an opportunity to source additional information and potentially to:

- **Identify an information gap:** if a company does not disclose ESG information and the market is unable to form a robust view of its quality, its shares may be priced inefficiently. Using our research capabilities including on-site and face to face visits, we are able to develop an informed view of the company and to identify any pricing inefficiency that we find.
- **Close the information gap:** if we own a company that is misunderstood by the market, we can work constructively with the company's management team to encourage improved and enhanced disclosure, allowing the market to better understand, and hence better price, the company's securities.
- As part of our engagement, companies are encouraged to set clear targets or key performance indicators on all material ESG risks to enable performance monitoring.
- **Integrating ESG into investment decisions:** ESG factors are one of the components of how we view the quality of a business, and they may influence our research discussions and inform our portfolio construction. Peer review provides oversight for our investment analysis. Investment teams have robust debates and challenge each other on our ESG analysis and its relevance to investment cases and decisions. These discussions are then used to support investment decisions across a range of portfolios.

## Portfolio construction

ESG factors are part of how we define quality. Portfolio meetings are where investment teams review the outcomes of team-based sector reviews and discuss specific companies that meet a particular fund's mandate. We would expect ESG and other material factors to be part of portfolio discussions. We believe that generally, the higher quality a company, and the more conviction we have in the company, the more of that company we might elect to buy (whilst being sensitive to valuations and portfolio mandates). ESG is a part of the discussion around 'position sizing', or how much of a company to buy. We then construct a portfolio of Quality companies, having considered ESG factors and their impact on our different Quality outcomes.

## Fixed Income

**Fixed Income Research Integration:** For both public and private credit, analysts provide the ESG assessment of a company and assign an ESG Risk Rating to each issuer ranging from Low, Medium, High (Low is better). This is credit profile specific and represents how impactful they believe ESG risks are likely to be to the credit quality of the issuer now and in the future. A rating of "High" indicates that there are potentially significant risks whose impact and timing could negatively affect the credit profile of a company. This approach is used across the majority of our credit research teams. Fund Finance assesses ESG using a dedicated questionnaire designed to highlight any ESG 'red-flags' and some of our structured credit products.

ESG considerations are hardwired into our sovereign bond investment processes as well. Our Developed Market ("DM") and Emerging Market ("EM") debt teams use proprietary models that assess the performance of a country's ESGP factors, where P stands for politics, highlighting the importance of political drivers in sovereign analysis. Pillar scores combine under a quantitative approach and generate a country score of 0-100 (100 being the best). Although there are a number of common data sources, DM and EM models are tailored to represent the different dynamics of each asset class. For our emerging markets model, in addition to quantitative indicators, we assign a 'Direction of Travel' (DoT) Score (positive, neutral or negative), which is based on qualitative internal research, to gauge whether a country is on an improving or deteriorating ESGP trend.

**Portfolio Construction:** At a company level, ESG factors can influence the size of positions we take – either positively or negatively. Thematic research – including environmental management, climate change, human rights, and labour practices – contributes to our sector assessments and top down views, both of which influence portfolio risk themes. Our portfolio analysts have access to a combination of tools (where relevant to the asset class).

For government bond strategies, it is the responsibility of portfolio managers to carefully analyse whether or not a country's performance across ESG factors is material and relevant to the investment case for a country's debt. In many cases while ESG concerns can be significant, exogenous forces (like quantitative easing) can outweigh other potential bond market drivers.

# Investment due diligence



**Active Ownership:** The Fixed Income Team actively engage with many companies on ESG issues. This provides a forward-looking view of the ESG strategy. This can help to highlight future risks and opportunities that should be factored into valuations. Importantly this also provides the ability to actively influence a company's management of ESG issues in line with best practices.

Engagement also allows us to gain a better understanding of the investment risks and opportunities posed by environmental social and governance factors affecting a country. Sovereign engagements may be held with a variety of different sovereign stakeholders including a nation's Debt Management Office, Central Bank or Ministry of Finance. In the sovereign space, engagement outcomes can be harder to attain on issues such as climate policy due to: 1) lack of access to the relevant policy decision markets and 2) inherent politics. However sovereigns regularly seek feedback on their labelled bond frameworks and here we can play a much more active role in shaping outcomes. Given the relatively low levels of individual investor influence in the sovereign debt market, collaborative engagements play a vital role when engaging with sovereigns.

Engagement activities in Private Credit can be split into two stages of the process 1) Initial due diligence & underwriting prior to investment and 2) ongoing monitoring of the investment. During the initial due diligence phase, we engage to understand the risk and opportunities the underlying assets or companies are exposed to. We may do this via direct conversations with management or technical advisors where applicable. Our greatest ability to set milestones for our Borrowers occurs prior to investment where we may be able to negotiate certain ESG KPIs, ESG reporting or other ESG related structuring requirements into the legal documentation governing the investment, where appropriate for the mandate.

Following initial investment, there are regular opportunities to engage with management and where material, ESG will be discussed as part of this ongoing dialogue.

## Direct Real Estate

**This asset class is not accessible to retail investors.**

ESG forms part of the abrdn Real Estate investment process, from the due diligence phase and throughout the ownership period. The ESG approach for this asset class groups material sustainability indicators into four main categories: (i) Environment & Climate, (ii) Demographics; (iii) Governance & Engagement; and (iv) Technology & Infrastructure. This approach allows the identification and promotion (where relevant) of material ESG risks and opportunities relevant to a fund's investment strategy, sector and geography.

The ESG considerations are incorporated in the investment due diligence through a standardised ESG due diligence checking which includes an assessment of factors such as flood risk, contamination risk, alignment with regulatory requirements and identification of opportunities (e.g. decarbonisation).

During the ownership period and the life of a fund, ESG risks and opportunities are considered through the Asset Management Plans and the fund Strategic Plans. The Asset Management Plans includes an ESG section to capture ESG actions for each asset where applicable and appropriate (such as energy, water and waste related improvements). The annual fund Strategic Plans sets the focus and strategy of the fund and includes (1) ESG performance and risks, as well as (2) longer term strategic goals. The Annual Strategic Plans are approved by the Investment Strategy Committee.

To further enhance ESG consideration in the investment management analysis, abrdn has created a bespoke proprietary solution (the "ESG Impact Dial") to assist in further defining ESG aspirations and targets and measure performance against these targets.



## Infrastructure

**This asset class is not accessible to retail investors.**

The abrdn Infrastructure investment management team assesses ESG factors in the investment process in line with the below principles. The consideration of ESG factors aims to mitigate material risks and promote positive ESG outcomes in support of the investment objective of the funds and assets managed.

- Identify material ESG risk factors when screening investment opportunities with the help of an internally developed ESG Screening Tool;
- Identify and capture opportunities to deliver positive outcomes and solutions for society, which support long term value creation;
- Agree specific objectives to set strategic direction and work with portfolio companies' management teams to ensure execution. Each investment will have a ESG Value Creation Plan defining the actions that will be taken to address any material ESG risks, if applicable.

Focus lies on factors material to direct infrastructure investments. These vary depending on an asset's sector and geography but can include the safe and sustainable operation of assets that provide essential services to the public, supporting climate change mitigation and adaptation, and social and employee matters including respect for human rights, anti-corruption, and anti-bribery concerns. Engagement with the leadership of each of the portfolio companies consists of: challenge and encouraging leadership teams to set appropriate targets, to put in place robust and transparent management processes, and to meet best practices in their operations. This process is designed to minimise ESG risks and enhance and protect long term value through ensuring the asset is attractive for future owners and doesn't become obsolete.

## Multi-asset

The Multi Asset Investment Team has embedded ESG analysts within the team and set up an ESG steering group to coordinate investment activities. The team also draws on the abrdn Investment Sustainability Group (see details on page 14), which provides bespoke research on areas such as environmental responsibility, climate change, human rights and governance issues. ESG integration varies across portfolios.

Where multi-asset strategies use abrdn's active equity and credit funds, ESG integration and active ownership are applied. When using derivatives or passive index trackers, the opportunity to integrate ESG can be limited. In some cases, ESG factors play a role in background thinking about structural economic trends (e.g. demographic shifts, the transition to a low carbon economy). In other cases, ESG can be a primary driver of strategy selection, for example, when making thematic allocations to green technologies. The investment managers use a variety of ESG metrics to help to identify risks including ESG scores, materiality mapping, controversy flags and carbon intensity metrics. Climate scenarios are also sometimes used to support long-term expected return forecasts. In addition, where appropriate the multi-asset team may also follow a comparable process to the indirect/fund of fund strategies.



## Liability solution driven

**This asset class is not accessible to retail investors.**

Where the funds integrate a growth component by investing in Multi Asset strategies, the same processes described above apply. Liability-Driven Investment (LDI) funds invest primarily in UK government bonds (gilts), gilt-based instruments (such as repurchase agreements and TRS) and other OTC derivatives (IRS, inflation swaps).

The role of ESG considerations for these products is important due to the long-term nature of many contracts that they enter into (e.g. swap contracts). As such, ESG risks in selecting and reviewing our counterparty panel of banks. abrdn uses an internal standardised credit framework to assess ESG risk across counterparties; the framework produces a score on several ESG elements which then feed into an overall score and risk rating for each counterparty.

## Indirect/Fund of Funds strategies

**This asset class is not accessible to retail investors.**

As part of investment process, the research team seeks to review a 3rd party fund manager's approach towards ESG-related issues at both the Firm- and the Fund-level. The Investment Team surveys approved managers annually, using an ESG questionnaire which focuses on understanding the managers' adherence to industry principles, evolution of ESG policies and key ESG risks of the investment and how they are being addressed. Depending on the investment strategy and asset type the team may use a materiality matrix based on the Sustainable Accounting Standard Boards (SASB) Framework. Based on this analysis and the questionnaire each fund or target investment gets an ESG Score or rating. Given the indirect nature of the investments, governance is a key focus area for assessment.

The ESG score at both the Firm- and the Fund- level are taken into consideration during investment decision making, alongside other risks and opportunities.

Depending on the asset class of the underlying manager, the investment teams may be able to drill down further, at a holdings level, using the third-party data providers to analyse portfolio exposure from an ESG perspective. Results are combined in order to assess portfolio level positioning, track trends and benchmark responses.

## Active ownership

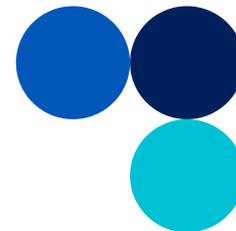
Active ownership is an important part of our sustainability risk integration approach. For example, when we invest in corporate assets, engagement can help provide a forward looking view on the management of a company's sustainability risks and the ability to encourage value enhancing best practice standards. It allows the setting of milestones to encourage best practice or to identify leaders and laggards within a sector. Engagement enhances our investment process at multiple stages:

- **Research:** Meeting with key company stakeholders enhances our insights into the management of a company's sustainability factors and their future planning, and importantly provides us with the opportunity to raise any concerns - setting milestones to track and for companies to deliver to. Insights gained can impact an analyst's broader assessment of a company.
- **ESG data:** ESG data can often be backward-looking, and some asset classes have lower coverage. Engagement is a useful tool to enhance data transparency. For example, we can seek to obtain information on; revenue contributions to activities; how any historical/current controversies are being managed; CAPEX commitments and decarbonisation targets. This can enhance our view of a company and in some circumstances enables us to invest in the positive direction of travel of these companies.

Where relevant, we engage with all our investments (beyond companies) and further details on this can be found in the outline of desks' integration processes.

**Portfolio construction:** Conducting thematic research leads to broad based engagement with multiple companies on material ESG themes. This has a number of benefits;

- we can identify the leaders and laggards managing to a given risk / opportunity;
- it provides a feedback loop to enhance our proprietary models by reflecting our conclusion of materiality to change model weights, add or remove E & S factors or in some instances directly adjust an individual company's ESG score based on our bottom-up assessment.



Investments desks will set their own engagement priorities which will depend, amongst others, on the type of sector/ companies invested in, targets set by clients, and/or controversy flags. Investments desks will decide in line with their desk-level processes if engagement on a sustainability risk will be carried out.

## Additional tools and metrics

abrdrn have developed a number of tools and capabilities to support investment teams in this process. The use of these tools is not mandatory and as such the below may not be integrated into the investment process. Where implemented, the degree to which these tools are used in the investment process depends on the tools' relevance for a specific asset and any sustainability-related characteristics or objectives of the product (specified in the documentation of the product).

These tools include, but not limited to:

### Climate change tools

- **Carbon metrics:** The analysis of carbon metrics enables portfolio managers to understand the carbon intensity and absolute emissions of their portfolios and holdings over time and it provides a baseline for benchmarking and decarbonisation.
- **Climate scenario analysis:** This tool provides a forward-looking view on the risks and their impact by geography, sector, and individual company level. This enables us to assess the potential impact on future pricing and to consider the outcomes for:
  - Climate-resilient portfolio construction: make current investment portfolios more climate-resilient to different pathways by incorporating the risks and opportunities identified in the climate scenario analysis into our portfolio-construction process.
  - Climate-driven solution development: develop new climate-driven products and benchmarks to enable clients with climate-specific goals to achieve these in a research-founded, measurable manner.
- **Climate policy index:** We have developed an index which builds on the IIGCC-recommended Climate Change Policy Index, incorporating it into our in-house climate policy expertise and adding a weighting to reflect the central role of policy action in the energy transition.

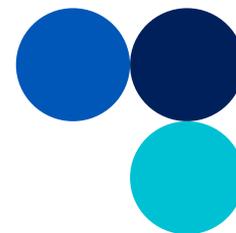
### Thematic research

abrdrn's Investment Sustainability Group (see details on page 14) carries out forward looking sustainability research and thought leadership across four pillars (Climate Change, Nature, Society and Governance).

### ESG House Score

abrdrn has developed a scorecard for companies using over 100 key performance indicators (KPIs) across six core areas: climate change, environment, labour management, human rights and stakeholders, corporate behaviour, and corporate governance. The ESG score provides a view on the company's ESG risk level relative to peers.

# Sustainable investing governance



abrdrn's Chief Sustainability Officer heads the Investment Sustainability Group (ISG) which consists of four specialised teams:

- Sustainability Insights & Climate Strategy
- Sustainable Investing. Active Ownership
- Sustainability Investment Specialists (APAC and Americas resources and Sustainability Institutes sit within this function).

In addition, to ensure consistency in setting and applying the sustainability-related strategy and framework, a Sustainable Investing governance structure was created, consisting of the Sustainability Council and various underlying forums.

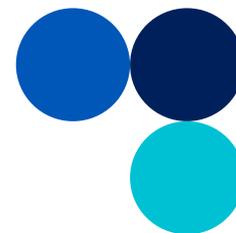
## Sustainability Council and Strategy Groups

The Sustainability Council (or, the "Council") has been set up to uphold abrdrn's ambition with regards to Sustainable Investing, through the delivery of sustainability-informed investment solutions and outcomes. The Council oversees the sustainability investment activity, including investment products and strategies, and it provides an escalation mechanism for all sustainable investment matters. The Council is chaired by abrdrn's Chief Sustainability Officer who is also a member of the Investment Business Executive.

The following '**Strategy Groups**' are a key part of the governance structure and feed into the Sustainability Council. The following is a non-exhaustive list:

- **Sustainable Investing Strategy Group (SISG)** – The SISG supports the development of the overall ESG and Sustainable Investment strategy across asset classes. The cross-functional group provides relevant expertise and insight to pursue the best long-term outcomes for our clients within the Investment business. This Strategy Group is chaired by the Head of Sustainable Investing and its members are the Heads of ESG of all asset classes, the Head of Active Ownership and the Head of Sustainability Insights.

# Sustainable investing governance



- **Sustainability Institutes, APAC & Americas** – The Institutes' mission is to set and manage the regional sustainability strategy, deliver regional-centric sustainability solutions and insights, build local sustainable investing knowledge community and contribute to regional progress. The Institutes are chaired by the regional Heads of Sustainability Institutes.

There are further '**Enablers**' that support the Strategy Groups of the Sustainability Council. Some of these include (non-exhaustive list):

**Sustainability Research Forum** – The Forum produces, discusses and promotes delivery of research priorities set by SISG and helps embed sustainability insights across asset classes.

**Sustainable Standards Group (SSG)** – The SSG's remit is to uphold standards in abrdn's investment process to ensure they stand up to scrutiny, reflect client objectives and ensure internal standards with focus on screening and standards breaches (including potential cases of controversies). The SSG is chaired by the Head of Sustainable Investing and is composed of colleagues from the Investment Sustainability Group and has representation from Product and Risk & Compliance.

**ESG Regulatory Taskforce** – The Taskforce assesses new regulatory developments and market standards across all abrdn investment business jurisdictions with ad-hoc working groups to mobilise business engagement and understand implications for the business. The Taskforce brings together colleagues from global Risk & Compliance teams, Public Affairs, Corporate Sustainability, the Investment Desks, and the Investment Sustainability Group.

## Three lines of defence

abrdn operates a 'three lines of defence' in the management of sustainability risk, among others, ensuring that there are clearly defined roles and responsibilities within our Enterprise Risk Management Framework:

**First line:** Investment teams have the primary responsibility for identifying, assessing, and managing sustainability risks, alongside other risks to investments. Sustainable investing governance forums, support investment desks with regards to implementation of the overall sustainability risk integration framework and regulatory requirements.

The Investment Sustainability Group supports the investment desks in the implementation of their sustainability risk integration processes, for instance, with research and engagement activities.

**Second line:** For funds subject to SFDR, Investment Risk oversees ESG-related portfolio composition factors. The overall RAG status of funds as well as action taken to address moderate / high risks are reported to boards, and relevant committees as required, on a regular basis.

Risk & Compliance, which includes compliance, operational risk, and Investment Risk oversight teams, support the implementation of sustainability risk integration and provides challenge to new and existing processes through engagement with Strategy Groups and Enabler forums, ongoing engagement with the first line, regulatory change implementation, and regular and/or thematic monitoring. Disclosure documents, including regulatory and product marketing material are subject to a risk-based compliance sign-off to ensure material is fair, clear, non-misleading as well as consistent and proportionate with sustainability-related statements.

**Third Line:** abrdn's Internal Audit function conducts internal audits of sustainability rule implementation as part of its internal audit agenda.

In addition, as part of the group audit plan methodology, risk assessments are carried out considering various factors including changes to regulations and developments impacting the firm, which may result in reviews relating to greenwashing.

# Approach to Anti-Greenwashing



## Our Stance

We maintain a firm commitment to preventing greenwashing risk at abrdn.

## What is Greenwashing?

As a general approach, abrdn defines greenwashing in the context of the finance industry as the misrepresentation of sustainability credentials, whether deliberate or inadvertent.

Greenwashing may manifest in various risk categories including regulatory, compliance, legal, strategic and reputational risks for the firm. In addition, greenwashing has significant negative consequences for the broader financial markets and could impede the green transition as well as undermine the effective allocation of capital.

## How We Address Greenwashing

abrdn is committed to ensuring transparency of our intentions in relation to Sustainable Investment by continuously reflecting on and evaluating our governance, product development, due diligence, disclosures and marketing communications strategies.

We apply regulatory guidance where applicable such as the UK FCA guidance on tackling greenwashing to ensure that our ESG-related claims are clear, fair and not misleading.

Accordingly, abrdn aim to ensure that our sustainability-related claims are:

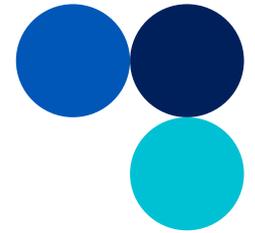
- Correct and capable of being substantiated;
- Clear and presented in a way that can be understood;
- Complete – they should not omit or hide important information and should consider the full life cycle of the product or service; and
- Fair and meaningful in relation to any comparisons to other products or services.

## Regulatory Change Across Jurisdictions

We recognise that the topic of greenwashing risk is continuously evolving, including the treatment and view of what are considered greenwashing risks across jurisdictions. Accordingly, we regularly review our approach to ensure that we remain aligned with the interests of abrdn's clients, our needs and regulatory expectations.

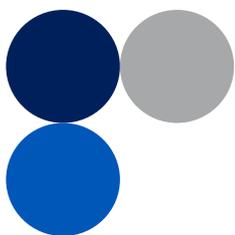


# Risk management



Sustainability risk management starts with the investment teams who have the primary responsibility to identify, assess, manage and mitigate sustainability risks in their portfolios. Risk management may include the assessment of the potential impact of the risks on an asset's credit profile and therefore the fair value pricing of an investment; supporting diversification by investing in disruptors impacting competition within sectors; and mitigating unintended portfolio correlations with overarching ESG themes able to impact interlinked companies and sectors.

Investments are also subject to our exclusions on controversial weapons (primarily cluster munitions and anti-personnel landmines). Position statements for controversial weapons and other ESG topics can be found on [abrdn's website](#).



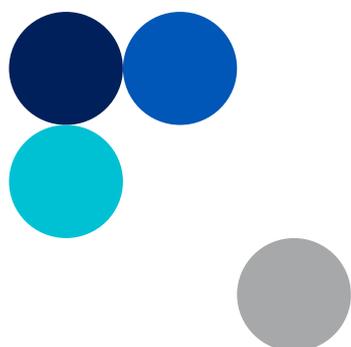
# Sustainable investing governance

## ESG data

At abrdn, we use a variety of sources to obtain data in relation to sustainability matters. These vary depending on the type of assets in which a portfolio is invested and may include company direct disclosure (annual reports, sustainability reports, etc.); company indirect disclosure (government agency published data, etc.); insights obtained directly from companies through our engagement with them; data obtained from the properties we invest in; and/or publicly available data in relation to sovereigns from sources such as the World Bank and the United Nations Development Program, as applicable and available.

We work with several third-party ESG data providers and use their data points both as inputs into derived analytics, such as internal ESG house scores, as well as in raw format, for example in screening. As part of our onboarding process, we ensure that these providers have appropriate quality assurance in place. On an ongoing basis we have both qualitative governance and challenge processes as well as quantitative checks to understand quality of data, data inputs and gaps where appropriate.

Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality. Where data is unavailable, we may choose to leverage estimated metrics.



# Conflicts of interest



abrdn's Conflict of Interest Group Policy requires each Business, Business Region and Functional Area to adhere to applicable laws and regulations. This also applies to sustainability-related requirements and relevant regulations in this regard.

Conflicts of interest in relation to sustainability can arise in different situations, including during product design, sustainability risk assessment and management, voting and engagement, etc. Conflicts of interest in relation to sustainability can result in unfair treatment of clients and customers, such as greenwashing practices, and other adverse outcomes. abrdn follows policies and procedures to identify, assess and manage conflicts of interest in relation to sustainability matters. To the extent conflicts cannot be managed, they must be disclosed to impacted investors.



## Important Information

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

This document is strictly for information purposes only and should not be considered as an offer, investment recommendation, or solicitation, to deal in any investments or funds mentioned herein and does not constitute investment research. abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Applying ESG and sustainability criteria in the investment process may result in the exclusion of securities within the universe of potential investments. The interpretation of ESG and sustainability criteria is subjective meaning that products may invest in companies which similar products do not (and thus perform differently) and which do not align with the personal views of any individual investor. Furthermore, the lack of common or harmonised definitions and labels regarding ESG and sustainability criteria may result in different approaches by managers when integrating ESG and sustainability criteria into investment decisions. This means that it may be difficult to compare strategies within ostensibly similar objectives and that these strategies will employ different security selection and exclusion criteria. Consequently, the performance profile of otherwise similar vehicles may deviate more substantially than might otherwise be expected. Additionally, in the absence of common or harmonised definitions and labels, a degree of subjectivity is required and this will mean that a product may invest in a security that another manager or an investor would not.

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(entities as at 14 June 2024)

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