Together

we invest for a better future

Standard Life Aberdeen

Task Force on Climate-related Financial Disclosures Report

Together

we can pave a way towards a sustainable tomorrow

Our purpose

Together we invest for a better future.

Our strategy is to build a vibrant and value-creating purpose-led organisation, with the current and future needs of our stakeholders at the heart of all we do.

- **For our clients and customers, this means building solutions to create wealth and help meet their needs**
- **For our employees, it means creating an environment where everyone can thrive**
- **For society, it means promoting positive change through how we operate and invest**
- **For our shareholders, it means turning opportunities into sustainable long-term returns**

Our business

We meet the evolving needs of investors and savers.

We do this by building lasting relationships and developing innovative products and services. We offer:

- Active asset management to institutional, wholesale and strategic insurance clients
- Wealth management, financial planning and advice services, either directly to customers or through financial advisers

We also have significant holdings in associate and joint venture businesses: Phoenix in the UK, HDFC Life and HDFC Asset Management in India and Heng An Standard Life in China.

Our operations

We are headquartered in Scotland and listed in London, with around 6,000 employees in over 50 locations worldwide. We have operations in global financial capitals and important regional centres, which bring us closer to our clients and customers around the world, and provide invaluable knowledge and insight to share with our people.

Our climate change strategy aim

To influence and accelerate the low carbon transition through our capital allocation decisions, engagements and advocacy. We aim to lead by example by reducing our own operational emissions.

"Investors cannot be passive observers of the outcome of their activities. Every investment has an impact on the future – both positive and negative. We have a fiduciary duty of care to clients, but this duty must include actively managing the impact on society and the environment.

The TCFD recommendations help us to determine the nature, scale and management of climate-related risks and opportunities across sectors and geographies. We actively encourage companies to follow the recommendations and in this document we show how we are leading by example".

Keith Skeoch, Chief Executive, Standard Life Aberdeen plc

Introduction

> Limiting global warming is one of the biggest challenges of our times. We have one decade left to take serious action to limit warming and avoid catastrophic impacts. If we do not, there will be significant damage to livelihoods, food security and economic growth.
>
> **Mike Tumilty,**
> **Chief Operating Officer**

Invest today. Change tomorrow.

As investors, we can help finance the transition to a low-carbon economy, and adaptation to climate change impacts through our products and investment decisions. How we invest today, will determine the world we live in tomorrow.

The transition will require a large amount of capital allocation from the private sector, creating a substantial investment opportunity for asset managers and companies well positioned for the changes.

We have a responsibility to all our clients and customers to consider how climate change will impact the value of their investments. Using our insights and expertise we assess the climate-related risks and opportunities as a core part of our responsible investment approach through Environmental, Social and Governance (ESG) integration.

Regular engagement with high-emitting investee companies is essential in understanding their climate risk exposure, challenging them and promoting industry best practice in climate-risk management – including disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Operationally we focus on our material impacts and have strong commitments to reduce our greenhouse gas emissions and to be carbon neutral in 2020.

> The necessary transition to the low-carbon economy will affect every country, every sector and every business. That's why climate change risks and opportunities must be integrated into every investment decision.
>
> **Rod Paris,**
> **Chief Investment Officer**

TCFD

To encourage company disclosure of material climate-related risks and opportunities, the Financial Stability Board created the TCFD. In 2017, the TCFD published their recommendations for all sectors, with additional disclosures for asset managers. This framework encourages action and transparency in the following areas: governance and oversight, strategy, risk and opportunity management, and metrics and targets to assess progress.

We are strong supporters of the TCFD recommendations – this document sets out how we are applying them. We also encourage the application of the TCFD framework when engaging with investee companies. We believe companies must be transparent on the financial implications of climate change to their business and clearly set out the actions they are taking to manage climate change risks and opportunities and improve their resilience.

Key commitments

- **We will actively support the aim of the Paris Agreement – to limit global average temperature rise to well below 2°C**
- **We will protect the value of our customer and clients' assets by integrating climate-related risks and opportunities into our investment process**
- **We will mobilise capital for a low-carbon economy – through our direct real asset investments and indirectly by influencing the capital allocation of companies we invest in through our active ownership and stewardship**
- **We will reduce our exposure to companies that do not have credible strategies to mitigate climate related risk**
- **We will focus on our material operational impacts and have long-term targets to reduce our emissions and starting in 2020 we will be offsetting our entire operational carbon footprint**
- **We will continue to align our disclosure with TCFD's recommendations, and engage with investee companies to encourage them to do the same**

Governance

This section provides detail on the following recommended TCFD disclosures:

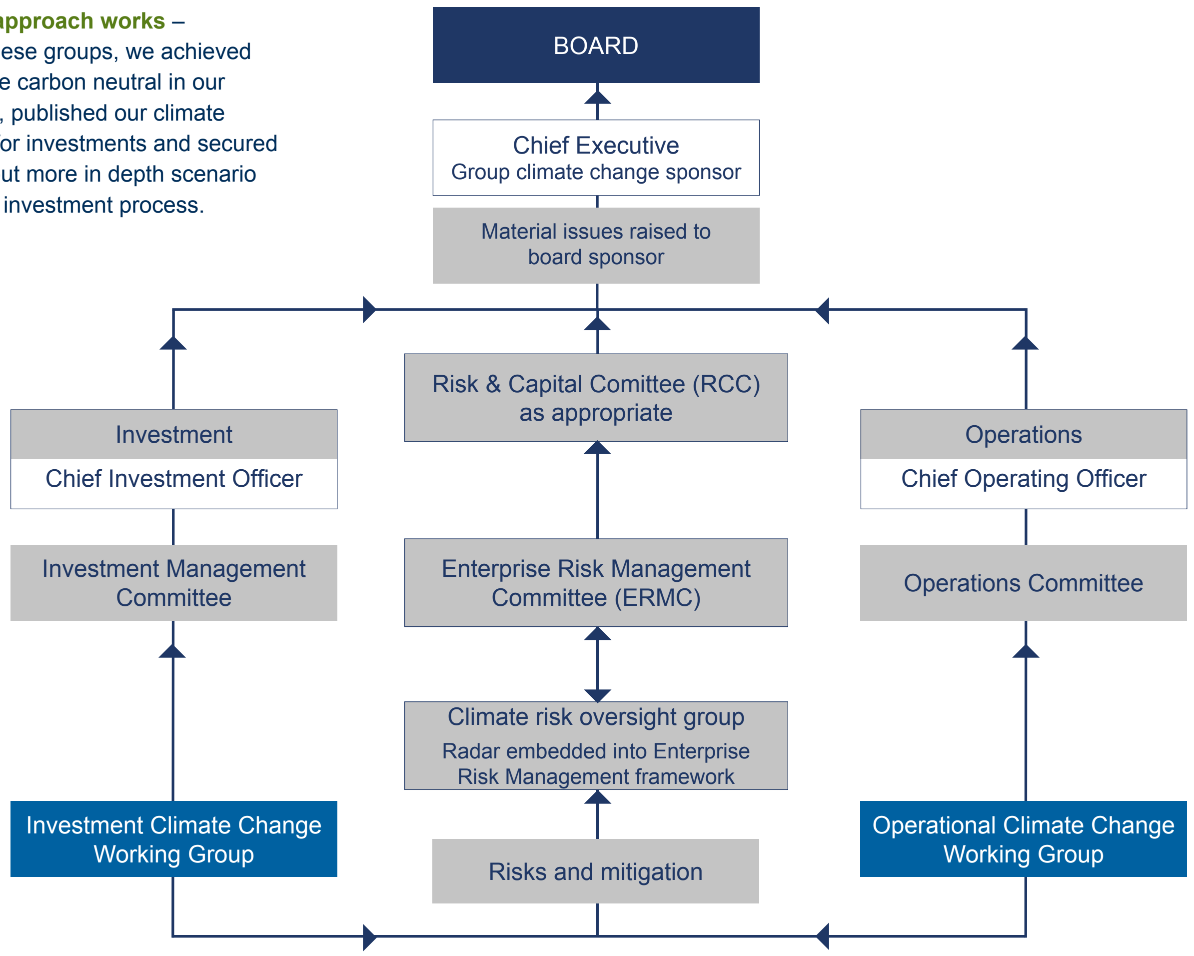
a) Board oversight of climate-related risks and opportunities
b) Role of management in assessing and managing climate-related risks and opportunities

Our Chief Executive is climate change sponsor with ultimate responsibility for managing climate change risks and opportunities. He delegates operational oversight to the Chief Operating Officer and investment oversight to the Chief Investment Officer.

We have an operational climate change working group to ensure that we have the governance, strategy and management in place to effectively manage our material climate-related risks and opportunities. Our investment climate change working group focuses on the impact of climate-change risks and opportunities on our investments, as well as the data, research and tools needed to integrate climate change into our investment decisions for customer and clients.

Diagram 1: Our climate-related Governance Structure

Our governance approach works – in 2019, through these groups, we achieved a commitment to be carbon neutral in our operations in 2020, published our climate change approach for investments and secured resource to carry out more in depth scenario analysis within our investment process.



Key to our governance structure is the radar of climate-related risks and opportunities. The radar is structured to follow our risk management process as well as aligning to TCFD. The working groups input into the radar to ensure that the material climate-related risks and opportunities are identified and have the necessary controls. The highest scoring radar risks and opportunities (detailed in the strategy section) were presented to the Risk and Capital Committee in 2019; this included the above governance structure and risk management process.

Strategy

This section provides detail on the following recommended TCFD disclosures:

a. Climate-related risks and opportunities identified over the short, medium and long term
b. Impact of climate-related risks and opportunities on businesses, strategy and financial planning
c. Resilience of organisation's strategy and business plans with regards to different scenarios
d. Factoring of climate-related risks and opportunities into relevant products or investment strategies
e. Impact of transition to low-carbon economy on products or investment strategies

A strategy to deliver on our purpose

Our strategic drivers are the foundations from which we deliver for all our shareholders.

High impact intelligence
Harness our intellectual capital, emotional intelligence and data to generate best in class impact.

Enduring relationships
Deepen our understanding of customers and clients to ensure we exceed their expectations and build relationships that last.

Connections without borders
Bring the best of our business to all our markets by constantly connecting our people, capabilities and assets to deliver a seamless proposition.

Future fit
Build a strong organisation positioned for growth and ready to anticipate and meet the challenges for tomorrow.

Our most material climate change risk is the potential for climate change to negatively affect the performance of investments on behalf of our clients. But the impact of climate change goes beyond performance alone.

Stakeholder expectations on our role in tackling climate change are ever increasing. As the effects of climate change become more apparent clients increasingly want to ensure that how they are investing meets their core values and reflects their expectations. We aim to provide the products and services to meet these changing demands.

We assess climate-related risks and opportunities using our risk and control self-assessment process. Tables 1 and 2 list our highest scoring risks and opportunities assessed against likelihood and financial impact before we have applied our controls. After controls have been applied none of the identified risks are considered to be financially material to our business strategy. However, climate-related risks and opportunities are evolving quickly and therefore the materiality of risks could also quickly change.

See Risk Management section for more detail.

RATING	Low			High
LIKELIHOOD	0-10% chance of occurrence in next 12 months (1 in 10 year event)	11-30% chance of occurrence in next 12 months (1 in 5 year event)	31-60% chance of occurrence in next 12 months (1 in 2 year event)	61-100% chance of occurrence in next 12 months (1 in 1 year event)
FINANCIAL IMPACT				

Table 1: Highest scoring climate-related financial risks:

Risk type			Potential financial impact (-)	Likelihood	Mitigation Strategy
It starts with us					
TRANSITIONAL RISKS	POLICY & LEGAL	Enhanced emissions-reporting obligations	Increased operating costs		• We have a process to identify and respond to regulatory and voluntary reporting change.
		Mandates on and regulation of existing products and services	Increased compliance costs, write-offs, asset impairment, and early retirement of existing assets due to policy changes		• We support transitional policies (e.g. carbon prices) and proactively engage with governments, regulators and industry organisations.
	REPUTATION	Increased stakeholder concern or negative stakeholder feedback	Reduction in capital availability		• Operationally we've set stretching long-term targets for Scope 1 and 2 emissions. We are increasing our procurement of renewable energy, invested in energy efficiency technology, and as of 2020 we are offsetting our operational GHG emissions.
		Significant shifts on consumer preferences	Reduced revenue from decreased demand for goods/services, Reduction in capital availability		• Our climate change approach encourages the allocation of capital to companies who are better placed for the transition to a low carbon world
Investing with purpose					
TRANSITIONAL RISKS	POLICY & LEGAL	Enhanced emissions-reporting obligations	Increased operating costs		• We are developing the data and tools to carry out necessary analysis and research for example, the weighted average carbon intensities for equities, fixed income and real estate, provided in charts 2 and 3
		Mandates on and regulation of existing products and services	Increased compliance costs, write-offs, asset impairment, and early retirement of existing assets due to policy changes		• Research and company engagements help us to understand the issues and which companies are best placed for the transition. Diversification of our portfolios is also a mitigant.
	REPUTATION	Increased stakeholder concern or negative stakeholder feedback	Reduction in capital availability		• As an investor we actively consider climate change risks and opportunities as part of our investment process and provide specific climate change related solutions for investors. • We make our views public for example by signing the Global investor statement to Governments in 2019. In addition, we are an active member of Climate Action 100+ and support the Transition Pathway Initiative.
		Significant shifts on consumer preferences	Reduced revenue from decreased demand for goods/services, Reduction in capital availability		• As stated above we are active in promoting the transition as a signatory and in collaboration with industry peers. • We actively encourage our holdings to consider climate-related risks and opportunities
		Stigmatization of sector	Reduced revenue from decreased demand for goods/services		• We are transparent in our product descriptions.

Table 2: Highest scoring climate-related financial opportunities:

Opportunity type			Potential financial impact (+)	Likelihood	Realisation Strategy
It starts with us					
TRANSITIONAL RISKS	RESOURCE EFFICIENCY	Use of more efficient modes of transport	Reduced operating costs (e.g. through efficiency gains and cost reductions), Benefits to workforce management and planning		• Operationally we've invested in video conferencing and uptake is increasing. Our fleet is phasing out fossil fuels and moving to hybrid or electric cars. • In 2019 we focused on both reducing costs and the environmental impact of our travel. Our Chief Executive sent an email to our top 100 flyers, informing them about the environmental impacts of business travel and how to reduce travel emissions. We have seen emissions from business travel drop over 42% since 2018.
Investing with purpose					
TRANSITIONAL RISKS	RESOURCE EFFICIENCY	Use of more efficient modes of transport	Reduced operating costs (e.g. through efficiency gains and cost reductions), Benefits to workforce management and planning		• For investments, our research and engagement enables us to identify the companies leading in transport efficiency and those that are best positioned for a low carbon transition and channel investment towards them.
	ENERGY SOURCE	Shift towards decentralized energy generation	Improved performance and thus increased revenue		• As an investor identifying the leaders in the energy transition, could translate into substantial gains. In order to do this we conduct thematic research and engage with companies across different sectors and regions to understand who is best positioned.
	PRODUCTS & SERVICES	Development and/ or expansion of low emission goods and services	Increased revenue through demand for lower emissions products and services. Better competitive position to reflect shifting consumer preferences, resulting in increased revenues		• We provide a number of low-carbon products and services, and are developing more. • We conduct thematic research and engage with companies across sectors and regions to understand how best to identify leaders.

Our strategy in practice

It starts with us

Operationally, we focus on the material areas of our carbon footprint and have long-term targets to reduce our Scope 1 and 2 greenhouse gas emissions. We want to first reduce where we can and then offset what we have not yet found solutions for. We have pledged to offset our entire operational footprint in 2020.

Going forward we want to be not only carbon neutral but net-positive. Where we procure, we purchase renewable electricity, and in our carbon accounting we base our absolute kWh on the average grid factors for the country.

Investing with purpose

Climate change is core to our ESG integration process across all asset classes. We believe that understanding and managing the risks and opportunities related to climate change leads to better investment decisions, better outcomes for our clients, and a more sustainable world.

Our investment approach is aligned with the UN supported Principles of Responsible Investment investor agenda:

Table 3: Our investment approach

	Focus	Objective	Actions	Aim
INVESTMENTS	**Research & Data**	Provide high-quality climate change insights and thematic research across asset classes and regions	• Carbon footprinting • Thematic research (hydrogen, food production, fossil fuels) • Climate change white paper • Macroeconomic climate policy analysis • Scenario Analysis	**Invest today**
	Investment Integration	Integrate the potential impacts of climate-related risks and opportunities into our investment decisions	• ESG scorecard with climate change • 'ESG considerations' is part of our research note templates for fund managers • Carbon footprinting as core data to consider for our funds	
	Client Solutions	Understand client needs regarding climate change and low-carbon product demand. Develop innovative solutions and products	• Bespoke product solutions for climate change focused investors • Portfolio construction • ESG integration as standard across all our products	
CORPORATE ENGAGEMENT	**Investee Engagement & Voting**	Understand investee exposure and management of climate change risks and opportunities Influence investee companies via engagement and voting	• Regular engagement with companies on climate change • Climate Action 100+ collaborative engagement initiative to influence • Voted for 40% of climate change related resolutions in 2019	**Change tomorrow**
POLICY ADVOCACY	**Collaboration & Influence**	Collaborate with industry associations and participate in relevant initiatives. Engage with peers and policy makers to drive change and best practice	• Members of IIGCC, Climate Financial Risk Forum (PRA/FCA led), Climate Action 100+, Transition Pathway Initiative • Providing our views on climate matters to Governments (eg EU, UK)	
INVESTMENT DISCLOSURE	**Disclosure**	Disclose using the TCFD reporting framework, including additional disclosure for asset managers	• The publication of this report • Encouraging the usage of the TCFD framework in our engagements	

Case study:
From black to green

The Danish power company Ørsted is a powerful example of transformation driven by the energy transition. It is one of the largest global renewable energy generators today, but was previously known as DONG Energy, a traditional oil and gas company. The company sold its oil and gas business in 2017, committed to phasing out coal and re-branded to reflect the change in its business model. In 2018 75% of the energy it generated came from renewables.

Our infrastructure debt team have provided investment for two offshore windfarms constructed by Ørsted of which they remain the key party.

Aberdeen Standard Capital have also invested in Ørsted, primarily via the listed equity, although some of our multi-asset funds also own the bonds. We consider Ørsted to be highly attractive as it is supported by strong structural growth drivers (rapidly growing global energy demand, and the increased requirement for renewables), whilst simultaneously reducing greenhouse gas emissions. This supports Ørsted's ability to generate cash which is used to invest in value-creating growth, increased annual dividends, and returning excess capital to shareholders.

Ørsted's transition from black to green was one of the reasons we chose them as the electricity supplier for our operations in the UK.

Scenario analysis

To understand the resilience of our business to different climate change scenarios and the impact of different scenarios on our products and investment strategies we have selected a specialist climate change scenario analysis provider. We expect to be able to publish the outputs of the climate change scenario analysis in the second half of 2020. This will help us understand and quantify the impact of different climate-related scenarios from below 2°C to above 4°C on our investments and products and where we are most exposed to transition and physical risks.

At the moment we undertake scenario analysis for selected companies and portfolios to assess positioning against a 2°C warming scenario using publicly available tools such as Paris Agreement Capital Transition Assessment (PACTA) and the Transition Pathway Initiative. We are members of the FCA-PRA Climate Financial Risk Forum working group on scenario analysis and have contributed to developing guidance on best practice.

Unlocking solutions

We offer a number of solutions that enable our clients to invest in the low carbon transition.

- Impact investing focused on companies that provide clean energy and energy-efficient products and services
- Screening based on climate-related criteria, such as power generation and revenue from fossil fuels
- Carbon-performance-driven investing
- Investment in low-carbon assets, e.g. renewables and real estate, that is highly energy efficient.

Credit

We manage a low-carbon fixed-income portfolio that identifies companies well positioned for the energy transition based on a backward and forward-looking view. We also include low-carbon considerations in our ethical credit strategy and our Sustainable and Responsible Investment (SRI) products.

Equities

Our Impact investing solution aims to support the delivery of measurable, positive environmental and social impact while generating strong financial returns. This portfolio, which is aligned to the UN Sustainable Development Goals includes companies that provide solutions for clean energy, energy efficiency and access to energy. In addition, several of our ethical strategies screen out companies that have significant carbon-intensive operations, such as coal mining.

Multi-Asset

Our Strategic Asset Allocation team advises clients on the optimal allocation of portfolios across a wide range of asset classes including equities, rates, credit, property and infrastructure. Climate change affects the risk and return outlook for a number of asset classes. We ensure that this is assessed within decision making. For example, improvements in technology and subsidies have dramatically improved the risk-return profile of renewable energy infrastructure. We incorporated this into our analysis and substantially increased our allocation to renewable-energy infrastructure assets.

Real estate - AIPUT

In 2018 we pledged to achieve carbon neutrality in our Airport Industrial Property Unit Trust (AIPUT) by 2025. AIPUT is a portfolio composed of warehouses and logistics accommodation in five of the UK's main airports. In 2019 we significantly tightened the standard specification used for new build and refurbishment projects in the Trust to support this goal. This includes minimum energy performance requirements and targets for emissions reduction which exceed planning requirements. Progress has also been made with landlord-led solar photovoltaic installations and engaging with tenants to better understand their energy usage and needs.

In 2019 we published Climate Change – Our approach for investments, which provides more detail on how we integrate climate-related risks and opportunities across all asset classes.

Risk management

This section provides detail on the following recommended TCFD disclosures:

a. **Processes for identifying and assessing climate-related risks**

b. **Processes for managing climate-related risks (including mitigation, transfer, acceptance and control)**

c. **Integration of processes related to identifying, assessing and managing climate-related risks into overall risk management**

d. **Processes for identifying, assessing and managing material climate-related risks for each product or investment strategy, including tools and resources**

e. **Engagement activity with investee companies to encourage better disclosures and practices related to climate-related risks**

It starts with us

For over ten years we've identified and assessed climate-related risks through our climate-related risk and opportunities radar. In 2018 we aligned our radar to the TCFD recommendations. The radar is based on our risk and control self-assessment process which assesses the inherent risk (that is the risk before the consideration of controls) against:

- Likelihood – the % chance of an occurrence in the next 12 months.
- Impacts – financial, customer, regulatory, reputational and process

The inherent risk is then scored after the consideration of the effectiveness of controls (both in terms of design and performance) currently in place.

Where we identify material risks to the business within the radar we escalate this up through our governance structure. The management process determines whether we mitigate, transfer, accept or control risks.

Case study: Business travel

Flights are our largest operational source of GHG emissions. This, alongside spend and expected taxation increases, represented an opportunity for us to address.

By using data analysis to inform our approach, we found that our top 100 flyers by distance accounted for around half of our emissions from business travel. Our CEO sent this population a letter informing them of their inclusion in this list, the environmental impact of flying and ways to reduce this. More widely, we have been taking action by reducing our travel budgets and investing over £1.5m in video conferencing technology to help employees avoid travel and by raising awareness about alternative or low carbon forms of travel.

Our emissions from travel reduced by 42% in 2019

Investing with purpose

For our investments, we assess the financial materiality of transition and physical risks across regions, sectors and companies.

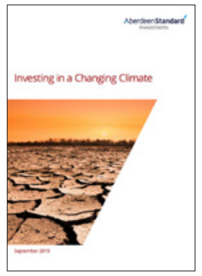
Research, data and tools

A key first step is researching and understanding the issues. Our climate-related research provides insights on regulatory and industry trends across regions. It also helps us understand the physical and transition risks and opportunities, helping us to take informed decisions about how and where to invest.

Our 2019 research papers:

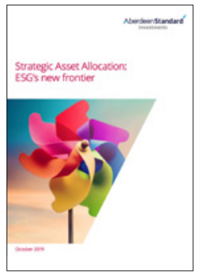
Climate change has become a central concern for investors. We are enhancing company engagement on climate risk, carbon-foot-printing portfolios and building climate portfolio solutions. However, companies do not operate in a vacuum. They are affected by the political and policy environment in the countries they operate in and generate revenues.

More detail available: **Going Green: A climate policy toolkit for investors paper.**



We examine the implications of a changing climate for investors. Companies and economies will likely incur major costs during the transition to a low-carbon world, for example from growing regulation and carbon pricing. In addition, there will be significant costs from the physical impacts such as increased forest fires, water stress and damage to crop yields. The transition offers vast investment opportunities too.

More detail available: **Investing in a Changing Climate**



Most investors accept that it makes sense to take account of ESG risks when evaluating a stock. We contend that ESG factors have a material impact on the long-term returns of asset classes. So analysis of these factors should also apply at the strategic asset allocation level. Many of the biggest challenges of our times are fundamentally problems of long-term capital allocation. A key example is climate change.

More detail available: **Strategic Asset Allocation: ESG's new frontier**

> "We have a responsibility to all our clients and customers to consider how climate change will impact the value of their investments. Using our insights and expertise we assess climate-related risks and opportunities as a core part of our responsible investment approach through ESG integration."
>
> Eva Cairns,
> Senior ESG Investment Analyst, Climate Change

We utilise a variety of resources and tools, for instance we use Trucost to assess our carbon exposure and the company assessment undertaken by the Transition Pathway Initiative to inform our own climate-related engagements.

We have developed carbon footprinting capabilities across our Equity and Credit portfolio and are working with a specialist provider for climate change scenario analysis. Carbon footprinting enables us to identify carbon intensive companies compared to peers, assess trends over time and provide input to corporate engagement. It can also facilitate decision making to decarbonise a portfolio if required. It is a good baseline, but has to be complemented with forward looking data for a complete picture of a company's position and contribution to the energy transition.

We use scenario analysis to do this, looking at a range of climate scenarios, including the 2°C scenario, and the impact of higher carbon prices. This informs the way we allocate capital on behalf of our clients.

Investment integration

Climate change research and data is fully integrated into our investment process across all our asset classes. That means understanding the financial materiality of climate-change transition and physical risks as well as opportunities across regions and sectors, and reflecting this in our portfolio construction choices.

As of 2020 we introduced an ESG House Score for each listed company to create a consistent framework for analysing and communicating our ESG company views across our listed company investments. One quadrant of this scorecard is climate change and provides both backward (carbon footprint) and forward looking data (such as targets and projects) to assess a company's response to its climate risks.

Risk management

Stewardship, engagement and voting

Stewardship, engagement and voting is critical to our approach, especially within fixed income and equities. To effectively respond to the climate crisis, we expect companies to follow the TCFD recommendations and demonstrate:

- transparency on climate-related risks and opportunities
- a clear climate strategy
- robust, Paris Agreement aligned targets
- action to achieve the targets
- support for public policies that are aligned with the Paris Agreement goals

We believe that companies managing these issues well are reacting effectively to climate-related risks and opportunities. If companies are not taking action, we use our voting rights to influence change. If we fail to see progress, we will reduce our positions or sell our holdings in companies completely.

We have a strong record of using our proxy voting to influence investee companies towards the transition to a low carbon world. In 2019 we attended the BP AGM to outline our expectation on Paris alignment and Scope 3 targets, led the engagement with E.On as part of Climate Action 100+ and discussed decarbonisation pathways with Arcelor Mittal, Peugeot and Ryanair. Our quarterly ESG reports, published on our website, provide details on engagements including those on climate change. In 2019 ShareAction placed us in the top 10% of asset managers when voting in favour of resolutions aiming to prevent poor climate-related activity.

Case study: Holding Boards to account

In October 2019 we publicly announced, prior to the AGM of BHP (the world's largest miner), our support of a shareholder resolution asking the BHP board to suspend memberships of industry associations evaluated as undertaking lobbying or advocacy activities that were inconsistent with the Paris Agreement goals and therefore not aligned with BHP's own climate strategy.

Lobbying activities by corporates and industry associations can be extremely effective at undermining the political will needed to address climate change. For this reason, we view proper oversight of companies' lobbying activities as a significant climate issue for investors' stewardship efforts.

Despite neither of the major proxy advisors supporting this advisory resolution, it gained a significant 22% support from investors. Almost 8% abstained, taking it close to 30% in total. This demonstrates that anti-climate change lobbying activities are a major and growing concern for institutional investors.

Following the AGM, we've continued to engage with the BHP Board and executives to improve their governance on lobbying activities. BHP has released an updated Industry Association Review with improvements in methodology and firm deadlines for reviewing their ongoing membership of the four industry associations assessed to be non-aligned with BHP's climate change position. We recognise this first step and will continue to engage on this matter.

Collaboration and influence

We work with governments, regulators and industry bodies globally to drive change, including through improving standards, influencing regulation and developing capital allocation strategies. We share our time, expertise and research to do this. Aligning our expectations helps to increase pressure on investee companies and drives more effective change.

We are founding signatories of Climate Action 100+, a leading campaign group with 320 supporters.

Case study: Collaborating on construction materials

Within Climate Action 100+ we are part of a group of investors pushing certain companies operating in the construction materials sector to accelerate emission reductions. We are asking these companies to commit to carbon-neutrality by 2050, to improve corporate transparency, disclosure and oversight on climate change, stating that firms that don't move quickly to change practices risk losing access to capital.

We are active members of the Institutional Investors Group on Climate Change (IIGCC), of the Principles for Responsible Investment (PRI) and a research sponsor of the Transition Pathway Initiative. We have also signed the Global Investor Statement on Climate Change 2019 and the Just Transition statement.

Case study: Collaborating on net zero buildings

We manage the operational efficiency of all of our real estate assets. We have pledged that all the landlord procured electricity in the real estate Aberdeen Standard Investments manages in the UK will be 100% renewable electricity by the end of 2020 - we have already achieved this. Working with the Better Buildings Partnership (in collaboration with 23 of the UK's leading commercial property owners) we've committed to a net zero strategy for all buildings globally by 2050. As the biggest managers of real estate in the UK (with approximately 1,600 real estate assets under management globally), we have a significant role to play. We will publish our pathway to net zero in 2020. Acting now to establish the necessary pathways will future-proof our portfolios, protecting and enhancing investment performance for our clients.

Client engagement

We work with our clients to develop their responsible investment approach, assist them with their ESG related regulatory requirements and to allocate their capital in support of their aims. In addition to ESG integration, we develop specialist fund and bespoke solutions to meet their needs, an activity that we have been undertaking for over 20 years.

Case study: Listening to our clients

For a range of our Ethical Funds we have an annual investor survey which is a key component of assessing our Investors expectations of the funds screening. The fund works by positively screening some companies and negatively screening out others.

The results of the 2019 survey showed that our clients wanted to tighten the screen on climate change to include more companies on top of our existing exclusion of those involved in thermal coal and tar sands. The funds already positively include companies that are contributing solutions to climate change.

The funds were designed to reflect clients' views and therefore we have made the relevant changes to the screening process since the survey results.

Metrics and targets

This section provides detail on the following recommended TCFD disclosures:

a) Metrics used to assess climate related risks and opportunities in line with strategy and risk management

b) GHG emissions (Scope 1,2 and 3) and related risks

c) Targets used to manage climate-related risks and opportunities and performance against these targets.

d) Metrics used to assess climate-related risks and opportunities in each product or investment strategy and metrics considered in investment decisions and monitoring

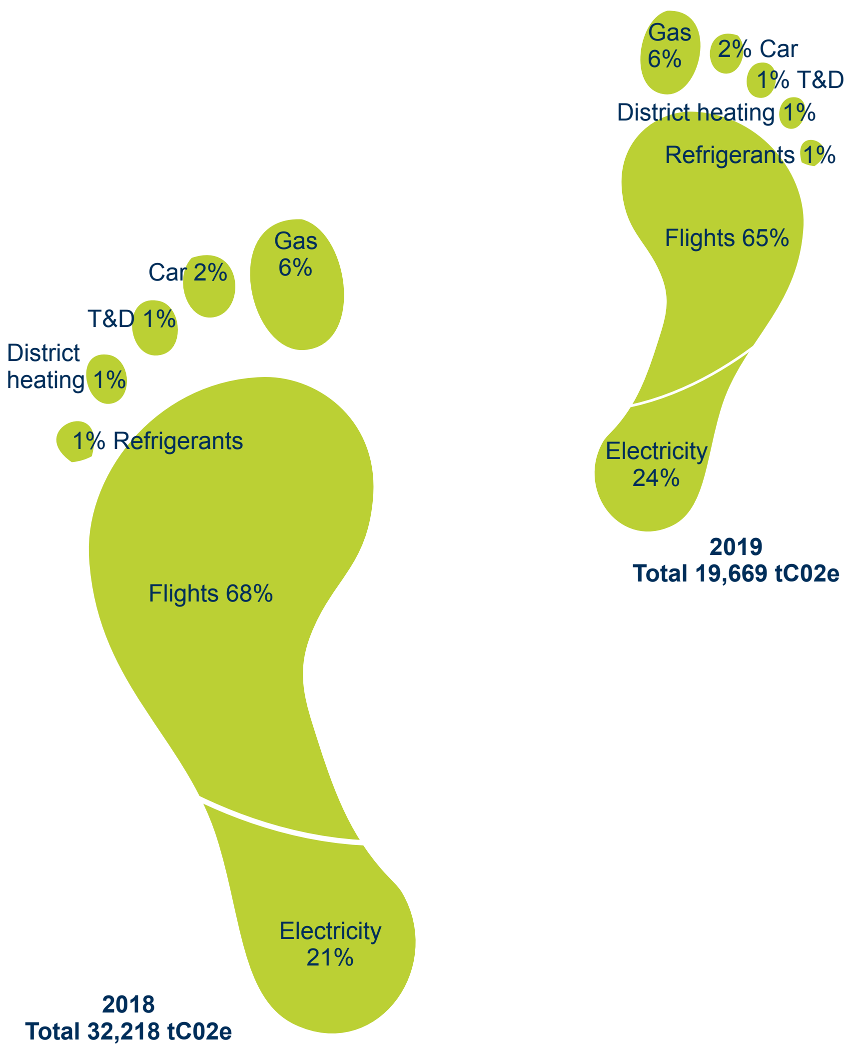
e) GHG emissions associated with each product or investment strategy normalised for every million $ including description of data and methodology

It starts with us

When we assess our own operational environmental impact, we do so by looking at our biggest GHG emitting activities first. For many years this was energy consumption in our buildings. We have been successful in reducing this and have plans to go even further with targets to reduce emissions from energy use by 50% by 2030, and where we procure electricity we've pledged only to use green suppliers globally by the end of 2020.

Our global presence has increased and this has increased business travel, which in 2019 accounted for 65% of our greenhouse gas emissions. The case study on page 10 details how we are addressing this issue.

Our carbon footprint (tCO2e)



Investing with purpose

Robust climate-related data is critical for effective investment decisions. Given the wide ranging scope of climate change risks and opportunities across sectors and regions, extensive qualitative and quantitative metrics are required for investment decisions including input from our research and engagements. We complement the backward looking data like carbon emissions with a forward looking view. Examples of climate change metrics we consider in our investment process are:

- Greenhouse gas emissions – absolute, intensity and targets (ideally science-based)
- Transition Pathway Initiative - score on the quality of climate change management
- Carbon pricing applied in the region and impact of increase on business costs
- Assessment of water risk in a region using the WRI Aqueduct tool

The above, where appropriate, are integrated into the ESG House Score for listed companies.

Carbon footprinting for portfolios

We currently provide a carbon footprint for a number of our portfolios in Equities, Fixed Income and Real Estate, and are expanding scope across all asset classes. The basis of our specialist GHG emission provider was their strong estimation methodology where businesses don't disclose data. As a global asset manager this is particularly important as these gaps tend to be prevalent in emerging markets, private debt issuers and smaller companies.

Chart 2: shows the weighted average carbon intensity (in tonnes of CO2e per million USD sales) for our Equity holdings (20% of our total AUM) across regional investment desks. The higher carbon intensity of companies in emerging markets reflects that the use of fossil fuels is regionally still more dominant.

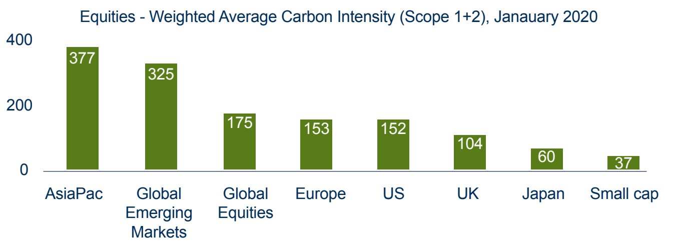
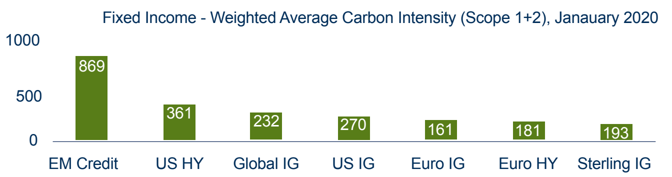


Chart 3: demonstrates a similar view for our Fixed Income strategies where a carbon footprint has been calculated for around 20% of our AUM. Again, it is clear that the carbon intensity of businesses in emerging markets can be very high. The weighted average of all the Fixed Income holdings captured in the chart below is 251 tCO2e/ million US$ sales.



Over 2020 and beyond we are focusing on the data - we have created a baseline for measuring the carbon intensity of our equities and fixed income portfolios that we will monitor and track going forward. We now intend to expand this to create meaningful targets for reducing the carbon intensity of these portfolios. We will also be looking beyond carbon footprints, a backward-facing measure, to the direction of travel for policy, companies and industries so that we fully understand how they are influencing and contributing to the energy transition.