abrdn Sustainable MPS

Quarterly commentary

Q2 2024

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

This report is only for use by a financial adviser or a client who has received advise on investing in this managed portfolio service. It is not for use by non-advised investors or any other third party. For full important information and key risks, please refer to the end of this document.

Objective

The abrdn Sustainable MPS aims to achieve a total return from both income and capital growth through a diversified portfolio of collective investment funds over the long term. It focuses on sustainable, ethical and impact funds and is intended for investors with a very low through to a medium high attitude to risk. The portfolio invests in a wide variety of assets, typically in equities, fixed interest, alternatives and money markets. This blend of assets should help to dampen down volatility over the long term.

Discrete annual returns - year to 30/06

	2020	2021	2022	2023	2024
abrdn Sustainable MPS 1	n/a	n/a	-10.53%	-1.55%	5.26%
ARC £ Cautious	1.66%	7.25%	-5.46%	-0.37%	6.02%
abrdn Sustainable MPS 2	n/a	n/a	-11.59%	1.54%	5.25%
ARC £ Cautious	1.66%	7.25%	-5.46%	-0.37%	6.02%
abrdn Sustainable MPS 3	n/a	n/a	-12.48%	3.15%	5.01%
ARC £ Balanced Asset	0.50%	11.84%	-6.54%	1.25%	9.15%
abrdn Sustainable MPS 4	n/a	n/a	-12.76%	5.56%	4.92%
ARC £ Steady Growth	-0.51%	15.87%	-7.54%	3.11%	10.88%
abrdn Sustainable MPS 5	n/a	n/a	-13.73%	7.05%	5.12%
ARC £ Equity Risk	-1.12%	20.57%	-9.09%	4.76%	12.39%

Portfolio performance is based on abrdn Sustainable MPS hosted on the abrdn Wrap platform. Performance figures are net of the abrdn Portfolio Solutions Ltd management fee and underlying funds OCF. Source: abrdn, Financial Express. As at 30.06.2024. ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Key points

- Global markets endured a choppy start to the quarter as worries over higher-for-longer interest rates and escalating tensions in the Middle East weighed on investor sentiment. Breaking the recent trend of rising markets, both equity and bond markets began the quarter on the back foot.
- However, such pessimism was short-lived. Equity markets in particular rebounded, driven by growing expectations for interest rate cuts and a relatively strong corporate earnings season. Indices in the US, UK and Europe all hit record highs during the second part of the quarter.
- The European Central Bank became one of the first major central banks to cut interest rates, lowering its borrowing costs by 25 basis points to 3.75%. The well-telegraphed move is seen as the start of its easing cycle, but lingering price and wage pressures are clouding the outlook and may force the Eurozone's central bank to wait months before cutting again. The move came after the central banks of Canada, Sweden and Switzerland all cut rates as inflation

begun to abate in their respective economies.

- Moving in the opposite direction, the Bank of Japan ended eight years of negative interest rates, marking a historic shift away from its focus on reflating growth with decades of massive monetary stimulus. While the move was Japan's first interest rate hike in 17 years, rates remain stuck around zero as a fragile economic recovery forces the central bank to take a slow approach
- A snap election was called in France towards the end of the quarter after Marine Le Pen's far right National Rally party polled first in the European parliamentary elections. With the far right and leftist coalition polling well in the French national election on the back of proposals to lower the retirement age and tie salaries to inflation, a new government looks set to usher in higher spending. If elected on the back of this populist policy, there are likely to be further clashes with the European Commission as France's budget deficit is already in excess of the 3% allowed.

Market commentary

Looking out to sea during the Battle of Marathon, the soldier Pheidippides noticed something strange. It appeared a vessel from the losing Persian army had changed its course and was heading directly for Athens. Wondering why this could be, it dawned on the soldier that the Persians were off to claim a false victory in the capital in an attempt to trick its citizens into accepting them as their new rulers.

It is said that our man Pheidippides then ran the entire distance (around 25 miles) to Athens without stopping, discarding his armour and even his clothes in an attempt to run faster. Once in Athens, he burst into the city's government building, exclaiming "we have won" before collapsing of exhaustion and dying.

Today we commemorate that feat of human endurance by running marathons all over the world, with none more famous than in London, with more than 53,000 runners taking part during late April this year alone. Somewhat aptly, the route the runners take winds past the London Stock Exchange, with domestic markets seemingly having taken inspiration from those brave souls who conquered the 26.2-mile course during the quarter. Having been something of a running joke itself due to chronic underperformance against other markets in recent years, our very own blue-chip index has achieved a few new personal bests of late, benefitting from a weakening pound, higher commodity prices and a pickup in mergers and acquisitions.

Helping investor sentiment, economic data released in May showed that the UK had exited the mild recession it endured during the end of 2023 in something of a sprint, growing by 0.6% from January to March, the fastest rate for two years. The figures also showed that growth in the early part of the year was led by the services sector, including areas such as hospitality, arts and entertainment, and had likely been helped by an early Easter in March.

The pacemaker for the period was undoubtedly Asia. Chinese stocks rose, albeit from a lowly level, as the government released a slew of economic reforms targeting renewed growth for the world's second largest economy. This also provided a tailwind for India, which had a very positive start to the quarter during the build up to its national elections. It suffered a strong pullback in June, however, as the ruling BJP led by Narendra Modi failed to secure as a big a majority as it had previously, potentially stymieing its chances of passing meaningful legislation during the next term.

With inflation rising at a quicker pace than anticipated coupled with a persistently strong labour market in the US, the quarter's early backmarkers were US Treasuries, which suffered as investors bet that potential interest rate cuts would be pushed further and further out. Employment data consistently surprised to the upside, with many more Americans joining the labour market than forecast during the quarter. As expected, the US Federal Reserve held rates unchanged throughout the duration of the period, with Fed Chair Jerome Powell stating that despite the stronger data, it was unlikely that the central bank's next move would be a hike.

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Having endured a difficult April, May saw the start of a good run for both stock and bond markets. Interpreting comments from certain central bankers that they were happy that inflation was heading in the right direction, investors took solace that an easing of policy could soon be on the cards, especially in Europe. Indeed, it was European bourses turn to hit the front, cheered on by a mixture of upbeat economic data and strong corporate earnings, which allowed the continent to hit record highs.

Although German inflation came in slightly higher than expected, this was not enough to deter the European Central Bank (ECB) from a well-telegraphed rate cut just weeks later in June. Cutting by 25 basis points to 3.75%, the move was largely priced in by investors, with futures seeing a 92% chance of such a move in the weeks prior. Acknowledging the progress made in its battle against price rises but also signalling that the fight had yet to be won, the ECB was careful to flag that this move would not usher in a rapid rate-cutting environment.

On domestic shores, May also saw Prime Minister Rishi Sunak fire the starting gun on a snap general election, scheduled for July. Allegedly hoping to capitalise on a report earlier that day showing inflation continued to fall, the political announcement seemed to have very little effect on markets, with investors pricing in a strong Labour majority that had effectively been forecast since the start of the year.

Acting as a potential boon for the Conservatives however, inflation did drop to 2% in the following reading, falling within the 2% target set by the Bank of England (BoE) for the first time since 2021. However, the data also showed services price inflation, which the BoE believes gives a better picture of medium-term inflation risks, came in at 5.7%. While down from 5.9% the previous month, the reading was higher than the 5.5% consensus estimate and much more than the 5.3% the central bank had predicted just a few weeks previous.

The following day in June, as expected, the BoE kept domestic rates at 16-year highs, voting 7-2 for the status quo. However, its accompanying policy statement was noteworthy, with the decision described as "finely balanced" for some members of the Monetary Policy Committee, leaving the door ajar for a potential cut at its August meeting.

Elections and geopolitics dominated the final stretch of the quarter. With the finish line nearly in sight, a snap election was called in France, riling markets on the continent. With the far-right wing National Rally party having humiliated the incumbent French president Emmanuel Macron in the recent EU elections, Macron opted to call the French electorate's bluff, calculating that the prospect of a radical right prime minister in the Élysée would "clarify" its thinking. The gamble looks to have failed with Macron's party languishing in third place after the first round of voting, eclipsed by both far right and left candidates. Market reactions were blunt, with the spread in borrowing costs between French and German government bonds reaching levels not seen since the sovereign debt crisis of 2011, jogging investors' memories of the tumultuous time endured on the continent over a decade ago.

Portfolio commentary

The second quarter of 2024 proved to be a reasonably volatile period with plenty of surprises from an economic, markets and political perspective.

The last mile from an inflation perspective has proved to be less straightforward than central bankers would have wanted in both the US and UK, and to a lesser extent Europe. Stubborn inflation prints supported by firm labour markets and wage data led to markets pricing in as few as one rate cut in the US during 2024 by the end of April, which was a world away from the near seven cuts suggested in the middle of January. This backdrop meant that fixed interest assets had a pretty difficult quarter with government bond yields reacting to not just macroeconomic data releases but also the rhetoric from central bankers. UK gilts and global government bonds more broadly were deeply in the red by the end of April, but a more favourable inflationary backdrop over May and June allowed government bonds to rebound towards where they had started by the quarter end. Investment grade bonds faced similar headwinds. Although they don't have the same level of interest rate sensitivity, they suffered from a slight widening of credit spreads and ultimately delivered broadly flat returns. Global high yield bonds fared marginally better than investment grade. They suffered less from the shift higher in rates and spreads were flat over the quarter, which led to a modestly positive return.

Within equity markets there were pretty varied outcomes during the quarter. In local currency terms most regions delivered positive returns, but the range of them was quite wide. Geographies considered to have a more growth orientation performed strongly with headline returns from the US, Asia ex-Japan and emerging markets returning 4.3%, 7.6% and 5.3%, respectively. Value orientated regions such as Japan and the UK delivered positive but more pedestrian returns of 4.3% and 2.3%, respectively. Europe ex-UK equity markets were heavily affected by the snap French parliamentary election called by President Emmanuel Macron following the strong showing of the far-right National Rally in the EU parliamentary elections. The French equity market was down by more than 6.5% during the quarter, while the broader European ex-UK indices were up by about 1%.

From a currency perspective, sterling was relatively stable against most developed nation currencies, so there was little translation effect on overseas asset class returns. The only major currency where that wasn't the case was the Japanese yen, which weakened by around 6% versus the pound – a not inconsiderable headwind for Japanese assets.

Alternative assets delivered some divergent returns. Global real estate investment trusts (REITs) suffered considerably in a market adjusting to a higher-for-longer interest rate environment. Global REITs were down some 2.3%. Global infrastructure assets were a little more stable, up 0.8%. Much of the cash flows received are inflation-linked, providing some protection in the current environment.

SMPS 1

Tactical asset allocation was broadly flat during the quarter.

We entered the quarter overweight government bonds globally, in addition to holding specific overweights to UK gilts and US treasuries. These positions were funded through underweights to global high yield bonds and absolute return funds. We were also underweight global equities and overweight global infrastructure and cash. In April, we became more constructive on the global economy, driven by a view that the US would avoid a recession and only experience a mild slowdown in growth. At this point, we reduced the underweight to global equities in the belief that company earnings should be better than we had previously thought. We funded this by closing the overweight to cash and reducing the overweight to global infrastructure.

The overweight to government bonds (specifically the overweight to gilts) weighed on returns during the quarter, as did the underweight to absolute return funds. The reduction in the equity underweight during April was well timed as equities underperformed to this point before recovering during the rest of the quarter. The overweight to global infrastructure was broadly neutral, while the underweight to global high yield bonds detracted from performance.

Fund selection detracted from performance during the quarter.

Fund selection was broadly neutral within fixed income. The Royal London Sustainable Short Duration Corporate Bond Fund and the abrdn Ethical Corporate Bond Fund narrowly outperformed. However, the M&G Sustainable Global High Yield Bond Fund and the L&G ESG Emerging Markets Government Bond (Local Currency) Index Fund narrowly underperformed. The L&G ESG Emerging Markets Government Bond (USD) Index Fund performed in line with its benchmark.

Most of the negative contribution from Fund selection during the quarter can be attributed to equity Funds. Sustainable equity Funds invariably have a small-cap tilt relative to benchmarks and very limited exposure to the 'magnificent seven' US technology companies. Like the first quarter, global equity returns were heavily distorted by the outstanding performance of US mega-cap technology companies. While global equities were up around 2.5% during the quarter, most of this was due to the 'magnificent seven' being up over 15%. All our global sustainable Funds underperformed considerably during the quarter, which is understandable given the unfavourable backdrop but also very disappointing. The abrdn Global Impact Equity Fund was the most resilient of our global sustainable Funds, and while it underperformed the broader market and our benchmark, it performed well compared to sustainable peers. The tech effect is a lot less apparent in the UK than the US, and it is pleasing that both our UK Funds, the iShares UK Equity ESG Index Fund and the abrdn UK Sustainable and Responsible Investment Equity Fund, comfortably outperformed the UK benchmark over the quarter.

Fund selection among our real assets and absolute return Funds was also marginally negative. Both the iShares Environment & Low Carbon Tilt Real Estate Index Fund and the First Sentier Responsible Listed Infrastructure Fund narrowly underperformed their respective real estate investment trusts and infrastructure benchmarks. The TwentyFour Sustainable Short Term Bond Income Fund delivered positive returns having narrowly lagged cash during the first quarter.

There were no changes to Fund selection during the quarter.

SMPS 2

Tactical asset allocation was broadly flat during the quarter.

We entered the quarter overweight government bonds globally, in addition to holding specific overweights to UK gilts and US treasuries. These positions were funded through underweights to global high yield bonds and absolute return funds. We were also underweight global equities and overweight global infrastructure and cash. In April, we became more constructive on the global economy, driven by a view that the US would avoid a recession and only experience a mild slowdown in growth. At this point, reduced the underweight to global equities in the belief that company earnings should be better than we had previously thought. We funded this by closing the overweight to cash and reducing the overweight to global infrastructure.

The overweight to government bonds (specifically the overweight to gilts) weighed on returns during the quarter, as did the underweight to absolute return funds. The reduction in the equity underweight during April was well timed as equities underperformed to this point before recovering during the rest of the quarter. The overweight to global infrastructure was broadly neutral, while the underweight to global high yield bonds detracted from performance.

Fund selection detracted from performance during the quarter.

Fund selection was broadly neutral within fixed income. The Royal London Sustainable Short Duration Corporate Bond Fund and the abrdn Ethical Corporate Bond Fund narrowly outperformed. However, the M&G Sustainable Global High Yield Bond Fund and the L&G ESG Emerging Markets Government Bond (Local Currency) Index Fund narrowly underperformed. The L&G ESG Emerging Markets Government Bond (USD) Index Fund performed in line with its benchmark.

Most of the negative contribution from Fund selection during the quarter can be attributed to equity Funds. Sustainable equity Funds invariably have a small-cap tilt relative to benchmarks and very limited exposure to the 'magnificent seven' US technology companies. Like the first quarter, global equity returns were heavily distorted by the outstanding performance of US mega-cap technology companies. While global equities were up around 2.5% during the quarter, most of this was due to the 'magnificent seven' being up over 15%. All our global sustainable Funds underperformed considerably during the quarter, which is understandable given the unfavourable backdrop but also very disappointing. The abrdn Global Impact Equity Fund was the most resilient of our global sustainable Funds, and while it underperformed the broader market and our benchmark, it performed well compared to sustainable peers. The tech effect is a lot less apparent in the UK than the US, and it is pleasing that both our UK Funds, the iShares UK Equity ESG Index Fund and the abrdn UK Sustainable and Responsible Investment Equity Fund, comfortably outperformed the UK benchmark over the quarter.

Fund selection among our real assets and absolute return Funds was also marginally negative. Both the iShares Environment & Low Carbon Tilt Real Estate Index Fund and the First Sentier Responsible Listed Infrastructure Fund narrowly underperformed their respective real estate investment trusts and infrastructure benchmarks. The TwentyFour Sustainable Short Term Bond Income Fund delivered positive returns having narrowly lagged cash during the first quarter.

There were no changes to Fund selection during the quarter.

SMPS 3

Tactical asset allocation was broadly flat during the quarter.

We entered the quarter overweight government bonds globally, in addition to holding specific overweights to UK gilts and US treasuries. These positions were funded through underweights to global high yield bonds and absolute return funds. We were also underweight global equities and overweight global infrastructure and cash. In April, we became more constructive on the global economy, driven by a view that the US would avoid a recession and only experience a mild slowdown in growth. At this point, reduced the underweight to global equities in the belief that company earnings should be better than we had previously thought. We funded this by closing the overweight to cash and reducing the overweight to global infrastructure.

The overweight to government bonds (specifically the overweight to gilts) weighed on returns during the quarter, as did the underweight to absolute return funds. The reduction in the equity underweight during April was well timed as equities underperformed to this point before recovering during the rest of the quarter. The overweight to global infrastructure was broadly neutral, while the underweight to global high yield bonds detracted from performance.

Fund selection detracted from performance during the quarter.

Fund selection was broadly neutral within fixed income. The Royal London Sustainable Short Duration Corporate Bond Fund and the abrdn Ethical Corporate Bond Fund narrowly outperformed. However, the M&G Sustainable Global High Yield Bond Fund and the L&G ESG Emerging Markets Government Bond (Local Currency) Index Fund narrowly underperformed. The L&G ESG Emerging Markets Government Bond (USD) Index Fund performed in line with its benchmark.

Most of the negative contribution from Fund selection during the quarter can be attributed to equity Funds. Sustainable equity Funds invariably have a small-cap tilt relative to benchmarks and very limited exposure to the 'magnificent seven' US technology companies. Like the first quarter, global equity returns were heavily distorted by the outstanding performance of US mega-cap technology companies. While global equities were up around 2.5% during the quarter, most of this was due to the 'magnificent seven' being up over 15%. All our global sustainable Funds underperformed considerably during the quarter, which is understandable given the unfavourable backdrop but also very disappointing. The abrdn Global Impact Equity Fund was the most resilient of our global sustainable Funds, and while it underperformed the broader market and our benchmark, it performed well compared to sustainable peers. The tech effect is a lot less apparent in the UK than the US, and it is pleasing that both our UK Funds, the iShares UK Equity ESG Index Fund and the abrdn UK Sustainable and Responsible Investment Equity Fund, comfortably outperformed the UK benchmark over the quarter.

Fund selection among our real assets and absolute return Funds was also marginally negative. Both the iShares Environment & Low Carbon Tilt Real Estate Index Fund and the First Sentier Responsible Listed Infrastructure Fund narrowly underperformed their respective real estate investment trusts and infrastructure benchmarks. The TwentyFour Sustainable Short Term Bond Income Fund delivered positive returns having narrowly lagged cash during the first quarter.

There were no changes to Fund selection during the quarter.

SMPS 4

Tactical asset allocation was broadly flat during the quarter.

We entered the quarter overweight government bonds globally, in addition to holding specific overweights to UK gilts and US treasuries. These positions were funded through underweights to global high yield bonds and absolute return funds. We were also underweight global equities and overweight global infrastructure and cash. In April, we became more constructive on the global economy, driven by a view that the US would avoid a recession and only experience a mild slowdown in growth. At this point, reduced the underweight to global equities in the belief that company earnings should be better than we had previously thought. We funded this by closing the overweight to cash and reducing the overweight to global infrastructure.

The overweight to government bonds weighed on returns during the quarter. The reduction in the equity underweight during April was well timed as equities underperformed to this point before recovering during the rest of the quarter. The overweight to global infrastructure detracted marginally from returns, but this was broadly offset by the underweight to absolute return funds. Fund selection detracted from performance during the quarter.

Fund selection was broadly neutral within fixed income. The abrdn Ethical Corporate Bond Fund narrowly outperformed. However, the M&G Sustainable Global High Yield Bond Fund and the L&G ESG Emerging Markets Government Bond (Local Currency) Index Fund narrowly underperformed. The L&G ESG Emerging Markets Government Bond (USD) Index Fund performed in line with its benchmark.

Most of the negative contribution from Fund selection during the quarter can be attributed to equity Funds. Sustainable equity Funds invariably have a small-cap tilt relative to benchmarks and very limited exposure to the 'magnificent seven' US technology companies. Like the first quarter, global equity returns were heavily distorted by the outstanding performance of US mega-cap technology companies. While global equities were up around 2.5% during the quarter, most of this was due to the 'magnificent seven' being up over 15%. All our global sustainable Funds underperformed considerably during the quarter, which is understandable given the unfavourable backdrop but also very disappointing. The abrdn Global Impact Equity Fund was the most resilient of our global sustainable Funds, and while it underperformed the broader market and our benchmark, it performed well compared to sustainable peers. The tech effect is a lot less apparent in the UK than the US, and it is pleasing that both our UK Funds, the iShares UK Equity ESG Index Fund and the abrdn UK Sustainable and Responsible Investment Equity Fund, comfortably outperformed the UK benchmark over the quarter. Fund selection among our real assets and absolute return Funds was also marginally negative. Both the iShares Environment & Low Carbon Tilt Real Estate Index Fund and the First Sentier Responsible Listed Infrastructure Fund narrowly underperformed their respective real estate investment trusts and infrastructure benchmarks. The TwentyFour Sustainable Short Term Bond Income Fund delivered positive returns having narrowly lagged cash during the first quarter.

There were no changes to Fund selection during the quarter.

SMPS 5

Tactical asset allocation was broadly flat during the quarter.

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We entered the quarter overweight government bonds globally, in addition to holding specific overweights to UK gilts and US treasuries. These positions were funded through an underweight to global high yield bond funds. We were also underweight global equities and overweight global infrastructure and cash. In April, we became more constructive on the global economy, driven by a view that the US would avoid a recession and only experience a mild slowdown in growth. At this point, we reduced the underweight to global equities in the belief that company earnings should be better than we had previously thought. We funded this by closing the overweight to cash and reducing the overweight to global infrastructure.

The overweight to government bonds weighed on returns during the quarter. The reduction in the equity underweight during April was well timed as equities underperformed to this point before recovering during the rest of the quarter. The overweight to global infrastructure detracted mildly from performance.

Fund selection detracted from performance during the quarter.

Fund selection was broadly neutral within fixed income. The abrdn Ethical Corporate Bond Fund narrowly outperformed. However, the M&G Sustainable Global High Yield Bond Fund narrowly underperformed.

Most of the negative contribution from Fund selection during the quarter can be attributed to equity Funds. Sustainable equity Funds invariably have a small-cap tilt relative to benchmarks and very limited exposure to the 'magnificent seven' US technology companies. Like the first quarter, global equity returns were heavily distorted by the outstanding performance of US mega-cap technology companies. While global equities were up around 2.5% during the quarter, most of this was due to the 'magnificent seven' being up over 15%. All our global sustainable Funds underperformed considerably during the quarter, which is understandable given the unfavourable backdrop but also very disappointing. The abrdn Global Impact Equity Fund was the most resilient of our global sustainable Funds, and while it underperformed the broader market and our benchmark, it performed well compared to sustainable peers. The tech effect is a lot less apparent in the UK than the US, and it is pleasing that both our UK Funds, the iShares UK Equity ESG Index Fund and the abrdn UK Sustainable and Responsible Investment Equity Fund, comfortably outperformed the UK benchmark over the quarter. Fund selection among our real assets and absolute return Funds was also marginally negative. The First Sentier Responsible Listed Infrastructure Fund narrowly underperformed its benchmark.

There were no changes to Fund selection during the quarter.

Sustainability case studies

In a review meeting with the abrdn Global Impact Equity Fund, we discussed one of the Fund's key holdings: US education technology company Coursera. Positive education outcomes are notoriously difficult to measure and assess because of the subjective and qualitative elements of education. Test scores and certificates do not paint the whole picture.

Coursera is working to tackle outcomes reporting in a way that also benefits its customers and students. The business is focused on metrics tied to materiality and outcomes, rather than headline student numbers.

It is building out a measurement platform that will allow it to track the lifecycle of a user, in other words understand how an 18-year-old student progresses from an industry certification into a specific job and any subsequent learning/training. By understanding the specific needs of learners, Coursera can better tailor programmes to the user, and the ability to measure outcomes is fed back into their model to enhance the experience and outcomes.

Overall, Coursera is "fundamentally trying to change the cost package of what it costs for someone to get their first career". It isn't competing with universities but filling the gaps and supporting traditional education with coursers that offer more tailored job relevancy and improve employability. This also benefits universities which can use Coursera to fill gaps in course material where there isn't coverage. The overall focus is on improving the return on investment for learner and institutional clients and this is where measurement will focus.

When the Fund managers speak with companies about impact disclosure, they stress that the metrics and reporting should reflect the real-world use of its products and how the company would articulate the benefit of its products to customers. Impact and financial performance should be linked and the abrdn team thinks that Coursera's work to leverage impact reporting within its business model is a fantastic example of this in action.

We also met with the managers of the Ninety One Global Environment Fund. One of the topics discussed was engagement with a global technology company that serves the mobility industry. A net-zero aligned future for mobility is likely to include electric, autonomous vehicles powered by zero-emissions energy, and the team at Ninety One believes this company is a leader enabling the transition to an electrified, software-defined vehicle of the future. Ninety One engaged with the company to monitor its Science-Based Targets progression and drive further improvement on diversity and inclusion.

The company has set near-term targets for scope 1, 2 and 3* emissions approved by the Science Based Targets Initiative (SBTi). It aims to fully replace all scope 1 and 2 emissions with renewable energy sources and reduce its scope 3 emissions by 47.4% by 2030. It also intends to use carbon neutral products from sourcing to disposal by 2039 and be completely carbon neutral by 2040. The team is comfortable that the company does not have a long-term SBTi approved net-zero target because SBTi has not currently released criteria for the auto industry. Once the auto industry criteria have been set, it is confident that the company's commitments will be sufficient for approval.

***Scopes 1, 2 and 3**
Scope 1 emissions are direct emissions from sources owned or controlled by the reporting company, Scope 2 emissions are indirect emissions from the generation of purchased energy and Scope 3 emissions are all other indirect emissions that occur in the value chain of the reporting company, including upstream and downstream emissions.

As part of Ninety One's annual goal setting, it sets specific targets for diversity and inclusion targets for the company to meet: improve the gender pay gap, increase the number of females within management and technical roles and increase the racial diversity within management and technical roles. It has seen improvements in the gender pay gap, which is now at parity, with gender and racial diversity in management and technical roles improving but with more to be done. The company's strategy to improve these numbers is focused on the development of a strong leadership programme and seeking to increase internal hiring with homegrown talent. Ninety One will continue to monitor and track diversity and inclusion numbers and engage further if it deems it necessary.

The Ninety One Global Environment Fund continues to hold a number of Chinese renewable energy stocks, which have contributed to its recent underperformance. We also used the time with the managers to discuss their outlook for China. We learned that they retain their conviction. While sentiment towards China has been very negative, demand for clean technologies has grown strongly. In 2023, China recorded 216 gigawatts of solar installation, more than double the volume of the next three biggest markets combined. One key reason for this is that Chinese officials continue to regard clean-tech sectors as essential enablers of the economic transition away from reliance on real estate, infrastructure investment and low-end exports. As such, Ninety One expects companies in this sector to continue to receive policy focus from the government.

For investors, care and selectivity remain crucial, because the current period of hyper-competition still has some way left to run. However, Chinese government-driven supply side reform within the battery and solar supply chains should encourage healthier market development, which Ninety One views as positive for the industry leaders owned in the Fund. The managers think that leading companies with strong competitive advantages in the decarbonisation sector will emerge stronger from the present difficulties, as weaker players with more generic offerings face a potentially existential struggle.

Outlook

With record highs in a number of markets during the second quarter amid resilient economic data in the face of falling inflation, the chances of a global recession have now markedly diminished. This should continue through the rest of the year as inflation falls back towards central bank targets and wage growth cools. While this combination should be supportive for consumer sentiment and spending, wage growth will need to slow further before underlying inflation pressures settle at a consistent rate, albeit not quite as rapidly as previously expected. We are now more positive on a number of asset classes as central banks gear up to begin cutting rates. Despite this, we are cognisant that inflation could remain sticky during the coming months, damaging sentiment, and that heightened geopolitical volatility in both France and later in the US could accelerate price pressures.

However, against any market backdrop, a professionally managed, well-diversified and longstanding investment plan is essential. As they say, it's all about investing for the long run.

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Important Information
This document is strictly for information purposes and should not be considered as an offer, investment recommendation or solicitation to deal in any of the investments mentioned herein. abrdn does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaim liability for errors or omissions in such information and materials. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of abrdn. This factsheet does not provide individually tailored advice. It has been prepared without regard to individual financial circumstances and objectives of persons who receive it. We recommend that investors seek the advice of a financial adviser. The appropriateness of a particular portfolio will depend on an investor's individual circumstances and objectives.

Risks
All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

Credit risk: The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk: The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Equity risk: The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

Emerging Markets risk: The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Derivatives risk: The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

High Yield Credit risk: The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

For more information visit abrdn.com

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