

ESG integration in Multi-Asset Investment Solutions

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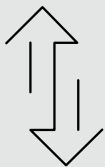
Our Multi-Asset Investment Solutions (MAIS) team manages a wide range of strategies and follows diverse investment approaches. Some are managed by abrDN's Equity and Fixed Income teams and environmental, social and governance (ESG) is in the process of being fully integrated, while others make use of derivatives, indexing, private markets or external funds where the opportunities for ESG may be more limited. Here's how ESG applies to our MAIS team.

Our core beliefs

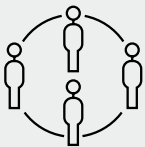
Why is it so vital to integrate ESG factors into our multi-asset solutions process? There are three reasons:



ESG is financially important
ESG factors directly affect corporate performance.



It makes us better investors
Understanding ESG risks and opportunities, alongside other financial metrics, helps us to make more informed investment decisions for our clients.



It makes companies better too
Informed and constructive engagement helps corporations improve practices – protecting and enhancing the value of our clients' investments.

Investment strategy and process

We are working to integrate assessment of ESG factors into the key stages of our investment process. This includes research, implementation, asset allocation, risk management and stewardship.

Research

We believe high-quality fundamental research underpins the ability to deliver outperformance. That's why Multi-Asset Investment Solutions has embedded ESG experts within the team and set up an ESG steering group to coordinate our activities. The team also draws on our central Sustainability group, which provides bespoke research on areas such as environmental responsibility, climate change, human rights and governance issues.

Implementation

Our ability to integrate ESG varies across our diverse portfolio management approaches. For example, where we use abrDN's active equity and credit funds, ESG is backed by an extensive Stewardship process and working towards being fully integrated but where we allocate using derivatives or passive index trackers, the opportunity to integrate ESG can be limited. Firm-wide exclusions on cluster munitions and controversial weapons apply across all our strategies where we have discretion.



Summary of ESG Approach by Investment Strategy

Investment approach	ESG Integration	Stewardship	ESG dedicated strategies ¹
Active equity and credit	ESG is being fully integrated into investment process and can be a key driver of performance.	Full implementation of abrdn's engagement approach and voting policy (for equity).	Screening, Sustainable and Impact strategies.
Quantitative strategies	ESG risks and opportunities are considered alongside our enhanced factors, though not for passive tracking of standard benchmarks.	Full implementation of abrdn's engagement approach and voting policy, with focus on overlap with active portfolio.	Sustainable Indexation strategies tracking customised equity and fixed income indices with increased sustainability outcomes.
Government bonds and currencies	ESG often a background factor, rarely the primary driver outside of emerging markets.	Not applicable.	Screened strategies.
External fund managers	ESG assessment made for most third party allocations. We encourage strong ESG integration by third parties.	We engage with external managers and encourage them to have strong Stewardship practices of their own.	Screened fund of funds.
Private markets	Private market assets are diverse and illiquid. The extent of ESG integration varies within the investment process and is tailored depending on the underlying investment and access route.	Stewardship is implemented for direct holdings.	Screened strategies.
Derivatives	Difficult to integrate ESG with futures, swaps and options. Exploring potential for ESG-enhanced exposures.	Not applicable.	Derivatives based on screened indices.

¹ For clients with additional ESG requirements, specialist strategies are available, for example our climate strategies.

Asset allocation

We consider material ESG issues when we form our view of the return potential for different asset classes and strategies. In some cases, ESG factors play a role in our 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. This also creates opportunities to direct capital where challenges are particularly pressing, such as climate change. We use climate scenarios to inform our long-term expected return forecasts for Strategic Asset Allocation.

Risk management

We use a variety of ESG metrics to help us identify potential risks in relevant portfolios (see the table above), including ESG scores, materiality mapping, controversy flags and carbon intensity metrics. Scenario analysis helps

us highlight risks associated with climate change, such as risks to fossil fuel companies as we transition to Net Zero. We use this to help investment managers to improve their understanding of how portfolios could behave in extreme scenarios, and to work with clients on their risk-mitigation strategies.

Stewardship

We always aim to act in the best interests of our clients. We believe in active, constructive engagement with companies and asset owners. Wherever we have voting authority, we vote all shares globally. When engaging with companies from an ESG perspective, our goal is to understand how they are managing ESG risks. We are signatories to the Principles of Responsible Investment. When engaging with companies on ESG issues, we do so based on the principles set out by the UN Global Compact on human rights, labour, the environment and anti-corruption.

Our engagement process

Our engagement process is made up of four interconnected stages, each as important as each other.

Monitor	Contact	Engage	Act
Ongoing due diligence <ul style="list-style-type: none"> • Business performance • Company financials • Corporate governance • Company's key risks and opportunities 	Frequent dialogue <ul style="list-style-type: none"> • Senior executives • Board members • Heads of departments and specialists • Site visits 	Using our voice <ul style="list-style-type: none"> • Maximise influence as asset owners to drive positive outcomes • Where possible, leverage equity holdings to vote on issues 	Consider all options <ul style="list-style-type: none"> • Increase or decrease our holdings • Collaborate with other investors • Take legal action if necessary

Note, our engagement process only applies to a subset of our strategies as indicated in the table above, Our engagement process.

Capability & collaboration

We're committed to continuous improvement as responsible investors - as individuals and as a company. abrdn's ESG resources are market leading, in terms of the number of people, experience and expertise. Our central Sustainability group of c.20 professionals provides support to all the asset classes we invest in and c.30 ESG experts are embedded within asset class teams, to carry out bespoke research and make investment decisions within these asset classes.

Our Multi-Asset Investment Solutions team works closely with teams right across our business. It has built strong relationships with our central and on-desk ESG experts. Information is shared quickly and effectively thanks to several ESG working groups.

At abrdn, ESG is core to our culture, we consider ESG in role descriptions, performance management and continued professional development for all relevant investment staff.

Transparency & integrity

It's not enough to say we're responsible investors. We know clients want to see evidence of it in our actions. We're always transparent in communication and discussion of our ESG strategy and always aim to act in the best interest of our clients. We now report fund-level performance on climate change across the majority of our assets

using the TCFD framework. We stay connected to our clients and stakeholders on ESG topics, making sure that products and solutions are in tune with their aspirations. We have a duty to actively promote policy, regulation and industry standards, which we take seriously. We believe this helps us contribute to a better future for our clients, the environment, and society as a whole.

Our Multi-Asset Investment Solutions team

Insight and expertise across the spectrum

Insight and expertise across the spectrum - we have c.80 investment professionals in the Multi-Asset & Quantitative Index Solutions teams. They represent a full range of specialist functions, including portfolio management, implementation, modelling & analytics, research and business management. Work on ESG is coordinated by the Head of Sustainability in MAIS, the MAIS ESG Steering Group and desk-based ESG specialists.

Specialist support and deeper commitments

The MAIS team doesn't work in isolation. It's supported by our experienced Sustainability group, which carries out sector and thematic research, company engagement and voting. We're also committed to continuous improvement, with dedicated resources focused on further embedding ESG into the MAIS investment process.



"We believe that understanding ESG issues, and risks, enhances our broader management capabilities."

Russell Barlow

Head of Multi-Asset and Alternative Investment Solutions

Our commitment to responsible investing

We're committed to helping you accomplish your long-term goals through our core capabilities.

- ESG experts are an integral part to our teams.
- Thematic sector and asset-level research help us make more informed investment decisions.
- Engagement leadership of our holdings across relevant asset classes –and voting on shareholder resolutions.
- Raising global standards by engaging with governments, regulators and industry bodies, working with other stakeholders to improve company practices.
- Continually working to develop innovative client solutions.

Sustainable investment at abrdn

We are stewards of our clients' capital

Our approach

We believe that sustainability factors can be financially material and could meaningfully impact the performance of assets in which we invest. By incorporating these into our processes and investment decisions, we increase our ability to deliver the returns our clients seek.

Our core pillars



Financially Material Decisions

Our research-led approach draws from global investment expertise and local market knowledge. This helps us to identify sustainability opportunities and risks. Our insights allow us to make better-informed investment decisions for our clients.



Active Ownership

We engage with companies and assets to gain insight and encourage action which we believe creates and protects long-term value. We work closely with regulators, governments and industry to advance policy that supports both our clients' interests and a sustainable world.



Supporting Client Goals

We believe sustainable investing is part of our fiduciary duty to help our clients achieve their long-term financial needs. We provide sustainable investment solutions across a range of strategies and assets classes.



"ESG is an increasingly material factor for investors. It's vital we understand ESG risks and opportunities and use our analysis to help generate returns for our clients."

Catie Wearmouth

Head of Sustainability, MAIS

About abrdn

As a leading global asset manager, we're dedicated to creating long-term value for our clients.

As a client of abrdn, your investment needs are at the heart of everything we do.

That's why considering ESG factors is fundamental to our multi-asset process. It's vital to how we assess investment cases.

We offer a comprehensive range of investment solutions, and the very highest level of service and support.



c.80 Multi-Asset & Quantitative investment specialists globally



c.60 ESG specialists company-wide



£88.2 billion under management across multi-asset solutions

Source: abrdn, as at November 2023.

Important Information

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

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