

abrdn Position Statement – Governance and Business Ethics

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The issue

Unethical behavior by market participants and investment professionals can severely damage investor trust, thereby impairing the sustainability of global capital markets.

Accountability and trust in corporations cannot be taken for granted. Ethics, while a broad and somewhat subjective field, plays a critical role in the foundation of trust and integrity within the financial ecosystem. In our approach to integrating environmental, social, and governance (ESG) factors into investment strategies, we closely assess various areas including behavior and culture, enabling a net zero world, preserving natural capital, and promoting a fairer society. Furthermore, issues related to business ethics and governance are not only easy to identify but are also frequently highlighted in the media, underscoring their prevalence and the importance of addressing them.

Why is this important for investors?

As a large asset manager, we believe that we have a responsibility not just to our clients, but to society as a whole. We recognize that robust governance and ethical business practices are not only morally right but also beneficial for the long-term prospects of our clients' investments. By striving to influence broader market standards, policies, and regulations, we aim to contribute to a more sustainable financial system. Strong corporate governance and a culture of integrity are indicative of a company's alignment with both management and stakeholder interests, and can offer a competitive advantage.

From a financial perspective, adherence to high business ethics are equally important in catalysing an investment's success.

- An organisation's leadership is key to its long-term success and is accountable for ensuring ethical behaviour.
- Having a robust code of ethics and ensuring professional conduct mean companies operate more effectively, particularly when it comes to ethical principles governing decision-making.
- Regulators and businesses need to collaborate to be transparent to outsiders and protect stakeholders from systemic risk.

Our view

We draw on a number of international, legal and voluntary agreements for guidance on business ethics and governance. One of our sources, for example, is the OECD's Guidelines for Multinational Enterprises,¹ which reflect governments' expectations as to how responsible businesses should act.

Ethical principles, like laws and regulations, control the tendency to pursue self-interest that could harm the interests of others. While laws and regulations often aim to guide people towards ethical behaviour, they don't cover all such instances of unethical actions. Ethical behaviour is frequently distinguished from legal conduct by describing legal behaviour as what is required, and ethical behaviour as conduct that is morally right. Ethical principles go beyond what is legally sufficient, and encompass what is the right course of action.

¹ <https://www.oecd.org/about/>



We encourage all businesses in which we invest to have policies in place to support the following:

1. Corporate governance

A supportive environment starts at the top, with ethics at the heart of an organisation and an appropriate framework for oversight, and robust corporate governance.

2. Prevention of bribery and corruption

Organisations should be committed to doing business in an ethical manner by having a zero-tolerance policy on bribery and corruption.

3. Pay

How people are rewarded influences their behaviour.

4. Respect for human rights

Every human has the right to be treated with dignity whatever their race, creed or gender.

5. Treatment of employees

Ethics training brings ethical values to life and guides staff on how to tackle ethical dilemmas.

Our approach to investments

Stewardship is a natural part of our investment approach. We integrate it – along with environmental, social and governance (ESG) factors – into our investment process across asset classes. We achieve this primarily by identifying and understanding the specific risks associated with an individual investment. These guidelines provide a flexible but robust framework to guide our investment teams in fulfilling our stewardship responsibilities. The guidelines include our views on matters such as values, business practices and accountability.

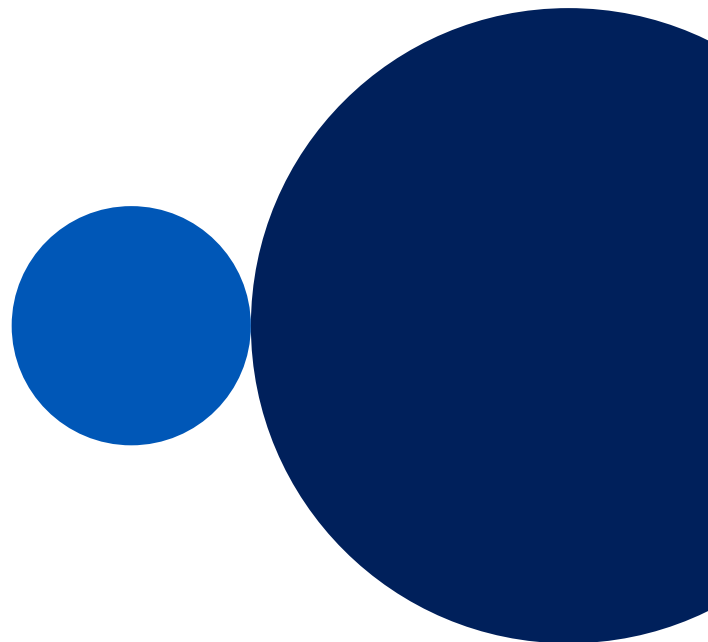
Engagement

For our actively managed investments, we engage with our portfolio companies to do the following:

- a. Gain a better understanding of how they manage business ethics and governance.
- b. Ensure compliance with regulations.
- c. Encourage improvement in business-ethics practices and governance.

Voting

We vote in line with our principles and, where appropriate, will support shareholder resolutions that require investee companies to improve business ethics and governance standards, and implement better policies and practices. We believe that strong business ethics and governance generate positive outcomes for our investments and their stakeholders. Where we have serious concerns regarding a board's actions, or inaction, related to business ethics we will consider taking voting action on an appropriate resolution'.



Important Information

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