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## **abr dn SICAV I – Climate Transition Bond Fund**

Supporting the transition to a low-carbon economy by addressing the causes and consequences of climate change

February 2024

**abr dn.com**



# abrdn SICAV I – Climate Transition Bond Fund



**Addressing the causes and consequences of climate change with investments that will benefit from the transition to a low-carbon economy.**

## What's the climate opportunity?

Climate change is the biggest challenge of our time – and a growing awareness is driving behavioural change. Government policy is becoming increasingly punitive for heavy emitters. Businesses are issuing net-zero commitments. Meanwhile, consumers and investors are demanding widespread action.

The transition to a low-carbon economy creates a momentous opportunity. Whether it's the growing demand for low-carbon products or first-mover advantages for early technology adopters, our investment teams exclusively target companies that should benefit from these structural tailwinds. Our portfolio is also a leading example of how diligently investing client capital can help achieve a net-zero world while aiming to deliver a positive financial return.

## How to capture the climate opportunity?

We invest globally in investment-grade, high-yield and developed and emerging market debt, supporting companies across industries in delivering climate transition. We focus on ambitious companies actively delivering real-world decarbonisation, driving industry change, disrupting sectors, pioneering new technologies, and meeting evolving customer demands. We believe these 'best-in-class' companies are well-positioned to benefit from the growth in climate-focused investment and outperform their peers.

Our investment approach revolves around three themes.

- Investing in leading emissions reducers from high-emitting sectors.
- Supporting solution providers developing innovative technologies and products to enable decarbonisation.
- Investing in those contributing to climate adaptation by helping societies adjust to the consequences of climate change. Fixed income plays a crucial role here, with instruments like green and municipal bonds directing funds to climate-resilience projects.

By picking the right companies across these themes, we seek to capture the significant opportunity ahead while contributing to climate change mitigation and adaptation.

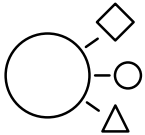




## Why our Fund?



**Dual climate and return outcome** – we invest globally to seek the best opportunities for delivering compelling returns and income alongside our climate objectives for our clients.



**Our philosophy** – we utilise a three-pillar climate framework – **Leaders, Solutions and Adaptors** – to invest in issuers who are reducing real-world emissions and support climate adaptation.



**Our investment process** – we've developed a customised process to ensure every investment is made through a climate lens.

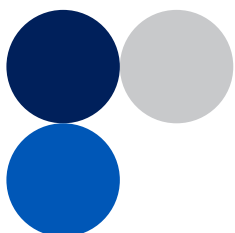


**Article 9** – the Fund is classified Article 9 under EU Sustainable Finance Disclosures Regulation. Article 9 funds have a sustainable investment objective.

**"Climate adaptation is often overlooked but will become essential as the effects of climate change intensify."**



**Thomas Leys,**  
Investment Director,  
Climate Transition Bond  
Fund Portfolio Manager



## Investment Objective (you can find out more about the Fund on the next page)

The Fund aims to achieve a combination of income and growth by investing at least 90% in bonds (loans to governments and companies) issued worldwide, including in emerging market countries. All bonds in the view of the Investment Manager, support the transition to a low carbon economy and society's adaptation to climate change.



### Risk factors you should consider before investing:

- The Fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- 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.
- Applying ESG and sustainability criteria in the investment process may result in the exclusion of securities within the fund's benchmark or universe of potential investments. The interpretation of ESG and sustainability criteria is subjective meaning that the Fund may invest in companies which similar funds do not (and thus perform differently) and which do not align with the personal views of any individual investor.
- The Fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.
- 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.
- The Fund invests in mortgage and asset-backed securities (which may include collateralised loan, debt or mortgage obligations (respectively CLOs, CDOs or CMOs)). These are subject to prepayment and extension risk and additional liquidity and default risk compared to other credit securities.
- 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.

# Four reasons to invest



## 01.

### Capturing diverse climate opportunities to deliver real-world decarbonisation and adaption

We use a three-pillar framework – **Leaders, Adaptors and Solutions** – to identify climate change opportunities across different themes.

Indicative portfolio weight

**40 – 60%**

Leaders

**5 – 20%**

Adaptors

**40 – 60%**

Solutions

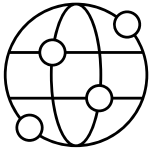
	Leaders	Adaptors	Solutions
Indicative portfolio weight	40 – 60%	5 – 20%	40 – 60%
Theme and definition	<p><b>Supporting the leading emissions reducers in high-emitting sectors</b></p> <p>Companies with ambitious and credible decarbonisation targets</p>	<p><b>Facilitating climate change adaptation</b></p> <p>Companies and countries addressing the physical risks of climate change</p>	<p><b>Helping the economy decarbonise</b></p> <p>Investing in the 'circular economy', energy efficiency, electrification, energy storage, renewable materials, smart buildings, renewable energy</p>
Performance trigger	Companies mitigating transition risks, positioned to gain market share and drive their cost of capital lower	Projects benefiting from capital flows from private and government pools. This should be a significant growth area of investment and see the emergence of many market leaders	Companies developing new technologies, products and services – disrupting established markets and capturing demand
Impact	Material real-world emission reductions	Population protected / water saved / wildfires avoided	Emissions avoided / energy saved / waste avoided
Sector examples	Utilities, building materials, transport, mining, heavy industry, food and agriculture	Municipals, sovereigns, insurance, real estate and water utilities	Utilities, real estate, consumer goods, agriculture, transport, forestry and technology
Real-world examples	Utilities divesting from fossil fuels into renewables. Building material companies increasing recycled content. Banks with a focus on green lending. Auto manufacturers increasing EV (electric vehicle) capacity	Sovereign-led infrastructure projects, including wildfire prevention and flood defenses. Companies supporting coastal restoration and utilities enabling access to clean water	Pure-play renewable power generation, electrification of public transport, green building producers and waste recycling specialists

Source: abrdn, January 2023.

# 02.

## Proprietary investment process focused on climate and returns

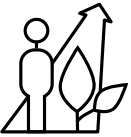
We utilise a bespoke climate-driven assessment to identify return seeking best ideas.



**We utilise abrdn’s global research platform** to combine extensive climate research with our analysts’ best investment ideas (those with the potential to deliver an attractive return). Our analysts are based across the UK, US and Asia, offering insights on investment grade, high-yield and developed and emerging market debt.



**On top of that, we add a climate lens** whereby we choose each issuer based on its contribution to climate change mitigation or adaptation. To achieve this, we use a quantitative screen (to filter ideas), a tailored research write-up for each relevant pillar (to assess the credibility of climate plans) and a peer review (team-based approval process).



**Engagement enhances our investment insights.** It supports our assessment of a company’s climate (and broader sustainability) ambitions by challenging the robustness of targets and future investment plans. This activity informs our views on how climate commitments can be a catalyst to deliver strong performance and outperform peers.

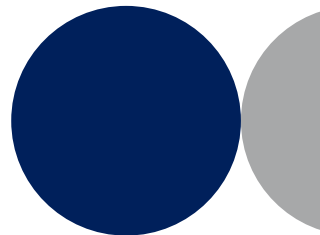


**Climate resource expertise**, including our climate transition bond portfolio managers, credit research analysts and ESG analysts. They collaborate with our centralised Sustainable Investment team, which includes dedicated climate analysts.

“We believe our unconstrained approach helps us find the best climate investment ideas wherever they may be in the world.”



**Samuel Grantham,**  
Investment Director,  
Climate Transition Bond  
Fund Portfolio Manager



# 03.

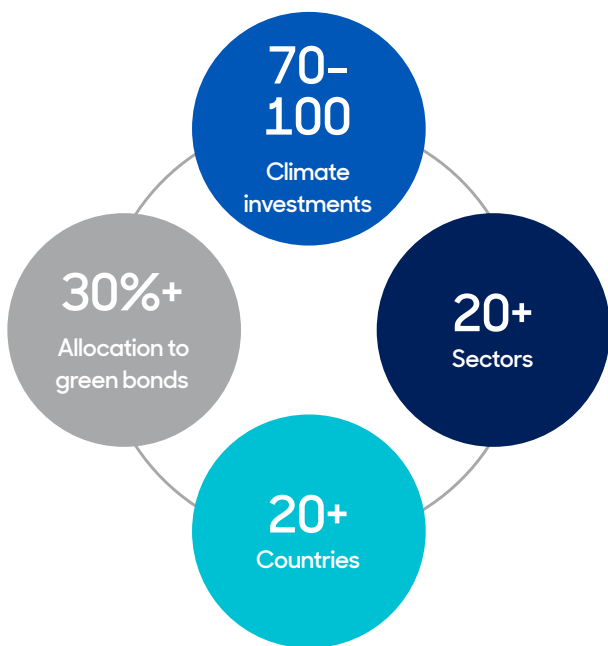
## Access to diversified global opportunities

We take a global, unconstrained, best-ideas approach to credit investing – we’re benchmark aware, not benchmark driven. Many climate funds only focus on certain sectors or types of companies, which means they can miss opportunities. By contrast, we invest across investment grade and high-yield in developed and emerging markets. We analyse economies, sectors and companies from around the world – investing across our Leaders, Adaptors and Solutions pillars.

This approach enables us to capture bond issuers at different stages of the climate transition journey and across the broadest spectrum of industries. For example, utilities shifting into renewables is predominately an investment-grade theme. Among industrial and manufacturing sectors, such as recycling companies, we find compelling opportunities in the high-yield space. Emerging markets, where the physical impacts of climate change are felt the most acutely, offer attractive climate adaptation opportunities.

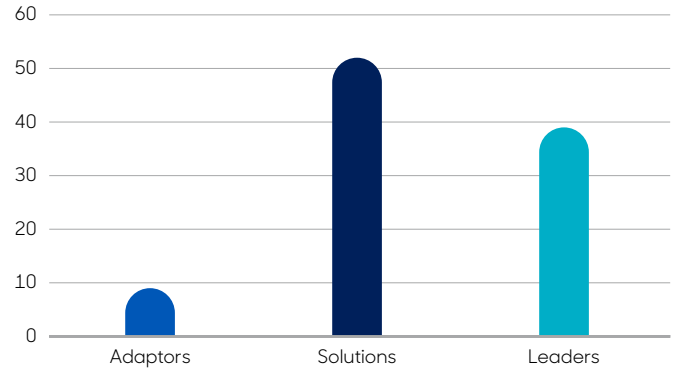
Our investment approach allows us to identify bond issuers that, due to their climate strategy or business composition, are well-positioned to benefit from the transition to a net-zero economy and outperform their competitors.

The result is a portfolio of 70-100 of our best climate ideas, invested across 20+ sectors and 20+ countries, typically with a +30% allocation to green bonds.

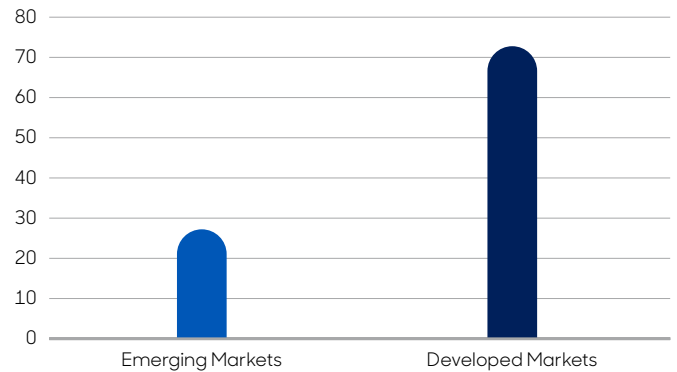


## Portfolio analysis

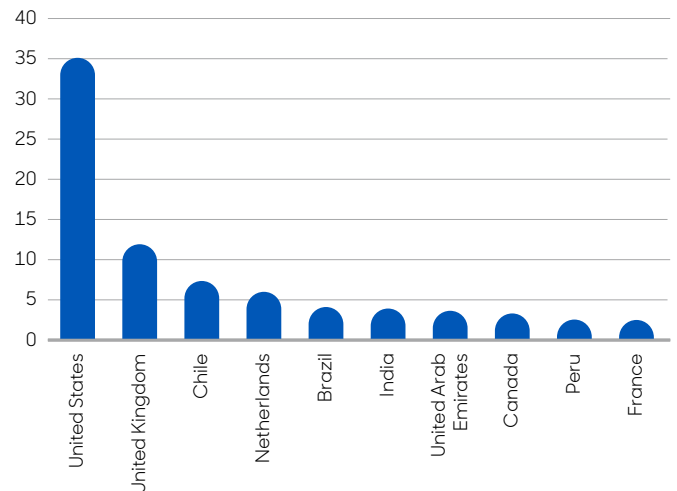
Climate transition pillars (%)



Regional allocation (%)



Country allocation - Top 10 (%)



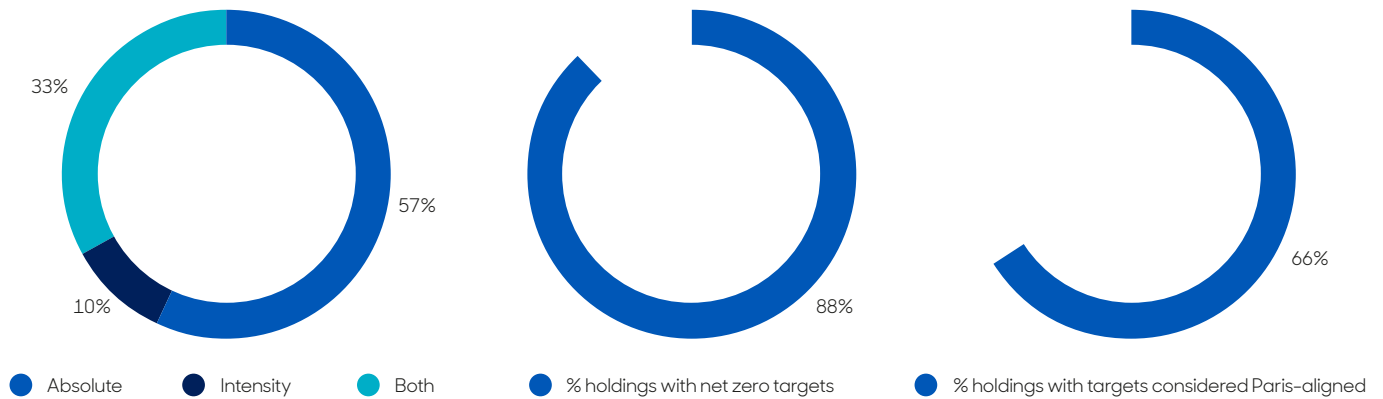
# 04.

## Providing transparency through climate reporting

Completing bottom-up, climate-focused research and engagement enables us to gather detailed climate metrics. These can be aggregated to deliver insights into the targets set, future emission reductions and the real-world effects linked to mitigation and adaptation. Importantly, this enables us to capture the issuer's level of climate intentionality. For Leaders, we measure the level of capital expenditure (capex) allocated to decarbonisation. For Solutions and Adaptors, we focus on green revenues. We report against our three pillars based on the climate focus of each.

## Leaders: supporting the leading emission reducers

Leaders - emission reduction target type



Company targets: implied scope 1 & 2 emissions intensity pathway<sup>1</sup>



**Weighted-average decarbonisation capex**  
**59.4%**

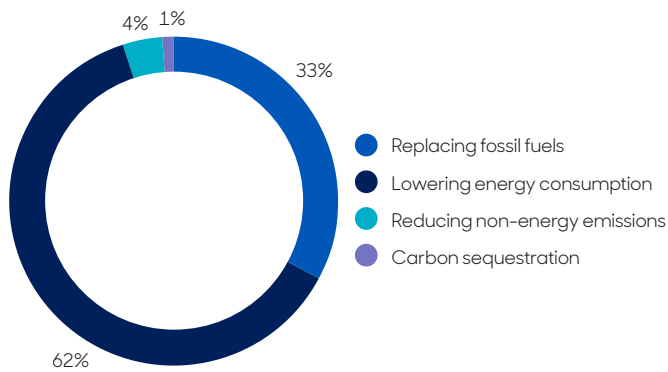
<sup>1</sup> Chart assumptions:

- companies hit their stated targets and emissions are static thereafter
- absolute targets converted to intensity using 5% revenue growth per annum
- companies without target information are assumed to see no change in emissions



## Solutions: helping the economy decarbonise

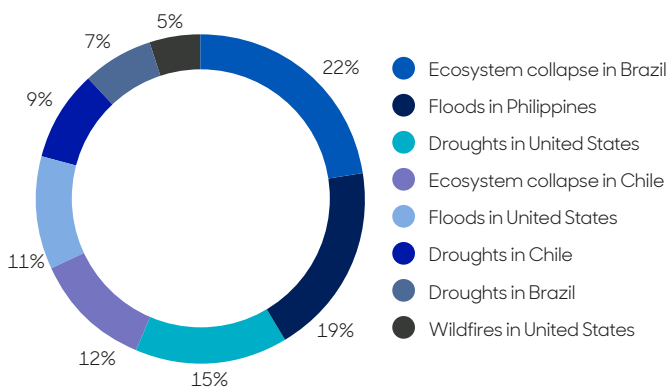
Solutions: decarbonisation theme



Weighted-average revenue from climate mitigation **84.0%**

## Adaptors: facilitating climate adaptation

Primary risk adapted to



Weighted-average revenue from climate mitigation **68.1%**



## Why abrdn?



**1. Strategy to address real-world emissions and climate adaptation**

In delivering our climate objectives, we take a truly global approach and prioritise sectors with a real-world impact



**2. Aim to provide an attractive performance outcome**

Global unconstrained approach with attractive yield enhancements from emerging markets and high yield



**3. Detailed climate investment framework results in strong idea generation**

Through our quantitative screen, climate research one pager and peer review we identify climate Leaders, Adaptors and Solutions



**4. Bespoke climate reporting and engagement**

Strong climate and ESG reporting reinforces our transparent and detailed climate process

"Supporting the transition to a low-carbon economy through investments that will benefit from this multi year growth opportunity."





## Important Information

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

The fund is a sub-fund abrdn SICAV I, a Luxembourg-domiciled UCITS fund, incorporated as a Société Anonyme and organized as a Société d'Investissement à Capital Variable (a "SICAV"). A summary of investor rights can be found in English on our website [abrdn.com/corporate/legal](http://abrdn.com/corporate/legal). Any decision to invest should take into account all objectives of the fund. To help you understand this fund and for a full explanation of risks and the overall risk profile of this fund and the shareclasses within it, please refer to the applicable Key Investor Information Document or Key Information Document available in the local language, and Prospectus available in English, which are available on our website [abrdn.com](http://abrdn.com).

The Prospectus also contains a glossary of key terms used in this document. This fund concerns the acquisition of units or shares in a fund, and not in a given underlying asset such as a building or shares of a company.

Details of our Sustainable and Responsible Investment Approach are published at [abrdn.com](http://abrdn.com) under Sustainable Investing.

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