

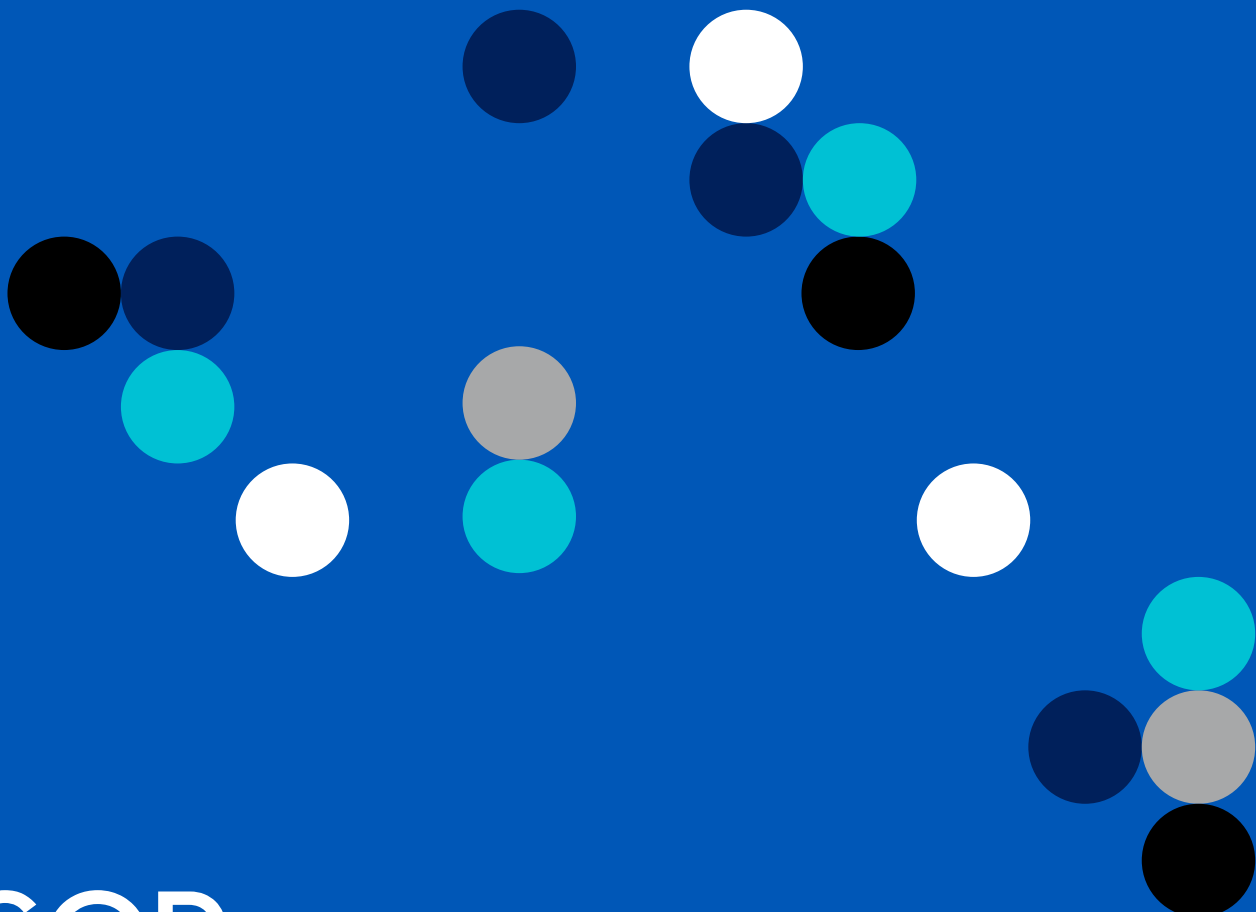
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ESGP framework

Emerging Markets Debt – Sovereigns

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abrdn.com

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We are committed to the integration of environmental, social and governance (ESG) factors into our investment process.

Through a proprietary ESG model developed within the Emerging Markets Debt (EMD) team, we assess material sustainability risks and opportunities of all of our investments, which may include among others: environmental risks, social inequalities, political risks and institutional quality and efficiency. Meanwhile, for specialised investment products, we apply ESG screening of both sovereign and corporate issuers.

Our proprietary sovereign ESG framework assesses the ESG performance of over 80 emerging market issuers across a number of factors which fall within one of four pillars environmental, social, governance and political. This resulted in naming the framework ESGP, where 'P' stands for politics, in order to highlight the importance of the political environment in sovereign ESG analysis.

Through this framework, ESG is fully embedded into the investment process and every country analyst is responsible for conducting ESG analysis on their coverage.

The following sections describe our ESG research and analysis in more detail, from the sources we use, to the exclusion framework designed for a range of our funds with sustainability at the heart of the investment process. We believe this framework to be suitable for other investment strategies that wish to take into account ESG risks for sovereigns and state-owned enterprises (SOEs), filtered through the expertise of abrdn's EMD team.

1. ESG data and sources

We use a range of data sources, mostly publicly available, which meet the following criteria:

- Indicators able to quantify ESG factors necessary for sustainable economic development
- Timely and consistent data updates
- Data comparable over time
- Reliable data sources, with publicly available methodologies

Our environmental indicators capture the carbon dependency of the countries we invest in through the carbon intensity indicator we construct using Greenhouse Gas (GHG) emissions data provided by Trucost and GDP data provided by the IMF. As an organisation, we subscribe to Trucost's carbon data, which is a consistent and comprehensive adaption of the PRIMAP dataset, one of the most reliable data sources on GHG emissions. Another aspect measured in our model is renewable energy generation as a share of total energy generation, calculated using Trucost data, which helps us understand the diversity of a country's energy mix and assess which countries are falling behind on tapping into their renewable energy resources in order to help reduce the dependency on fossil fuels.

We use World Bank data across all of our ESGP pillars, from topics such as air quality and health, to measures of institutional quality, basic human rights and rule of law.

The World Bank has conducted extensive research in sovereign ESG and promotes high quality sovereign ESG data.

Other organisations on which we rely for ESG data are:

- The United Nations Development Program; with its presence across the globe aiming to eradicate poverty and protect the planet, its data provides insightful knowledge into key social issues such as education and inequality.
- International Budget Partnership, whose global research and advocacy program promotes public access to budget information and the adoption of inclusive and accountable budget systems.
- Transparency International, which promotes transparency, accountability and integrity across all level of society. We use its Corruption Perceptions Index in our ESG model as we consider it to be one of the most comprehensive ranking of countries on perceived level of corruption in the public sector, offering over 20 years of data from which we can assess which countries are tackling corruption effectively.
- Reporters Without Borders; we share their values of democracy, freedom of information and independent journalism, which are utmost important in the markets we analyse.
- World Economic Forum (WEF) – we find this source particularly insightful for the emerging markets asset class as their Global Competitiveness Report shows the areas of strength and weakness each country needs to tackle to improve their long term growth prospects and competitiveness. Although we only use one indicator from the WEF report (Quality of Infrastructure), we find the whole dataset very useful in our research.
- The Fund for Peace measures trends in different pressures within countries, which impact their levels of fragility. Its Fragile State Index is an early warning indicator of conflict or instability.

We have aligned our indicators to 9 out of the 17 UN Sustainable Development Goals, with the aim to cover more SDGs as new ESG data becomes available.

Pillar	Environmental	Social	Governance	Politics
Sustainable Development Goals	<ul style="list-style-type: none"> • SDG 13 Climate action • DG 7 Affordable and clean energy 	<ul style="list-style-type: none"> • SDG 3 Good health and wellbeing • SDG 4 Quality education • SDG 5 Gender equality • SDG 9 Industry, innovation and infrastructure • SDG 10 Reduced inequalities 	<ul style="list-style-type: none"> • SDG 16 Peace, justice and strong institutions • SDG 8 Decent work and economic growth 	
Indicator 1	Air Pollution Source: World Bank	Life Expectancy Source: World Bank	Voice and Accountability Source: World Bank	Corruption Perception Source: Transparency International
Indicator 2	Carbon Intensity Source: Trucost, IMF	Infant Mortality Source: World Bank	Government Effectiveness Source: World Bank	Political Stability Source: World Bank
Indicator 3	Renewable Energy Source: Trucost	Mean Years of Schooling Source: Human Development Report (UN Development Program)	Regulatory Quality Source: World Bank	State Fragility Source: Fund for Peace
Indicator 4		GINI Coefficient Source: World Bank	Rule of Law Source: World Bank	Press Freedom Source: Reporters without Borders
Indicator 5		Gender Inequality Index Source: Human Development Report (UN Development Program)	Open Budget Index Source: International Budget Partnership	
Indicator 6		Quality of Infrastructure Source: Global Competitiveness Index (World Economic Forum)		
Indicator 7		Access to Electricity Source: World Bank		



2. Calculation method

There are two parts to the framework: a quantitative part, where we calculate a relative score for each issuer in the model, and a qualitative forward looking assessment, where we assign a positive, negative or neutral Direction of Travel to each country.

In arriving at the overall ESGP score, we apply the following data transformations:

- We standardise the data points using z-scores, which signal where each country lies relative to the average of all countries on each particular indicator. Z-scores are then averaged within each of the four dimensions, resulting in a score for each pillar.
- We remove the income bias by adjusting the social scores for GDP per capita, using the residuals from a regression of each indicator's z-score on the logarithm of GDP per capita. As social indicators are highly correlated to GDP, we believe through this adjustment we can better compare the ESG performance of countries with different levels of development.
- Our overall ESGP score is calculated as a equally-weighted average of each pillar's score.

The resulting ESG scores provide useful information in identifying long-term factors and tendencies that might not be fully factored into sovereign bond spreads.

The additional use of the Direction of Travel assessments ensures we are looking at the ESG factors more in depth and assessing their materiality as well, which is essential in investment decisions.

3. Direction of Travel assessments

The Direction of Travel is our internal EMD assessment of whether a country is on an improving or deteriorating ESG trend, on the basis of our internal research focused on material ESG factors. By materiality we mean any environmental, social, governance or political factor which can have a significant impact on the valuation of an asset in our investment portfolio over the investment horizon, or may have a major reputational or legal impact on abrdn.

Many ESG indicators are only available with a lag of one or two years, so they might not reflect recent changes in the political landscape and their influence over institutional quality, or policies the governments are currently or due to implement, which may impact their long-term economic growth.

Therefore, supplementing the quantitative indicators with our internal qualitative analysis offers significant value to our investment process.

4. ESG Screening

For our sustainability focused portfolios adopting the ESGP framework we use it to reduce ESG risks by excluding the lowest scoring countries (captured on an exclusion list).

Sovereign exclusions

Our sovereign exclusion method relies on our Direction of Travel assessments, as these would determine whether lowest scoring countries are excluded or not.

Countries excluded based on their low ESGP score but assessed on a Positive Direction of Travel are re-included in the permissible investment universe. However, in such a case the next lowest scoring country is excluded, to the keep the number of excluded countries unchanged.



5. Engagement

We engage with sovereign issuers during roadshows and ad-hoc investor meetings, where we make best efforts to discuss material ESG issues. Engagement with sovereign issuers also helps the team understand plans to address those issues; this is then accounted for in the Direction of Travel assessment. Through roadshows or meetings with senior government officials across those countries, we are often able to gather unique insights into the ability and willingness of such governments to tackle key ESGP issues.

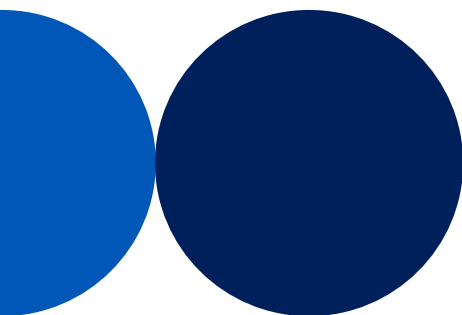
6. Governance process

The framework is updated twice per year to capture the changes in the underlying data and allow for any amendments related to regulatory changes.

Model updates are assessed within the EMD team before being proposed to a number of stakeholders and committees within abrdn as follows.

The Head of ESG Fixed Income and the Sustainability Standards group analyse and sign off any changes in the Direction of Travel assessments which would impact the exclusion list.

The Head of ESG Fixed Income and Head of Sustainable Investing (chair of the Sustainability Standards Group) analyse and sign off any methodological changes, including new data sources, scoring and exclusion methods.



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.

Emerging Markets risk - 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.

ESG Investment Risk - 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.

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