abrdn's approach to sustainability risk integration

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Contents

Introduction

At abrdn, we view sustainability factors an important element to how we invest. We believe that sustainability factors can be financially material and can meaningfully impact an asset's performance. An asset's ability to generate returns for investors is therefore also dependent on its ability to manage its relationship with the environment, its relationship with society and stakeholders, and on the way it is governed.

For the purpose of this document, we follow the definition of "sustainability factors", as provided in EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR); notably: "**'sustainability factors' mean environmental, social and employee matters, respect for human rights, anti corruption and anti-bribery matters."**[1]. In line with this, in the following we use the term "sustainability" interchangeably with the term "environmental, social and governance", or in short "ESG".

Sustainability factors can represent both an opportunity as well as a risk to the future return of an investment. Whilst the consideration of potential sustainability-related opportunities is an important part of our investment process, in this paper we only focus on sustainability risks for our investments.

Sustainability risk integration is part of abrdn's Sustainable Investing strategy which more broadly encompasses Sustainability Research & Insights; Sustainable Investment Standards & Frameworks; Operational Strategy; and Sustainability Products & Client Delivery.

This document outlines our approach and framework in relation to sustainability risk integration. It sets out how we have embedded sustainability risk integration into our processes and operating model.

This document is applicable to abrdn Investments Luxembourg S.A. (aILSA). aILSA delegates investment management to abrdn plc. The approach set out in this document is followed by abrdn plc on behalf of aILSA.

[1] EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), Article 2(24).

Funds in scope

With the exception of certain investment strategies and/or financial instruments, we apply sustainability risk integration to all funds, regardless of the funds having specific sustainability-related features. The exceptions to which the approach is not applied include (but may not be limited to) selection of indirect third-party investments, non ESG-linked derivatives. The reasons for not applying the integration approach include (but may not be limited to) lack of an agreed methodology to assess sustainability risks, lack of data or poor data quality.

It is important to bear in mind that there are considerable variations of the integration approaches across asset classes. Sustainability risks are a key driver of financial performance for corporate and real assets but may be less relevant to the financial performance of other assets, such as government bonds and currencies.

Introduction

Our regulators' expectations

The EU SFDR has been the first major piece of sustainability-related financial regulation globally and has become a reference for regulators around the world. The SFDR places a requirement upon firms to publish policies on the integration of sustainability risks in investment decision-making and disclose on the approaches in financial products' precontractual documents. In addition, EU regulators have amended fund managers' fiduciary duties to ensure that sustainability risks are assessed on an ongoing basis and in addition to financial risks. Some key pieces of regulation and regulatory guidance in this regard include:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (EU SFDR);
- Commission Delegated Regulation (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms;

This document takes account of our regulatory obligations in relation to sustainability risk integration.

Definition of sustainability risks

The EU SFDR defines sustainability risks as follows:

Sustainability Risk

Means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investmen;

For the purpose of this document, we use the SFDR terminology of "sustainability risks" and apply the above definition. This definition captures the full range of environmental, social and governance (ESG) matters that might have a material negative impact on the financial return of an investment. In other publications and/or client communications, we may refer to "ESG risks" and "ESG integration" which are more commonly used terms in the market (to note though that "ESG integration" refers to the integration of both ESG risks and opportunities whereas this document focusses solely on sustainability matters as a risk factor to investments).

Sustainability risks differ from the SFDR concept of 'principle adverse impacts' which are described in Commission Delegated Regulation (EU) 2022/1288 by means of a list of environmental and social indicators, including employee, respect for human rights, anti-corruption and anti-bribery matters.

Whilst sustainability risks focus on financial materiality and allow a better understanding of a company or asset's development, performance and financial position, principle adverse impacts focus on environmental and social materiality and seek to measure the negative externalities of investments. We consider principle adverse impacts in the investment process of only a subset of funds and mandates; however, some of the principle adverse impact indicators may be equivalent or similar to the metrics we use for our sustainability risk analysis. We issue a separate statement on how alLSA considers principle adverse impacts. This can be found on our website.

The identification of the most material sustainability risks is the responsibility of investment managers. They will consider a broad range of risks related to environmental, social or governance matters, and may use external, such as the SASB Materiality Map, and/or proprietary scores to identify the risks for their investments. The actual sustainability risks considered will vary depending on the asset class as well as the sector/company, geography/operating model and financial instrument invested in.

In line with our key principles of sustainability risk integration (set out in chapter 3), a sustainability risk would not in itself prohibit an investment; instead, the analysis of sustainability risks forms part of the overall portfolio risk management process and sustainability risks are one of other risks considered to assess a specific investment opportunity.

Key principles of sustainability risk integration

We have established five key principles that describe what sustainability risk integration means to us. These are:

- **Risk based assessment:** Identifying and assessing sustainability risks and integrating those considerations into investment decision-making is part of our risk analysis and aimed at avoiding or reducing risks to the financial performance of our investments. Funds and products that integrate sustainability risks into their processes are not aimed at achieving a sustainable outcome (unless the fund/mandate has additional sustainability-related features).
- **Financial Materiality:** Financial materiality is the key driver of our sustainability risk assessment. If a sustainability-related matter is deemed relevant, we will assess its impacts or likely impacts on the company's performance and subsequently the financial performance of our investments. This analysis is integrated into our investment decision-making. Unless a fund or mandate has a specific sustainability-related objective or strategy, sustainability risks will not necessarily be the determinative factor for portfolio construction. If a sustainability risk is not deemed financially material, it may not be considered in the investment decision-making.
- **Data:** We use data on sustainability matters to support our risk analysis. Depending on the asset class, we use a number of external data providers and expert advisors, we also rely on insights about investments obtained from direct interaction or engagement with the company, manager or asset. The data we use for our sustainability risk analysis covers a broad range of environmental, social and governance matters. Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality.
- **Analytical tools:** We use external analytical tools for our integration processes. We have also developed bespoke internal tools, in collaboration with external partners, that help us identify and understand the impact of sustainability risks and support our investment decisions. The use of these tools may not be binding for the investment process.
- **Active ownership (relevant for investments in corporates only):** Engagement with companies is an important part of our sustainability risk integration approach and we will engage if we see a need and an opportunity to gain insights and/or to influence a company's direction of travel. Where we have rights, we may vote at AGMs of target companies to drive change.

Investment due diligence

Investment due diligence processes

alLSA delegates investment management to abrdn plc. At group level, investment desks have developed a method of integrating sustainability risks into their investment processes. In the following, we set out the high-level principles of the integration approach of our asset classes.

Equities

In Active Equities, understanding environmental, social and governance (ESG) factors can complement broader understanding of a business' competitive positioning and help build out an investment case.

Why integrate: We believe that looking at ESG information, including the way we collect ESG information, gives us an information edge. By considering ESG factors we have an informational advantage. The way we systematically integrate ESG factors into the investment process contributes to our analytical edge. Incorporating ESG factors into company analysis and using these factors to understand quality, the drivers of value and risks to that value, we gain an analytical edge over the market where peers do not consider ESG factors.
Finally, by better understanding the quality of companies, and with ESG being a component of quality, we can act on more informed and more rational basis during periods of volatility, giving us a behavioural edge.
Better understanding the inherent drivers of quality means that we can use volatility to our advantage.

Integrated ESG analysis for us covers qualitative analysis in our research, active ownership and engagement, and investment decisions and portfolio construction.

Qualitative analysis: ESG Quality Rating In Stock/Research Notes: The stock analyst owns the ESG recommendation and assigns an ESG Quality (ESG Q) rating of 1-5, with 1 being 'best in class' and 5 representing a 'laggard' as part of the stock note. This score is the summary of research into the most material environmental, social and governance risks and opportunities, and an assessment of how the business is managing its exposure to ESG factors. The ESG Q score reflects analyst views on the degree to which the ESG factors impact a company's performance. To conclude on the ESG Quality rating, our analysts answer four key questions:

1. What is our view on the quality of the corporate governance and oversight of the business and management?
2. What are the most material environmental, social, and operational governance issues the company must manage and how are these being addressed?
3. What is our conclusion on how the management of the most material ESG risks and opportunities will impact the business' operational performance and valuation?
4. What is our ESG Q score/rating and how does it factor into the investment conclusion? Does this differ from the abrdn House Score and MSCI? Do we have a differentiated view?

To answer these questions stock analyst must determine which ESG factors are financially material to form a forward looking view on how the business will manage ESG risks and capture ESG opportunities. The analyst is focused on ESG factors which are 'decision useful' and allow the stock analyst to understand any impact on future business performance, financial position, and/or market perception. When identifying material ESG factors, stock analysts pay close attention both to how ESG factors impact a business today (on operations, earnings, and current valuation) as well as future impacts (reputation and longer term valuation). Keeping in mind, material factors, and the ways in which they impact companies, will vary even within the same industry, depending on geography, size, etc.

Active Ownership Assessment: ESG integration in engagement: In our research and analysis of these ESG issues we identify any concerns we may wish to discuss with companies. We then set engagement objectives according to the circumstances at each company. There are two core reasons for engagement:

1. to understand more about a company's strategy and performance
2. to encourage best practice and drive change.

Investment due diligence

Our engagements also give us an opportunity to source additional information and potentially to:

- **Identify an information gap:** if a company does not disclose ESG information and the market is unable to form a robust view of its quality, its shares may be priced inefficiently. Using our research capabilities including on-site, face to face visits, we are able to develop an informed view of every company and to identify any pricing inefficiency that we judge may exist.
- **Close the information gap:** if we own a company that is misunderstood by the market, we can work constructively with the company's management team to encourage improved and enhanced disclosure, allowing the market to better understand, and hence better price, the company's securities.

As part of our engagement, companies are encouraged to set clear targets or key performance indicators on all material ESG risks to enable performance monitoring.

Integrating ESG into investment decisions: ESG factors are a core component of how we view the quality of a business, and they influence our research discussions and inform our portfolio construction. Peer review provides oversight for all our investment analysis and ESG factors are no different. We have robust debates and challenge each other on our ESG analysis and its relevance to investment cases and decisions. These discussions are then used to support investment decisions across our range of portfolios.

In Active Equities our investment outcomes are defined by Quality: Quality growth; Quality blend; Quality value. ESG factors are a core part of how we define Quality. Portfolio meetings are where we review the outcomes of team-based sector reviews and discuss specific companies that meet a particular fund's mandate. We would expect ESG and material factors to be part of portfolio discussions. Whilst a simplification, the higher quality a company, and the more conviction we have in the company, the more of that company we might elect to buy (whilst being sensitive to valuations and portfolio mandates). ESG is a part of the discussion around 'position sizing', or how much of a company to buy. We then construct a portfolio of Quality companies, having considered ESG factors and their impact on our different Quality outcomes.

Fixed Income

Research Integration: For both public and private credit, analysts own the ESG recommendation of a company and assign an ESG Risk Rating to each issuer ranging from Low, Medium, High (Low is better). This is credit profile-specific and represents how impactful they believe ESG risks are likely to be to the credit quality of the issuer now and in the future. A rating of "High" indicates that there are potentially significant risks whose impact and timing could negatively affect the credit profile of a company. ESG considerations are hardwired into sovereign bond investment process as well. For Developed Markets, our ESG framework is centred around the abrdn research institute and their expert analysis and opinion, utilising an indicator that integrates growth analysis with a proprietary ESG screen for developed market countries. For Emerging Market Sovereign investments, the desk uses the proprietary sovereign ESGP (where 'P' stands for politics) framework that assesses the ESGP performance of over 80 emerging market issuers across several factors which fall within one of four pillars – environmental, social, governance and political. In addition to quantitative indictors, we assign a 'Direction of Travel' (DoT) Score (positive, neutral or negative), which is based on qualitative internal research, to gauge whether a country is on an improving or deteriorating ESGP trend. The abrdn Fund Financing investment team integrates ESG risk factors through the use of an internally developed ESG Risk Assessment Tool tailored to the fund finance business.

Portfolio Construction: At a company level, ESG factors can influence the size of positions we take – either positively or negatively. Thematic research – including environmental management, climate change, human rights, and labour practices – contributes to our sector assessments and top-down views, both of which influence portfolio risk themes.

For government bond strategies, it is the responsibility of portfolio managers to carefully analyse whether or not a country's performance across ESG factors is material and relevant to the investment case for a country's debt. In many cases while ESG concerns can be significant, exogenous forces (like QE) can completely dominate other potential bond market drivers.

Investment due diligence

Engagement: The Fixed Income Team actively engage with companies and sovereigns on ESG issues. This provides a forward-looking view of the ESG strategy. This can help to highlight future risks and opportunities that should be factored into valuations. Importantly this also provides the ability to actively influence a company's management of ESG issues in line with best practices. For Sovereign bonds can be difficult and more nuanced to engage directly with governments/public policy officials due to lack of access and inherent politics. The abrdn Fund Financing investment team's integrates ESG Risk Assessment Tool is used to highlight any key risks and areas for focused engagement during the investment due diligence and on-going monitoring.

Multi-asset

Multi Asset Investment Team has embedded ESG experts within the team and set up an ESG steering group to coordinate investment activities. The team also draws on abrdn Sustainability group (see details in chapter 5), which provides bespoke research on areas such as environmental responsibility, climate change, human rights and governance issues. ESG integration varies across portfolio management approaches.

Where multi-asset strategies use abrdn's active equity and credit funds (see points above), ESG integration and active ownership are applied (see details in chapter 4.2). When using derivatives or passive index trackers, the opportunity to integrate ESG can be limited. In some cases, ESG factors play a role in 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. The investment managers use a variety of ESG metrics to help to identify including ESG scores, materiality mapping, controversy flags and carbon intensity metrics. Climate scenarios are also used to support long-term expected return forecasts for Strategic Asset Allocation. In addition, where appropriate the multi-asset team may also follow a comparable process to the indirect/fund of fund strategies.

Active ownership (applicable to investments in corporates only)

Active ownership is an important part of our sustainability risk integration approach when we invest in corporate assets. Engagement provides a forward-looking view on the management of sustainability risks and the ability to encourage value enhancing best practice standards. It allows the setting of milestones to encourage best practice or to identify leaders and laggards within a sector. Engagement enhances our investment process at multiple stages:

- **Research:** Meeting with key company stakeholders enhances our insights into the management of sustainability factors, their future planning and importantly provides us the opportunity to raise any concerns - setting milestones to track and for companies to deliver to. Insights gained can impact an analyst's assessment of a company.
- **ESG data:** ESG data can often be backwards looking. Engagement is a useful tool to enhance data transparency. For example, we can seek to obtain information on; revenue contributions to activities; how any historical/current controversies are being managed; CAPEX commitments and decarbonisation targets. This enhances our view of a company and in some circumstances enables us to invest in the positive direction of travel of these companies.
- **Portfolio construction:** Conducting thematic research leads to broad based engagement with multiple companies on material ESG themes. This has a number of benefits;
  - we can identify the leaders and laggards managing to this risk / opportunity;
  - we can establish best practice standards, which can be shared with companies to improve their standards;
  - provides a feedback loop to enhance our proprietary models by reflecting our conclusion of materiality to change model weights, add or remove E & S factors or in some instances directly adjust an individual companies ESG score based on our robust bottom-up assessment.

Investment due diligence

Investments desks will set their own engagement priorities which will depend, amongst others, on the type of sector/companies invested in, targets set by clients, and/or controversy flags. Investments desks will decide in line with their desk-level processes if engagement on a sustainability risk will be carried out. Active Equities, for instance, have identified companies as laggard (in line with the Active Equity integration approach), that breach the United Nations Global Compact (UNGC) or that sit in the bottom 5% of abrdn's quantitative ESG House Score as requiring ESG engagement because of the level of potential financial loss (though engagement is not limited to laggards).

Additional tools and metrics

Investment due diligence procedures set out in detail the process by desks to identify, assess and manage sustainability risks. With a view to supporting investment teams in this process, abrdn have developed a number of tools and capabilities. The use of these tools is **not mandatory** and as such the below may not be part of the investment process. The degree to which these tools are used in the investment process and are influencing investment decision-making also depend on the tools' relevance for a specific asset and the sustainability-related characteristics or objectives of the fund/product (as specified in the documentation of the fund/product).

Our additional tools to support the investment process include (non-exhaustive):

Climate change tools

- **Carbon metrics:** The analysis of carbon metrics enables portfolio managers to understand the carbon intensity and absolute emissions of their portfolios and holdings over time and it provides a baseline for benchmarking and decarbonisation. In 2021, we expanded our carbon metric capabilities to sovereign bonds.
- **Climate scenario analysis:** Provides a forward-looking view on the risks and their impact by geography, sector, and individual company level. This enables us to assess the impact on future pricing and to consider the outcomes for:
  - Climate-resilient portfolio construction: make current investment portfolios more climate-resilient to different pathways by incorporating the risks and opportunities identified in the climate scenario analysis into our portfolio-construction process.
  - Climate-driven solution development: develop new climate-driven products and benchmarks to enable clients with climate-specific goals to achieve these in a research-founded, measurable manner.
- **Climate policy index:** We have developed an index which builds on the IIGCC-recommended Climate Change Policy Index, incorporating it into our in-house climate policy expertise and adding a weighting to reflect the central role of policy action in the energy transition.

Thematic research

The Investment Vector Sustainability Group as well as abrdn's Research Institute carry out forward looking sustainability research and thought leadership across four pillars (Climate Change, Nature, Society and Governance).

ESG House Score

abrdn has developed a scorecard for companies using over 100 key performance indicators (KPIs) across six core areas: climate change, environment, labour management, human rights and stakeholders, corporate behaviour and corporate governance. The ESG score provides a view on the company's ESG risk level relative to peers.

Sustainable investing governance

aILSA delegates investment management to abrdn plc group. The following governance structure is set up at group level.

For abrdn's Investment Vector, we have set up a Sustainable Investing governance structure to ensure consistency in setting and applying our sustainability-related strategy and framework.

Sustainability Council and Strategy Groups

The Sustainability Council has been set up to uphold abrdn's ambition with regards to Sustainable Investing, through the delivery of sustainability-informed investment solutions and outcomes. The Council oversees the sustainability investment activity, including investment products and strategies. The Council provides an escalation mechanism for all sustainable investment matters. The Council is chaired by our Chief Sustainability Officer who is also a member of the Investment Vector Executive.

The following **'Strategy Groups'** are a key part of the governance structure and feed into the Sustainability Council (non-exhaustive list of Strategy Groups):

- **Sustainable Investing Strategy Group** (SISG) – The SISG supports the development of the overall ESG and Sustainable Investment strategy across all asset classes. The cross-functional group provides the relevant expertise and insight to pursue the best long-term outcomes for our clients within the Investment Vector. This Strategy Group is chaired by the Head of Sustainable Investing and its members are the Heads of ESG of all asset classes, the Head of Active Ownership and the Head of Sustainability Insights.
- **Sustainable Product Strategy Group** (SPSG) – The SPSG supports the development of the Sustainability Fund Range offered by abrdn. The cross-functional group provides the relevant expertise and insight to guide the development of the existing range and new additions. This Strategy Group is chaired by the Global Head of Product Strategy and comprises of product, client and ESG asset class representatives.
- **Sustainability Institutes, APAC & Americas** – The Institutes' mission is to set and manage the regional sustainability strategy, deliver regional-centric sustainability solutions and insights, build local sustainable investing knowledge community and contribute to regional progress. The Institutes are chaired by the regional Heads of Sustainability Institutes.

There are further **'Enablers'** that support the Strategy Groups of the Sustainability Council. Some of these include (non-exhaustive list):

- **Sustainability Research Forum** – The Forum produces, discusses and promotes delivery on research priorities set by SISG and promote sustainability insight across asset classes.
- **Sustainable Standards Group** (SSG) – The SSG's remit is to uphold standards in abrdn's investment process to ensure they stand up to scrutiny, reflect client objectives and ensure rigorous internal standards with focus on screening and standards breaches. The SSG is chaired by the Head of Sustainable Investing and is composed of colleagues from the Investment Vector Sustainability Group and has representation from Product and Compliance.
- **ESG Regulatory & Standards Taskforce** – The Taskforce assesses new regulatory developments and market standards across all abrdn investment vector jurisdictions with ad-hoc working groups to mobilise business engagement and understand implications for the business. The Taskforce brings together colleagues from global Compliance teams, Public Affairs, Corporate Sustainability, the Investment Desks, and the Investment Vector Sustainability Group (IVSG).

Sustainable investing governance

Three lines of defense

abrdn operates a 'three lines of defence' in the management of sustainability risk ensuring that there are clearly defined roles and responsibilities within our Enterprise Risk Management Framework:

First line: investment teams have the primary responsibility for identifying, assessing, and managing sustainability risks, alongside other risks to investments. Sustainable investing governance committees, support investment desks with regards to the overall sustainability risk integration framework and its implementation and supporting investment teams in understanding the regulatory environment.

abrdn appointed a Chief Sustainability Officer to lead the sustainable investment strategy for abrdn's Investments Vector. The Investment Vector Sustainability Group (IVSG) reports to abrdn Chief Sustainability Officer. The IVSG consists of four specialised teams:

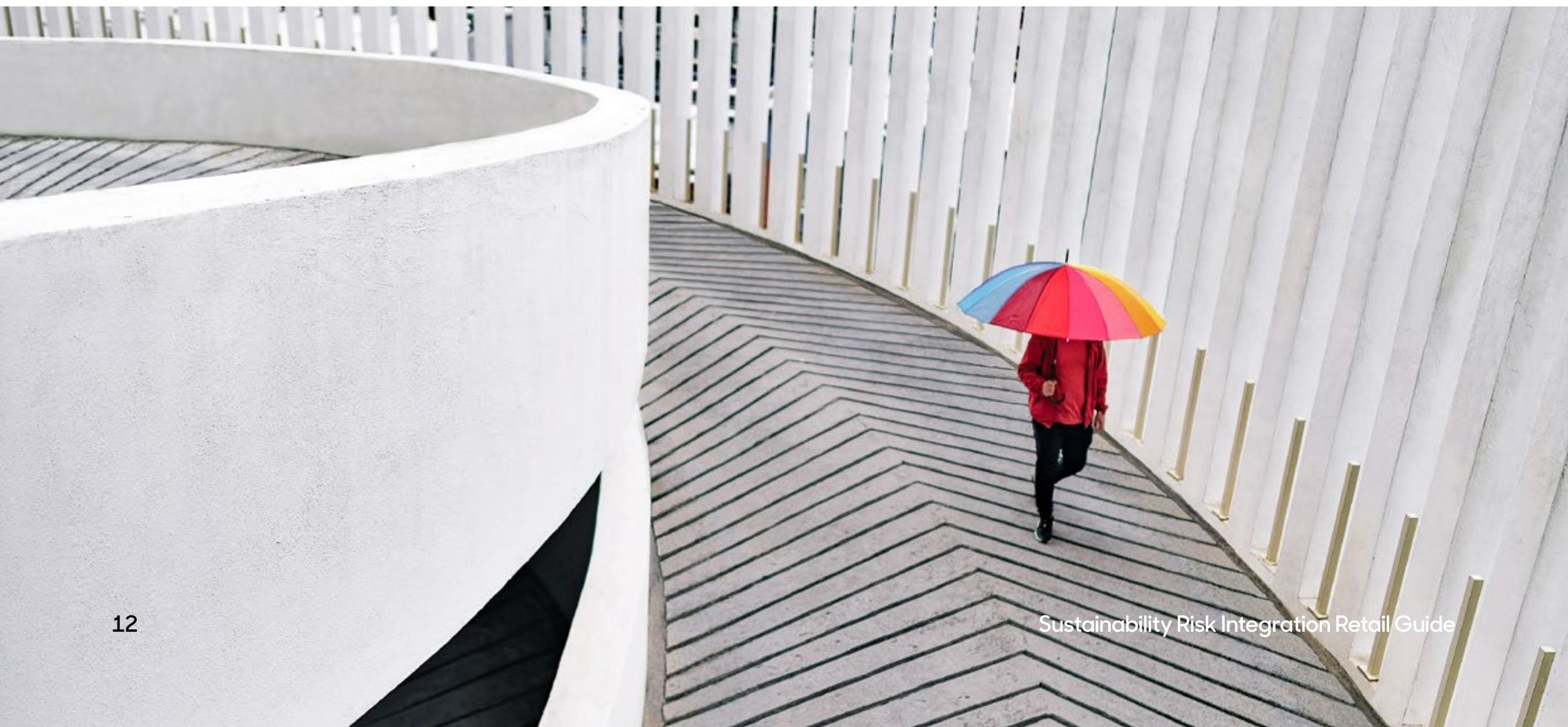
- Sustainability Insights & Climate Strategy
- Sustainable Investing
- Active Ownership
- Sustainability Investment Specialists (APAC and Americas resources and Sustainability Institutes sit within this function)

The IVSG maintains strong partnerships across the abrdn Investment Teams.

Second line: Investment Risk and Compliance Teams carries out the monitoring of defined limits, the analysis of risks and their overall contribution to the Fund's risk profile. The RAG status of funds as well as action taken to address moderate/high risks are reported to boards, and relevant committees as required, on a regular basis. Compliance Team also reviews marketing material, including fund material, to ensure sustainability related statements are clear, fair and non-misleading.

A dedicated Monitoring & Oversight team operates a risk-based programme to provide assurance to senior management over the effectiveness of controls to ensure regulatory compliance. The outcome of the reviews is reported to the relevant entity boards and other governance forums, including the Risk and Capital Committee, Group Audit Committee and Executive Leadership Team Controls meeting. Assurance activities include thematic reviews of risk or regulatory topics and focused reviews on specific regulatory or customer outcomes.

Third Line: abrdn's Internal Audit function conducts internal audits of sustainability rule implementation as part of its internal audit agenda.

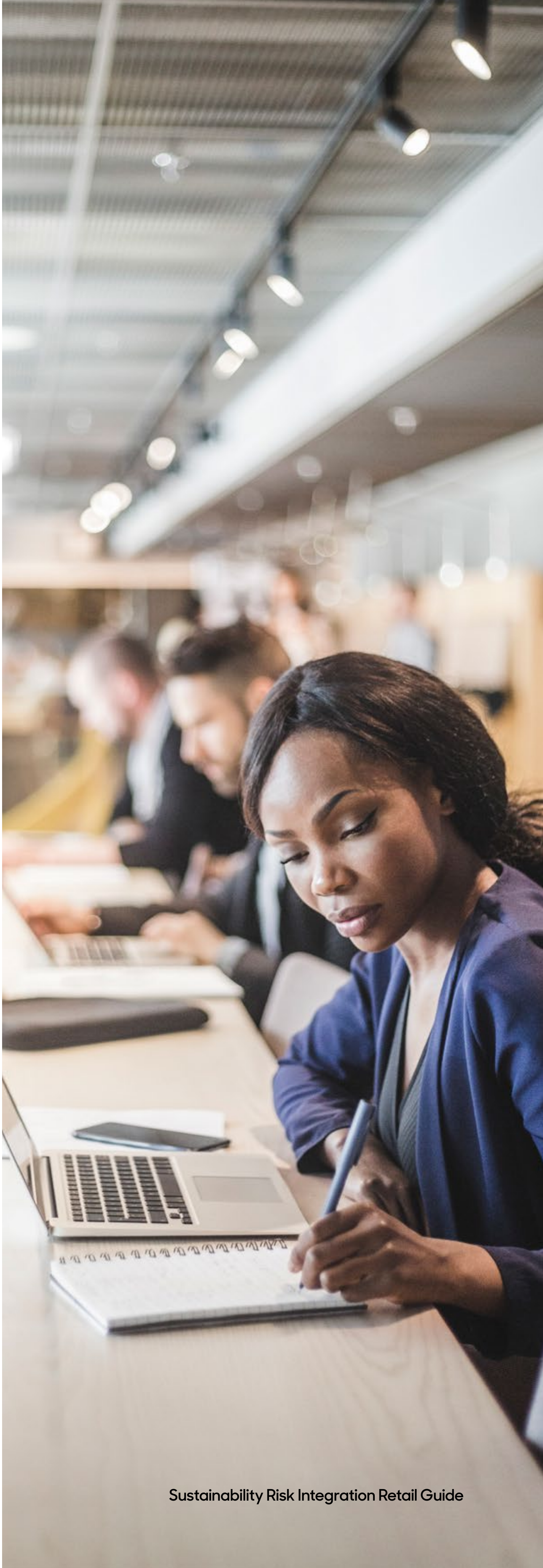


Risk management

Sustainability risk management starts with the investment teams who have the primary responsibility to identify, assess, manage and mitigate sustainability risks in their portfolios. The risk management may include the assessment of the potential impact of the risks on an asset's credit profile and therefore the fair value pricing of an investment; supporting diversification by investing in disruptors impacting competition within sectors; and mitigating unintended portfolio correlations with overarching ESG themes able to impact interlinked companies and sectors such as regulation on carbon pricing, social reforms on minimum wages or working practices.

As part of Second line, aILSA Risk Management and Compliance departments performs an independent monitoring activity of the funds it is responsible for.

All abrdn managed funds are subject to abrdn's house exclusion of companies that develop, produce, assemble, acquire, repair, sell, use, hold, transport, transfer, stockpile or conserve cluster munitions or anti-personnel landmines (APLs). Our position statement on Controversial Weapons and approach can be found at: www.abrdn.com.



ESG data

At abrdn, we use a variety of sources to obtain data in relation to sustainability matters. These vary depending on the type of asset invested in (such as corporate, real asset, sovereign) and include company direct disclosure (annual reports, sustainability reports, etc); company indirect disclosure (government agency published data, etc); insights obtained directly from companies through our engagement with them; data obtained from the properties we invest in; publicly available data in relation to sovereigns from sources such as the World Bank and the United Nations Development Program.

We work with a number of third-party ESG data providers. We ensure that these providers follow a rigorous quality assurance process, and as part of our onboarding or review process, we have several controls in place to test quality, including coverage, validity checks and consistency.

Data availability varies across asset classes and geographies, and we continuously seek to improve data coverage and data quality. Where data is unavailable, we may choose to leverage estimated metrics.

Conflicts of interest

abrdn's Conflict of Interest Group Policy requires each Vector, Business Region and Functional Area to adhere to applicable laws and regulations. This also applies to sustainability-related requirements and relevant regulations in this regard include (but are not limited to):

- Commission Delegated Regulation (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS);
- Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers;
- Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

Conflicts of interest in relation to sustainability can arise in different situations, including during product design, sustainability risk assessment and management, voting and engagement, etc. Conflicts of interest in relation to sustainability can result in unfair treatment of clients and customers, such as greenwashing practices, and other adverse outcomes. abrdn follows the existing processes to identify, assess and manage conflicts of interest in relation to sustainability matters. Conflicts identified are captured in our conflicts of interest register.

For more information visit abrdn.com