

# Climate-related financial disclosures for abrdrn Investment Management Limited (aIML) in line with the recommendations of the Taskforce on Climate related Financial Disclosures (TCFD)

June 2024



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## **Our approach to climate reporting**

We provide an overview of material information against the four pillars of TCFD within our Sustainability and TCFD report (docs (abrdn.com)) following the recommendations of the TCFD framework.



**Link to our Sustainability and TCFD report**

# Compliance Statement

This report should be read in conjunction with abrdn's Sustainability and TCFD report 2023. This report meets the requirements of chapter 2.2 on TCFD entity reports of the FCA's Environmental, Social and Governance Sourcebook as also set out in the FCA Policy Statement 21/24. Our disclosure is, in our opinion, in line with the TCFD recommendations.

**Xavier Meyer**

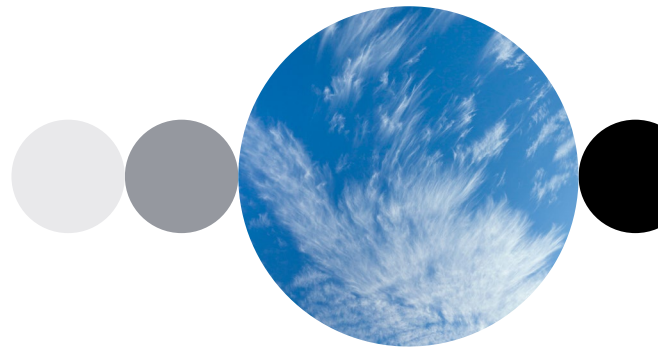
Chief Executive Officer

aIML

30 June 2024

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*Xavier Meyer*  
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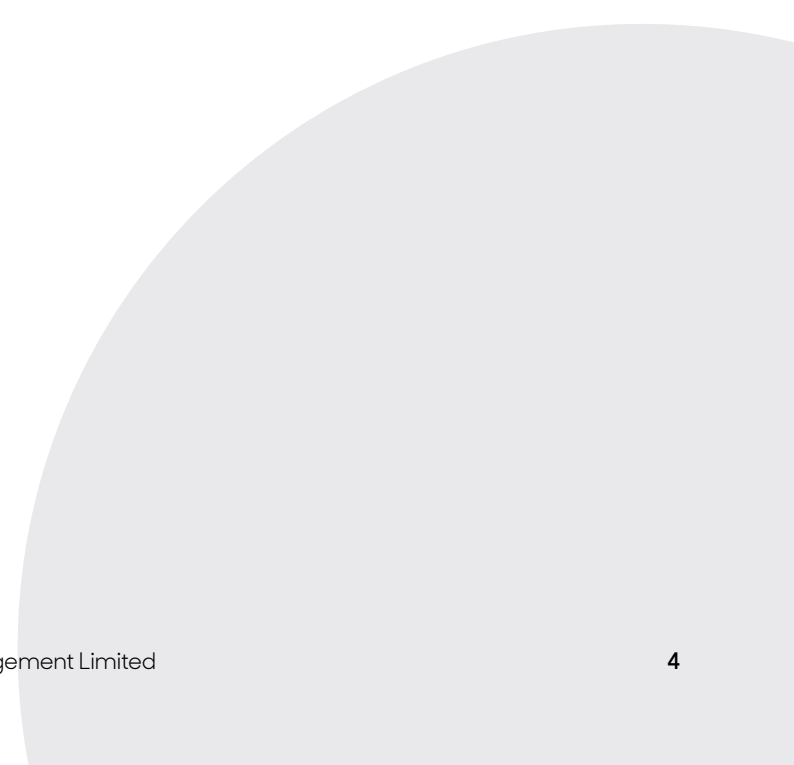
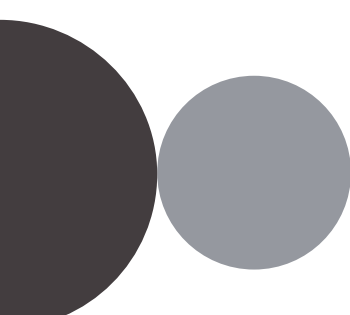
# Background to aIML



## **abr dn Investment Management Limited (aIML)**

aIML's principal activity is the provision of investment management services across a number of asset classes and is part of the abr dn Group. The operations of aIML is overseen directly by its board.

The activities of aIML are overseen directly by the Board. aIML has waivers in place in accordance with the Investment Firms Prudential Regime (IFPR) whereby it waives its requirement for a nominations, remuneration and risk committee to the respective committees of the abr dn plc board.



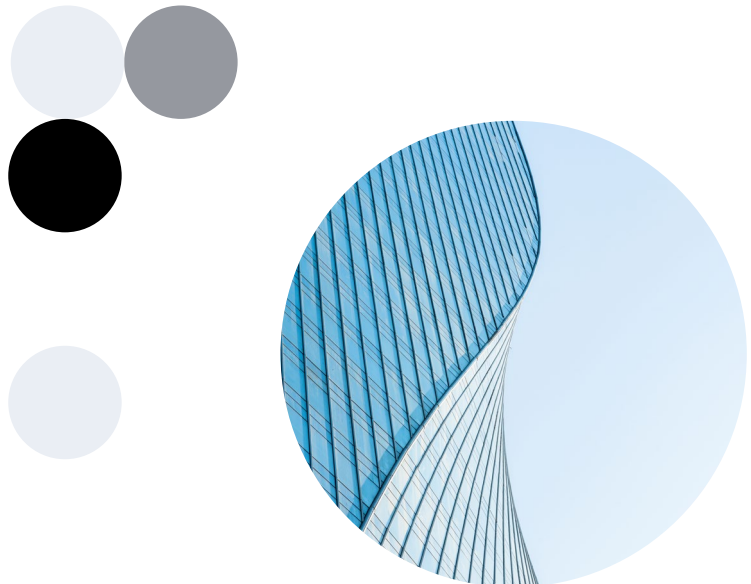
# Purpose of the report

The recommendations by the Taskforce on Climate-related Financial Disclosures (TCFD) – initiated by the Financial Stability Board in 2015 and adopted in 2017 – provide a consistent global framework for disclosing financial impacts of climate-related risks and opportunities. The disclosures made by an organisation in line with TCFD recommendations enable stakeholders to gain a better understanding of the climate-related risks and opportunities (including how they are managed) that are likely to impact the organisation's future financial position.

With its Policy Statement on Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers (Policy Statement 21/24), the FCA has mandated annual reporting in line with the TCFD recommendations for legal entities (initially for those that meet the requirements of an 'enhanced scope Senior Managers and Certification Regime (SM&CR) firm') and the assets managed or administered by them.

**This report provides climate-related financial disclosures for abrdn Investment Management Limited (aiML) for the reference period 1 January 2023 to 31 December 2023. This report meets the requirements of chapter 2.2 on TCFD entity reports of the FCA's Environmental, Social and Governance Sourcebook as also set out in the FCA Policy Statement 21/24. .**

The TCFD has developed 11 recommendations for disclosure which are structured around four thematic areas, notably governance, strategy, risk management and metrics and target. This report provides disclosure against the 11 recommendations for aiML.



# Cross-referencing to abrdrn's group reports

abrdrn plc (abrdrn) has published climate-related financial disclosures in line with the TCFD recommendations since 2019. In its reporting, abrdrn sets out the company's overall framework for identifying, assessing and managing climate-related risks and opportunities. This framework applies to aIML which broadly relies on the TCFD disclosures made by abrdrn.

In March 2024, abrdrn published its Sustainability and TCFD report 2023 which provides disclosure in line with the TCFD recommendations for the 2023 reporting year. The report can be found here:

**[Sustainability and TCFD report 2023 for abrdrn group](#)**



The following table sets out where the relevant sections on TCFD disclosures can be found in abrdrn's report.

Governance	Strategy	Risk Management	Metrics and targets
Description of the board's oversight of climate-related risks and opportunities.  <i>Sustainability and TCFD report 2023 (page 14)</i>	Description of the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.  <i>Sustainability and TCFD report 2023 (pages 19-21)</i>	Description of the processes for identifying and assessing climate-related risks.  <i>Sustainability and TCFD report 2023 (page 21, 27-34)</i>	Description of the metrics used to assess climate-related risks and opportunities in line with the strategy and risk management process.  <i>Sustainability and TCFD report 2023 (pages 35-40)</i>
Description of the management's role in assessing and managing climate-related risks and opportunities.  <i>Sustainability and TCFD report 2023 (page 15)</i>	Description of the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.  <i>Sustainability and TCFD report 2023 (pages 19-21)</i>	Description of the processes for managing climate-related risks.  <i>Sustainability and TCFD report 2023 (pages 27-34)</i>	Description of scope 1, 2 and if appropriate scope 3 GHG emissions (scope 3 is mandatory from a FCA perspective as of 2024) and related risks.  <i>Sustainability and TCFD report 2023 (pages 35-40)</i>
	Description of the resilience of the organisation's strategy taking into account the different climate-related scenarios.  <i>Sustainability and TCFD report 2023 (pages 22-25)</i>	Description of how the processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.  <i>Sustainability and TCFD report 2023 (pages 27-34)</i>	Description of the targets used to manage climate-related risks and opportunities and performance against the targets.  <i>Sustainability and TCFD report 2023 (pages 35-40)</i>

The following sections provide a short overview of abrdrn's approach to the TCFD recommendations and any additional information relevant to understand how aIML takes climate-related risks and opportunities into account when managing or administering investments on behalf of clients and customers



# Governance



The aIML CEO has overall responsibility for ensuring that the aIML Board is kept suitably appraised of its climate and sustainability obligations.

aIML is also supported by abrdn plc Group governance, which supports the integration of sustainability issues into our strategy (including our own Sustainability related company targets), governance, risk framework and investment processes, enabling us to identify and review sustainability related risks and opportunities, with clear accountabilities.

abrdn's climate related governance can be found here:

Board oversight of climate-related risks and opportunities as set out in the Sustainability and TCFD report 2023 (page 14)

Management role in assessing and managing climate-related risks and opportunities as set out in the Sustainability and TCFD report 2023 (page 15)

In addition, in 2022 abrdn implemented a Sustainable Investing governance structure for its investment business, including aIML. The Sustainable Investing governance structure is critical for the development and implementation of abrdn's sustainability (including climate-) related strategy. This includes but is not limited to abrdn's approach to integrating sustainability (including climate-) related risks and opportunities in investment decision-making and the development of lower-carbon products to support client objectives. The Sustainable Investing governance consists of the Sustainability Council, with representation from across the business, and its Strategy Groups. The latter include the:

- Climate Change Strategy Group setting abrdn's climate related strategy and escalating material issues to abrdn's senior management in relation to climate related risks and opportunities.
- Sustainable Investing Strategy Group setting standards and frameworks for the investment process.
- Sustainable Product Strategy Group supporting the development of the sustainability fund range

# Strategy

## Net zero directed investing strategy

abrdn is a member of the Net Zero Asset Managers initiative (NZAM) and is committed to reduce the carbon intensity of the assets invested in on behalf of clients to support the transition to net zero. abrdn's investments target is to reduce the carbon intensity of the in-scope assets by 50% by 2030 versus a 2019 baseline. Assets in scope for the decarbonisation target are Equities, Fixed Income, Quantitative strategies, Discretionary, and Real Estate (out of scope are Multi-asset, Sovereign bonds, Cash and FX, Derivatives, Passive funds, Third party funds, Private equity, Private credit, and Infrastructure).

Individual funds may or may not have a binding decarbonisation target.

The scope of assets for the decarbonisation target is driven by data availability, maturity of methodologies and control over decision-making. Whilst a number of clients have set explicit decarbonisation targets, the investments' decarbonisation target still has to be reflected in mandates, a process that takes time and is heavily reliant on client action.

Further details on abrdn's decarbonisation target can be found in the Sustainability and TCFD report 2023 from page 35 onwards.

## Climate scenario analysis

abrdn's approach to climate scenario analysis is outlined in the Sustainability and TCFD report 2023 (pages 22-26). The outcomes of the analysis are provided in aggregate form focussing on asset classes in which valuations are largely derived from future corporate earnings streams, namely listed equities and corporate bonds. In line with this:

23.13% of aIML's AUM is covered by abrdn's aggregate disclosure of climate scenario analysis outcomes (as at 31 December 2022).

## Delegation

aIML has a Procurement, Outsourcing and Third Party Management policy and Third Party Risk Management Framework which outlines the process and criteria for the appointment of delegates. These consider and reflect climate related factors in both the risk assessment and due diligence of our delegates – including if the service produces emissions and could impact the environment (e.g. waste, water, paper, etc) and gaining assurance over the climate related policies and standards in place at the delegate. Risk assessments and due diligence are completed both at the time of appointment of the delegate and at regular intervals on a risk-based approach during the term of the service.

Further information on abrdn's climate-related strategy can be found here:

Climate-related risks and opportunities identified over the short, medium and long term as set out in the Sustainability and TCFD report 2023 (pages 19-21).

Impacts of climate-related risks and opportunities on abrdn's businesses, strategy and financial planning as set out in the Sustainability and TCFD report 2023 (pages 19-21).

Resilience of the strategy to climate-related risks and opportunities, taking into account the different climate-related scenarios, as set out in the Sustainability and TCFD report 2023 (pages 22-25).



# Risk management

## Integration of climate-related risks into the investment processes

The integration of climate-related risks and opportunities in the investment process is a key element of abrdn's approach to risk management. In 2022, abrdn has formalised its the approach by setting out the overall framework, including investment desks' specific approaches to integration in investment decision-making, in a document that will be made available on abrdn's Sustainable Investing webpage.

## Active ownership

As of year-end 2022 abrdn has identified the highest-financed emitters in the Group's Equity and Fixed Income holdings. abrdn has developed a framework, which is being used to drive the climate-related engagement strategy with the highest-financed emitters in equities. This framework is based on a set of factors, including the Climate Action 100+ Net Zero Company Benchmark, the scope and coverage of GHG reduction targets, and a focus on governance such as, climate-related KPIs reflected in the LTIP and social impact of the energy transition.

abrdn has initiated a two-year engagement programme with these emitters with a view to influencing real-world decarbonisation progress. In the event that abrdn sees insufficient progress, abrdn will escalate engagement, exercise voting rights, and may recommend divestment.

In addition, active ownership is an important part of the investment process and abrdn's approach to integrating sustainability (including climate-related) risks into investment decision-making when investing in corporate assets. Investment desks will decide in line with their desk-level processes if engagement on a climate-related risk will be carried out.

## Three lines of defence

abrdn operates a 'three lines of defence' model in the management of sustainability, including climate-related, risks ensuring that there are clearly defined roles and responsibilities within the Enterprise Risk Management Framework:

**First line:** Investment teams have the primary responsibility for identifying, assessing, and managing sustainability, including climate-related, 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 Investing strategy for abrdn's Investments Vector. The Investment Vector Sustainability Group (IVSG) reports to abrdn's Chief Sustainability Officer. The IVSG consists of four specialised teams:

- Sustainability Insights & Climate Strategy
- Sustainable Investing
- Active Ownership
- Sustainability Investment Specialists

The IVSG maintains strong partnerships across the abrdn Investment Teams.

**2nd line:** Investment Risk integrates sustainability risk analysis into the modelling and reviews of funds where data is available and considers these risks in the overall assessment of a fund's risk profile. The overall 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 Teams assess sustainability-related, global regulatory developments and monitor the group's compliance with those rules. Compliance teams further review fund material including marketing material to ensure that sustainability related statements are clear, fair and non-misleading.

A dedicated Monitoring & Oversight team operates a risk-based programme, which incorporates sustainability-related regulations, to provide assurance to senior management over the effectiveness of controls to ensure regulatory compliance. The outcome

# Risk management

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.

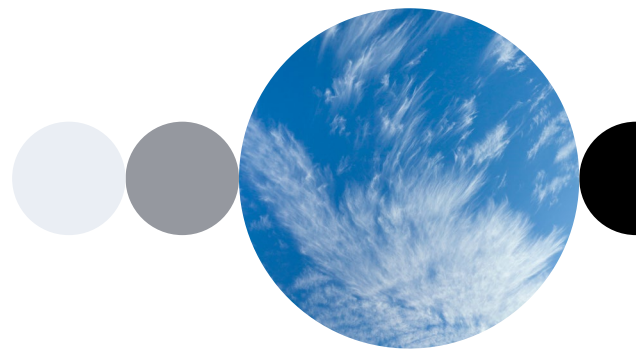
**3rd line:** abrdn's Internal Audit function conducts internal audits of sustainability rule implementation as part of its internal audit agenda.

Further information on abrdn's climate-related risk management can be found here:

Processes for identifying and assessing climate-related risks as set out in the Sustainability and TCFD report 2023 (pages 21, 27-34)

Processes for managing climate-related risks as set out in the Sustainability and TCFD report 2023 (pages 27-34)

How the processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management as set out in the Sustainability and TCFD report 2023 (pages 27-34)



# Metrics and targets

## Metrics

abrdn uses some core portfolio-level metrics to monitor aggregate carbon performance. The metrics provide the following insights:

- **Weighted Average Carbon Intensity (WACI)** is a normalised carbon intensity figure, expressed as tCO<sub>2</sub>e/million USD revenue. The portfolio weighting of each holding is multiplied by the ratio of the investee company's emissions normalised by the investee company's revenue. In the case of real estate we use the denominator of floor area (m<sup>2</sup>) and for sovereigns we use PPP-adjusted GDP.

In this instance company revenue is used to normalise emissions to allow for investors to account for a company's size and economic activity (e.g. typically larger companies will have a greater total emissions footprint but may be more carbon efficient on an intensity basis). Company revenue is a useful proxy for the economic activity of a company. Normalising emissions allows for more accurate comparisons between companies of different sizes and between funds of different sizes. However, volatility in revenues will impact WACI results and such revenue volatility is not always perfectly tied to actual economic activity or total emissions. Moreover, normalising emissions by revenue means that WACI does not perfectly reflect the carbon impact of an investment on the real-world.

- Whereas **Economic Emissions Intensity** is useful for understanding carbon intensity relative to the value invested in a company. Economic Emissions Intensity (EEI) is a normalised carbon intensity metric, expressed as tCO<sub>2</sub>e/million USD invested. The portfolio weighting of each holding is multiplied by the ratio of the investee company's emissions normalised by the investee company's enterprise value including cash (EVIC). This is equivalent as dividing the portfolio Financed Emissions by the portfolio's AUM.

In this instance EVIC represents the total value of a company's equity and debt, allowing investors to normalise emissions by company size, based on equity and debt valuations. (i.e. typically larger company's will have a greater total emissions footprint but may be more carbon efficient on an intensity basis). Normalising emissions allows for more accurate comparisons between companies of different sizes and between funds of different sizes. However, volatility in EVIC will impact EEI results and EVIC volatility is not always perfectly tied to actual economic activity or total emissions. Moreover, normalising emissions by EVIC means that EEI does not perfectly reflect the carbon impact of an investment on the real-world.

- **Financed Emissions** Financed Emissions provides an absolute view of emissions 'owned' by different investors, but the view from the metric is subject to market volatility. Financed Emissions calculate the absolute total emissions, expressed as tCO<sub>2</sub>e, that are attributed to the investor. The methodology used follows the Partnership for Carbon Accounting Financials (PCAF) and is recommended by TCFD. The attribution factor is calculated by taking the monetary size of the investment and dividing it by the investee company's enterprise value including cash. This attribution factor is then multiplied by the company's total emissions to calculate the final Financed Emissions result.

It is important to consider that Financed Emissions will be principally driven by the size of the investment made in a company and therefore, larger funds will tend to have higher Financed Emissions. Moreover, volatility in a company's EVIC can lead to changes in Financed Emissions between equity and credit investors..

We use these three measures to assess the carbon impacts of our portfolios:

	Measure	Unit of measurement	alML
Corporate emissions	Weighted average carbon intensity (WACI) (S1&2)	tCO <sub>2</sub> e/million USD revenue	126.18
	Data coverage (as % of eligible assets)	(%)	83.05%
	Economic emissions intensity (S1&2)	tCO <sub>2</sub> e/million USD Invested	58.20
	Total financed emissions (S1&2)	tCO <sub>2</sub> e	3,554,080
	Data coverage (as % of eligible assets)	(%)	76.28%
Sovereign emissions	Weighted average carbon intensity (WACI) (S1&2)	tCO <sub>2</sub> e/million USD GDP	281.41
	Data coverage (as % of eligible assets)	(%)	68.79%
Real estate emissions	Weighted average carbon intensity (WACI) (S1&2)	tCO <sub>2</sub> e/m <sup>2</sup>	0.0049
	Total financed emissions (S1&2)	tCO <sub>2</sub> e	113.66
	Data coverage (as % of eligible assets)	(%)	29.52%

# Metrics and targets



## Data

In 2022, abrdn has upgraded its climate and carbon tools to deal with new TCFD provisions, such as EVIC, scope 3 carbon data and portfolio aggregation to improve the ESG data provision to our investment teams and to our clients.

Our specialist data provider for emissions is Trucost, which we selected upon a broad review of carbon emissions data providers. Trucost is an established ESG data provider, our selection was based on their global coverage and strong estimation methodology.

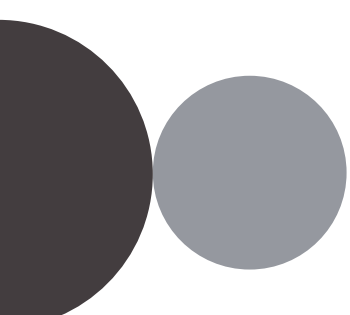
Our specialist data and modelling provider for scenario analysis is Planetrics, which we selected upon a broad review of providers. Planetrics and abrdn work on a partnership basis to develop bespoke solutions, with broad global coverage and a robust climate scenario analysis framework.

Further information on abrdn's climate-related metrics and targets can be found here:

Metrics used to assess climate-related risks and opportunities in line with the strategy and risk management process as set out in the Sustainability and TCFD report 2023 (pages 35-40)

Scope 1, 2 and if appropriate scope 3 GHG emissions and related risks as set out in the Sustainability and TCFD report 2023 (pages 35-40)

Targets used to manage climate-related risks and opportunities and performance against the targets as set out in the Sustainability and TCFD report 2023 (pages 35-40)



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