

TCFD Product Report

abr dn Global Absolute Return Strategies Fund

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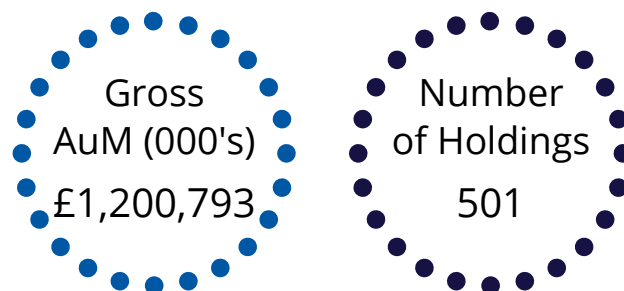
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Portfolio Overview

abrdn Global Absolute Return Strategies Fund



<p>Fund investment objective</p>	<p>To generate a positive absolute return over the medium to long term (3 to 5 years or more) irrespective of market conditions, whilst reducing the risk of losses. Invested capital is however at risk and there is no guarantee that the objective will be attained over any time period.</p> <p>Performance target: To exceed the return of SONIA by 5% per annum, evaluated over rolling three year periods (before charges). The performance target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the performance target. SONIA is currently used as a proxy for the return on cash deposits.</p>
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<p>Purpose of the report</p>	<p>Climate change is the biggest challenge confronting us all. There is no planet B. At abrdn we view this in two ways, firstly by demonstrating leadership in our operations and secondly by reducing the carbon intensity in our own portfolios with a focus on real world decarbonisation towards net zero.</p> <p>abrdn recognises the growing demand from investors for more climate-related information about their investments as such, we have made disclosures we believe are consistent with the TCFD Recommended Disclosures within this report and we will continue to evolve and enhance our TCFD reporting, in line with data and industry developments.</p> <p>The Financial Stability Board (FSB) created the Taskforce on Climate-related Financial Disclosures (TCFD) to develop recommendations on the types of information that companies should disclose to support investors in appropriately assessing and pricing a specific set of risks related to climate change.</p> <p>In Policy Statement 21/24 the Financial Conduct Authority (FCA) have created a regulatory framework for asset managers, life insurers and FCA-regulated pension providers to make climate-related disclosures consistent with the recommendations of the TCFD.</p> <p>Due to the evolving nature of carbon metrics and methodologies and in some cases the nascent disclosure of carbon data in some asset classes and sectors there can be situations where we have low aggregated data coverage at a portfolio level. As a house we have adopted a principle of only reporting where we have greater than 50% data coverage - measured as the % of the portfolio's assets under management for which carbon data has been disclosed, partially disclosed or estimated by S&P Trucost.</p> <p>We expect that the number of portfolio's where we have not reported due to low data coverage will decrease over time as methodologies and reporting disclosures improve. This includes fund-of-fund structures and assets which due to their location or structure have nascent corporate disclosures,. In particular we will focus on working with third parties and data providers to improve coverage. However, at this stage we have adopted a conservative approach to ensure that reported data does not give a skewed perception of carbon impacts. For example if carbon data is only available for low carbon sectors but this only relates to a small portion of the holdings, this could lead to the entire portfolio appearing to be low carbon. However, once more carbon intensive sectors are reported in time, this could significantly alter the overall position and as such, we have taken the decision to only report where we have the majority (>50%) of data available.</p> <p>There are some investment types that due to their nature are not possible to report or estimate carbon metrics. These are typically money market investments that do not have a carbon profile, or synthetic products where methodological constraints mean that they are considered out of scope of these reports.</p> <p>For the first year of reporting, we are only reporting on credit bonds, listed govt bonds and listed equities due to poor or inconsistent data coverage in other asset types. We will review this year on year, and seek to enhance coverage in future years through alternative data providers, direct engagement and supporting broader industry initiatives.</p>
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Carbon Analysis

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Carbon footprinting refers to the use of various carbon metrics that are a useful starting point for understanding exposure to carbon within a portfolio and can be informative in identifying potential climate transition risks. Carbon metrics are also one of the various metrics that can help investors better understand the impact of their investments on the climate.

We split carbon metrics out by Scope 1, 2 & 3 in line with the Greenhouse Gas Accounting Protocol Standards best practices.

It is important to consider that carbon footprinting has inherent limitations. Firstly, emissions data is backward-looking and should be complemented with forward-looking analysis of the entity's transition plans. Secondly, each carbon metric has its own idiosyncratic strengths and weaknesses, and each metric can be driven by short-term volatility unrelated to emissions. Lastly, emissions are not necessarily the most appropriate indicator of climate risk. For example, there are many climate solutions that operate within carbon intensive sectors, potentially falsely implying elevated climate risks when compared to other sectors or a broad market benchmark.

Carbon Data Disclosure

Data Disclosure	Portfolio
Number of Companies with Data	226
Trucost Data Coverage (%)	92.3

Carbon Analysis

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The difficulties of carbon reporting in Absolute Return funds

Equity and credit funds can be readily measured for carbon reporting purposes and this is done using Trucost and other providers. However, the more diversified financial instruments implemented in Absolute Return strategies are more challenging to measure. This is for various reasons. Absolute Return funds have a variety of strategies that are hard to assess from a TCFD perspective. This may be because of the nature of the underlying economic exposures – currencies, commodities, volatility – or the nature of the instruments used – futures, credit default and total return swaps. Two examples of this are short selling (having a negative economic exposure to a security, futures or currency) and the use of derivatives (which add complexity to manage losses or mitigate risks).

Shorting and derivatives change the economic exposure of the fund in a way that can influence climate risk (i.e. TCFD scenarios) but does not bring accountability for carbon emissions. Below we offer a little context on the subtleties of derivatives and shorting, firstly discussing the problems with carbon intensity, secondly acknowledging that it is technically difficult, but conceptually possible to assess economic exposure to climate risk.

Carbon: problems with carbon intensity when shorting and/or deploying derivatives

Expressing climate impact through traditional carbon intensity metrics is particularly difficult when shorting and in using derivatives, due to the ownership structure. Short selling is essentially borrowing, the selling of a stock that the seller does not own but promises to deliver; and derivatives derive their value from an underlying asset/s (stocks, bonds, commodities, currencies, interest rates or market index). Neither approaches involve 'control' of the underlying asset and cannot be considered accountable for the financed emissions of the underlying asset.

However, the effect of deploying these strategies can be seen in the 'impact' they have on the market pricing of a carbon intensive asset. A short position on a carbon intensive asset may be considered to have a positive climate impact in the sense that it may create negative pressure on the price of the stock. This might justify reporting the net long-short carbon position for a portfolio. It is also true that short-positions and futures can change the economic exposure to climate risk. For example, a net short-position on the oil and gas sector reduces economic exposure to climate transition risk, even if there is no control or accountability for carbon emissions.

The purpose of GHG accounting is to quantify the emissions of GHGs from corporate activities, projects, products or investments. The most widely used standard, the GHG protocol, allocates emissions into Scope 1, Scope 2 & Scope 3 emissions, indicating responsibility and ownership for emissions in the value chain. It does not give guidance for shorts and derivatives and regulators have not yet provided guidance either. So shorting could be a strategy that can help manage climate risk / exposure in terms of disclosing positive or negative emissions but calculating its impact can be misleading.

Assessing economic exposure to climate risk

While it is doubtful that short positions and derivatives convey accountability for carbon emissions, it is possible that they change a portfolio's exposure to climate risk. For example, a short position in oil and gas stocks reduces portfolio to risks that oil demand will fall in an aggressive climate transition scenario. On the other hand this short position would disadvantage the fund in a 'hothouse' world scenario. So, it does make sense to evaluate the net exposure of Absolute Return funds to carbon intensive sectors. We have made some progress in doing this in the last year.

Our conclusion is that overall our Absolute Return funds tend to have small net exposure to climate risk. This is partly because our Absolute Return funds have exposure to a wide variety of strategies that have little or no climate risk – e.g. bond curve trades, currency trades, volatility futures. Where the fund does have exposures to carbon intensive sectors e.g. exposure to an equity index future or a credit default swap, they tend to be exposures to broad indices where carbon intensive sectors only compose a small proportion of index weight.

Another feature of Absolute Return funds that protects investors is the fact that positions tend to be held for relative short periods and are reviewed regularly. If the risks of an abrupt shift in global climate policy were to rise significantly, our investment process would respond by restricting allocation to trades exposed to this shift.

Carbon Analysis

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Portfolio Carbon Intensity

Weighted Average Carbon Intensity

Weighted average carbon intensity (WACI) is a measure of carbon emissions normalized by revenues. Since revenues are a relevant comparison point across all issuers, the metric can be used for portfolio decomposition and attribution analyses across sectors and asset classes. The WACI is calculated by summing the product of each company's weight in the portfolio or loan book with that company's carbon-to-revenue intensity. The avoidance of apportioning with the WACI approach means that there is no direct connection to real-world emissions.

How carbon intensive are the companies in my portfolio?

Asset Class	Scope 1 and 2	Data Coverage %	Weights at 31.12 %
	Portfolio	Portfolio	Portfolio
Equities	157	100	17
Corporate bonds	193	74	7
Weighted average* (tCO2e/\$m sales)	165	92	67

Scope (1-3) emissions definitions - 1: Direct emissions 2: Indirect emissions 3: Upstream Value Chain emissions

Trucost data is partly based on estimated figures. Therefore, the reporting should be estimated based on the best available data and used for guidance.

Coverage % based on number of holdings

* Weighted average calculated for equity and credit assets only

Carbon Analysis

abrdn Global Absolute Return Strategies Fund

Portfolio Carbon Footprint

Economic Emissions Intensity

Economic Emissions Intensity (EEI) is a normalised carbon intensity metric, expressed as tCO₂e/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.

We currently only apply EEI to equity and corporate bond assets.

How carbon intensive are the companies in my portfolio?

Asset Class	Scope 1 and 2	Data Coverage %	Weights at 31.12 %
	Portfolio	Portfolio	Portfolio
Equities	58	100	17
Corporate bonds	105	73	7
Weighted average* (tCO₂e/\$m invested)	64	92	67

Scope (1-3) emissions definitions - 1: Direct emissions 2: Indirect emissions 3: Upstream Value Chain emissions

Trucost data is partly based on estimated figures. Therefore, the reporting should be estimated based on the best available data and used for guidance.

Coverage % based on number of holdings

* Weighted average calculated for equity and credit assets only

Carbon Analysis

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Greenhouse Gas Emissions

Total Financed Emissions

Total Financed Emissions calculate the absolute total emissions, expressed as tCO₂e, 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 currently only apply financed emissions to equity and corporate bond assets.

What emissions are "owned" by the portfolio based on company ownership?

Asset Class	Scope 1 and 2	Data Coverage %	Weights at 31.12 %
	Portfolio	Portfolio	Portfolio
Equities	14144	100	17
Corporate bonds	7855	73	7
Total Financed Emissions (tCO₂e)*	21999	92	67

Total emissions owned increase with the size of the portfolio and are therefore not comparable across funds.

*Calculated for equity and credit assets only

Climate Scenario Analysis

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Climate Value at Risk

Climate change scenario analysis provides a quantitative assessment of the financial impact of a range of potential future climate change pathways and related policy and technology scenarios on investments.

These impacts are driven by:

Transition risks and opportunities: direct and indirect carbon costs, and abatement measures to counteract these costs; demand destruction for emissions-intensive goods, and demand creation for goods with abatement potential.

Physical risks: impacts of chronic physical risks and increased physical damages to real assets caused by more extreme weather events; adaptation measures to help counteract these risks.

Market dynamics: the ability to compete in the market and pass on climate-related costs.

Our analysis provides bottom-up quantification of the financial implications of these direct and indirect economic shocks. The analysis considers the specificities of each security and its sensitivity to those shocks, and thereby assesses the impact on annual value stream. These are consolidated into financial impacts at asset level and can then be aggregated to assess the impact at fund level.

Abrdn has partnered with Planetrics, a subsidiary of McKinsey to assess portfolios for climate risk. The results tend to follow a similar pattern to the results of the carbon analysis described above.

Overall our analysis is that most multi-asset portfolios have little exposure to climate risk. Our data that across the specified climate scenarios, the impact on multi-asset portfolios is negligible - equivalent to the kind of volatility we see within a single quarter for an equity fund.

There are several reasons for this low risk exposure.

Most of the fund allocation is to sectors where climate risk is very small - technology, financials and healthcare comprise 50% of global equity markets but see very low climate risk across the three TCFD scenarios. Allocations to high risk sectors (energy, utilities, industrials, materials) is mostly fairly small.

Within many high risk sectors there are both climate winners and losers. For example in the utilities sector in transition scenarios renewable power generators are winners and coal/gas generators are losers. The pattern is the opposite in hothouse scenarios, but in both cases winners cancel out losers and sector risk exposure is reduced.

Multi-asset portfolios also hold significant exposure in asset classes with low climate risk. For example, our data indicates that credit portfolios have much lower risk than equity portfolios. Although credit indices can be a little more carbon intensive than equity benchmarks, this is more than offset by two other factors when assessing climate risk. First, credit has relatively short maturity - a 10 year bond is not exposed to climate risks which tend to be more severe in the distant future. Secondly, credit is inherently less exposed to risk due to its seniority. Similarly, climate risks for other asset classes such as developed market government bonds are even more modest.

These factors - the small size of high risk sectors, the fact that winners offset losers, and the fact that non-equity asset classes tend to have low climate risk - when combined mean that most multi-asset portfolios have very small aggregate risk in all three of the specified TCFD climate scenarios.

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Glossary

Data Point	Definition
Carbon Emissions - Scope 1	Greenhouse gas emissions generated from sources which are owned or controlled by the company.
Carbon Emissions - Scope 2	Greenhouse gas emissions generated from the consumption of purchased electricity, heat or steam by the company.
Carbon Emissions - Scope 3	Greenhouse gas emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company, upstream and downstream of a company supply-chain, such as, the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity related activities (e.g.T&D losses) not covered in Scope 2.
Carbon emissions / Greenhouse Gas	Carbon emissions is used as a generic term for the main greenhouse gas (GHG) emissions (carbon dioxide, methane, nitrous oxide, F-gases) in our reporting. This is synonymous to the term carbon dioxide equivalent (CO ₂ e).
Carbon dioxide equivalent (CO ₂ e)	This metric utilises global warming potentials of all the greenhouse gases as defined by the International Panel of Climate Change to calculate a single consistent metric for GHG impact in carbon dioxide equivalent terms.
Weighted Average Carbon Intensity (WACI)	Weighted average carbon intensity (WACI), is a normalised carbon intensity figure, expressed as tCO ₂ 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.
Financed Emissions	This is the absolute tonnes of carbon dioxide equivalent (tCO ₂ e) that is attributed or 'owned' by an investors, based on the value of the investment in an investee company. This metric is consistent to the PCAF Financed Emissions methodology, which is integrated into TCFD recommendations.
Economic Emissions Intensity (Carbon Footprint)	Economic Emissions Intensity (EEI) is the terminology used by PCAF - who introduced the use of EVIC. This metric is synonymous with 'carbon footprint'. EEI is a normalised carbon intensity metric, expressed as tCO ₂ 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.
Enterprise value including Cash (EVIC)	Is a denominator used in both the Financed Emissions and Economic Emissions Intensity, EVIC is equivalent to traditional financial measure of EV, however, with cash included. This concept was developed by PCAF to produce a consistent Financed Emissions metric that can be used equivalently across equity and debt investors.
Carbon Intensive Sectors	We have determined the GICS Industry Groups: Utilities, Energy, Materials and Transportation as representing 'Carbon Intensive Sectors'.
Climate Change Scenario analysis	Climate change scenario analysis provides a quantitative assessment of the financial impact of a range of potential future climate change scenario pathways and related policy and technology scenarios on investments.
Probability Weighted Scenario	Weighted average scenario based on our latest assessment of probability across our full suite of 16 scenarios, resulting in a global temperature rise of 2.3C by 2100.
Early Action Scenario ('orderly' transition)	Strict and immediate policy action is put in place and is steadily ramped up to achieve an orderly transition that results in a global temperature rise of 1.7 oC by 2100.
Stricter Action Scenario ('disorderly' transition)	The implementation of strict policy action is delayed until 2030, resulting in a disorderly transition and a global temperature rise of 1.9C by 2100.
Current Policy Scenario ('hot house world')	No new policy action is implemented beyond what is already in place, resulting in a global temperature rise of 3.2C by 2100.
Transition Risk	Climate risks associated with the transition to a low-carbon economy, these include, demand creation, demand destruction, technology risk, carbon price risk, market risks etc...
Physical Risk	Climate risks associated to the physical impacts of climate change, these can be broadly categorised into acute risk (short-term impacts) and chronic risk (long-term impacts).
Climate Value at Risk	The associated financial risk measured based on a selected climate scenario.
GICS / BICS	GICS: Global Industry Classification Standard is an industry taxonomy developed by MSCI and Standard & Poor's. BICS: Bloomberg Industry Classification System is an industry classification system developed by Bloomberg.
PCAF	Partnership for Carbon Accounting Financials.
Glasgow Financial Alliance for Net Zero	The Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy.
Net Zero Investment Framework	The Net-Zero Investment Framework was developed by the Institutional Investors Group on Climate Change (IIGCC), it produced an alignment metric that is now being referred to as the maturity scale approach (as defined by GFANZ).
NZIF Maturity Scale Alignment	This alignment metric enables investors to cover the Binary Target Approach in more detail, categorising companies into levels of alignment as defined by the IIGCC NZIF recommendations.
Abatement	Abatement refers to the act of reducing the emissions of an activity (synonymous with decarbonisation).

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

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