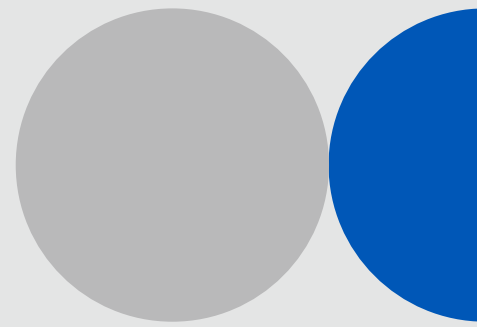


ESG integration in active equities

August 2023



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Our core beliefs – why ESG is essential

Considering and integrating environmental, social and governance (ESG) factors can offer informational, analytical and/or behavioural advantages. At abrdn, ESG factors are a component of how we think about and assess 'quality'. They also help us to identify and determine sustainable competitive advantages.

Informational advantage By considering ESG factors, we obtain more information about the risk factors for different companies. We also gain a deeper understanding about the approach companies take to manage their business. We generate our own ESG assessment for each company, rather than relying on third-party data, which we believe gives us differentiated information.

Analytical advantage We believe incorporating ESG factors into our company assessments gives us an analytical advantage. By engaging directly with

companies and conducting our own ESG research, we believe we can capture the potential impact of these factors on the future outlook of the company.

Behavioural advantage We believe that ESG factors, and our insights on how companies manage these factors, can give us a better indication of the underlying quality of businesses. Having increased confidence in the quality of companies can give us a behavioural advantage. Deeper conviction in our investment case can make us more resilient to adverse changes in market sentiment and volatility.



How we do it – a focus on material ESG factors

Our analysts determine which ESG factors are financially material to form a forward-looking view of how a business will manage risks and capture opportunities. We focus on what we deem to be the most material ESG factors to understand their impact on a company's future business performance, financial position, and/or market perception.

When identifying material ESG factors, we pay close attention to how they affect a business both today (operations, earnings, and current valuation) and tomorrow (reputation and longer-term valuation).

"Material issues are those that are likely to affect the financial condition or operating performance of a company, and therefore are most important to an investor"

Sustainability Accounting Standards Board (SASB)



Integrating ESG factors into research

We want to fully understand the equities in which we invest. This takes extensive, first-hand research of each company in our research universe. We rank stocks using systematic and globally applied ratings. This helps us compare companies, both regionally and against their peer group. Key questions we ask are:

What is our view on the quality of corporate governance, oversight and management?

What are the most material environmental, social, and operational governance factors the company must manage? And how are these being addressed?

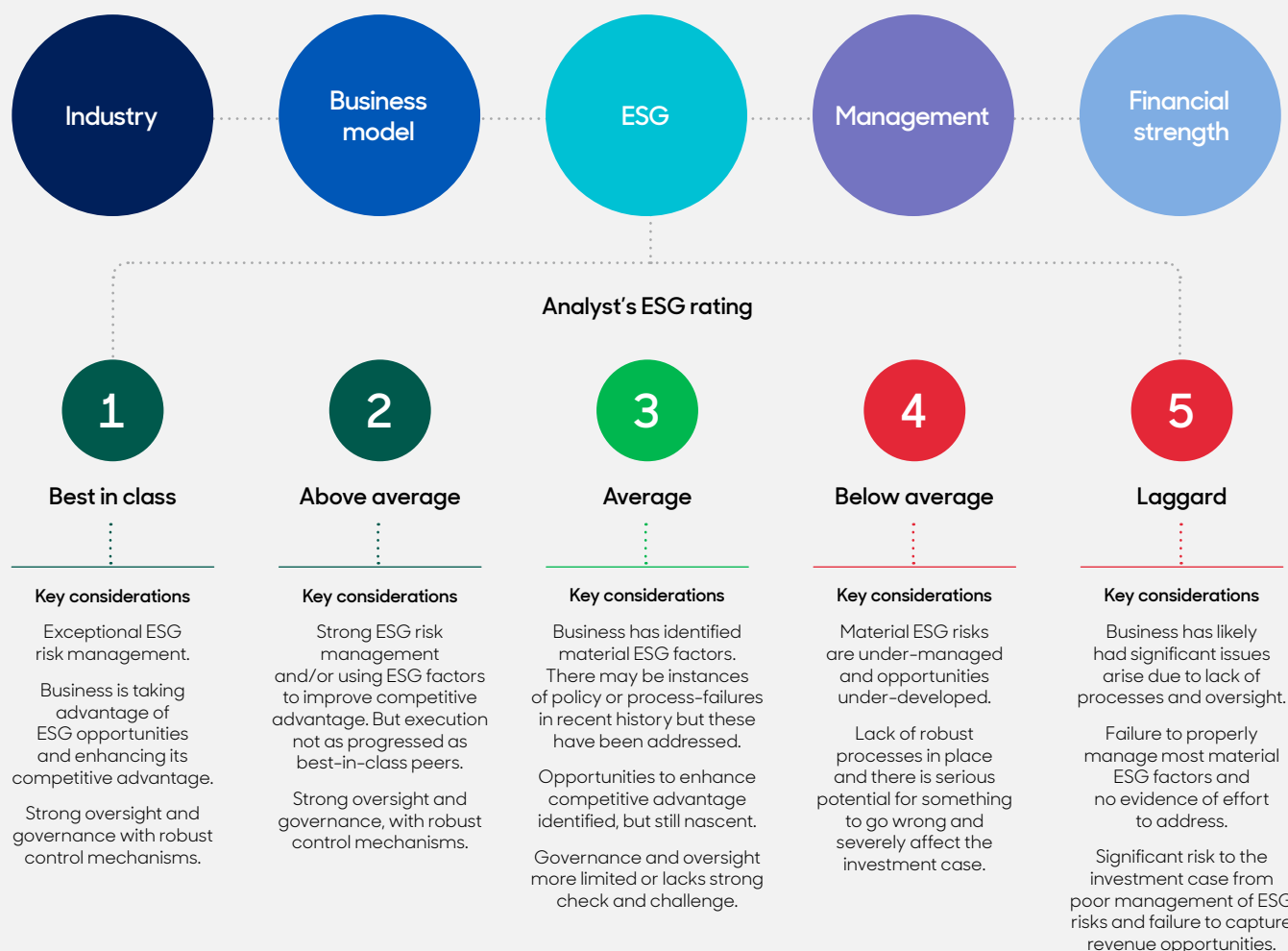
How will the most material ESG risks and opportunities affect the company's operational performance and valuation?

What is our ESG quality rating and how does it factor into the investment conclusion? Does our view differ from external sources?

Keeping score

As part of our research process, we rate a company's management of material ESG factors and the relevance to the investment case. This is a key part of our overall research process.

Five key components of quality are assessed by abrdn's analysts for all companies under coverage





“By taking account of ESG factors, we have a more complete view of a company, including its risks and opportunities”

Devan Kaloo
Global Head of Public Markets

Integrating ESG factors into our engagement process

ESG integration doesn't end with the investment research; engagement is a central part of our investment process. We actively engage with the companies in which we invest. We combine information and insights from these meetings with the insights of our investment managers, equity analysts and central ESG resources.

There are two core reasons for engagement:

- To **understand** more about a company's strategy and performance
- To **encourage** best practice and drive change.

As an active investor, we engage with companies directly in a number of ways:

- **Face-to-face meetings** with board members, senior executives and decision-makers;
- **On-site visits** to see progress in action;
- **Attend Annual General Meetings** to push for innovation and change;
- **Exercise rights as a shareholder**, by voting and providing transparency around the rationale and expectations behind our votes;
- **Meetings with ex-employees, customers, suppliers, stakeholders** or other experts to verify information provided by staff;
- **Divestment** when a company's actions, strategy or plans don't meet our expectations or benchmarks.

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

Our "Listed Company ESG Principles & Voting Policies" document is available [here](#).

Integrating ESG into investment decisions

Identify

ESG factors are a core component of how we view the quality of a business. They also influence our research discussions.

Discuss

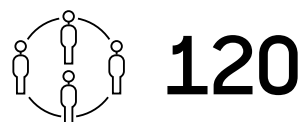
Peer review provides oversight for all our investment analysis and ESG factors are no different. We have robust debates and challenge each other on our ESG analysis and its relevance to investment cases and decisions.

Portfolio construction

Assessing quality is the starting point for our research process, peer reviews and portfolio construction. ESG factors inform our discussions with companies, where they are material and relevant.

ESG considerations influence our convictions about companies and our appetite for new positions. They can also influence the size of our holdings or our decision to sell.

About abrdn



Equity investment professionals



ESG specialists



Equity assets under management

Source: abrdn, 31 December 2022.

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