

abrDN Position Statement – Plastics

September 2021

Plastic pollution is everywhere. The significant environmental harm caused by single-use plastic waste remains firmly in the media and political spotlight. The public is increasingly aware of how harmful this pollution is to our oceans and to the wider environment. This has led to a rise in activism to tackle the problem, with demands being made for companies to take responsibility. This trend poses reputational and regulatory risks to companies that are exposed to manufacturing, and those that are using and disposing of plastics.

The issue

While plastic has value for long-term products, single-use or disposable plastic has become abundant, with severe environmental consequences. Scientists have suggested that the start of a new geological era is being defined by humanity's impact on the world, including the introduction of plastic and its contribution to pollution. The convenience of plastic has led to a global waste crisis.

- Half of all plastics ever manufactured have been made in the last 15 years.¹
- Most plastic found on beaches is single-use disposable plastic, like bottle tops and cigarette butts.²
- Plastics can take 400 years to break down.³
- Production has increased massively, from 2.3 million tons in 1950 to 448 million tons by 2015. It is expected to double by 2050.¹

Our approach to plastic-related risks and opportunities

With the stewardship tools at our disposal, we have a responsibility to ensure that our investments don't harm the environment. We look at the plastics issue across the entire value chain, from oil extraction for raw materials to synthetic microfibres in oceans. This includes everything from the pre-production nurdles (very small plastic pellets), right through to shipping plastic waste to landfill sites across the world. There are risks and opportunities for investors across the global value chain.

We incorporate plastic-related issues into our research and engagement. Our studies suggest that not all plastics are inherently bad. In the construction, food & beverage and auto industries, the use of plastics has some positive environmental impacts. For example, lightweight plastics increase fuel efficiency for cars, plastics are effective insulators for buildings, and plastic packaging extends the shelf life of fresh food items. However, single-use plastics threaten the global environment, which increases the risks for our investments.

"As investors, we are well-positioned to influence the plastics economy."

Regulation promoting a circular economy is evolving quickly. Countries, cities and companies are banning the most harmful single-use plastic products, including straws, plastic bags and cotton buds. This legislation is effective in reducing the most visible forms of plastic pollution, but does not yet provide a systematic solution. Nonetheless, governments are starting to think more holistically. The circular-economy model seeks to keep resources in use for as long as possible to extract maximum value, then to recover and regenerate materials at the end of a product's life. Companies may face pressure to increase their collection rates and improve the recyclability and recycled content of their products. The cost of inaction is rising as these regulatory pressures increase, and investors need to account for the cost of investing in alternative solutions. They also need to understand which companies will be well-placed to move quickly and effectively to remove single-use plastics from their business models.

Covid-19 has slowed this move in regulation. As countries have sought to stem the spread of the virus, demand for single-use personal protective equipment and other forms of single-use plastic has grown. Some regulation has been postponed or suspended. However, the challenge of pollution will continue to present risks for companies, and we expect this to remain a key issue for investors.

¹ <https://www.nationalgeographic.com/environment/habitats/plastic-pollution/>

² <https://www.unenvironment.org/interactive/beat-plastic-pollution/>

³ <https://www.wwf.org.au/news/blogs/the-lifecycle-of-plastics#gs.b9c1og>



Plastics – Cont.

How do we assist a circular plastics economy?

1. Investment analysis

Environmental, social and governance (ESG) considerations are at the heart of all our investment activities. As part of our investment-analysis process, we produce cross-sector thematic research, including into plastics and the circular economy. This gives our fund managers important insight, helping us to identify examples of best practice across sectors and to recognise potential implications for our clients' portfolios. Given the global scope of our holdings, we seek to understand regional trends and regulatory developments. We complement this macro research with bottom-up insights to understand specific companies' exposure to, and management of, plastic-related risks and opportunities.

2. Sector-by-sector approach to engagements

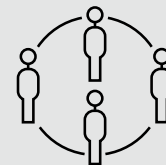
In our actively managed investments, corporate engagement is essential to enable and support a circular plastics economy. We believe that our relationships with companies give us insight into their direct or indirect exposure to plastics within supply chains, as well as how they manage risks and opportunities. As investors, we are well-positioned to influence the plastics economy. We take a sector-by-sector approach to engagement, focusing on identifying key risks and targeting questions within each sector to which we're exposed. These engagements let us evaluate companies' current practices and outline our expectations, such as time-bound targets. For example, we expect manufacturers to have ambitious targets to increase the percentage of recycled material in their products and to increase their product-recycling rates. We also encourage companies to consider product-design innovations to incorporate circular-economy principles. We champion the research and development of experimental plastics that could create disruptive opportunities. We expect companies to set targets, and we hold them to account in our discussions.

3. Voting and shareholder resolutions

As active asset managers, other important means of influencing are voting and supporting shareholder resolutions. This allows us to make our views clear on the phaseout of certain single-use plastics. We have a well-resourced stewardship team, with a dedicated proxy-voting capability that can provide escalation on plastics and circular-economy themes.

Sustainable investing at abrdn

As a leading global asset manager, we believe that investing sustainably can help generate long-term value for our clients. How and where the world chooses to invest has critical implications for the wellbeing of society and our planet. Equally, investments that could have negative social and environmental impacts can pose risks for the investment performance we can deliver for our clients.



Environmental, social and governance (ESG) considerations are an integral part of our decision-making when investing your capital. By understanding how ESG factors affect our investments, we believe that we can generate better outcomes for our clients, society and the wider world.

To help us achieve this

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Our dedicated, 20-strong ESG investment team works closely with colleagues across all asset classes.

ESG

Dedicated ESG asset-class analysts provide an additional layer of expertise.

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