abrdn Liquidity Fund (Lux)

Sterling Fund

February 2024

Summary

The abrdn Liquidity Fund (Lux) – Sterling Fund's ('The Fund') investment objective is to preserve capital and provide liquidity whilst aiming to deliver a return in line with prevailing short term money market rates, for which SONIA has been chosen as a benchmark.

The portfolio is underpinned by our well-established active management approach of security selection tailored to the overall environment, which combines fundamental and Environmental, Social and Governance (ESG) considerations into our individual name, sector and top-down portfolio construction decisions. An assessment of a company's sustainability is supported by proprietary company rating models and a deeply embedded ESG framework utilising on-desk Fixed Income and central ESG resources.

The Fund is classified under SFDR as Article 8 and therefore promotes Environmental & Social characteristics and investments follow good governance practices.

The Fund will:

- Exclude issuers identified as not having ESG business practices. This is achieved through a set of exclusions, which identify controversial business activities and ESG laggards i.e. issuers rated poorly based on their management of ESG risks within their business.
- Engage with companies to gather a forward-looking insight into management of ESG risks, opportunities and actively influence the management of these factors in line with best practice standards.
- Target an MSCI ESG Fund Rating of at least AA.

The Investment Framework

The Fund seeks to:

- Generate a consistent return in line with prevailing short term money market rates using our active management approach of stock selection tailored to the overall environment.
- Benefit from our active engagement with companies, where we encourage positive changes in corporate behaviour.
- Construct a portfolio that invests in companies with strong ESG practices.
- Leverage the support and insights of our large, dedicated Fixed Income team and embedded ESG specialist resources.

ESG Assessment Criteria

The Fund uses a number of ESG Assessment Criteria:

ESG Laggards

The Fund excludes companies rated poorly based on their management of ESG risks within their business. This is drawn from the insights of our credit analysts and central ESG investment function. In this regard we utilise two proprietary models to screen the investment universe:

ESG Risk Rating

Our credit analysts apply an ESG Risk Rating of Low, Medium, High (Low is better) to each issuer. This is credit profile-specific and represents how impactful we believe ESG risks are likely to be to the credit quality of the issuer now and in the future. The key area of focus is the materiality of the inherent Environmental and Social risks of the sector of operation (e.g. extraction. water usage, cyber security) and how specific companies manage these risks, combined with the quality and sustainability of its corporate governance. This materiality assessment is combined with a judgement on the timeframe over which these ESG risks may have an impact. Our analyst utilises an ESG Risk Rating Framework to support making these assessments. This is a proprietary tool designed to help focus the knowledge and expertise of credit analysts in a systematic way to substantiate the overall ESG Risk Rating (low/medium/high) assigned to debt issuers.

The Sterling Fund Investment Approach excludes companies with a High ESG Risk Rating.

MSCI ESG Scores

Developed and provided by MSCI, the scoring aims to measure a company's management of ESG risks within their business. ESG Scores are then grouped into bandings, which correspond to an MSCI ESG Ratings ranging from CCC to AAA (AAA being the best rating).

The MSCI ESG Score can be broken down into specific themes & categories and a rating is provided on an Environmental, Social and Governance level. This enables an assessment of a company's relative positioning on its management of ESG issues at a granular level.

- The Governance score assesses the corporate governance structure and the quality and behaviour of corporate leadership and executive management.
- The Environmental and Social scores assess the ability of the company's leadership team to implement effective risk reduction and mitigation strategies in its operations.

To complement this, we also utilise our active stewardship and engagement activities.

We will rely on MSCI ESG Ratings and, within ratings tiers, the MSCI Industry Adjusted Scores to rank companies and sovereigns in the Sterling money market context. The Sterling Fund will exclude the bottom 10% of issuers with an MSCI Score that are in the money market investable universe. The MSCI Score associated with the bottom 10% will be the hurdle rate portfolio holdings will have to be higher than, to be considered for investment.

Approach to companies without an MSCI ESG Score:

Where an entity does not have an MSCI ESG Score allocated, a manual score will be used instead. This manual score is used to identify companies with potentially high or poorly managed ESG risks. There will be a high degree of confidence that a company will be assigned a score above the bottom 10% cut off level. The score is calculated via on-desk ESG research, peer relative assessment to companies with MSCI ESG Scores, and/or engagement. This allows us to see how companies rank in a global context.

This process does not apply to derivative instruments, and may not apply to the following which may not have a reliable score due to data issues / limitations:

- Government debt, government guaranteed debt and supranational & agencies (SSAs) debt with implied government support (as determined by our credit analysts).

Portfolio Commitments

Portfolio ESG Rating[1]

As a feature of the portfolio construction decisions, portfolio managers will target a Weighted Average MSCI ESG Rating of AA. The average will be calculated over a calendar month.

Sustainable Investments

The SFDR provides a general definition of "Sustainable Investment". This definition applies to Funds which have a sustainable investment objective. In addition, Article 8 Funds may also set a minimum proportion of Sustainable Investments, but they do not have a specific sustainable objective. This Fund does not make a commitment to a minimum proportion in Sustainable Investments.

In line with the SFDR definition, abrdn has developed an approach on how to satisfy the three criteria for Sustainable Investments in the relevant Funds as set out below. The three criteria are:

1. **Economic Contribution** - The economic activity makes a positive contribution to an environmental or social objective.
2. **No Significant Harm** - The investment does not cause Significant Harm ("Do No Significant Harm"/ "DNSH") to any of the sustainable investment objectives.
3. **Good Governance** - The investee company follows good governance practices.

If the investment passes all of the above three tests, it can then be deemed as a Sustainable Investment. Additional information on the Article 8 approach to making Sustainable Investments is detailed in the SFDR Annex, appended to the Fund prospectus.

[1] The MSCI ESG Fund Rating calculation excludes instruments such as cash and derivative holdings for the portfolio.
Full methodology is available here:
https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Fund+Ratings+Methodology.pdf/f80c3897-85f4-0cc4-3c38-9537b7ea83a3?t=1672936698044

Exclusions and Restrictions Criteria

The investment universe is screened to exclude issuers with poor ESG business practices. This is achieved through a set of exclusions, which identify controversial business activities and ESG laggards (detailed above). We use negative criteria to avoid investing in certain industries and activities that our customers are concerned with. The Fund avoids investing in areas that are set out in the table below.

For more details, please visit our website at **www.abrdn.com** under "Sustainable Investing" where we have position statements on various ESG-related issues.

Screen	Criteria The Fund excludes investments that:	Data Source
UN Global Compact	Fail to uphold one or more principles[2].	We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.
Controversial Weapons	Have any tie to controversial weapons[3] covering; cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, white phosphorus, non-detectable fragments, incendiary devices, depleted uranium ammunition or blinding lasers.	MSCI
Tobacco	Have a revenue contribution of 5% or more from tobacco wholesale trading or are tobacco manufacturers[4].	MSCI
Thermal Coal	Have a revenue contribution of 5% or more from thermal coal extraction. and/or Have a revenue contribution of 5% or more from thermal coal power generation unless identified as a 'Transition Focused Company' (see below). and/or Are directly investing in new thermal coal capacity in their own operations.	MSCI, investment research

The above sets out the screens that are applied for this Fund. We cannot exhaustively list screens that are not applied and it is important for investors to be clear that the interpretation of ESG and sustainability criteria is subjective, meaning that the Fund may invest in companies which do not align with the personal views of individual investors.

[2] Ten Principles of the UN Global Compact **https://www.unglobalcompact.org/what-is-gc/mission/principles**
[3] **https://www.msci.com/eqb/methodology/meth_docs/MSCI_Global_ex_Controversial_Weapons_Indexes_Methodology_Nov2019.pdf**
[4] This is supported by the MPOWER strategy developed in 2007 by the WHO to cut tobacco use and raise taxes on tobacco products.

Environmental screens and Transition Focused Companies methodology details

Environmental screens:

For all the environmental screens an exemption will be made for Labelled bonds including Green, Social, and Sustainable. This does not extend to Sustainability-linked bonds. This approach will only apply to an individual bond and not the issuer in its entirety.

Each bond considered needs to clearly evidence that the proceeds of the financing are going towards improving environmental or social impacts and also pass our own internal labelled bond framework.

Transition Focused Companies:

To successfully support the energy transition, companies in higher emitting sectors including Oil & Gas and Utilities will require capital to invest and change their operations. The aim of the Transition Focused approach is to distinguish between companies with ambitious and credible targets to decarbonise their operations and those that don’t. Each entity considered would need to demonstrate that they were on track to be compliant with the relevant ESG criteria by 2030 for Developed markets and 2040 for Emerging markets. This is to be determined by a formalised review process with milestone tracking.

A maximum of 10% of the portfolio can be invested in a combination of labelled bonds generating exemptions from environmental screens and Transition Focused Companies. Of the 10%, no more than 5% can be exposure to Transition Focused Companies.

Active Stewardship

Active Ownership

In our view, good governance and stewardship are vital to safeguard the way in which a company is managed and to ensure that it operates responsibly in relation to its customer, employees, shareholders, and the wider community. We also believe that markets and companies which adopt best practices in corporate governance and risk management – including the management of environmental and social risks – are more likely to deliver sustainable, long-term investment performance.

As owners of companies, the process of stewardship is a natural part of our investment approach as we seek to benefit from their long-term success on our clients' behalf. Our fund managers and analysts regularly meet with the management and non-executive directors of companies in which we invest.

ESG Engagement

Engagement with company management teams is key and a standard part of our equity investment process and ongoing stewardship programme. It provides us with a more holistic view of a company, including current and future ESG risks that the firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss areas of concern, share best practice and drive positive change. Priorities for engagement are established by:

- The use of the MSCI Score, in combination with
- Bottom-up research insights from investment teams across asset classes, and
- Areas of thematic focus from our company level stewardship activities.

Divestment Approach

Disinvestment from an issuer is required:

- If they become in breach of any of the exclusions. OR
- If their ESG Risk Rating moves to "High". OR
- If they no longer meet the MSCI ESG Score hurdle.

Should the review of a security result in it being deemed non-compliant, the intention would be exit as soon as is practicably possible, but generally never longer than 3 months, allowing for market conditions.

Additional Disclosures

For further information about the Fund, including the prospectus, annual report and accounts, half-yearly reports, the latest share prices, or other practical information, please visit www.abrdn.com where documents may be obtained free of charge.

Further information can also be obtained from:
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The rights of investors in this Fund are limited to the assets of this Fund.

For further information about Paying agents, Depositories, Custodians and Administrators, please refer to the Prospectus.

abrdn Investments Luxembourg S.A. may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the Prospectus for the Fund.