



# abrdrn OEIC III

## abrdrn MyFolio Sustainable Index Fund range – Investment Approach

May 2024

### This approach applies to the following funds:

- abrdrn MyFolio Sustainable Index I
- abrdrn MyFolio Sustainable Index II
- abrdrn MyFolio Sustainable Index III
- abrdrn MyFolio Sustainable Index IV
- abrdrn MyFolio Sustainable Index V

The MyFolio Sustainable Index is a range of five risk targeted, multi-asset, fund of funds. The range is deliberately designed to be closely aligned with the MyFolio Index range with the addition of sustainability considerations. Each MyFolio Sustainable Index fund aims to generate growth over the long term (5 years or more) while being managed to a defined level of risk. In addition, the funds will invest in a manner that seeks to account for long-term environmental and social risks and opportunities and to promote good corporate governance, through investment in other funds, whilst retaining all the benefits of a multi-asset portfolio, at a level of risk defined for each fund.

### What type of investor is abrdrn MyFolio Sustainable Index range designed for?

abrdrn categorises its funds by looking at the types of needs which the fund has been designed to meet. MyFolio Sustainable Index is targeted at a mainstream customer audience and whilst it may appeal to a small number of ESG-integrated, Values, Thematic, or Impactful investors indirectly, it is most suitable for Sustainable Investors, as described below.



**ESG-integrated investors** want to know that their investments incorporate environment social and governance (ESG) risks and opportunities as standard.



**Values investors** want their portfolios to accurately reflect their personal ethics or sustainability values and are often keen to avoid and/or select certain industries or companies based on their beliefs .



**Sustainable investors** want their investments to consider and manage risks to people and planet more proactively than traditional investments, typically expecting links to certain industries and behaviours to be reduced or removed, and to support better business practices.



**Thematic investors** typically want to invest in companies that have a positive impact on a specific ESG theme alongside a strong financial return.



**Impact investors** want to invest in companies that intentionally deliver products or solutions that have a measurable beneficial social or environmental impact, as well as earning a return.

## What is MyFolio Sustainable Index trying to do?



### Avoid harm

Avoids funds which invest in companies involved in:

- Controversial weapons
- UN Global Compact violations
- Tobacco production
- Thermal coal production as detailed in the section below

### Exclusions



### Back better companies

Invests in funds with exposure to companies which are considering and embedding positive environmental, social, and governance factors in their business models

### Sustainable Funds



### Develop and improve

We regularly monitor and assess funds' active engagement policy and how they evidence adherence to the policy as part of our due diligence.

### Governance and engagement

## Applying Our Sustainable Investment Criteria

### 1. Avoiding harm: using exclusions

The MyFolio Sustainable Index funds seek to avoid investing in companies through funds which are involved in the following activities:

- **Controversial weapons**<sup>1</sup> - Have any tie to controversial weapons 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
- **Tobacco**<sup>1</sup> - Production of tobacco products (specifically deriving 5% or more of their revenue from the manufacture of tobacco products)
- **Thermal coal**<sup>2</sup> - Production of thermal coal (specifically deriving 5% or more of their revenues from mining thermal coal, or thermal coal-based power production)
- **UN Global Compact**<sup>3</sup> - In violation of the UN's Global Compact Principles regarding human rights, labour, the environment, or anticorruption (specifically as identified by MSCI ESG global norms screening).

For more details please visit our website at [www.abrdn.com](http://www.abrdn.com) under "Sustainable Investing" where we have position statements on various ESG-related issues.

The above sets out the screens that are applied for this fund range. 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.

As the exclusions utilised are specific to the MyFolio Sustainable Index range, not all underlying funds will have identical exclusionary policies. Where an underlying fund applies different exclusion criteria from our own (or applies none), MyFolio Sustainable Index will only invest where we judge that ownership of the fund in question would not be in contravention of the objectives, process, and philosophy of MyFolio Sustainable Index. To manage this effectively, we allow an overall 0.5% tolerance across our excluded activities to accommodate these small exposures. If aggregate portfolio exposure to the exclusions outlined above breaches 0.5% for a specific risk level, our managers have a process to address this. This will involve validating the nature of the breach, discussing the breach with its source (underlying fund/manager) and, if required, adjusting exposure to the underlying manager(s) for that specific risk level. We will resolve any issue as soon as is practicably possible following its identification; see divestment approach section below for details.

<sup>1</sup> Data Source: MSCI

<sup>2</sup> Data Source: MSCI and investment research

<sup>3</sup> We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.

## 2. Back better companies: using sustainable funds

The majority of the underlying funds that MyFolio Sustainable Index uses aim to provide wide-ranging, diversified market access whilst explicitly considering and embedding positive ESG factors. We use a combination of our own in-house funds from abrdn, and external managers, and use both active and enhanced passive funds.

**Enhanced Passive Sustainable Funds:** Given the cost constraints and desire to provide sufficient diversification, a cornerstone of MyFolio Sustainable Index will be the use of enhanced passive funds. These funds are designed to have a low tracking error versus a standard benchmark for the relevant asset class. We would expect such holdings to display positive ESG characteristics, relative to a market capitalisation benchmark in areas such as carbon intensity and overall provider ESG score / rating.

**Active Sustainable Funds:** We will look to utilise actively managed funds that have ESG and sustainability as a clear and embedded feature of their investment approach (although not exhaustive, strategies such as carbon reduction or improved MSCI ESG scores versus their parent index) where we believe that this can be combined with a reasonable expectation of index outperformance, and is preferred to passive alternatives.

These funds are selected to help to deliver the overall objective of the abrdn MyFolio Sustainable Index funds.

## 3. Neutral funds

MyFolio Sustainable Index will use vehicles classified as neutral funds; funds which have no specific ESG or sustainability criteria within their investment objective or process. These funds are utilised to ensure that each of the MyFolio Sustainable Index funds can be appropriately diversified and meet their long-term volatility objectives.

Neutral funds will be employed in asset classes where it is not possible or difficult to identify suitable funds with appropriate sustainable investment approaches, such as funds representing global government bonds (nominal and index linked), short dated sterling corporate bonds, global REITs, cash and money markets funds.

Investment in neutral funds and financial derivative instruments may not adhere to this sustainable investment approach outlined above.

## 4. Develop & Improve: checking governance and engagement

We believe that good governance and stewardship are vital to safeguard the way in which a company is managed and to ensure that it operates responsibly. 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 well-placed to deliver sustainable, long-term investment performance.

To make sure funds held within abrdn MyFolio Sustainable are using their voices to drive positive change, we require underlying fund managers to evidence that they have an active engagement policy in place.

Any abrdn-managed funds used within abrdn MyFolio Sustainable Index benefit from the abrdn's active stewardship policy covering both engagement and voting. abrdn's engagement with company management teams provides us with a more holistic view of a company including current and future ESG risks that a firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss any areas of concern, share best practice and drive positive change within the business.

## 5. Summary

For complete clarity, we have provided a table showing the proportions of different sorts of funds we use to make up MyFolio Sustainable Index, for different risk levels.

	Risk Level				
	I	II	III	IV	V
Neutral Funds	Up to 45%	Up to 35%	Up to 30%	Up to 25%	Up to 20%
Sustainable	At least 55%	At least 65%	At Least 70%	At Least 75%	At Least 80%

## 6. Disinvestment Approach

Disinvestment from any underlying funds is required:

- If they become in breach of any of our excluded activities, where
- Aggregate exposure is more than 0.5% tolerance across our excluded activities

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.

## Important Information

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested.

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