

abrdn SICAV II

Global Real Estate Securities Sustainable Fund

June 2023

Summary

Our Global Real Estate Securities Sustainable Fund invests in high-quality companies that have been identified through our rigorous listed real estate research process which takes into consideration the sustainability of the business in its broadest sense and the company's environmental, social and governance (ESG) performance.

This process powers both our investment insights and also our assessment of a company's ESG risks and opportunities to better understand risk and return potential resulting in positively tilted portfolio from sustainability and ESG perspective.

The Fund uses our proprietary ESG House Score, which is primarily a quantitative assessment, and on-desk ESG Quality Score assessment conducted by Fund Managers/Analysts, to identify and exclude those companies exposed to the highest ESG risks.

Finally, binary exclusions are applied to exclude the particular areas of investment detailed below. The Fund is classified under SFDR as Article 8 and therefore promotes Environmental & Social characteristics and investments follow good governance practices.

The Investment Framework

There are three core principles which underpin our Sustainable investment approach and the time we dedicate to ESG analysis as part of our overall equity research process:



ESG factors are financially material, and impact corporate performance.



Understanding ESG risks and opportunities alongside other financial metrics allows us to make better investment decisions.



Informed and constructive engagement helps foster better companies, enhancing the value of our clients' investments.



As part of their company research, our stock analysts evaluate the ownership structures, governance and management quality of the companies they cover. They also assess potential environmental and social risks that the companies may face. These insights are captured in our company research notes.



Our stock analysts work closely with dedicated ESG specialists who sit within each regional investment team and provide industry-leading expertise and insight at the company level. These specialists also mediate the insights developed by our central ESG Investment team to the stock analysts, as well as interpret and contextualise sector and company insights.



Our central ESG investment team provides thought leadership, thematic and global sector insights, as well as event-driven research. The team is also heavily involved in the stewardship of our investments and supports company engagement meetings where appropriate.



ESG Assessment Criteria

The Fund uses a number of ESG Assessment Criteria:

ESG Quality Rating (Qualitative)


We use our proprietary research framework to identify companies which we believe to be sustainable leaders.

Sustainable leaders are viewed as companies with the best in class ESG credentials or products and services which address global environmental and societal challenges. At a minimum, Real Estate Companies will be expected to have ESG credentials that are considered average within the region they operate to be considered for investment.

Within our listed real estate investment process, for all companies under coverage we analyse the foundations of each business to ensure

proper context for our investments. This includes the durability of its business model, the attractiveness of its industry, the strength of its financials and the sustainability of its economic moat. We also consider the quality of its management team and analyse the ESG opportunities and risks impacting the business and appraise how well these are managed. We assign a proprietary score (1 indicates best in class and 5 indicates laggard) to articulate the quality attributes of each company. The ESG Quality rating is an important consideration in assessing whether a stock is a sustainable leader or improver.

Companies eligible for inclusion in the Fund must be rated 3 or better on ESG Quality.

5 key components of Quality assessed by abrdn's analysts for all companies under coverage					
Industry	Business Model	ESG	Management	Financial Strength	
Analyst ESG Rating	1	2	3	4	5
	Best in Class 				Laggard
Examples of Inputs	Strong Corporate Governance	Good Corporate Governance	Governance is generally good but some minor concerns	Known governance issues/poor treatment of minority shareholders	Severe governance concerns
	Strong management of the most material E&S risks, and revenue growth from E&S opportunities	Strong management of the most material E&S risks, and revenues from E&S opportunities	Mixed management of E&S risks	Limited oversight of key ESG Issues	Poor treatment of minority shareholders
	Excellent disclosure	Good disclosure	Disclosure in line with regulatory requirements	Evidence of some financial material controversies	Many financially material controversies

ESG House Score (Quantitative)

Our proprietary ESG House Score, developed by our central ESG investment team in collaboration with the Quantitative investment team, is used to identify companies with potentially high or poorly managed ESG risks. The score is calculated by combining a variety of data inputs within a proprietary framework in which different ESG factors are weighted of data inputs within a proprietary framework in which different ESG factors are weighted according to how material they are for each sector. This allows us to see how companies rank in a global context. The abrdn ESG House Score was designed so that it can be broken down into specific themes and categories. The ESG House score comprises of two scores; the Operational score and Governance score. This allows a quick view 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 Operational score assesses the ability of the company's leadership team to implement effective environmental and social risk reduction and mitigation strategies in its operations. To complement this we also utilise our active stewardship and engagement activities.



ESG Commitments

The Fund has three ESG Commitments:

1. **ESG Rating** – The Fund will target an ESG rating that is better than or equal to the benchmark measured by the MSCI ESG rating (CCC–AAA) based on the weighted average of each companies MSCI ESG rating.
2. **Benchmark exclusion** – the Fund will exclude the bottom 20% (minimum) of companies from the index based on ESG House Score as well as companies rated 4 and 5 by the ESG Quality rating.
3. **Positive tilt to sustainable leaders** – the Fund will have a minimum 50% weight in companies with an ESG Quality rating of 1 and 2.

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.

ESG Rating

The Fund will target an ESG rating that is better than or equal to the benchmark measured by the MSCI ESG rating (CCC–AAA) based on the weighted average of each companies MSCI ESG rating.

1. Benchmark exclusion

The Global Real Estate Securities Sustainable Fund will exclude the bottom 20% (minimum) of companies within the FTSE EPRA Nareit Developed Index from the investable universe.

To achieve this, each constituent of the benchmark is scored using the ESG House Score, and the bottom 20% of companies will be removed across each of the three regions: (1) UK & Europe, (2) APAC Including Japan, (3) US & Canada. This approach accounts for regional differences in scores to enable a fairer, relative assessment of companies against their peers, with the aim of minimising an exclusion bias against countries less developed in managing ESG factors. Where there are multiple companies with the same ESG House Score at the exclusion threshold, the Fund can invest in companies with the highest Governance Scores – this aligns with the views of the team, where effective governance is a critical input within the investment process. Notwithstanding, the net effect will always ensure a removal of at least 20% of the Index.

The Fund will also exclude companies with an ESG Quality rating of 4 or 5. These are companies are laggards, as aforementioned, with known governance issues, have had financial controversies and where the Fund Managers/Analysts have low conviction in

management addressing ESG issues.

2. Positive tilt to sustainable leaders

The Fund aims to have a minimum 50% weight in companies with an ESG Quality rating of 1 or 2. This tilt ensures that the Fund has a strong tilt towards companies appropriately managing ESG risks across a broad spectrum of criteria.

As a part of our listed real estate investment process, all companies in the Fund must be assigned an ESG Quality rating which will be reviewed annually. In the case of any material breach in practice pertaining to any criteria within the ESG Quality rating, the rating will be subject to review within 1 calendar month.

abrdn ESG House Score screening criteria

The Global Real Estate Securities Sustainable Fund utilises the abrdn ESG House Score and MSCI Score. Only companies scored by the ESG House Score can be held by the Fund.

Off-benchmark positions scored by the ESG House Score are permissible and will be subject to the same screening criteria as benchmark securities outlined in the previous section. Where a company is not scored, the Fund will have up to 3 months to manually assign a score in liaison with the central ESG team.

Performance Targets

To measure financial performance, the fund's reference index is the FTSE EPRA Nareit Developed Net Index. We aim to outperform the index before charges. While the index is representative of the investment opportunities we explore for the fund, the index is not constructed using any environmental or social criteria.



Exclusions and Restrictions Criteria

The exclusions and restriction criteria have binding ESG targets and a positively tilted ESG portfolio. The approach also applies regional ESG laggard screens and binary exclusions to rule out a defined list of unacceptable, controversial activities and behaviours.

Our Global Real Estate Securities Sustainable Fund specifically focuses on identifying Sustainable Leaders and Improvers within the global listed real estate universe based on the quantitative and qualitative assessment made as part of our screening and research. Global Real Estate Securities Sustainable Fund excludes the worst ESG performing companies within the FTSE EPRA Nareit Developed index using our proprietary ESG House Score. The threshold level is set on the regional level (APAC including Japan, UK/ Europe and Americas) and will exclude the bottom 20% of companies by ESG House Score (as described above).

The funds do not invest in controversial areas as described below due to the nature of the funds' investment universe. Nevertheless, as a part of the fund governance oversight and monitoring, the ESG Investment team will carry out a negative screen detailed 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.	We utilise a combination of external data sources, including MSCI and our own internal research and insights, as well as sustained engagement.
State-owned enterprises ¹	Are state-owned enterprises in countries subject to international sanctions or that materially violate universal basic principles.	We utilise a combination of external data sources, including MSCI and our own internal research and insights
Weapons	Have any involvement in 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.	MSCI
	Have any involvement conventional weapons.	MSCI
Tobacc	Have a revenue contribution of 5% or more from tobacco wholesale trading or are tobacco manufacturers.	MSCI
Thermal Coal	Have a revenue contribution of 5% from thermal coal extraction and power generation and are directly investing in new thermal coal capacity.	MSCI, investment research
Unconventional Oil and Gas Extraction	Have a revenue contribution of 5% or more from unconventional oil and gas extraction.	MSCI
Conventional Oil and Gas	Are primarily involved in conventional oil and gas extraction and do not have a significant revenue (at least 40%) contribution from natural gas or renewable alternatives.	MSCI, investment research
Electricity Generation and alignment with Transition Pathway	Are directly involved in electricity generation which has a carbon emission intensity inconsistent with the Paris Agreement 2 degrees scenario.	Trucost, MSCI

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.

Investment in financial derivative instruments, money market instruments and cash may not adhere to this approach.

The Fund does not expect to hold equity collective investment schemes, but is permitted to invest in them. If investment was made in equity collective investment schemes, the underlying investments would be required to meet the same criteria as direct equity investments.

¹ As part of the research, we examine a number of environmental, social, governance and political (ESGP) factors within our research. Our ESGP framework rates countries on 18 indicators across the four pillars – environmental, social, governance and political. The ESGP scores provide useful information for identifying long-term factors and tendencies that might not be fully factored into sovereign bond spreads.



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 of our clients' behalf. Our fund managers and analysts regularly meet with the management and non-executive directors of companies in which we invest.

Voting

Voting analysis is carried out for all general meetings in actively-held companies. Vote instructions on our holdings are decided by analysts in our regional and ESG investment teams. We subscribe to proxy research providers IVIS and ISS and use their research to support our own analysis rather than automatically following recommendations of any third party. Our decisions will reflect our knowledge of companies, and insights gained through engagement. The involvement of our investment managers in voting decisions allows us to ensure proxy voting remains an integral part of the investment process.

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 and areas of concern, share best practice and drive positive change. Priorities for engagement are established by:

- The use of the ESG House 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 companies/stock is required:

- If the ESG House Score falls below the cut-off level for the relevant region
- If the ESG quality rating falls below 3
- If it becomes in breach of any of the negative or norms based screens.

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.

For more information visit abrdn.com

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