



Sustainable investing

Beyond the financial return

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Every day, we face headlines highlighting the consequences of pollution, climate change, poor labour practices, corporate failures and more.

Many of us act on addressing these by donating to charities, volunteering, being energy efficient and recycling. But have you ever considered how your investments could help promote positive change in society?

Today, it is easier than ever to choose investments that can make a difference. This includes those with the potential to provide a financial return, while also offering a wider environmental or social benefit.

Here we clarify what this type of investing involves and highlight ways to access the benefits.

Julie-Ann Ashcroft
Head of Investments,
Aberdeen Standard Capital



'As investment managers, we are in a prime position to exert our influence to effect real positive change and help to create a more sustainable world.'

'We expect the companies in which we invest to be good corporate citizens and aim to positively influence their behaviour.'

Amanda Young
Head of Global ESG Investment Research,
Aberdeen Standard Investments



Do you know your ESG from your SRI?

It is easy to get confused by the terms used to discuss this type of investing – ESG, SRI, stewardship, ethical. Here we define some of the most common terminology.

ESG

ESG stands for environmental, social and governance (ESG). How a company manages these aspects of its business can be a really useful indication of its overall quality. Investment managers can use ESG criteria to identify potential risks and opportunities that could affect the performance of a company.

ESG factors can include how a company manages many aspects of its operations and culture. For example, we look at how a company:

Environmental (E)

- manages waste and pollution, including greenhouse gases
- contributes to or controls its impact on climate change
- manages natural resources including water.

Social (S)

- treats its employees and their working conditions
- values human rights and its stance on child labour and slavery
- considers impact on wider stakeholders and society, including local communities and animal welfare.

Governance (G)

- approaches diversity and how it structures its board and management
- rewards and pays executives, gender pay gap
- limits its exposure to corrupt practices and deals with bribery
- makes, declares or avoids political donations.

Stewardship

Investment managers can try to influence change by meeting the companies in which it invests – this is active stewardship. At these meetings, they can help encourage company management towards better policies or conduct on ESG issues. They can also directly question firms on any less-than-exemplary practices. This activity is called 'engagement'.

A second element of active stewardship involves voting. An investment manager can cast votes on behalf of investors on various matters relating to the companies in which they are invested. This might include good governance, tax practices, diversity, labour standards, climate change, bribery and corruption.

Ethical investing

To avoid investing in certain controversial companies or industries, some investors request negative screening in their portfolios. For example, they might wish to exclude tobacco, alcohol, pornography or weapons manufacturers. Or they may wish to focus on broad investment themes, such as cleaner energy or sustainable transport.

Impact investing

With impact investing, holdings are selected for their potential to provide both a positive investment return and a measurable environmental or social impact. Investing this way can direct money and resources towards companies actively seeking solutions to the world's environmental and social issues. Renewable energy and social housing would be included in this type of investing. Impact investing should not be confused with philanthropy – it must earn a good return as well.

SRI

Investors should not confuse the assessment of ESG-related risk with sustainable and responsible investing, or SRI.

SRI and ESG integration seek to address a variety of concerns, such as human rights, climate change and business ethics. However, they differ in the way asset managers apply them to investment portfolios.

With SRI, managers aim to avoid 'bad' companies to create morally 'good' portfolios. By comparison, an integrated ESG approach involves an in-depth look into the inherent environmental, social and governance risks and opportunities that may impact a company.

Our approach in action

At Aberdeen Standard Capital, everything we do is focused on generating the best long-term investment outcomes for clients.

That includes offering access to the potential rewards generated by those investments helping to create a better, more sustainable world.

To do this, we seek to understand the 'big picture' of all our investments – before, during and after we invest. There are a number of ways in which we reflect our commitment to sustainable and responsible investing.



ESG integration

Consideration of ESG factors is embedded into our decision-making process for all portfolios. This helps us assess the risks and the quality of holdings more effectively. Every one of our clients benefits from this approach.

ESG analysis is integral to our investment process. We corroborate information on an investment by engaging with its competitors, supply-chain firms and customers. We then combine this data with market-leading independent analysis to form a complete picture.

If we understand how a company manages ESG factors, we can better value what we are investing in. In turn, this can help us achieve better risk-adjusted returns for investors.



Company engagement and active stewardship

We take stewardship seriously. We are active on a global basis in both engaging with companies to advocate for positive change and voting on behalf of our clients. As such, our clients are active champions of change too.



Bespoke ethical policies

Some clients want to reflect specific ethical, socially responsible, impact or thematic (e.g. climate based) considerations in their portfolios.

We can offer them a fully bespoke service, using an independent ethical screening provider.



Global Impact Strategy

For clients wishing to invest for positive impact, we offer a Global Impact Strategy. This supports the aims of the United Nations' 17 Sustainable Development Goals (SDGs) that form the UN's 2030 agenda.

We can offer this through either a pooled fund or a segregated approach. We believe that positive investment outcomes are consistent with positive outcomes for society and the environment.

Supported by a global leader

We are the discretionary investment arm of Aberdeen Standard Investments* (ASI).

We benefit from the significant insight generated by its central ESG Investment and Governance teams. ASI has been embedding ESG for over 25 years and is considered a leader in this field. Through ASI, we have access to company management on a global basis, providing us with unrivalled insight. Not all discretionary investment managers can offer private and charity clients this institutional-level of ESG expertise.

* Aberdeen Standard Investments is a brand of the investment business of Aberdeen Asset Management and Standard Life Investments. Aberdeen Standard Capital is the discretionary management arm of Aberdeen Standard Investments.

ESG at the heart of our process

By considering ESG factors for all our investments and engaging with the companies in which we invest, we believe we can improve our clients' long-term investment returns. ESG scoring is one of several financial metrics we look at for every investment. A low or high ESG score does not necessarily dictate whether to buy or sell a holding. However, experience has taught us that responsible companies make better long-term investments.



Clear ESG strategy

- Aiming to be an industry leader in ESG.
- Stewardship and ESG are fundamental to our investment process.
- Protecting and enhancing the value of the portfolios we manage.



ESG investment resource

- Large team of 30+ ESG professionals.
- Centralised team and on-desk analysts across asset classes.
- Expertise in each of the functions of environmental, social, governance.



Integrated, in-depth research

- Thought leadership in major ESG issues.
- Company-specific assessment of the management of ESG issues and risks.
- Insight informs our decisions.

'We aim to be the industry leader in ESG investment, helping to protect and enhance the value of our clients' investments, while contributing to a sustainable world.'

Euan Stirling
Global Head ESG Investment,
Aberdeen Standard Investments



How to access these opportunities

Our clients have a number of options to tailor their investments to their own requirements and reflect their values.

Access points

<p>ESG as standard</p> <p>We consider ESG factors as part of our investment process, for all clients and all portfolios. For full discretionary service clients invested in our Conventional and Enhanced Diversification Range portfolios, we can provide further bespoke enhancements.</p>	<p>Exclusion – negative screening</p> <p>We can tailor strategies to clients’ needs according to their values or beliefs. We can take a traditional ‘sin bin’ approach by excluding investments in industries deemed unethical. This might include those involved in tobacco, gambling or animal testing.</p> <p>Sustainable & responsible investing (SRI)</p> <p>Companies are screened for their management of sustainability matters and we can exclude the worst performing companies. This approach requires strong active stewardship and engagement.</p>	<p>Climate change strategies</p> <p>This approach captures climate concerns through a range of activities including engagement, exclusions, carbon-tilted portfolios and carbon foot printing.</p> <p>Fossil Fuel Free Strategy</p> <p>This strategy will appeal to clients concerned with climate change. It screens out investments in companies linked to the ownership, extraction and production of fossil fuels. To complement this screening, we use carbon footprint data as part of the investment process.</p>	<p>Impact investing</p> <p>This type of strategy favours investments in companies that are delivering products and solutions that address social and environmental challenges. This might include social housing or cleaner energy. As well as providing a financial return, an investment must make a meaningful and measurable impact on society and/or the environment too.</p> <p>Global Impact Strategy</p> <p>We offer a global impact strategy that supports the aims of the United Nations’ 17 Sustainable Development Goals (SDGs) that forms its 2030 agenda. Clients can access this opportunity through either a pooled or segregated approach.</p>
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Increasing impact 

Award-winning credentials

To win the PAM Sustainable Investment Solution award is an acknowledgement of the depth of our capabilities in this area. All our clients benefit from the insights provided by our ethical and SRI research, not just those who require a specific ethical or impact focus. This award endorses our rigorous approach to investing sustainably and responsibly, and recognises that clients are increasingly looking for investment solutions that can make both a positive impact and a financial return.



PAM Awards 2019 Winner
Sustainable Investment Solution

The PAM Awards are the most sought after awards in the UK wealth management sector, covering the consistency of both investment performance and client service levels.

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Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

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