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The environment – our approach for investments

Our environment and its natural capital play a key role in the economy. Across many areas of the world, environmental issues affect how natural resources can be assessed and valued. These issues include increasing scarcity of natural resources (e.g. water and arable land), the need to feed a growing population, the challenges of energy-sector transformation and the response to climate change.

We strive to make investments where there is scope to innovate to manage finite resources sustainably while meeting the complex needs of the world's growing and increasingly urban population. Given our long-term focus, we place high importance on understanding the environmental risks of our investments, as well as pursuing opportunities that benefit the environment while providing superior returns.

As investors, we can influence and promote strong environmental practices through our engagement activities. Regular dialogue with companies to address environmental issues is key to understanding the material environmental risks. It also allows us to use our voice to promote best practice in environmental management. We have a responsibility to our clients to consider how environmental issues impact the value of our investments. How we invest today will determine the world we live in tomorrow.

Managing environmental impacts

Environmental considerations form an important part of our investment decision-making process. We strive to manage our indirect impact on the environment through considering how environmental matters affect our investments. In addition, we offer dedicated investment solutions that promote sustainable behaviour. Some examples of the actions we take are outlined below.

Investing in a changing climate

We consider climate change to be one of the greatest challenges facing the world today, given its widespread and proven impacts on the physical environment and society. It is a complex phenomenon that presents a mix of physical and transition risks and opportunities for our investments. Given the importance of climate change, we outline our approach in more detail in a separate document: <https://www.aberdeenstandard.com/docs?editionId=58173dc7-39ba-41dc-aa19-3350d15cf6e5>

Tackling resource scarcity while driving economic growth

As investors, we have the opportunity to help companies avert the financial costs of resource depletion and protect the environment. Increasing scarcity of natural resources such as water and arable land, feeding a growing population, issues of energy sector transformation and the response to climate change: these are all issues that affect how natural resources can be assessed and valued.

In many regions, companies can no longer rely on a stable supply of good-quality water to grow their business. The water-supply crisis has been identified as the fourth-greatest risk to society over the next decade.¹ We look for companies to be transparent about their commitment to adapt and improve water security.

At Aberdeen Standard Investments, we recognise the intrinsic value of forests. Deforestation linked to growing demand for commodities presents a significant risk for investors. Through our engagement with companies, we hope to drive change and add pressure for stricter policy action. The majority of deforestation is driven by demand for palm oil, cattle, soy and paper/wood products: so-called forest commodities. As a result, large-scale conversion of forests destroys critical habitats for many endangered species.

To see more about how we are upholding our commitments on these issues, please refer to our other position statements on our Responsible Investing webpage.

Resource efficiency creates value

We believe that protecting natural capital through greater resource efficiency will be vital in reducing waste, delivering clean air and creating economic wealth. A circular economy is based on the principles of designing out waste and pollution, keeping products and materials in use, and regenerating natural systems.

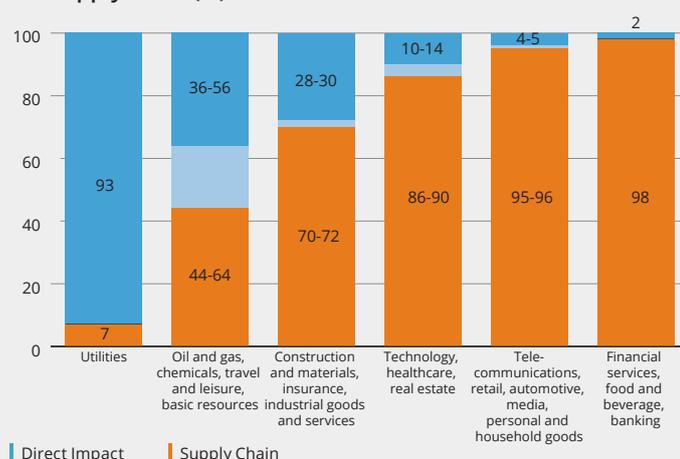
At Aberdeen Standard Investments, we examine the effects of moving towards a circular-economy model in terms of reducing costs, creating competitive advantage, transforming the exploitation of natural resources and reducing greenhouse-gas emissions. We seek to invest in companies that are rising to meet the transition from a linear economy to a circular one through new technologies, products and business models. Extending the useful life of products has the potential to offset many environmental challenges. We believe that companies that recognise the benefits and risks of supporting a circular economy are likely to perform better in the long term than those that do not. We have outlined our approach to plastic pollution and related issues in a separate statement on our Responsible Investing webpage.

Transparency counts in supply chains

Corporate supply chains are bigger and more complex than ever before. Effective supply chains are vital to the success of almost all businesses and can be a significant source of value creation and innovation.²

Supply chains often span multiple countries and include numerous suppliers, which can make them opaque through outsourcing and offshoring. Given the complexity of many supply chains, businesses can be exposed to risks such as resource depletion. However, there are many environmental benefits to companies managing supply-chain risks appropriately. These include fewer pollution incidents, reduced environmental footprint (e.g. carbon, water, ecological) and increased efficiencies resulting in financial value and creation of opportunities.³

Chart 1 - Share of a sector's environmental impact located in the supply chain (%)



Source: Trucost.

How to ensure we protect the environment?

1. Investment approach

The consideration of environmental risks and opportunities is an integral part of our investment process across all asset classes and sectors. A good understanding of environmental issues allows us to make better investment decisions for our clients. We work hard to encourage companies to tackle environmental issues, and we expect them to demonstrate their commitment to improve their environmental performance. We strive to understand how well our investments manage the environmental issues to which they are exposed. These could include, but are not limited to, carbon intensity reductions, energy-efficiency measures, water use, supply-chain management and innovation to protect natural capital. We embed expertise within investment teams and complement this through collaboration across asset classes and our ESG Investment team.

We seek to align long-term capital allocation to benefit society as a whole and be a force for positive change. In the absence of an adequate policy framework, we can harness private-sector capital allocation to help address some of the biggest environmental risks and opportunities faced by society globally. We draw upon a number of international frameworks for guidance on corporate environmental business practices.

2. The demand for disclosure

We encourage greater transparency of the companies in which we invest. While data availability has improved in recent years, investors still lack comparable and reliable data in many environmental areas to provide consistent analysis of these issues. This includes understanding which investments are best placed to capture the opportunities stemming from the shift to a low-carbon economy. We welcome the growing shareholder interest in improved environmental disclosures from companies, in line with the recommendations from bodies advocating best practice such as the Task Force on Climate-related Financial Disclosures (TCFD).⁴

Environmental destruction poses significant risks for long-term investors. These risks are financially material and have the potential to impact the corporate performance of investee companies. As investors, we play a critical role in financing sustainable business opportunities and encouraging companies to make significant environmental progress.

3. Approach to engagement

At Aberdeen Standard Investments, we engage actively and regularly with companies. Our level of engagement varies depending on the materiality of the issues identified. It allows us to monitor performance, challenge on key issues and promote a forward-looking approach. When appropriate, we escalate our engagement to achieve improvement in an investee's environmental practices. Examples of where we have engaged on environmental issues are available in our Quarterly ESG Report on the Responsible Investing page of our website.

4. Voting and shareholder resolutions

We believe it is our duty to be active and engaged owners of companies, seek to improve financial resilience and drive change across geographies and asset classes. Where we believe we need to improve environmental standards, we will use our ability to vote to influence corporate behaviour and incentivise action across a portfolio. Aberdeen Standard Investments' ESG Investment team is well resourced with stewardship expertise and a dedicated proxy-voting capability that can provide escalation on environmental matters. Our voting record on environmental issues, as well as other ESG-related matters, is available on our website.

Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

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

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

² UN Global Compact: <https://www.unglobalcompact.org/what-is-gc/our-work/supply-chain/business-case>

³ UN PRI: <https://www.unpri.org/infrastructure/managing-esg-risk-in-the-supply-chains-of-private-companies-and-assets/615.article>

⁴ TCFD: <https://www.fsb-tcfid.org/supportive-quotes/>

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*(entities as at 25 May 2020)

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