

abrdn Sustainable Leaders Equity Strategy

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The goal of the abrdn Sustainable Leaders Equity Strategy is to generate strong long-term performance by investing in financially attractive current or emerging sustainable leaders. We assess these companies' sustainability through their management of environmental, social and governance (ESG) risks and opportunities.

Summary

The strategy aims to make a difference for our clients, society and the wider world. It's about investing in companies doing the right thing to create portfolios that will help our clients achieve their long-term financial goals.

Our Sustainable Leaders equity portfolios contain high-quality companies that we've identified through our bottom-up equity process. This involves identifying a company's overall sustainability as well as its ESG performance. Once we do this, we assign each company a proprietary overall quality rating and an ESG-quality rating. The team also applies binary exclusions during this process to exclude a narrow, defined list of unacceptable activities.

This process enables the portfolio managers to choose current and emerging sustainable leaders in order to build well-diversified, risk-adjusted portfolios.

Integrated ESG analysis

Three core principles underpin our integrated ESG approach as part of our overall equity research process:



ESG factors are financially material and impact corporate performance



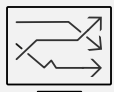
Understanding ESG risks and opportunities alongside allows us to make better investment decisions



Informed, constructive engagement helps to hold companies accountable, enhancing the value of our clients' investments

We believe that it's our obligation to be engaged, active shareholders. We hope to influence companies so that long-term returns benefit our clients. Beyond this, we believe that this is the right thing to do.

Fully embedding ESG into stock analysis and bringing together three different "levels" of ESG input (our stock analysts, regionally based ESG specialists and our central ESG team) enables us to deliver differentiated, industry-leading ESG analysis and engagement.



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 these 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. These specialists provide industry-leading expertise and insight at the company level. They also mediate the insights that our central ESG team develops with the stock analysts. Additionally, they interpret and contextualize sector and company insights.



Our central ESG investment team provides thought leadership and event-drive research as well as thematic and global sector insights. The team is also heavily involved in governance and supports company engagement meetings when appropriate. This helps guide and shape our overall approach to ESG.

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Assessment criteria

Identifying current and emerging sustainable leaders

We use our proprietary research framework to identify financially attractive companies that see as current or emerging sustainable leaders. To do this, we employ ESG analysis, which is integrated into the research for all of our equity holdings.

We analyze the foundations of each business to ensure proper context for our investments. This includes the durability of a company's business model, the attractiveness of its industry, the strength of its financials and the sustainability of its economic moat.

We also evaluate a company's management team and analyze the ESG opportunities and risks that affect them. We assign a proprietary score (one indicates leaders and five indicates laggards) to articulate the quality attributes of each company. Companies eligible for inclusion in our Sustainable Leaders equity portfolios must be rated three or better in both our assessment of the quality of their ESG risks/opportunities and of their overall quality.

5 key components of quality that our analysts assess for all companies under coverage

Industry	Business Model	ESG	Management	Financial Strength
1. Best in class	2. Leader	3. Average	4. Below Average	5. Laggard
Example of inputs <ul style="list-style-type: none"> Strong corporate Governance Strong management of the most material E&S risks, and revenue growth from E&S opportunities Excellent disclosure 	<ul style="list-style-type: none"> Good corporate Governance Strong management of the most material E&S risks, potential revenues from E&S opportunities Good disclosure 	<ul style="list-style-type: none"> Governance is generally good, but some minor concerns Mixed management of E&S risks Disclosure in line with regulatory requirements 	<ul style="list-style-type: none"> Known governance issues/poor treatment of minority shareholders Limited oversight of key ESG issues Evidence of some financially material controversies 	<ul style="list-style-type: none"> Severe governance concerns Poor treatment of minority shareholders Many financially material controversies

For illustrative purposes only.

Limited Negative screening

We also apply binary and norms-based exclusions to the companies we evaluate in order to rule out a narrow, defined list of unacceptable activities.

The Sustainable Leaders equity portfolios won't invest in companies which:

- Have failed to uphold one or more principles of the UN Global Compact
- Are involved in controversial weapons
- Have a revenue contribution of 10% or more from the manufacture or sale of conventional weapons or weapons systems
- Have a revenue contribution of 10% or more from tobacco
- Are tobacco manufacturers
- Have a revenue contribution of 10% or more from the extraction of unconventional oil and gas
- Have a revenue contribution from thermal coal extraction

ESG House Score

Our Sustainable Leaders equity portfolios use our proprietary ESG House Score, developed by our central ESG investment team. The score is calculated by combining several data inputs within a proprietary framework in which different ESG factors are weighted according to how material they are for each sector. These scores help our portfolio managers to see how companies rank in a global context, which helps them to flag companies with unsatisfactory ESG management and exclude them from the portfolio. They are then free to target companies with strong ESG risk and opportunity management.

Engagement

Engagement with companies' management teams is a key part of our research process and ongoing stewardship. 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 any areas of concern, share best practices and drive positive change.

These three priorities inform our process for engagement:

- The use of the ESG House Score
- Bottom-up research insights from investment teams across asset classes
- Areas of thematic focus from our company-level stewardship activities

The Sustainable Leaders Equity Strategy is part of our suite of Responsible Investment Approaches



Source: abrdn, November 2020. For illustrative purposes only.

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