

Our ESG approach to equity investing

Environmental, social and governance research drives deeper company insights and better investor outcomes.

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not for use by retail clients.

“A philosophy, not a fad”

Environmental, social and governance (ESG) factors have become a hot investment topic recently. But at Aberdeen Standard Investments, they have always been central to our equity process.

Quite simply, we believe that companies with good governance, that robustly manage their material environmental and social risks are the ones that can best deliver strong, risk-adjusted returns for our investors.

Here we open up the workings of our ESG process, how we use it to encourage companies to adopt high standards and how this benefits our equity investors.

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ESG close-up

Assessing risk, enhancing value

By embedding ESG factors into our active equity investment process we aim to reduce risk, enhance potential value for our investors and foster companies that can contribute positively to the world.

As an investment manager our primary goal and responsibility is to generate the best long-term outcomes that we can for our clients.

With this in mind, the consideration of environmental, social and governance (ESG) factors is a fundamental part of our equity process. It is one of the key dimensions on which we assess the investment case for any company in which we invest.

Why ESG matters

ESG considerations are key to our investment process for three key reasons:

1. Financial returns

ESG factors can be financially material – the level of consideration they are given in a company will ultimately have an impact on corporate performance, either positively or negatively.

2. Fuller insight

Systematically assessing a company's ESG risks and opportunities alongside other financial metrics allows us to make far better investment decisions.

3. Corporate advancement

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

Active engagement on ESG issues and allocating capital to progressive companies will help drive a shift to a fairer and more sustainable global economy.



“We believe that the market systematically undervalues the importance of ESG factors. We believe that in-depth ESG analysis is part of both fundamental company research and portfolio construction and will lead to better client outcomes.”

Researching companies

Deeper company insights for better investor outcomes

We conduct extensive and high-quality fundamental and first-hand research to fully understand the investment case for every company in our global universe.

A key part of our equity research involves focusing our extensive resources on analysis of ESG issues. Our investment managers, ESG Equity Analysts and our central ESG Investment Team collaborate to generate a deep understanding of the ESG risks and opportunities associated with each company.

Stewardship and active engagement with every company are also fundamental to our investment process helping to produce positive outcomes that lead to better risk-adjusted returns.

Our Global ESG Infrastructure

We have around 150 equity investors globally. Each systematically analyses ESG risks and opportunities as part of our research output for each company. Our central team and ESG equity analysts support the investment managers' first-hand company analysis, producing research into specific themes (e.g. labour relations or climate change), sectors (e.g. forestry) and ESG topics to understand and highlight best practice. Examples are shown below.

1. Investment Managers

All our equity investment managers seek to engage actively with companies to gain insight into their specific risks and provide a positive ongoing influence on their corporate strategy for governance and environmental and social impact.

2. ESG Equity Analysts

We have dedicated and highly experienced ESG equity analysts located across the UK, US, Asia and Australia.

Working as part of our investment desks – rather than as a separate department – these specialists are integral to pre-investment due diligence and post-investment ongoing company engagement.

They are also responsible for taking thematic research produced by the central ESG Investment Team (see below), interpreting and translating it into actionable insights and engagement programmes for our regional investment strategies.

3. ESG Investment Team

This central team of more than 20 experienced specialists based in Edinburgh and London provides ESG consultancy and insight for all asset classes.

Taking a global approach both identifies regions, industries and sectors that are most vulnerable to ESG risks and identifies those that can take advantage of the opportunities presented.

Working with our investment managers, the team is key to our active stewardship approach of using shareholder voting and corporate engagement to drive positive change.

Thematic and sector research





Ranking companies

From laggards to leaders: scoring company ESG credentials

A systematic and globally-applied approach to evaluating stocks allows us to compare companies consistently on their ESG credentials – both regionally and against their peer group.

We capture the findings from our research and company engagement meetings in formal research notes. Some of the key questions we ask include:

- How material are ESG issues for this company – and how are they being addressed?
- What is our assessment of the quality of this company's governance, ownership structure and management?
- Are incentives and key performance indicators aligned with the company's strategy and the interests of shareholders?

Having considered the regional universe and peer group in which the company operates, our equity team then allocates it an ESG score between one and five (see opposite). This is applied across every stock we cover globally.

We also use a combination of external and proprietary in-house quantitative scoring techniques to complement and cross-check our analyst-driven ESG assessments.

Our ESG analysis is peer-reviewed within the equities team, and ESG factors impacting both sectors and stocks are discussed as part of our formal sector reviews.

To be considered an ESG 'Leader', the management of ESG factors must be a material part of the company's core business strategy. It must provide excellent disclosure of data on key risks. It must also have clear policies and strong governance structures, among other criteria.

In brief

- ESG scores are used to summarise a company's ability to manage ESG risks
- Scores are based on a company's regional universe and peer group
- Analyst discretion is required where companies do not consistently meet all guidelines

Our ESG Scoring System

| 1 | 2 | 3 | 4 | 5 |
|---|--|--|--|--|
| Leader | Above Average | Average | Below Average | Laggard |
| <ul style="list-style-type: none"> • ESG considerations are a material part of the company's core business strategy • There are KPIs/targets on all material ESG risks • There is positive progress towards KPIs • Excellent disclosure of data on material risks and clear policies • Strong ESG governance structures • Remuneration is linked to non-financial KPIs • Track record of fair treatment of minority shareholders • Evidence of deriving opportunities from strong ESG risk management | <ul style="list-style-type: none"> • ESG considerations are included in strategy but not market leading • Most key risks are mitigated to some extent • ESG KPIs/targets in place • Disclosure is good, but not best in class • ESG/Sustainability teams in place • Non-financial indicators considered within remuneration • Governance is generally very good, with fair treatment of minority shareholders | <ul style="list-style-type: none"> • ESG risks are considered as part of principal business risks • Initiatives in place to address the most material ESG risks • Some KPIs/targets on most material risks • Disclosure is in line with regulatory requirements • ESG teams present but separate from core strategy • Governance is generally good but some minor concerns • No issue on ill treatment of minority shareholders • Few/minor related party transactions | <ul style="list-style-type: none"> • Evidence of some financially material controversies • Does not address some key ESG issues • Negative direction on certain KPIs for key ESG issues • Poor governance or limited oversight of key ESG issues • Disclosure of ESG risks and issues is limited • Some issues in treating minority shareholders poorly • Some related party transactions | <ul style="list-style-type: none"> • Significant, financially material controversies • Lack of attention to ESG risks • No KPIs or strategies relating to non-financial risks • No or very limited ESG disclosures • Severe governance concerns relating to board structure, related party transactions, and ill treatment of minority shareholders |

Working with companies

Staying engaged, driving change

Once we invest in a company, we are committed to helping them maintain or raise their ESG standards further, using our position as a shareholder to press for action as needed.

We actively engage with the companies in which we invest to help them stay good companies and become even better businesses.

We see this programme of regular engagement as a necessary fulfilment of our duty as a responsible steward of our clients' assets. It is also an opportunity to share examples of best practice we have seen in other companies and to use our influence to effect positive change.

Our engagement isn't limited to the company's management team. It can include many other stakeholders such as non-government agencies, industry and regulatory bodies, as well as activists and the company's clients. What gets measured gets managed – so we strongly encourage companies to set clear targets or key performance indicators on all material ESG risks.

Examples of topics for corporate engagement include:

- Board Diversity
- Capital Allocation
- Capital Return
- Carbon Emissions
- Climate Risks
- Corporate Governance
- Corporate Strategy
- Cyber Security
- Deforestation
- Diversity Issues
- Employee Safety
- ESG Disclosures
- Human Rights
- Labour Management
- Market Communication
- Remuneration
- Succession Planning
- Waste Management
- Water Management

Our ESG Engagement Process

Monitor: Ongoing due diligence

- Business performance
- Company financials
- Corporate governance
- Company's key risks and opportunities

Contact: Frequent dialogue

- Senior executives
- Board members
- Heads of departments and specialists
- Site visits

Engage: Exercise rights

- Attend AGM/EGMs
- Always vote
- Explain voting decisions
- Maximise influence to drive positive outcomes

Act: Consider all options

- Increase or decrease our shareholding
- Collaborate with other investors
- Take legal action if necessary

Implementing ESG

At Aberdeen Standard Investments, our corporate purpose is to invest for a better future.

We believe that stewardship and ESG considerations sit at the heart of good investing. We therefore ensure consideration of ESG risks and opportunities is built into our decision making across all asset classes and ESG best practice embedded in key areas of our business:

1. Our investment process

We integrate and appraise environmental, social and governance factors across all our investment processes to generate the best long-term outcomes for our clients.

2. Our investment activity

We actively take steps as stewards and asset owners to protect and enhance the value of our clients' asset.

3. Our client journey

We clearly define how we act in our clients' interests in delivering our stewardship and ESG principles and transparently report on our actions to meet those interests.

4. Our corporate influence

We actively look to advance national and global policy and regulation and to raise industry standards to deliver a better future for our clients, the environment and wider societal stakeholders.

Dedicated to a better future

As one of the world's leading active investment managers, we are dedicated to using our resources, experience and investment processes to advance corporate practices that will reduce financial, social and environmental risks for generations to come.

Conclusion

To conclude, we believe that there is significant value in ESG information. By doing our own proprietary research, integrating it into our research process, determining ourselves how material it is, and by testing our analysis with company management teams, we gain access to richer information on which to base our investment decisions.



Rigorous analysis of ESG data to evaluate a company, its current value drivers and future risks to these, sharpens our analytical edge.

While ESG is just one component of our overall assessment of a company, we see it as critical to building an holistic view of its business model and its ability to adapt, survive and thrive in a changing environment.

For more information please visit [aberdeenstandard.com](https://www.aberdeenstandard.com)

Important information

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. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. We recommend that you seek financial advice prior to making an investment decision.

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“For us, ESG is not an overlay. It is absolutely critical to the way we research and select companies and what we expect from them as shareholders. ESG is fundamental to telling us where to invest and how to encourage every company to be better.”

Euan Stirling,
Global Head of Stewardship and ESG Investment

To find out more about our ESG capabilities please speak to your local Aberdeen Standard Investments representative.

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