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Sustainable Investment Approach

# Multi-Asset Climate Solutions Fund

ASI's Multi-Asset Climate Solutions Fund offers investors a way to allocate their savings to companies whose core products and services play a strong role mitigating climate change and other forms of environmental harm. This document outlines the fund's investment approach and its climate and sustainability assessment criteria.

## Outline Investment Approach

To generate growth over the long term (5 years or more) by investing in a diversified portfolio of equities (company shares) and corporate bonds (loans to companies) issued by companies whose core business is to offer products and services that enable the transition to a sustainable low carbon economy.

The fund's investment approach follows a traditional balanced multi-asset investment approach, utilising top-down Strategic Asset Allocation (SAA) across equities, bonds, listed infrastructure and real estate investment trusts (REITs). The underlying assets are managed by asset class specialists, with detailed knowledge of managing equity, bond and listed infrastructure and real estate portfolios.[1]

The fund differs from typical multi-asset funds because the asset class exposures are each highly focused on climate solution companies (Figure 1) as defined by the Climate and Sustainability Assessment Criteria (below). Each stage of the investment process is oriented to delivering a 'climate-focused' investment outcome.

## Multi-Asset Climate Solutions (MACS) Investment Framework

**Figure 1. High-level illustration of the Investment Framework**

| | Investment Framework | | | |
|---|---|---|---|---|
| | Strict positive and negative environmental and ethical screening criteria is applied across all asset classes. All criteria is reviewed by the Climate Advisory Group (CAG) consisting of representatives from ASI, The Big Issue Group (TBIG) and chaired by an independent expert. | | | |
| | Strategic Asset Allocation | | | |
| | Proprietary SAA optimisation process is used to generate distinct risk/return forecasts for climate-equity, green bonds, renewable infrastructure, and REITs. SAA is rebalanced bi-annually and the fund is rebalanced monthly to the target SAA. | | | |
| Asset class | Climate Equity | Green Bonds | Renewable Infrastructure | Green REITS |
| Indicative Weight | 30-75% | 15-60% | 5-15% | 5-15% |
| Investment Process | Strict positive and negative screens are applied to the MSCI ACWI IMI global equity index to create a diversified, risk-controlled basket of climate solutions equity. | A basket of predominantly investment grade bonds issued by companies in our positively screened universe and green bonds where the use of proceeds is used exclusively for sustainable activities. | Listed renewable energy infrastructure investment trusts constructed to create a diversified and liquid basket. | A basket of listed REITs with strong environmental credentials constructed to create a diversified basket of listed real estate investment trusts. |
| Expert Input | Quantitative Investment Strategies (QIS) | Fixed Income | Diversified Assets | REITs |

THE BIG ISSUE GROUP

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[1] The REITs portfolio is managed by the MACS portfolio managers in partnership with ASI's specialist REITs team.

# Climate and Sustainability Assessment Criteria

## 1. 'Climate Solutions' Positive Criteria

Selection of securities for the fund is driven primarily by positive 'climate solutions' criteria. The fund aims to hold securities issued by companies whose core[2] products and services enable the transition to a sustainable low carbon economy.

Investing in such companies helps to finance the transition to a low carbon economy, while also offering investors the potential to benefit from rapid structural growth expected for these sectors as the world economy shifts to a more sustainable basis.

The fund's definitions of climate and environmental solutions is informed by international standards such as the EU Taxonomy on Sustainable Activities, by the expert research of Aberdeen Standard Investments' dedicated ESG team, as well as a Climate Advisory Group (CAG) with independent members and chaired by an independent expert. This committee advises the ESG Assessment Criteria, provides guidance on interpretation and reviews implementation.

We define the following products and services as climate and environmental solutions:

**Clean power generation**: renewable energy generation (wind, solar, hydro, geothermal), energy storage, smart grids.

**Low carbon transport**: fuel efficiency, fuel switching (e.g. hydrogen fuel cell), electric vehicles and hybrids, electric vehicle charging infrastructure, low carbon mass transit and freight (rail, bus, metro), equipment and parts supporting low carbon transport.

**Smart working**: technologies that result in avoidance of transport emissions e.g. video conferencing and remote working technologies.

**Energy efficiency:** technologies which enable decarbonisation in buildings and industrial processes.

**Green buildings**: energy efficiency retrofits, low carbon buildings, energy efficient building materials, energy efficient heating, cooling, lighting.

**Agriculture & Land Use**: re-afforestation, sustainable forests, low carbon agriculture.

**Other environmental sustainability solutions**: pollution control, environmental remediation and sustainable water.

These areas will be reviewed by the CAG regularly to ensure that the fund is gaining exposure to the products and services which are most important in driving the global shift to a low carbon sustainable economy.

Where the fund invests in green bonds, we ensure the capital raised by the bond is used exclusively to fund green activities, however these may not be the core business of the issuer. We will review each green bond we invest in to check that it meets our positive criteria. We will also check that the issuer does not fall short on our exclusion criteria set out below.

The fund will invest in renewable infrastructure investment trusts, which in most cases entirely falls within the scope of the positive criteria above. It will also invest in green leaders within the Real Estate Investment Trust sector. Improving the carbon and energy efficiency of our building stock is an important climate objective. The assessment of leadership is based on sector environmental ratings scores.

## 2. Negative criteria

We also use negative criteria to avoid investing in companies involved in certain industries and activities. We will avoid investment in companies involved in the activities listed below:

**Fossil fuels:** A small number of companies that provide climate and environmental solutions also have business operations that are in some way associated with fossil fuels. The fund will aim to avoid investing in companies with material fossil fuel production activities.

The fund may hold renewable electricity generators who have legacy fossil-based power generation assets, but only if they are in the final stages of being phased out. Exceptions of this kind will be individually reviewed by the CAG.

**Nuclear power generation:** We will avoid investment in companies with material involvement in nuclear power generation.

[2] For the most part, the fund aims to hold companies which, according to the manager's data sources derive over half of their revenues from climate and other sustainability solutions. The fund may hold some companies that fall below this threshold, but it will aim to avoid holding companies with less than 30% of revenues in these categories. Where the fund managers identify companies that have fallen below the 30% threshold, they will remove them within three months.

**Biofuel production:** Biofuels offer a route to low carbon energy, however due to concerns about the sustainability of feedstock (e.g. cutting down forests). We will only invest where there are no major concerns about sustainability.

**Carbon emissions:** The manufacture of wind turbines, batteries, solar panels and other clean technologies, results in carbon emissions. However, these emissions are typically far less than the emissions abated by using these products rather than fossil fuel alternatives. Nevertheless, the fund will aim to keep the overall carbon intensity below average for a typical equity benchmark.

**Ethically controversial activities:** Careful investigation shows that companies with substantial sales from green products and services do not tend to have involvement in ethically controversial business activities like tobacco production or arms manufacture. This means that the funds positive screens result in a low risk of exposure to these activities. In order to provide extra assurance, we regularly check that there are no companies with material involvement in a range of ethically controversial activities held in the portfolio.[3]

[3] The issues we check include alcohol, tobacco, armaments, gambling, adult entertainment and animal testing; as well as controversies relating to breaches of labour standards, human rights and the UN Global Compact.

**Company engagement:** ASI takes its Stewardship responsibilities seriously and will vote on its shares at company meetings and engage with companies on relevant ESG issues. However, engagement is not the primary way that this particular fund aims to achieve sustainability benefits. These come primarily from its focused allocation of capital to climate solutions companies.

> "There is an urgent need to combat climate change. This Fund will help finance clean energy, electric vehicles and other technologies that will make a zero-carbon economy possible."




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