At Aberdeen Standard Investments (ASI), we are responsible investors. As such, we ensure environmental, social and governance (ESG) considerations are embedded in everything we do. Our goal is to make a difference – for our clients, society and the wider world. It’s about doing the right thing, while aiming to achieve our clients’ long-term financial goals. Here’s how this applies to our award-winning Fixed Income team.

Our core beliefs
There are three reasons why we think it’s vital to integrate ESG factors into our fixed income process.

- ESG factors are financially important and directly affect corporate performance. Indeed, those companies that take their ESG responsibilities seriously tend to outperform those that don’t.
- Understanding ESG risks and opportunities, alongside other financial metrics, helps us make better investment decisions for our clients.
- Informed and constructive engagement help corporations improve practices – protecting and enhancing the value of our clients’ investments.

How we do it
Our ESG network within Fixed Income is made up of credit analysts and portfolio managers. These experienced individuals drive ESG research integration and discussion of ESG risk, helping to set our ESG priorities and agenda. This ensures a comprehensive approach to ESG within fixed income.

We integrate ESG into our analysis.
• We use our bespoke risk framework to rate each issuer based on our analysis of low/medium/high ESG risks. We are able to rate each E, S & G component according to our view on their likely impact on the creditor over different timeframes. This is a particularly powerful tool for running portfolios with a certain maturity/target/strategy.
• We use sector frameworks to identify material market risks, trends and drivers of performance.
• We score companies on our internal responsible investing (ESG) metrics. We look at factors such as environmental management, climate risks assessment, board structure and strength and stakeholder management.
• We conduct thematic research on global trends and ascertain how these might affect our investments.
• We regularly engage with the managements of companies in which we invest. In this way, we can encourage them to remain ‘good’ companies and become even better businesses.

Investment strategy and process
The assessment of ESG factors is integrated into every stage of our fixed income investment process. Our goal is to identify all the risks and opportunities within any given investment.

Our engagement process
Our process consists of four interconnected and equally important stages.

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<th>Monitor</th>
<th>Ongoing due diligence</th>
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<tr>
<td>• Business performance</td>
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<td>• Company financials</td>
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<td>• Corporate governance</td>
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<td>• Company’s key risks and opportunities</td>
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<th>Contact</th>
<th>Frequent dialogue</th>
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<td>• Senior executives</td>
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<td>• Board members</td>
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<td>• Heads of departments and specialists</td>
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<td>• Site visits</td>
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<th>Engage</th>
<th>Using our voice</th>
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<tr>
<td>• Maximise influence as asset owners to drive positive outcomes</td>
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<tr>
<td>• Where possible, leverage equity holdings to vote on issues</td>
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<th>Act</th>
<th>Consider all options</th>
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<td>• Increase or decrease our holdings</td>
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<td>• Collaborate with other investors</td>
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<td>• Take legal action if necessary</td>
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Everything’s Future
Invest today. Change tomorrow.
How does this look in practice?

We look at a number of ESG risks when assessing the credit profile of a company. For example, we engaged with a European manufacturing firm and discussed its management of, and attitude to, energy usage, business ethics and corporate governance. The company is viewed as having industry-leading policies in a range of areas such as health & safety, toxic emission reductions, biodiversity management and carbon emission reduction. However, some issues have been raised regarding remuneration, and revenue/expense recognition policies. Following our in-depth research, however, we gave the company a ‘low’ ESG rating due to the ESG risks being well-managed and therefore the company’s credit profile not materially undermined.

Our Fixed Income team

Our fixed income team harnesses the full spectrum of fixed income markets, issuers and credit quality – across public, private and alternative credit. With over 180 fixed income specialists, our depth of knowledge and experience allows us to build a wealth of solutions – from semi-passive to highly active – to accommodate all investor objectives and requirements.

Central to our capability is a disciplined, research-driven and team-based approach. This ensures investment consistency and allows us to target reliable and repeatable outcomes for clients.

“Why would you not use ESG factors to look to the future – without them you’re only looking at half of the story”

Euan Stirling
Head of Stewardship and ESG Investment
Our commitment to responsible investing

Our Fixed Income team doesn't work in isolation. It is supported by our experienced ESG Investment team, which undertakes sector and thematic research, engagement and voting. As a company, we seek to accomplish our clients' long-term goals through our core capabilities.

• We integrate ESG factors into all investment decisions.
• ESG specialists and champions are also an integral part of each team.
• We carry out thematic sector and asset-level research to help inform our investment decisions.
• We engage with the leadership of our holdings across all asset classes, and vote on every shareholder resolution globally.
• We engage with governments, regulators and industry bodies globally to raise standards, and work with other stakeholders to improve companies’ practices.
• We continually work to develop innovative client solutions.

ASI's ESG principles

We put stewardship and ESG considerations at the heart of:

- **our investment process** – we integrate and appraise ESG factors in our investment process, with the aim of generating the best long-term outcomes for our clients
- **our investment activity** – we actively take steps as stewards to deliver long-term, sustainable value consistent with our clients’ objectives
- **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
- **our corporate influence** – we actively advance policy, regulation and industry standards to deliver a better future for our clients, the environment and society.

About ASI

As a leading global asset manager, we at Aberdeen Standard Investments are dedicated to creating long-term value for our clients - their investment needs are at the heart of what we do.

With this in mind, the consideration of ESG factors is a fundamental part of our fixed income process. It is vital in the way we assess the investment case for any company in which we seek to invest.

We offer a comprehensive range of investment solutions, and the very highest level of service and support.

- 180 fixed-income specialists
- 50 ESG specialists company-wide
- £143.9 billion* (€160.8 billion) in fixed income assets under management

*Source: Aberdeen Standard Investments, as at June 2019

“By taking account of ESG factors, we get a more complete view of corporate issuers and the risks and opportunities they present - to the ultimate benefit of our clients.”

Craig McDonald
Head of Fixed Income

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