

February 2020

Responsible Investing

ESG integration in Equities

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 active Equity team.

Our core beliefs

There are three reasons why we think it's vital to integrate ESG factors into our equities 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 to make better investment decisions for our clients.



Informed and constructive engagement help corporations improve practices – protecting and enhancing the value of our clients' investments.

Investment strategy and process

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

Our engagement process

Our Process consists of four interconnected and equally important stages.

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

How we do it

A systematic and globally-applied approach to ranking stocks allows us to compare companies consistently on their ESG credentials – both regionally and against their peer group. Some of the key questions we ask are detailed below.

- 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, we then allocate it an ESG score between one and five. This is applied across every stock we cover globally.

Everything's Future

Invest today. Change tomorrow.



Gaining a fuller picture

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



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.

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.

Our ESG scoring system

Having considered the regional universe and peer group in which the company operates, we then allocate it an ESG score between one and five. This is applied across every stock we cover globally. Examples of each category and a small sample of our criteria are detailed below.

1. Leader	2. Above Average	3. Average	4. Below Average	5. Laggard
<ul style="list-style-type: none"> ESG considerations are a material part of the company's core business strategy Excellent disclosure of data on material risks and clear policies Strong ESG governance structures 	<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 	<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 	<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 	<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

Our Equity team



To uncover the best companies globally takes resources, experience and the right people on the ground. We have over 140 equity professionals around the world, each meeting companies, conducting in-depth research and sharing their insights with the wider team.



Our central ESG Investment team and ESG equity analysts support the investment managers' first-hand company analysis. They produce research into specific themes (e.g. labour relations or climate change), sectors (e.g. forestry) and ESG topics to help us understand and highlight best practice.



The Equity team also works with specialists from across the company, namely our credit, real estate, multi-asset, strategy teams and specialist quant and risk analytics teams. Lastly, the team leverages the knowledge and market views of more than 30 economists within the Aberdeen Standard Investments Research Institute.

This level of support means our equity specialists can focus on what they do best: delivering compelling market-leading investment insights for our investors.



Devan Kaloo
Head of Global Equities

“By taking account of ESG factors, we get a more complete view of a company and the risks and opportunities it presents”

Our commitment to responsible investing

Our Equity 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.

- 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 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 investment activity – we actively take steps as stewards to deliver long-term, sustainable value consistent with our clients' objectives



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 equity 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, as well as the very highest level of service and support.



>140 equity investment professionals



50 ESG specialists company-wide



£121 billion *(€135,295.2 billion) equity assets under management

Source: Aberdeen Standard Investments, as at June 2019

Everything's Future
Invest today. Change tomorrow.

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