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## Plastics – our approach for investments

Plastic pollution is everywhere. The environmental harm caused by single-use plastic waste is significant and continues to receive substantial media and political attention. Public awareness of how detrimental plastic pollution is to our oceans and environment has grown substantially. This has led to a rise in activism to tackle plastic pollution, with demands that companies take responsibility for it. This trend poses reputational and regulatory risks for companies exposed to the manufacture, use and disposal of plastics.

### The issue

While plastic has valuable long-term use, single-use or disposable plastic has become abundant, resulting in severe environmental consequences. Scientists have suggested that the start of a new geological era is being defined by humanity's impact on the world, including the introduction of plastic and its contribution to pollution. The convenience of plastic has led to a global waste crisis.

- Half of all plastics ever manufactured have been made in the last **15 years**.<sup>1</sup>
- Most plastic found on beaches is **single-use disposable plastic**, like bottle tops and cigarette butts.<sup>2</sup>
- Plastics can take **400 years** to break down.<sup>3</sup>
- Production has increased exponentially, from 2.3 million tons in 1950 to **448 million tons by 2015**. It is expected to double by 2050.<sup>1</sup>

### Our approach to plastic-related risks and opportunities

With the stewardship tools we have at our disposal, we have a responsibility to ensure that our investments are not harming the environment. Aberdeen Standard Investments view the plastics issue across the entire value chain: from oil extraction for raw materials to synthetic microfibres in oceans. This includes the pre-production nurdles (very small pellet of plastic) and the shipping of plastic waste to landfill sites across the globe. For investors, risks and opportunities present themselves across the global value chain.

At Aberdeen Standard Investments, we incorporate plastic-related issues into our research and engagement. Our research has shown that not all plastics are inherently bad. In the construction, food & beverage and auto industries, the use of plastics has some positive environmental impacts. For example, lightweight plastics increase fuel efficiency for cars, plastics are effective insulators for buildings, and plastic packaging extends the shelf life of fresh food items. However, we recognise that single-use disposal plastics pose a threat to our global environment and that this increases risks for our investments.

Regulation promoting a circular economy is quickly evolving. Countries, cities and companies are banning the most harmful single-use plastic products, including straws, plastic bags and cotton buds. These legislations are effective in reducing the most visible forms of plastic pollution but do not yet provide a systematic solution. Governments are beginning to think more holistically. The circular-economy model seeks to keep resources in use for as long as possible to extract the maximum value and then recover and regenerate materials at the end of life. Companies may face pressures to increase their collection rates and improve the recyclability and recycled content of their products. We recognise that the costs of inaction are rising with these increasing regulatory pressures. In addition, investors need to account for the cost of investment into alternative solutions and understand which companies will be well placed to move quickly and effectively to remove single-use plastics from their business models.

More recently, Covid-19 has slowed this move in regulation. As countries have sought to stem the spread of the virus, demand for single-use personal protective equipment and other forms of single-use plastic has grown. Some regulation has been postponed or suspended. However, the challenge of pollution will continue to create risks for companies over the longer term, and we expect this to remain a key issue for investors.

<sup>1</sup> <https://www.nationalgeographic.com/environment/habitats/plastic-pollution/>

<sup>2</sup> <https://www.unenvironment.org/interactive/beat-plastic-pollution/>

<sup>3</sup> <https://www.wwf.org.au/news/blogs/the-lifecycle-of-plastics#gs.b9o1og>

## How do we assist a circular plastics economy?

### 1. Investment analysis

Environmental, social and governance (ESG) considerations underpin all of our investment activities. As part of our investment-analysis process, we produce cross-sector thematic research into plastics, the circular economy and other relevant topics. Thematic research provides important insight for our fund managers, helping us to identify examples of best practice across sectors and to recognise potential implications for our clients' portfolios. Given the global scope of our holdings, we seek to understand regional trends and regulatory developments. We complement this macro research with bottom-up insights to understand specific companies' exposure and management of plastic related risks and opportunities.

### 2. Sector-by-sector approach to engagements

In our actively managed investments, corporate engagement is essential to enable and support a circular plastics economy. We believe that our engagement with companies exposed to plastics, directly or indirectly within supply chains, gives us insight into their exposure and their management of risks and opportunities.

As investors, we are well positioned to influence the plastic economy. We take a sector-by-sector approach to engagement, focusing on identified key risks and targeted questions within each exposed sector. These engagements provide us with the ability to evaluate the companies' current practices and outline our expectations, such as time-bound targets. For example, we expect manufacturers to have ambitious targets to increase the percentage of recycled material in their products and to increase their product-recycling rates. We also encourage companies to consider innovations in product design to incorporate circular-economy principles. We encourage the research and development of experimental plastics that could create disruptive opportunities. We expect companies to set targets, and we hold them to account in our discussions.

### 3. Voting and shareholder resolutions

As active asset managers, another important means of influencing is via voting and support of shareholder resolutions. That allows us to make our views clear on the phase-out of certain single-use plastics. Aberdeen Standard Investments has a well-resourced stewardship team with dedicated proxy-voting capability that can provide escalation on plastics and circular-economy themes.

### Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

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