

June 2021

# Climate Transition Bond Fund - Investment Approach

This approach applies to:

**Aberdeen Standard SICAV I – Climate Transition Bond Fund**

The fund aims to achieve long term total return to be achieved by investing at least 90% of its assets in Investment Grade and Sub-Investment Grade Debt and Debt-Related Securities issued worldwide, including in Emerging Markets that support the transition to a low carbon economy and society’s adaptation to climate change.

The holdings of the Fund are not selected with reference to a benchmark index and the Fund does not aim to outperform any benchmark but the performance of the Fund (before charges) can be compared over the long term (5 years or more) against a basket of the following indices, which is rebalanced to the stated weights on a daily basis:

- 60% Bloomberg Barclays Global Aggregate Corporates Index (USD hedged)
- 20% Bloomberg Barclays Global High Yield Corporates Index (USD hedged)
- 20% JP Morgan Corporate Emerging Market Bond Index (USD).

These indices are used for the purposes of setting risk constraints and don’t have any sustainable factors.




The ASI Climate Transition Bond Fund draws on ASI’s deep resources and understanding of climate and environmental issues to help clients benefit from the long-term shift towards greater sustainability. The Fund aims to achieve a combination of income and growth by investing in bonds issued by companies and countries that, in the view of the Investment Manager, are addressing the causes of climate change and adapting to its consequences. These are companies that are lowering greenhouse gas emissions of their operations or helping others to reduce their emissions and companies and countries that are helping society adapt to the physical risks of climate change.

## Investment Approach

The Climate Transition Bond Fund utilises 3 key pillars to identify and acknowledge climate-change risks and opportunities. The 3 investment pillars are detailed below and mapped to the corresponding Climate Transition Investment Risk & Opportunity.

1. **Leaders** – Supporting the leading emissions reducers (Climate Transition Risk)
2. **Adaptors** – Facilitating Climate Change adaption (Climate Physical Risk)
3. **Solutions** – Helping the economy decarbonise (Climate Change Investment Opportunities)

### Identification and acknowledgement of climate change risks and opportunities

Risk & Opportunity	 Transition Risks	 Physical Risks	 Investment Opportunities
Types of activity	<p>The risk of transitioning to a low-carbon economy.</p> <p>Higher carbon prices, stranded assets, emission-reducing regulation and shifts in technology and demand</p>	<p>Consequences of the continued increase in temperature and extreme weather events</p> <p>Negative implications include damage to infrastructure, poor harvests, rising cost of assets and commodities</p>	<p>The transition to a low-carbon economy will provide attractive capital allocation opportunities</p> <p>Renewable energy infrastructure, low carbon-transport and improvements to energy efficiency.</p>
Background	<p>A group of the worlds biggest companies with a \$17trn market cap values climate risks at \$1trn.</p>	<p>Around 30% of the world’s population is exposed to deadly heat levels for at least 20 days a year.</p>	<p>Identifying climate transition companies provides investors with the opportunity to outperform over the long term.</p>

## Climate Transition Bond Fund Investment Framework

Pillar	Leaders	Adaptors	Solutions
Indicative Weight	30 – 60%	0 - 20%	10 – 50%
ASI Pillar	Supporting the leading emissions reducers	Facilitating climate change adaptation	Helping the economy decarbonise
Investment rationale	Most aggressive in high emission sectors and outstanding companies in other sectors	Support those addressing the physical risks of climate change	Investing in circular economy, energy efficiency, electrification, energy storage, renewable materials, smart buildings, renewable energy,
Sector Universe	Utilities, Building Materials, Transport, Mining, Heavy Industry, Telecoms, Retail, Pharma, Banking	Municipals, Sovereigns, Insurance	Chemicals, Utilities, Real Estate, Consumer Goods, Agriculture, Transport, Forestry, Technology
Assessment criteria	Leading & credible carbon targets / climate policies	Revenue / R&D spend / Project financing (municipals)	Revenue / R&D spend / Projected carbon reduction impact of solution

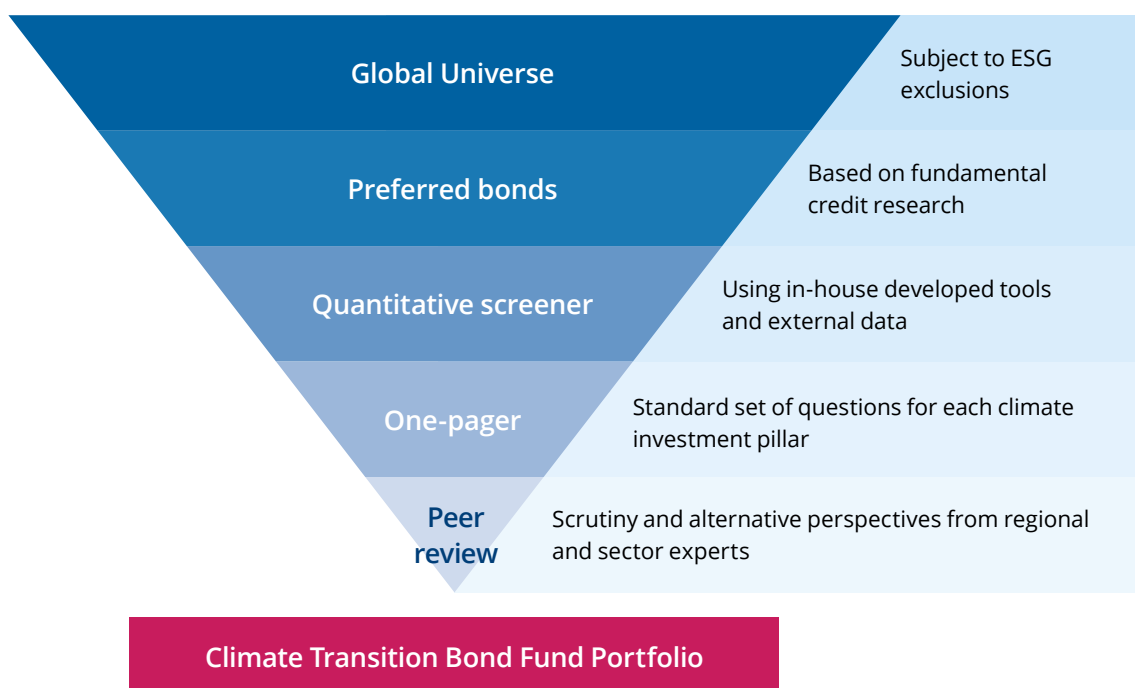
**Leaders:** Companies that are on a path to materially reduce the greenhouse gas emissions associated with their operations. Supported by evidence, targets should be ambitious and credible.

**Adaptors:** Public and Private sector issuers that are helping society prepare for the physical risks of climate change. For public sector issuers, bond proceeds should be supporting climate resilience projects, such as flood defences, improved water management systems or wildfire protections. To fall under this pillar, private sector issuers must be involved in products or services that help society adapt to climate change (e.g. buildings, agriculture, and insurance).

**Solutions:** Companies that are helping other parts of the economy decarbonise through their products or services. Activities are categorised into one or more of the following buckets: replacing fossil fuels, lowering energy consumption, reducing non-energy emissions or carbon sequestration.

### Investment Process – integrating ESG factors

The ASI Climate Transition Bond Fund follows a fundamental, bottom up investment research process utilising the full strength, depth and diversity of ASI's global research platform in which ESG analysis and company engagement are integral elements in assessing the investment potential of all Public and Private Sector issuers.



## Assessment Criteria

The Climate Transition Bond Fund's global investment universe provides the opportunity to identify issuers who are addressing the causes of climate change and adapting to its consequences

### Negative criteria

The Fund will exclude investment in companies that:<sup>1</sup>

- Have failed to uphold one or more principles of the UN Global Compact
- Are involved in Oil and Gas production and exploration
- Are involved in controversial weapons
- Have a revenue contribution of 10% or more from conventional weapons
- Have a revenue contribution of 10% or more from tobacco producers
- Have a revenue contribution of 5% or more from thermal coal extraction

Our application of negative screening combined with strict climate criterion and peer review process means that a minimum of 20% of the investment universe is excluded. The investment universe is defined as assets covered under the Global Fixed Income team's active research process.

### Climate Screening and peer review

ASI's Fixed Income team have developed a proprietary Climate Screening Tool using data from a range of external providers. The Climate Screening Tool allows our Fixed Income research analysts to see how issuers perform on various qualitative and quantitative climate and environmental metrics versus regional and global peers. From here, our Fixed Income research analysts are able to identify issuers that have potential for inclusion in one or more of the three pillars of the Climate Transition Bond Fund.

Combining the Climate Screening Tool with other sources of information on an issuer gives our Fixed Income research analysts a sense of whether an issuer may be eligible for the fund. However to be included in the final list of eligible portfolio positions, all issuers must then have a qualitative peer-reviewed questionnaire completed. These questionnaires are specific to each pillar of the Climate Transition Bond Fund.

<sup>1</sup> Data sourced from MSCI, Bloomberg, CDP, Trucost.

All positions in the Climate Transition Bond fund must also be approved via a Peer Review meeting. The Climate Transition Bond Fund team comprises members from our ESG Fixed Income network, with considerable ESG expertise. The team brings individual expertise from the US, Europe and Asia with a broad range of regional and sector knowledge. Members of ASI's ESG Investment Team also attend the review meetings to provide additional insight and independent challenge to the discussion.

### Engagement

At ASI, engagement with company management teams is a key element of our research process and ongoing stewardship programme. It provides us with a more holistic view of a company including current and future ESG risks that a firm needs to manage and opportunities from which it may benefit. It also provides the opportunity for us to discuss any areas of concern, share best practice and drive positive change.

Priorities for engagement are established by

- (1) the use of the ESG house score, in combination with
- (2) bottom-up research insights from our investment teams across asset classes, and
- (3) areas of thematic focus from our company-level stewardship activities.

### Stewardship

In our view, good governance and stewardship are vital to safeguard the way in which a company is managed and to ensure that it operates responsibly in relation to its customers, employees, shareholders, and the wider community. We also believe that markets and companies which adopt best practices in corporate governance and risk management – including the management of environmental and social risks – are more likely to deliver sustainable, long-term investment performance.

As owners of companies, the process of stewardship is a natural part of our investment approach as we seek to benefit from their long-term success on our clients' behalf. Our fund managers and analysts regularly meet with the management and non-executive directors of companies in which we invest. Our approach to stewardship is set out more fully in the ASI UK Stewardship Code disclosure.

For more information please visit our

[Responsible Investing Website](#)



## Important Information

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund's price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.
- The fund invests in mortgage and asset-backed securities (which may include collateralised loan, debt or mortgage obligations (respectively CLOs, CDOs or CMOs)). These are subject to prepayment and extension risk and additional liquidity and default risk compared to other credit securities.
- The fund invests in emerging market equities and /or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website [aberdeenstandard.com](http://aberdeenstandard.com)

The Fund's investment objective is long term total return to be achieved by investing at least 90% of its assets in Investment Grade and Sub-Investment Grade Debt and Debt-Related Securities issued worldwide, including in Emerging Markets, that support the transition to a low carbon economy and society's adaptation to climate change.

The fund is a sub-fund of Aberdeen Standard SICAV I a Luxembourg-domiciled UCITS fund, incorporated as a Société Anonyme and organized as a Société d'Investissement à Capital Variable (a "SICAV").

In Spain Aberdeen Standard SICAV I has been registered with the Comisión Nacional del Mercado de Valores under the number 107

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**In Switzerland** these documents along with the fund's articles of association can be obtained from the fund's Representative and Paying Agent, BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH 8002 Zürich, Switzerland (Tel. 058 212 63 77). These documents and the articles of incorporation are available in English/ Italian/German/ French free of charge on [aberdeenstandard.com](http://aberdeenstandard.com). **In Italy** these documents can be obtained from one of the Paying Agents listed in the prospectus of the fund. **In Austria** these documents can be obtained from the Fund's Representative and Paying Agent Raiffeisen Zentralbank Österreich Aktiengesellschaft, Am Stadtpark 9, A-1030 Wien. **In France**, these documents can be obtained from the Centralising Correspondent Agent : BNP Paribas Securities Services, 3, rue d'Antin, 75002 Paris, France.

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