Responsible Investing at Aberdeen

Our approach to SRI and ESG

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Socially responsible investment (SRI) has moved firmly into the mainstream. Once a peripheral trend within a group of specialist investors, it has now evolved into a core investment approach that takes into consideration the values held by investors.

**Introduction**

Complimenting more traditional approaches to SRI has been the inclusion of environmental, social and corporate governance (ESG) issues that requires engagement with companies on a much broader scale. Often defined as the extra-financial aspects of a company, ESG is increasingly recognised as being at the heart of the myriad of functions that go together to form a company’s business and which can have a direct impact on the bottom line.

The incorporation of ESG issues into an investment approach has provided an additional method in which to evaluate companies.

**SRI offers potential for Competitive Performance**

Deciding to take a socially responsible approach to investing doesn’t have to mean losing out on performance. In fact, recent studies suggest that by taking specific environmental, social and governance factors into account it can actually have a positive impact on performance. In one of the most recent studies by Mercer, a review of academic studies found a positive link between responsible investment and financial performance. The report looked at sixteen academic studies and found that the majority (ten) showed a positive relationship between ESG factors and companies’ financial performance. Taken together with an earlier study with Mercer and the UN, out of a total of thirty-six studies published between 1995 and 2009, 20 – more than half – showed evidence of a positive relationship between ESG factors and financial performance. Just three evidenced a fully negative relationship.

At the very least, SRI investment strategies can perform competitively as non-SRI strategies. In addition, investors do not have to pay more in order to adopt an SRI approach or to avoid companies with poor environmental, social or corporate governance practices.

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Source: Canadian Socially Responsible Investment Review, 2010, May 11. Note that the period between 2004 and 2006 a large number of pensions adopted responsible policies.

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*Shedding Light on Responsible Investment: Approaches, Returns and Impacts*, Mercer, November 2009

* 2007 Derrystifying Responsible Investment Performance
Corporate Social Responsibility at Aberdeen

As a global asset management group with over 1800 employees in 23 countries, we understand how incorporating good corporate social responsibility practices can have a positive impact on a business. In fact, at Aberdeen we believe enhanced corporate social responsibility (CSR) represents good business practice and are committed to effective and transparent corporate governance in running our own business. We aim to be transparent in all our activities and reports and follow best practice in day to day operations. This includes reducing our environmental impacts, promote the well-being of our employees, and give back to our communities.

We view our commitment to CSR as an essential component of our operations in the same way that we value CSR practices within the companies in which we invest. Our in-house approach provides the foundations on which we can deliver a credible SRI investment process and reflects the belief that we too, at an organizational level, have a responsibility to be good corporate citizens.

Responsible Investing at Aberdeen

Aberdeen has a long track record managing SRI products. Having started in the early 1990’s, our SRI screening service has expanded to include engagement with companies on ESG issues and is a fundamental part of our equity investment process. This was highlighted in December 2007 when Aberdeen became a signatory to the United Nations Principles for Responsible Investing (UNPRI).

Understanding Corporate Governance before we Invest

In Aberdeen’s active equity business, corporate governance and engagement are key components of the investment process. A review of the corporate governance practices of a potential investee company is part of the initial screening process and an investment will only be made after meeting with the management team. After investing in a company, we hold regular meetings with management to discuss strategic, operational and governance matters.

Corporate governance and engagement is embedded in the Aberdeen investment process at the pre-investment and post-investment level respectively.

Our Investment Process – Quality and Value first

Core to any investment at Aberdeen is the fundamental strength of an investment. For companies to pass this first test, portfolio managers on our regional desks identify, what we believe, are stocks with quality management, have good earnings potential and trade at attractive valuations. Their assessments are based principally on their own research and following direct contact with the company. No stock is bought prior to our managers meeting with management (at least once, usually multiple times) and writing detailed notes on the prospective investment.

We estimate a company’s worth in two stages: first quality, and then value. Only those companies identified as meeting these two core metrics are eligible for investment in the individual regional model portfolios. The global equity investible universe, or “buy list”, is simply the summation of these regional model portfolios. Once companies have become “buy list” constituents, Aberdeen’s SRI team researches their activities, policies and practices across nine core areas to determine if a company can be included in the Fund.

Three Screening Options for SRI/ESG

Our primary strategy for building portfolios that take into account SRI/ESG criteria is to carry out a second layer of research by screening the Global Equity Buy List names and filtering out those companies who do not meet our standards. Broadly, there are three screening options available to investors - negative screening, engagement approach and hybrid approach.

Negative Screening

We offer a negative screening (or exclusionary) service for those clients who want to avoid certain industries or activities in the market, such as alcohol, animal testing, gambling, tobacco, abortion, pornography, or weapons, to name a few. Aberdeen’s SRI/ESG team take into account as many as thirty factors within the screening process. Clients with segregated portfolios are able to select their own set of factors for their portfolio. Additionally, we will engage the holdings in negative screened funds on ESG issues.

Screening in 15 Core Areas

- Alcoholic beverages
- Gambling
- Military
- Nuclear energy
- Pornography
- Tobacco
- Weapons
- Environment
- Labour
- Human rights
- Business practices
- Product quality
- Community involvement
- Corporate governance
- Animal testing
Benefits of SRI

The move towards SRI has been driven by a recognition of a number of important long term benefits associated with ESG analysis. These include:

- An ability for investors to incorporate their beliefs regarding corporate and social responsibility into the investment decision making process
- Portfolio construction centred on a broad range of investments that satisfy environmental, social and governance factors
- The extra research that comes from a rigorous screening processes carried out by fund managers has the potential to lead to better-informed investment decisions
- The criteria used within SRI to identify possible investments can potentially be used to provide a benchmark for identifying strong company management and forward-looking socially aware businesses
- Active engagement provides encouragement for corporations to improve their practices on environmental, social, and governance related issues

Engagement Approach

At Aberdeen, we adopt an engagement approach, whereby investee companies (already passing their first test of fundamental strength) are researched by the SRI team for their policies and practices in the areas of ESG. The SRI team then speak with each investee company on ESG issues on a regular basis in order to encourage them to be good corporate citizens. We are always looking for year on year improvement from the companies in terms of their CSR (Corporate Social Responsibility) performance. This approach suits investors who feel that by investing in companies they have the best opportunities to encourage positive change and good corporate citizenship.

The Hybrid Approach

We also offer a hybrid of the first two types of funds. This is an ESG/engagement fund, but retains (typically 6) negative screens. This type of fund offers investors an engagement approach on ESG issues but still prevents investment in activities such as the production and/or sale of alcohol and or tobacco, according to the wishes of the client.

SRI Investment Strategies

Aberdeen offers investors a range of SRI solutions from pooled funds with fixed screens to segregated funds in which a set of agreed SRI/ESG factors can be chosen.