

October 2019

Investing in a Changing Climate Summary

At Aberdeen Standard Investments we invest responsibly, which is why environmental, social and governance (ESG) considerations underpin all our investment activities. Our goal is to make a difference – for our clients, the companies in which we invest and the wider world. A key part of our role is to keep our clients up-to-date with our thinking on the most pressing issues facing our planet. Here, Eva Cairns, ESG Investment Analyst, addresses arguably one of the biggest – climate change.

Our climate is changing

In recent years, we have seen an increase in costly extreme weather events such as storms, wildfires and floods. Natural disasters in 2017 caused overall losses of US\$340 billion¹ - the second-highest annual loss ever. At the same time, we are living through the hottest years on record.

A huge task ahead

A growing population is causing rising demand for energy and food. At present, that means burning more fossil fuels. This comes with an increase in greenhouse gas emissions (GHG), a major cause of rising temperatures. GHG emissions hit a record high in 2018. As they continue to rise in many regions, the fallout could intensify.

In an attempt to tackle the crisis, 180 nations signed the Paris Agreement in 2015. This accord pledges to limit temperature rises to “well below” 2°C of pre-industrial levels, and ideally aiming for 1.5°C.

To achieve this, however, global emissions must decline by 45% by 2030, and reach net zero by 2050. With current policies, we are on a trajectory for over 3°C warming by 2100.²

“Climate-related risks to health, livelihoods, food security, water supply, human security and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C”
Special Report on Global Warming of 1.5°C, IPCC, 2018

The scale of the climate change challenge is immense, the urgency of action unprecedented. As asset managers, we have a vital role to help address these problems. This presents challenges – but also a wealth of opportunities for investors.



On a trajectory for over 3°C warming by 2100

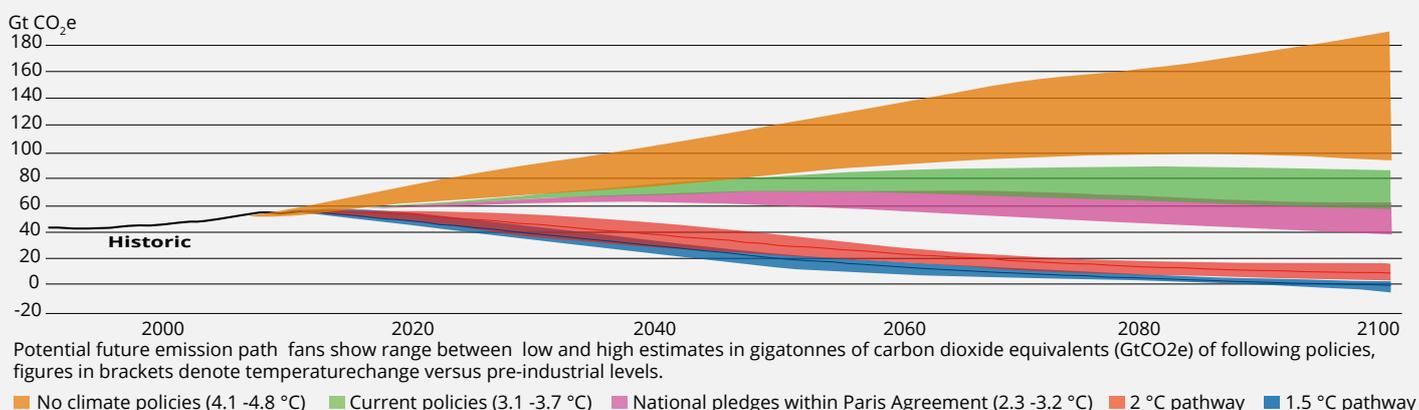


Natural disasters caused US\$340 billion losses in 2017



A Paris-aligned energy transition requires around US\$3 trillion in investment every year

Global warming pathways

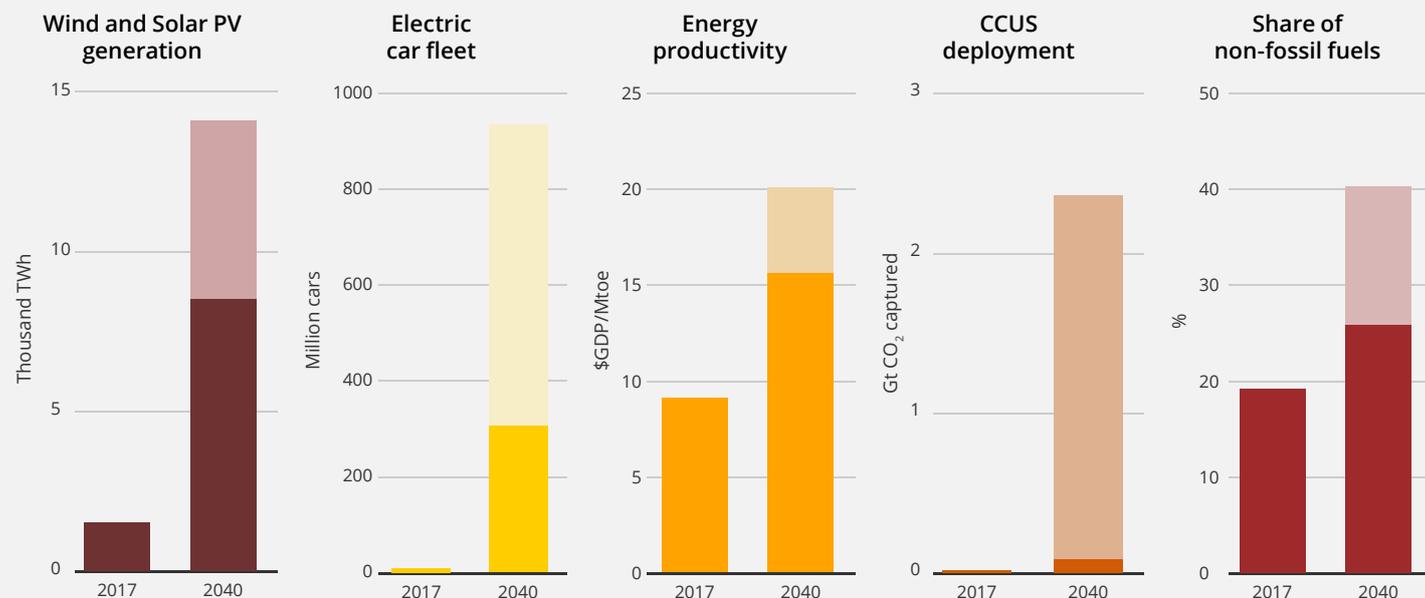


Source: Climate Action Tracker (as of 2018)

¹NatCat Service, MunichRe, accessed July 14 2019

²Special Report on Global Warming of 1.5°C, IPCC, October 2018

Energy transition growth scenarios



Source: International Energy Agency (IEA). World Energy Outlook 2008, <https://www.iea.org/weo2018/scenarios/>

Challenges and opportunities

The global economy needs to be decarbonised urgently. Nations will have to dramatically reduce the level of fossil fuel in the energy mix. Many have already started to do so. In China, for example, 20% of energy is due to come from non-fossil fuel sources by 2030.³ Even more ambitious policies are in place in the EU and UK.

The transition undoubtedly presents challenges. As countries strengthen policies to reach Paris agreement goals, transition risks are becoming more material including:

- **rising carbon prices** - one of the most effective ways to encourage switching to cheaper low carbon sources
- **stranded asset risk** - where carbon-intensive fossil fuels become obsolete
- **reputational risk** - businesses that fail to demonstrate action will incur public and shareholder censure.

On the other hand, the transition also brings opportunities. Considerable sums of private capital are needed for the shift towards a low-carbon economy. The International Energy Agency (IEA) estimates that achieving a Paris-aligned energy transition requires around US\$3 trillion in investment every year.⁴

The growth expected of low carbon energy sources and technology is considerable, as shown in the graph above. Areas of opportunity for investors include:

- renewable energy
- energy efficiency & storage
- electrification of transport.

Then there is the opportunity to invest in climate-resilient infrastructure and technology.

For a more in-depth look at this vitally important topic, please go to our website: <https://www.aberdeenstandard.com/docs?editionId=a91618f3-cf62-45ae-b744-4d581245b4bb>

For our part, assessing the risks and opportunities of climate change forms a core component of our investment research and approach to environmental, social and governance (ESG) integration. Through engagement, we can influence and channel our capital into businesses whose targets and strategies are aligned with the goals of the Paris agreement. Further, we collaborate with others, such as the Institutional Investors Group on Climate Change, to help effect change and support better disclosure.

Final thoughts...

Climate change is one of the most significant challenges of the 21st century and has big implications for investors. Countries have started to act. The energy transition is underway in many parts of the world. We are seeing policy changes, falling costs of renewable energy and a change in public perception. But we all need to do more to meet the targets set out in the Paris agreement. While challenging, this will create huge opportunities for businesses, economies and investors. The price for inaction, however, will be immeasurable.

Note: the impact of climate-related policies on emissions is highlighted in the ASI research paper 'Going Green' and the influence of climate change on asset allocation is explored in more detail in our paper 'Strategic Asset Allocation: ESG's new frontier'.



Eva Cairns
ESG Investment Analyst
Climate Change

“As asset managers, we have a critical role to play in providing finance for the transition to a low-carbon economy.”

⁴ International Energy Agency (IEA). World Energy Outlook 2008, <https://www.iea.org/weo2018/scenarios/>

Responsible Investing at Aberdeen Standard Investments

Everything's Future – Invest today. Change tomorrow.

ESG considerations underpin all our investment activities. Our goal is to make a difference – for our clients, society and the wider world. ESG investment is about doing the right thing, while aiming to deliver long-term financial stability for our clients.

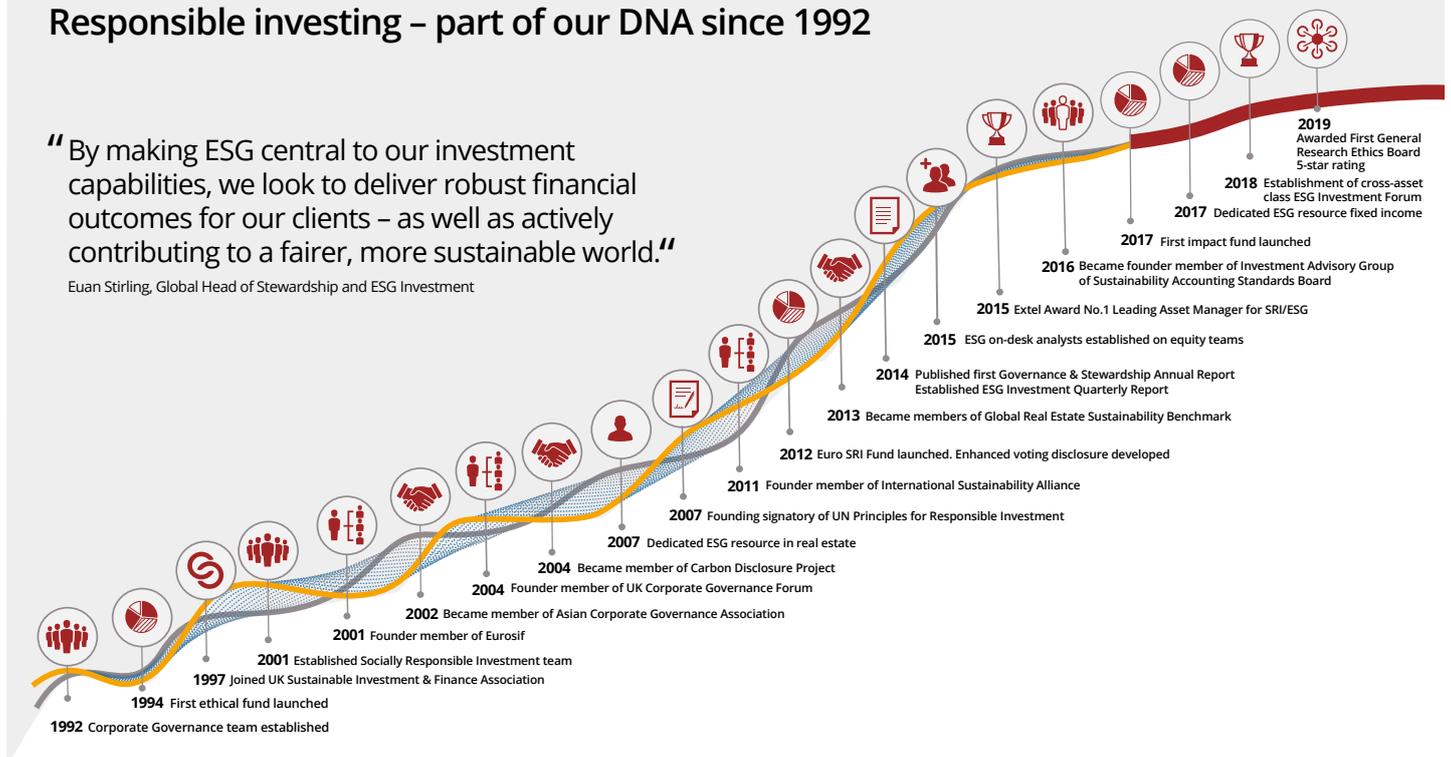
Active engagement

ESG investment is about active engagement, with the goal of improving the performance of assets we manage around the world. To do this, we have a team of over 50 ESG specialists spanning the globe. This on-the-ground resource means we can fully understand the investments we make for our clients, building detailed pictures of companies in which we invest and the markets in which we operate.

Responsible investing – part of our DNA since 1992

“By making ESG central to our investment capabilities, we look to deliver robust financial outcomes for our clients – as well as actively contributing to a fairer, more sustainable world.”

Euan Stirling, Global Head of Stewardship and ESG Investment



Source: Aberdeen Standard Investments

ESG considerations

Environmental



- climate change
- resource depletion
- waste
- pollution
- deforestation

Social



- human rights
- modern slavery
- child labour
- working conditions
- employee relations

Governance



- bribery and corruption
- executive pay
- board diversity
- political lobbying
- tax strategy

Our commitment

It starts with us, that's why on top of our financial responsibilities to our clients, as a company we have committed to:



eliminate all feasible single-use plastics in our buildings



procure 100% renewable energy in our buildings



cut our greenhouse gas emissions from energy use by 50% by 2030

We want to go further though, and while we continue to reduce, we have also pledged to offset our entire carbon footprint to become carbon neutral in 2020.

Visit us online

For further information, please go to aberdeenstandard.com

The value of investments and the income from them can go down as well as up and your clients may get back less than the amount invested.

Important information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. We recommend that you seek financial advice prior to making an investment decision.

The details contained here are for information purposes only and should not be considered as an offer, investment recommendation, or solicitation to deal in any investments or funds and does not constitute investment research, investment recommendation or investment advice in any jurisdiction. Any research or analysis used to derive, or in relation to, the above information has been procured by us for our own use, without taking into account the investment objectives, financial situation or particular needs of any specific investor, and may have been acted on for our own purpose. No warranty is given as to the accuracy, adequacy or completeness of the information contained in this report and no liability for errors or omissions in such information. Readers must make assessments to the relevance, accuracy and adequacy of the information contained in this report and make such independent investigations, as they may consider necessary or appropriate for the purpose of such assessments. Any opinion or estimate contained in this report are made on a general basis. No information contained herein constitutes investment, tax, legal or any other advice, or an invitation to apply for securities in any jurisdiction where such an offer or invitation is unlawful, or in which the person making such an offer is not qualified to do so.

This is not a complete list or explanation of the risks involved and investors should read the relevant offering documents and consult with their own advisors investing prior to making an investment decision.

This content is available in the following countries/regions and issued by the respective entities detailed below:

Europe, Middle East and Africa

United Kingdom (UK): Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, and Sweden:** Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited. Registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Switzerland:** Aberdeen Standard Investments (Switzerland) AG ("ASIS"). Registered in Switzerland under company no. CHE-114.943.983. Registered Office: Schweizergasse 14, 8001

Zurich. ASIS holds a distribution licence from FINMA. **Abu Dhabi Global Market ("ADGM"):** Aberdeen Asset Middle East Limited. Regulated by the ADGM Financial Services Regulatory Authority. Aberdeen Asset Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, PO Box 5100737, Abu Dhabi, United Arab Emirates. **South Africa:** Aberdeen Asset Managers Limited ("AAML"). Registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. AAML holds a Category I financial services provider (FSP) licence in terms of the Financial Advisory and Intermediary Services Act, 2002, (FAIS) under licence 43675.

Asia-Pacific

Australia and New Zealand: Aberdeen Standard Investments Australia Limited ABN 59 002 123 364, AFSL No. 240263. In New Zealand to wholesale investors only as defined in the Financial Markets Conduct Act 2013 (New Zealand). **Hong Kong:** Aberdeen Standard Investments (Hong Kong) Limited. This document has not been reviewed by the Securities and Futures Commission.

Indonesia: PT Aberdeen Standard Investments Indonesia. PT Aberdeen Standard Investments Indonesia is an investment manager license holder, registered and supervised by the Indonesia Financial Services Authority (OJK). **Japan:** Aberdeen Standard Investments (Japan) Limited Malaysia: Aberdeen Standard Investments (Malaysia) Sdn Bhd, Company Number: 690313-D. **The People's Republic of China ("PRC"):** Aberdeen Standard Asset Management (Shanghai) Co., Ltd in the PRC only. **Taiwan:** Aberdeen Standard Investments Taiwan Limited, which is operated independently, 8F, No.101, Songren Rd., Taipei City, Taiwan Tel: +886 2 87224500. **Thailand:** Aberdeen Standard Asset Management (Thailand) Limited. **Singapore:** Aberdeen Standard Investments (Asia) Limited, Registration Number 199105448E.

Americas

Brazil: Aberdeen Standard Investments is the marketing name in Brazil for Aberdeen do Brasil Gestão de Recursos Ltda. Aberdeen do Brasil Gestão de Recursos Ltda. is an entity duly registered with the Comissão de Valores Mobiliários (CVM) as an investment manager. **Canada:** Aberdeen Standard Investments (Canada) Limited, ("Aberdeen Standard Investments"), is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. **United States:** Aberdeen Standard Investments is the marketing name for the following affiliated, registered investment advisers: Aberdeen Standard Investments Inc., Aberdeen Asset Managers Ltd., Aberdeen Standard Investments Australia Ltd., Aberdeen Standard Investments (Asia) Ltd., Aberdeen Capital Management LLC, Aberdeen Standard Investments ETFs Advisors LLC and Standard Life Investments (Corporate Funds) Ltd.