

Product name: **European Smaller Companies Fund**Legal entity identifier **IKNRVTZFJMXVU04INT73****Environmental and/or social characteristics****Does this financial product have a sustainable investment objective?**●●  Yes●●  No

It made **sustainable investments with an environmental objective: %**

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It made **sustainable investments with a social objective: %**

It promoted **Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 40.14% of sustainable investments

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

with a social objective

It promoted E/S characteristics, but **did not make any sustainable investments**

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**To what extent were the environmental and/or social characteristics promoted by this financial product met?**

To promote the environmental and social characteristics, the Fund applied ESG assessment criteria, ESG screening criteria and promoted good governance including social factors.

We used our proprietary research framework to analyse the foundations of each business to ensure proper context for our investments. This included the durability of its business model, the attractiveness of its industry, the strength of its financials and the sustainability of its economic moat.

We also considered the quality of its management team and analysed the environmental, social and governance (ESG) opportunities and risks impacting the business and appraised how well these are managed. We assigned a proprietary score to articulate the quality attributes of each company, one of which is the ESG Quality rating. This enabled the portfolio managers to exclude companies with material ESG risks and positively skew the portfolio towards ESG opportunities and to build well-diversified, risk-

adjusted portfolios.

Additionally, our proprietary ESG House Score, developed by our central ESG investment team in collaboration with the Quantitative investment team, was used to identify companies with potentially high or poorly managed ESG risks. The score is calculated by combining a variety of data inputs within a proprietary framework in which different ESG factors are weighted according to how material they are for each sector. This allowed us to see how companies rank in a global context.

To complement this, we also utilised our active stewardship and engagement activities.

This Fund had a financial benchmark that was used for portfolio construction but did not incorporate any sustainable criteria and was not selected for the purpose of attaining these characteristics. This financial benchmark was used as a comparator for Fund performance and as a comparison for the Fund's binding commitments.

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

### ● **How did the sustainability indicators perform?**

We confirm the Fund only owned companies with an ESG Q score of 1-3. As at year-end, 1% of the fund had an ESG Q score of 1, 47% had an ESG Q score of 2 and 44% had an ESG Q score of 3.

Our equity analysts assign a proprietary score (1 to 5) to articulate how well a business is managing material ESG factors and the likely impact on performance. This score summarises insights across three key areas:

- 1.) Our view on the quality of the corporate governance and oversight of the business and management
- 2.) Identification of the most material environmental, social, and operational governance issues the company must manage
- 3.) An assessment of the management of the most material ESG risks and opportunities and impact the business' operational performance and valuation

1 indicates best in class performance with excellent governance, strong operational ESG integration and maximisation of revenue opportunities linked to sustainability themes. Overall an ESG Q1 indicates that ESG enhances a company's competitive advantage and strengthens an investment case. ESG Q 5 indicates poor governance and no oversight, little appetite to identify and manage ESG risks and no awareness of revenue opportunities linked to sustainability themes which mean there is significant investment risk.

We confirm that during the reporting period, binary exclusions are applied to exclude the particular areas of investment related to UN Global Compact, Controversial Weapons, Tobacco Manufacturing and Thermal Coal. These screening criteria apply in a binding manner and there are no holdings in the fund that fail the agreed criteria.

Our proprietary ESG House Score, developed by our central sustainability team in collaboration with the Quantitative investment team, is used to identify companies with potentially high or poorly managed ESG risks. The score is calculated by combining a variety of data inputs within a proprietary framework in which different ESG factors are weighted according to how material they are for each sector.

We confirm that during the reporting period the Fund excluded companies with the highest ESG risks, as identified by the ESG House Score. This is implemented by excluding the bottom 5% of issuers with an ESG House Score that are in the benchmark.

We confirm that during the reporting period the portfolio carbon intensity was lower than the benchmark, in line with our overall commitment. As at year-end, the fund's weighted average carbon intensity (Scope 1 and 2) relative to the benchmark was 42.45%.

We confirm that during the reporting period the fund's ESG rating from MSCI was A.

We confirm that during the reporting period the Fund focused engagement and analysis on governance and that using the abrdrn ESG House Score and Equities ESG Q score as above, we avoided those companies with the worst governance practices.

### ● **...and compared to previous periods?**

At the end of the previous year, 6% of the fund had an ESG Q score of 1, 41% had an ESG Q score of 2 and 53% had an ESG Q score of 3.

During the previous reporting period, binary exclusions are applied to exclude the particular areas of investment related to UN Global Compact, Controversial Weapons, Tobacco Manufacturing and Thermal Coal. These screening criteria apply in a binding manner and there were no holdings in the fund that fail the agreed criteria in the previous period.

During the previous reporting period the Fund excluded companies with the highest ESG risks, as identified by the ESG House Score. This is implemented by excluding the bottom 5% of issuers with an ESG House Score that are in the benchmark.

As at year-end, the fund's weighted average carbon intensity (Scope 1 and 2) relative to the benchmark was 36.07%.

As at year-end, the fund's ESG rating from MSCI was AA.

During the previous reporting period the Fund focused engagement and analysis on governance and that using the abrdrn ESG House Score and Equities ESG Q score as above, we avoided those companies with the worst governance practices.

### ● **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?**

(1) The Fund's sustainable investments will contribute to either environmental or social objectives, or both. Where the objective relates to the environment, the investment will contribute to at least one of the following objectives: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. Where the objective relates to social matters, the investment will contribute to social objectives in line with one of the Sustainable Development Goals. [The objectives of the sustainable investments may vary from time to time depending on the specific activity or investment. No specific environmental or social objective is being targeted, from those listed above.]

#### (2) Sustainable Investment Methodology

The objective of the sustainable investment is to make a contribution to solving an environmental or social challenge, in addition to not causing significant harm, and being well governed. Each sustainable investment may make a contribution to Environmental or Social issues. In fact, many companies will make a positive contribution to both. abrdrn use the six environmental objectives of the Taxonomy to inform Environmental contributions, including: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity and ecosystems. In addition, abrdrn use the 17 Sustainable Development Goals and their sub-goals to supplement the EU Taxonomy topics and provide a framework for considering Social objectives

An economic activity must have a positive economic contribution to qualify as a Sustainable investment, this includes consideration of Environmental or Socially aligned revenues, Capex,

Opex or sustainable operations. abrdn seek to establish or estimate the share of the investee company's economic activities/contribution towards a sustainable objective and it is this element that is weighted and counted towards the Sub-fund's total aggregated proportion of Sustainable Investments.

abrdn uses a combination of the following approaches: i. a quantitative methodology based on a combination of publicly available data sources; and ii. using abrdn's own insight and engagement outcomes abrdn overlay the quantitative methodology with a qualitative assessment to calculate an overall percentage of economic contribution towards a sustainable objective for each holding in a Fund.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti- corruption and anti- bribery matters.

### ● ***How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?***

As required by the SFDR Delegated Regulation, the investment does not cause Significant Harm ("Do No Significant Harm"/ "DNSH") to any of the sustainable investment objectives. abrdn have created a 3-step process to ensure consideration of DNSH:

#### i. Sector Exclusions

abrdn have identified a number of sectors which automatically do not qualify for inclusion as a Sustainable Investment as they are considered to be causing significant harm. These include but are not limited to: (1) Defence, (2) Coal, (3) Oil & Gas Exploration, Production and associate activities, (4) tobacco, (5) gambling and (6) alcohol.

#### ii. DNSH Binary Test

The DNSH test, is a binary pass/fail test which signals if the company passes or fails criteria for the SFDR Article 2 (17) "do no significant harm". Pass indicates under abrdn's methodology the company has no ties to controversial weapons, less than 1% of revenue from thermal coal, less than 5% of revenue from tobacco related activities, is not a tobacco producer, and has no red/severe ESG Controversies. If the company fails this test, it cannot be considered a Sustainable Investment. Abrdn's approach is aligned with the SFDR PAIs included within tables 1, 2 & 3 of the SFDR Delegated Regulation and is based on external data sources and abrdn internal insights.

#### iii. DNSH Materiality Flag

Using a number of additional screens and flags, abrdn consider the additional SFDR PAI's indicators as defined by the SFDR Delegated Regulation to identify areas for improvement or potential future concern. These indicators are not considered to cause significant harm and therefore a company with active DNSH materiality flags may still be considered to be a Sustainable Investment. abrdn aim to enhance the engagement activities to focus on these areas and seek to deliver better outcomes by resolving the issue.

### — ***How were the indicators for adverse impacts on sustainability factors taken into account?***

The fund considers Principle Adverse Impact Indicators defined by the SFDR Delegated Regulation.

Pre investment, abrdn applies a number of norms and activity-based screens related to PAIs, including but not limited to: UN Global Compact, controversial weapons, and thermal coal extraction.

UNGC: The Fund uses norms-based screens and controversy filters to exclude companies that may be in breach of international norms described in the OECD guidelines for multinational enterprises and the UN guiding principles on business and human rights, as well as state owned entities in countries which violate norms.

Controversial Weapons: The Fund excludes companies with business activities related to controversial weapons (cluster munitions, anti-personnel landmines, nuclear weapons, chemical and biological weapons, white phosphorus, non-detectable fragments, incendiary

devices, depleted uranium ammunition or blinding lasers).

Thermal Coal Extraction: The Fund excludes companies with exposure to the fossil fuels sector based on percentage of revenue from thermal coal extraction.

abrdn apply a fund specific set of company exclusions, more detail on these and the overall process is captured within the Investment Approach, which is published at [www.abrdn.com](http://www.abrdn.com) under "Fund Centre".

Post-investment the following PAI indicators are considered:

- o abrdn monitors all mandatory and additional PAI indicators via our ESG integration investment process using a combination of our proprietary house score and 3rd party data feeds. PAI indicators that either fail a specific binary test or are considered above typical are flagged for review and may be selected for company engagement.
- o Consideration of portfolio carbon intensity and GHG emissions via our Climate tools and risk analysis
- o Governance indicators via our proprietary governance scores and risk framework, including consideration of sound management structures, employee relations, remuneration of staff and tax compliance
- o On an on-going basis the investment universe is scanned for companies that may be in breach of international norms described in the OECD guidelines for multinational enterprises and the UN guiding principles on business and human rights, as well as state owned entities in countries which violate norms.

***Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:***

Yes, all sustainable investments are aligned with OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human rights. Breaches and violations of these international norms are flagged by an event-driven controversy and are captured in the investment process, and in turn excluded from consideration as a sustainable investment.

*The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union criteria.*

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



**How did this financial product consider principal adverse impacts on sustainability factors?**

(1) GHG Emissions Scope 1 & 2 and carbon footprint: This is undertaken via monitoring of the carbon benchmark and we confirm that during the reporting period that the portfolio performed better than the benchmark and in line with our overall commitment.

(2) Exclusions: We confirm that screening in line with our approach documents has been undertaken during the reporting period



## What were the top investments of this financial product?

The list includes the investments constituting the **greatest proportion of investments** of the financial product during the reference period which is:  
- - 31/12/2023

Largest Investments	Sector	% Assets	Country
DIPLOMA PLC	Industrials	4.94	United Kingdom
AZIMUT HOLDING SPA	Financials	4.34	Italy
MORGAN SINDALL GROUP PLC	Industrials	4.21	United Kingdom
ADDTECH AB-B SHARES	Industrials	4.20	Sweden
CTS EVENTIM AG & CO KGAA	Consumer Discretionary	4.16	Germany
KOMAX HOLDING AG-REG	Industrials	3.87	Switzerland
GAZTRANSPORT ET TECHNIGA SA	Energy	3.49	France
GAMES WORKSHOP GROUP PLC	Consumer Discretionary	3.36	United Kingdom
INTERMEDIATE CAPITAL GROUP	Financials	3.34	United Kingdom
GRAFTON GROUP PLC-UTS -CDI	Consumer Discretionary	3.30	United Kingdom
HILL & SMITH PLC	Industrials	3.11	United Kingdom
FINECOBANK SPA	Financials	3.10	Italy
BORREGAARD ASA	Materials	3.08	Norway
YOUNGOV PLC	Communications	2.84	United Kingdom
INTERPARFUMS SA	Consumer Staples	2.82	France

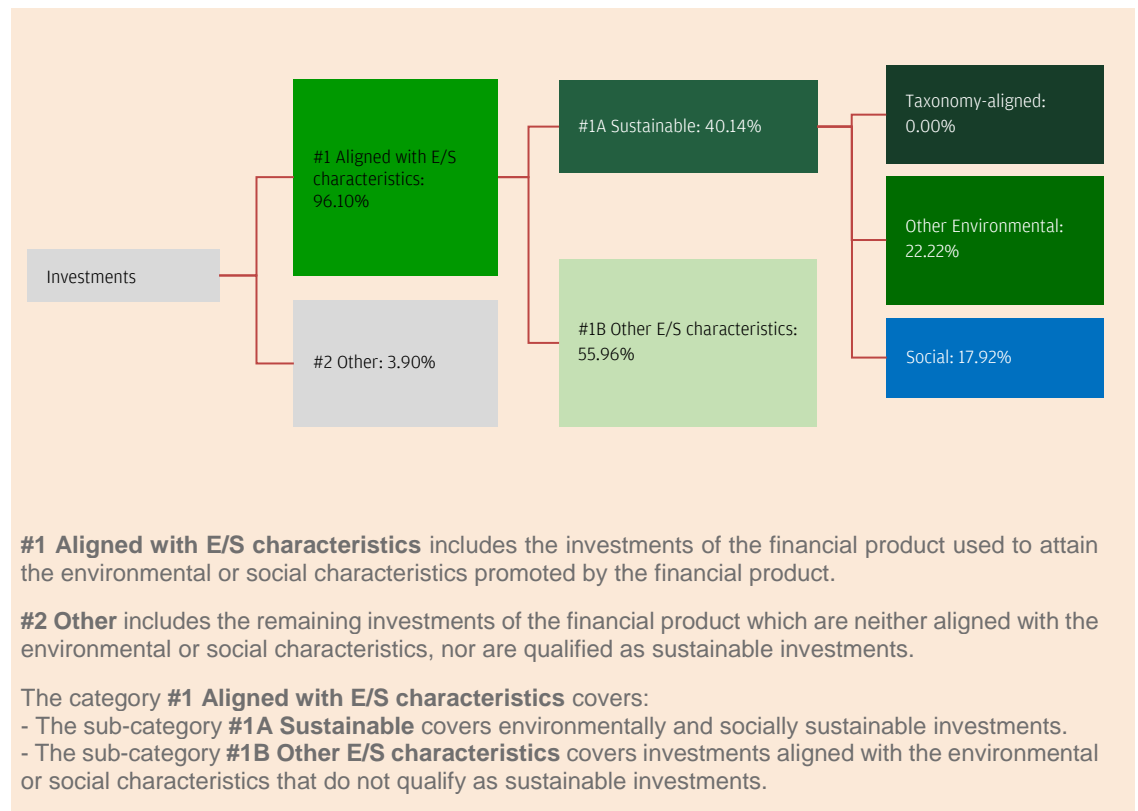


## What was the proportion of sustainability-related investments?

**Asset allocation** describes the share of investments in specific assets.

### ● *What was the asset allocation?*

The fund committed to hold a minimum of 70% of the Fund's assets aligned with E/S characteristics. Environmental and social safeguards were met by applying certain PAI's, where relevant, to these underlying assets. The Fund invested a maximum of 30% of assets in the "Other" category, which include cash, money market instruments and derivatives.



● **In which economic sectors were the investments made?**

Sector	Sub-sector	% Assets
Consumer Discretionary	Consumer Discretionary Products	7.61
Consumer Discretionary	Consumer Discretionary Services	4.16
Consumer Discretionary	Retail & Whsle - Discretionary	6.19
Financials	Financial Services	9.58
Financials	Insurance	0.91
Financials	Banking	3.10
Industrials	Industrial Products	24.38
Industrials	Industrial Services	10.41
Materials	Materials	6.14
Health Care	Health Care	3.99
Technology	Software & Tech Services	6.09
Consumer Staples	Consumer Staple Products	4.64
Consumer Staples	Retail & Wholesale - Staples	1.14
Energy	Oil & Gas	3.49
Communications	Media	3.28
Utilities	Utilities	0.87

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are economic activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels corresponding to the best performance.



**To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?**

The fund holds 0% sustainable investments with an environmental objective aligned with the EU Taxonomy. This assessment has not been subject to an external review.

These sustainable investments will not be EU Taxonomy aligned as the environmental objective does not have associated technical standards for comparison and relevant data is not available to confirm alignment

Yes

In fossil gas

In nuclear energy

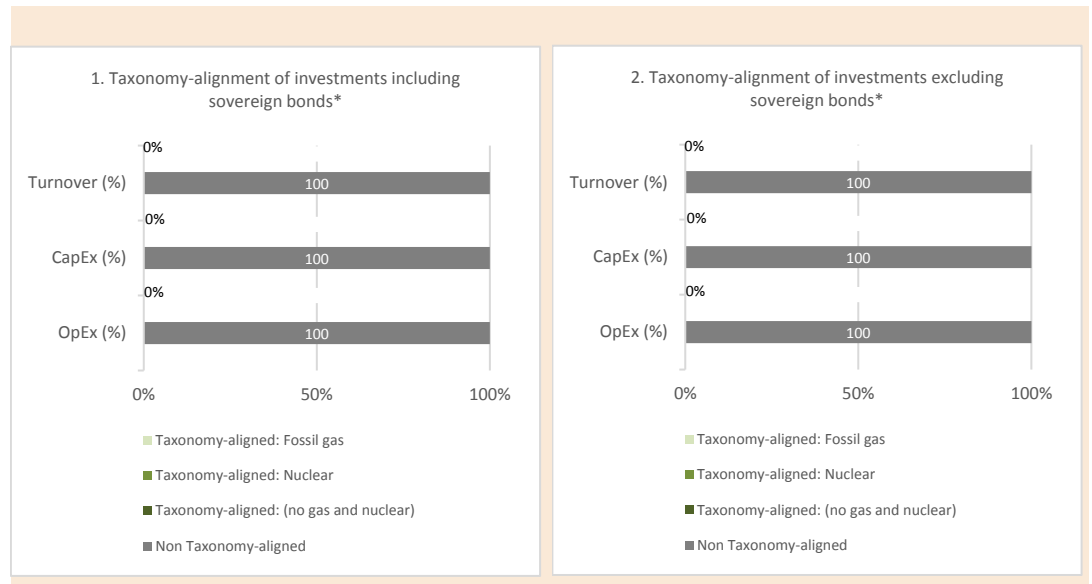
No

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies.
- **capital expenditure** (Capex) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (Opex) reflecting green operational activities

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

of investee companies.



This graph represents 0 % of the total investment.

\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

● **What was the share of investments made in transitional and enabling activities?**

The fund holds 0% investments made in transitional and enabling activities.

● **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?**

No change

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 22/852.



**What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?**

The share of sustainable investments with an environmental objective not aligned with the EU Taxonomy is 22%



**What was the share of socially sustainable investments?**

The share of sustainable investments with a social objective is 18%



**What investments were included under "other", what was their purpose and were there any minimum environmental or social safeguards?**

The Fund invested 4% of assets in the "Other" category. The investments included under "other" are cash, money market instruments, derivatives. The purpose of these assets are to meet liquidity, target return or manage risk and may not contribute to the environmental or social aspects of the Fund.





## What actions have been taken to meet the environmental and/or social characteristics during the reference period?

The fund's screening, scoring requirements and benchmark targets ensure that the portfolio is invested in companies that uphold appropriate ESG standards. The fund has also engaged with issuers on topics which may include Climate change, Environment, Labour, Human rights, Corporate Governance and Behaviour.



## How did this financial product perform compared to the reference benchmark?

Not applicable

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- ***How does the reference benchmark differ from a broad market index?***

Not applicable

- ***How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?***

Not applicable

- ***How did this financial product perform compared with the reference benchmark?***

Not applicable

- ***How did this financial product perform compared with the broad market index?***

Not applicable