



Sustainable Investment Report

abr dn UK Smaller Companies Growth Trust plc

30 June 2023

Prepared by: abr dn

[abr dn.com](https://www.abr dn.com)

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Portfolio Overview

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FUND SIZE	As at 30 June 2023, the fund size was £ 430.33m
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Sustainable Investment Approach

- abrdrn believes that Sustainable Investing is how we help clients to meet both their financial and sustainable investing objectives - with the aim of enabling our clients to be better investors.
- We also believe that integrating material ESG analysis can produce better risk-adjusted returns potential over the long term for our clients.
- Our beliefs are supported by principles that centre on our proprietary research, tools and analysis, all focused on delivering better value to our clients.
- We also offer clients a range of dedicated sustainable investment funds.



Our goal is to integrate environmental, social and governance risks and opportunities into the investment process with the ultimate aim of making better-informed investment decisions.

How we embed ESG into the Investment Process

01 Investment Insight	02 Active Ownership	03 Risk & Monitoring	04 Our People
			
<p>High quality fundamental and first hand research</p> <p>Assessment of ESG for all stocks under coverage</p>	<p>Engage and vote with aim of improving financial resilience and investment performance</p> <p>Raise standards in companies and industries we invest in, and help drive industry best practice</p>	<p>Combine in-house and external scoring to inform view</p> <p>Active tracking of fund holdings against ESG objectives</p>	<p>Over 150 equity professionals and circa 40 dedicated central & on-desk ESG specialists across the world</p>

The benchmark for the fund is **Numis Smaller Companies Plus AIM ex Investment Companies**

Key Data and Portfolio Ratings

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Below we set out some key information about the way ESG considerations have been embedded in the portfolio

abrdrn

c.60

Dedicated ESG experts across our business



5-star

Rating across 9 categories in the latest Principles for Responsible Investment (PRI) assessment



1020

Company engagements covering ESG topics



Equities Investment Team

5-star/4-star

PRI Rating for Integration/Active Ownership in Listed Equities



100%

of researched companies include integration of ESG company analysis



Fund

77.8%

Lower

carbon intensity relative to the Benchmark



63

Number of meetings where we voted



9.5%

of meetings with at least one vote against management



2nd

Quartile

Peer Group MSCI Quartile Rating



3/5

Globes - Morningstar Sustainability rating



AA

Fund MSCI ESG Rating



These scores are included for representative purposes only and are not reflective of our ratings across other modules. Our latest PRI Assessment Report containing our scores across all modules is available on our Sustainable Investing website.
Engagement: time period referenced is preceding 6 months.
Voting: time period referenced is preceding 12 months.

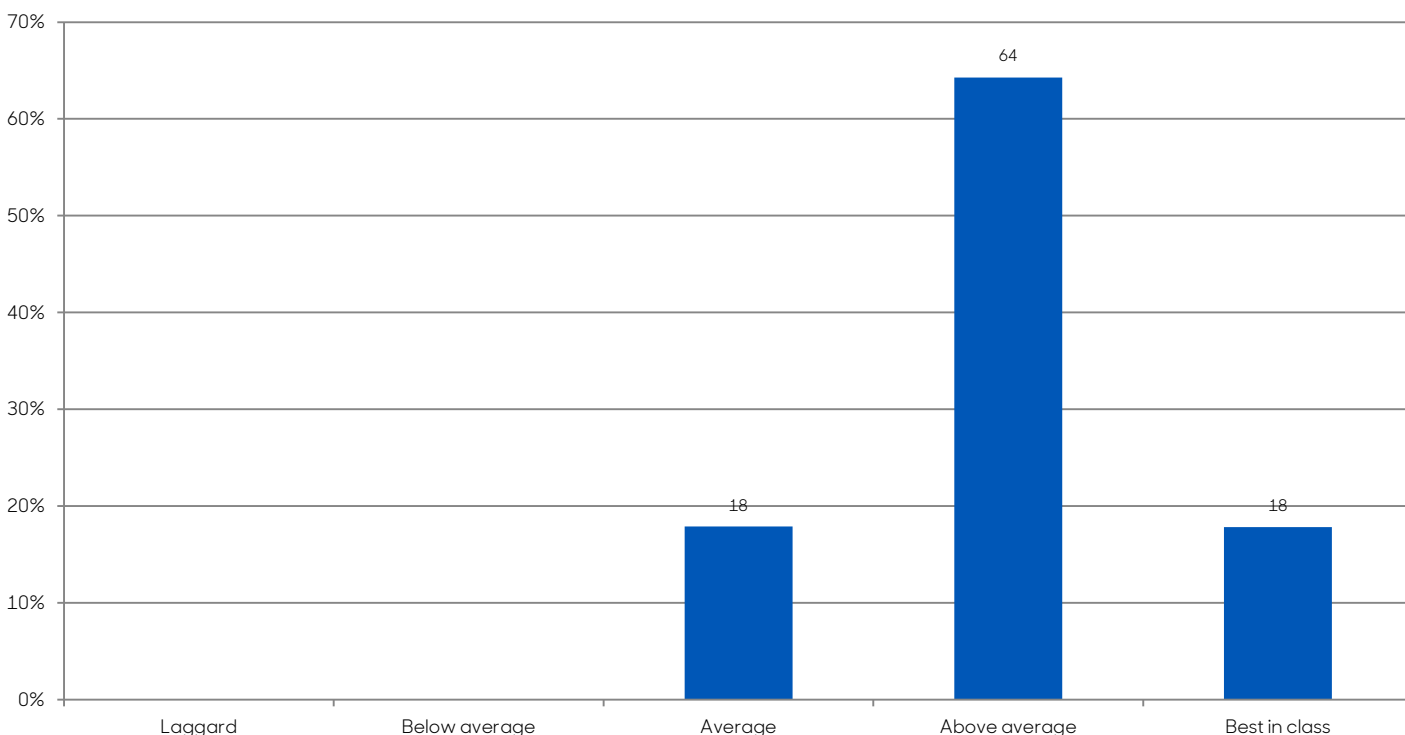
abrdn ESG Analysis

abrdn UK Smaller Companies Growth Trust plc

Fund ESG Quality Score Distribution

As part of their company research, our stock analysts evaluate the ownership structures, governance and management quality of the companies they cover. They also assess potential environmental and social risks that the companies may face. These insights are captured in our company research with every company that we invest in given a proprietary overall Quality rating and a component of this is the ESG Quality rating. Companies are ranked from Laggards (5) to Best in class (1).

Given the consistency of our investment process and its' natural correlation with lower risk and better quality names, the vast majority of the fund holdings consists of a combination of leading ESG quality companies, best in class and average. In more detail, 18% of holdings are falling the "best in class" categorisation, 64% are "above average", 18% are "average". The quality score data coverage stands at 100% and thus the numbers are fully representative showing the high ESG quality of the fund. An observed common reason for lower scores continues to be due to lack of transparency and a formalized sustainability plan / target setting. We continue to engage with lower scoring securities to encourage and monitor improvements.



Source: abrdn

Analyst ESG rating	5	4	3	2	1
	Laggard	Below average	Average	Above average	Best in class
Examples of inputs	<ul style="list-style-type: none"> • Many financial controversies • Severe governance concerns • Poor treatment of shareholders 	<ul style="list-style-type: none"> • Evidence of some financially material controversies • Poor governance or limited oversight of key ESG issues • Some issues in treating minority shareholders poorly 	<ul style="list-style-type: none"> • ESG risks are starting to be considered in company strategy. • Disclosure in line with regulatory requirements • Governance is generally good but some minor concerns 	<ul style="list-style-type: none"> • ESG risks are considered as part of principal business • Disclosure is good but not best in class • Governance is very good 	<ul style="list-style-type: none"> • ESG considerations are material part of the company's strategy • Excellent disclosure • Makes opportunities from strong ESG risk management

Carbon Analysis

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Carbon footprinting is a starting point for understanding exposure to climate risks and the impact of a company or a portfolio on the energy transition. It can help identify relatively high carbon-intensive companies and drive corporate engagement. In our analysis we consider Scope 1, 2 and 3 emissions at company and sector level. For portfolio carbon footprinting we limit emissions to Scope 1 and 2 to avoid double counting and data inconsistencies.

Please note that Carbon footprinting has its limitations as it is a backward-looking measure. Our analysts overlay this with their own forward looking assessment of the company.

The fund's carbon footprint is 77.8% lower than the benchmark, as detailed below. The main contributors towards the carbon footprint are Coats Group PLC, Hill & Smith PLC and Cranswick PLC.

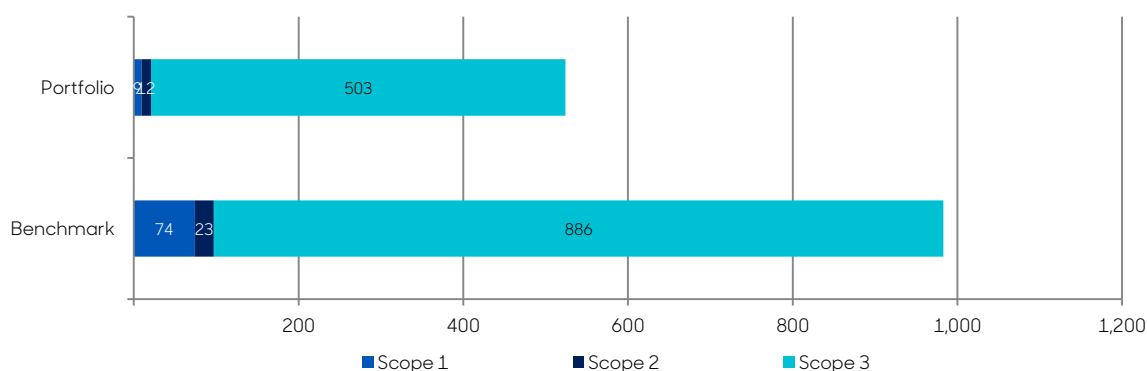
Carbon Data Disclosure: Scope 1 and 2

Data Disclosure	Portfolio	Benchmark
Number of Companies with Data	37	265
Trucost Data Coverage (%)	69.8	24.2

Source: Trucost

Fund Carbon Footprint

Weighted Average Carbon Intensity (tCO₂e/USDm)



Source: Trucost

Portfolio Carbon Intensity versus Benchmark

How carbon intensive are the companies in my portfolio compared to benchmark?

(In tonnes of CO ₂ e/million USD revenue)	Weighted Average Carbon Intensity Scope 1+2	Scope 1	Scope 2	Scope 3
Portfolio	22	9	12	503
Benchmark	97	74	23	886
Relative Carbon Intensity (%)	22.2	12.4	53.6	56.8

Source: Trucost

A portfolio with less than 100% relative carbon intensity has lower carbon emissions per dollar of revenue than the comparative benchmark. For example a portfolio with 90% relative carbon intensity has 10% lower carbon intensity than the benchmark.

Scope (1-3) emissions definitions - 1: Direct emissions 2: Indirect emissions 3: Upstream and Downstream (where available) Value Chain emissions.

Trucost data is partly based on estimated figures.

Coverage % based on number of holdings.

Carbon Analysis

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Total Portfolio Emissions versus Benchmark

What emissions are "owned" by the portfolio based on company ownership?

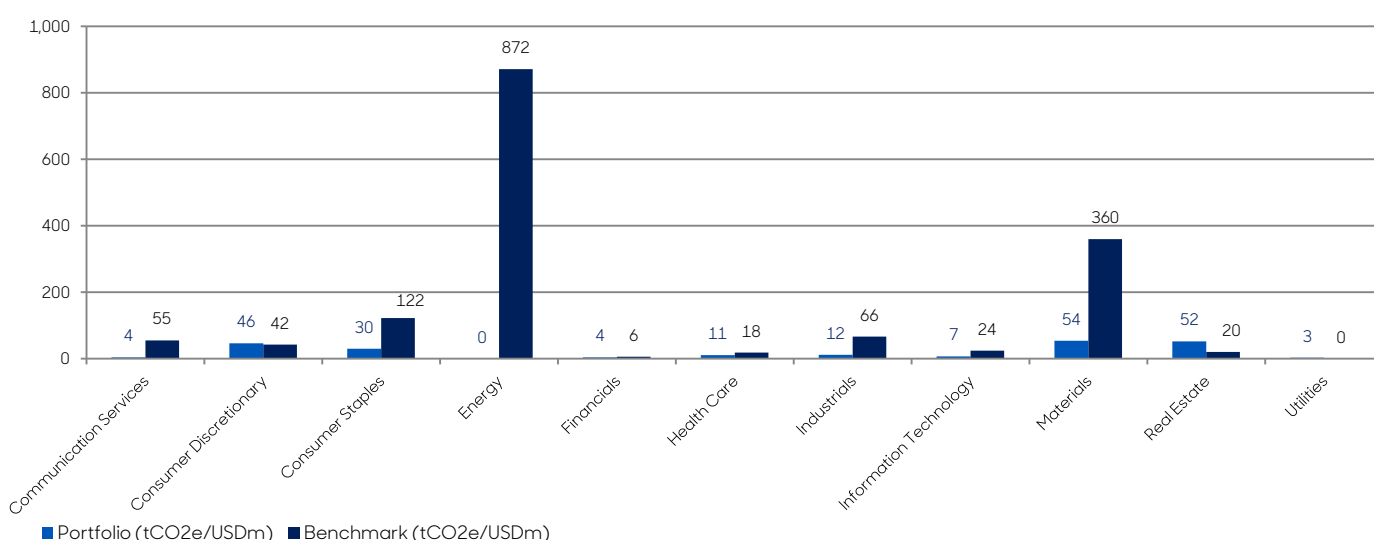
(In tonnes of CO ₂ e)	Emissions Scope 1+2	Scope 1	Scope 2	Scope 3
Portfolio	8,172	3,273	4,899	263,854
Benchmark	79,939	59,952	19,987	454,083
Relative to benchmark (%)	10.2	5.5	24.5	58.1
Avoided Emissions	71,767	56,679	15,088	190,228

Source: Trucost

Total emissions owned increase with the size of the portfolio and are therefore not comparable across funds.

Carbon Footprint Sector Contribution

Scope 1 & Scope 2 Carbon Emissions (tCO₂e/USDm)



Source: Trucost

Top Carbon Footprint Stock Contribution

A negative carbon footprint contribution increases the portfolio's carbon footprint

Scope 1 and Scope 2 Carbon Emissions (tCO₂e/USDm)

Top Contributors to Carbon Footprint	Portfolio (%)	Benchmark (%)	Fund Carbon Footprint Contribution (%)	Benchmark Carbon Footprint Contribution (%)
Coats Group PLC	2.9	0.8	-22.4	-0.8
Hill & Smith PLC	4.2	0.9	-9.9	0.3
Cranswick PLC	4.0	0	-4.1	0
Auction Technology Group PLC	2.6	0.7	-3.1	0.4
Sirius Real Estate Ltd	2	0.8	-2.9	0.4
Marshalls PLC	17	0.5	-2.9	0.2
Hollywood Bowl Group PLC	3	0.3	-1.5	0.2
Motorpoint group PLC	0.3	0.1	-0.4	0
Treant PLC	2.5	0.3	-0.4	0.2
XP Power Ltd	19	0.3	-0.2	0.2

Source: Trucost

Scope (1-3) emissions definitions - 1: Direct emissions 2: Indirect emissions 3: Upstream and Downstream (where available) Value Chain emissions.

Trucost data is partly based on estimated figures.

Coverage % based on number of holdings.

Benchmarking: MSCI ESG Ratings

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MSCI company ratings are provided to enable comparisons with investments held elsewhere in a standardised format. We conduct our own proprietary research which may lead us to have a view different to that expressed by the MSCI score.

MSCI rates companies on a AAA-CCC scale according to their exposure to ESG risks and how well they manage those risks relative to peers.

The Fund MSCI ESG Quality Score assesses the resilience of a fund's aggregate holdings to long term ESG risks and is provided on a 0-10 scale, with 10 being the highest possible fund score. The Fund MSCI ESG Rating measures the resiliency of portfolios to long term risks and opportunities arising from environmental, social, and governance factors. The Fund ESG Rating is calculated as a direct mapping of "Fund MSCI ESG Quality Score" to letter rating categories.

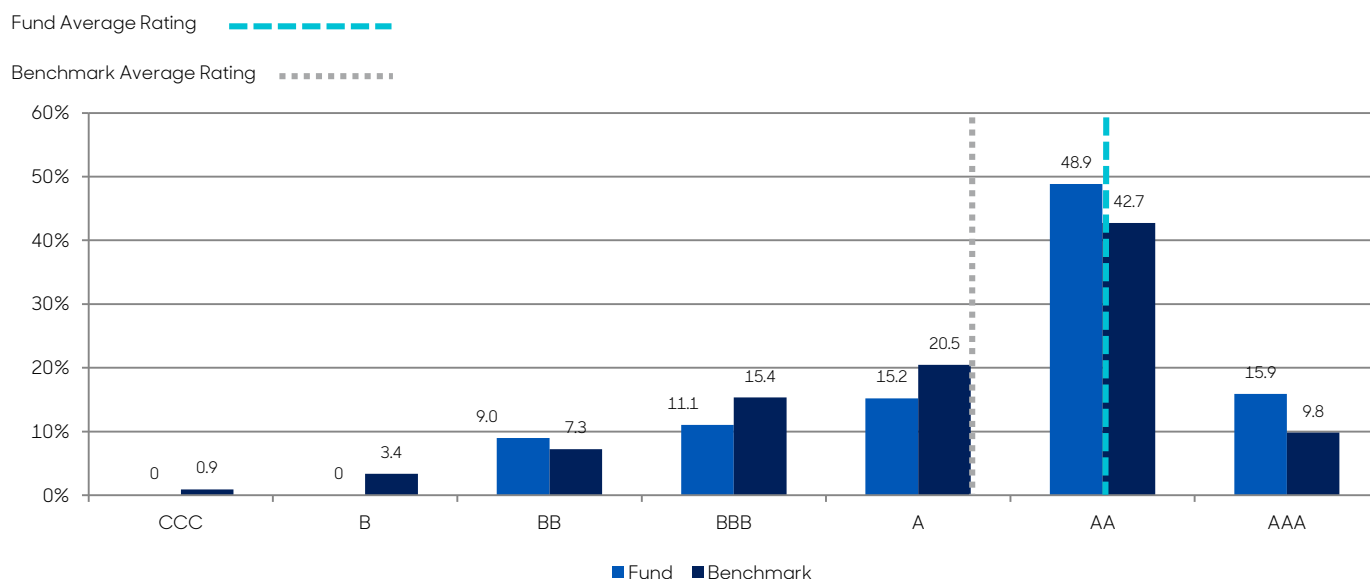


MSCI Fund ESG Quality Scores

	Overall Score (1-10)	Benchmark Average
Fund	7.4	6.9
Environmental	6.1	5.8
Social	4.9	4.5
Governance	7.6	7.3

Source: abrdrn derived average based on underlying MSCI company scores

MSCI ESG Rating Distribution Fund and Benchmark



Source: abrdrn derived averages based on underlying MSCI company ratings

	Fund	Benchmark
MSCI data coverage (by market value)	86.1%	73.7%

MSCI company ratings are provided to enable comparisons with investments held elsewhere in a standardised format. We conduct our own proprietary research which may lead us to have a view different to that expressed by the MSCI score.

MSCI ESG Rating: This is sourced direct from the vendor and includes MSCI adjustments incorporating positive & negative ESG trends and ESG laggard metrics in the calculation of the rating. MSCI ESG Rating Distribution: The fund and benchmark averages are calculated based on the individual security level MSCI scores. Therefore the ratings are not directly comparable. In both calculation methodologies Portfolio and Benchmark positions are reweighted on a pro rata basis to reflect holdings where MSCI data is available.

Active Ownership

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Engagement Activity

We actively undertake informed constructive engagement to generate better performance from our investments. This helps enhance the value of our clients' assets. We engage, manage and vote for either insight or influence. Engagement activity may be undertaken by any of our investment teams with a holding in the company, or by our dedicated stewardship team. Time period referenced is preceding 6 months.

Please note this page references abrdn ESG engagements conducted with the investment desk and does not cover all company meetings by the investment desk where ESG issues were discussed. The case studies section in this report details a sample of further engagements relevant to the fund.

Voting

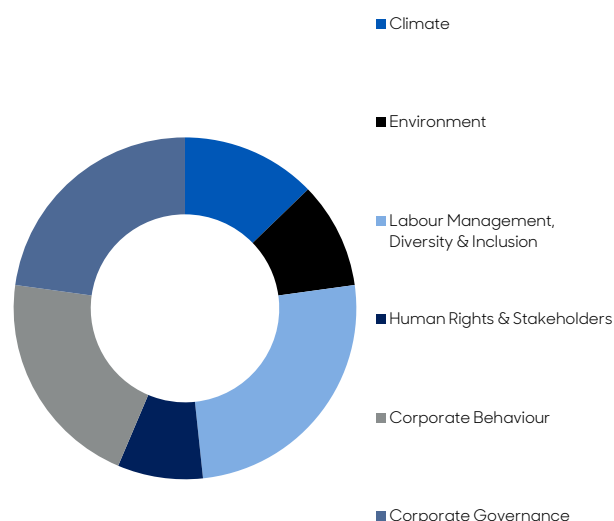
We draw on the resources in our ESG Investment Team and stock analysts to vote consistently on behalf of all client assets in line with the abrdn voting policy. Time period referenced is preceding 12 months.



There were 54 holdings in the portfolio as of the 30 June 2023

Our Engagement Activity

We regularly engage with companies we invest in. The below shows the engagements that have included ESG topics. Over the period we met with 33 portfolio companies on ESG topics and had 58 engagements with them. This does not include positions we have moved out of or are considering. Below are the themes engaged on :



Our Voting Activity

Voting Summary	Total
How many meetings were you eligible to vote at?	63
How many meetings did you vote at?	63
How many resolutions were you eligible to vote on?	991
What % of resolutions did you vote on for which you were eligible?	100%
Of the resolutions on which you voted, what % did you vote with management?	99.3%
Of the resolutions on which you voted, what % did you vote against management?	0.7%
Of the resolutions on which you voted, what % did you abstain from voting?	0%
In what % of meetings, for which you did vote, did you vote at least once against management?	9.5%

During an ESG engagement meeting / call with a portfolio company multiple themes and issues might be discussed. At abrdn we endeavour to vote at all meetings for which our clients have delegated us voting authority. Where we do not have voting authority, no voting data will be included in this report. We have disclosed the number of meetings and resolutions for which the fund was eligible to vote and the remaining statistics reflect data for the votes which have been successfully processed. The number of meetings voted compared to eligible meetings may differ due to the impact of market specific obstacles which could impact liquidity, for example shareblocking, and rejected votes due to local Power of Attorney requirements. Full details of our voting activity is disclosed on our website.

Active Ownership: Case Studies

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We include a selection of case studies to demonstrate engagement style and investment management approach. These are not an indication of future performance or investment recommendation on the companies themselves.

Company Topic	Lifecycle Status	Engagement Summary	Investment View Change
Coats Group PLC Climate Change, Corporate Gov. & Disclosure, Environment, Human Rights & Stakeholders		We had an ESG engagement with Coats for an overview of their ESG strategy. The company is ahead of competition and they are leaders in threads and textiles. They have set decarbonisation targets and have an advanced mechanism to estimate their scope 3 carbon emissions. Their supply chain due diligence was satisfactory and the company has done great progress as far as water reduction is concerned. Finally we discuss living wage pay and Coats appear to be very focused leading the space. No need to set any milestones as the company is a leader in the space.	Enhances
Midwich Group PLC Climate Change, Human Rights & Stakeholders, Labour Management, Diversity & inclusion	Plan, Plan	We met Midwich to discuss their ESG strategy. People and customers are in the epicentre of the company's attention and they are working to set baselines, improve data disclosure and transparency for the carbon emission. Supply chain seems less of a risk as they work with large technology companies that have stringent ESG/CSR policies. At an early stage in terms of carbon data calculation and baseline setting. They hired a person responsible to reimplement surveys and would be good to see the company implementing group-wide employee surveys. Would be worth meeting them in the future to understand progress on carbon disclosures and employee surveys.	None
Paragon Banking Group PLC Corporate Governance	Plan	Engaged with Paragon on Sustainable Finance and the capital allocation. Well-placed to drive change. Buy-to-Let landlords is an area of negative press, however private rental is growing. Paragon's professional landlord and their influence can help deliver a better outcome for tenants. Internally, their staff turnover is attractive vs peers, and they've made a very strong internal push to support increasing females in senior roles- have surpassed their targets. Pleased with the progress made, would like to engage going forward on exposure to UN SDGs through Sustainable Finance, as well as looking further at how much they are over indexing in new originations in lower emission homes.	0
Volution Group PLC Climate Change, Corporate Behaviour, Corporate Gov. & Disclosure, Environment		Meeting Volution to have an ESG overview. The company is progressing well in terms of ESG commitments and disclosures. We discussed in detail their avoided emissions calculation process and their collaboration with Arup. There is still a lot of work to be done and a lot of data validation but they seem to be ahead of the curve. The company has done emission reduction commitments. A point of focus is not how they can improve the Social impact and how they will improve their labour practices such as rolling-out employee surveys at group level. We have set a milestone for employee surveys at group level and we will engage in the future to understand any progress.	Enhances

Glossary

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Data Point	Definition
Avoided Emissions	Greenhouse gas emissions avoided by being invested in the portfolio in lieu of the benchmark.
Carbon Emissions	Carbon emissions is used as a generic term for the main greenhouse gas (GHG) emissions (carbon dioxide, methane, nitrous oxide, F-gases) in our reporting.
Carbon Emissions – Scope 1	Greenhouse gas emissions generated from burning fossil fuels and production processes which are owned or controlled by the company.
Carbon Emissions – Scope 2	Greenhouse gas emissions generated from the consumption of purchased electricity, heat or steam by the company.
Carbon Emissions – Scope 3	Other upstream and downstream indirect greenhouse gas emissions such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity related activities (e.g. T&D losses) not covered in Scope 2.
Carbon Footprint	The total set of greenhouse gas emissions caused directly and indirectly by an [individual, event, organisation, product] expressed as CO ₂ e.
Carbon Intensity	Carbon emissions relative to a specific activity. For company carbon footprinting, the carbon intensity reflects the CO ₂ e emissions divided by revenue in million US\$. For countries, the standard intensity metric is the ratio of greenhouse gas emissions produced to gross domestic product (GDP).
CO ₂ e	The term CO ₂ e stands for CO ₂ equivalent and relates to the CO ₂ equivalent warming potential of the main greenhouse gases listed above.
ESG Integration	The inclusion of ESG considerations as part of investment analysis and decision making. It involves assessing both the risks and opportunities of a range of ESG-related factors that may affect the performance of our investments.
Exclusions	Companies and sectors that will not be invested in by the portfolio due to business activities that are deemed unsuitable for the portfolio outcome or underlying investor. For example the makers of controversial weapons like cluster bombs.
Morningstar Sustainability Rating	The Morningstar Sustainability Rating for funds helps investors measure portfolio-level risk from environmental, social, and governance factors.
MSCI Fund ESG Quality Score	The Fund ESG Quality Score (10-0) assesses the resilience of a fund's aggregate holdings to long term industry specific ESG risks. Highly rated funds tend to consist of issuers with leading or improving management of key ESG risks according to MSCI's methodology.
MSCI Fund ESG Rating	The Fund ESG Rating (AAA-CCC) assesses the resilience of a fund's aggregate holdings to long term industry specific ESG risks. Highly rated funds tend to consist of issuers with leading or improving management of key ESG risks according to MSCI's methodology.
Peer Group MSCI Percentile Rating	The Fund ESG Score – Peer Percentile is a percentile rank (1-100) that measures how the Fund ESG Score ranks relative to other funds in the same peer group.
Pillars	Using the SDGs for guidance on where the world should allocate capital, we identified eight pillars of impact that address three key issues: climate change, social inequalities and unsustainable consumption patterns.
PRI Rating	The Principles for Responsible Investment (PRI) is a global initiative founded by the United Nations. The PRI scorecard rating aims to measure the success of implementation of responsible investment practices across the investment process.
Trucost	Trucost is a leading provider of carbon data, the data obtained is used to assess exposure relating to climate change and broader environmental, social and governance factors in order to progress to a more sustainable world.
UN Global Compact	A global corporate sustainability initiative, calling on companies, investors and other participants to align their strategies and operations with universal principles on human rights, labour, environment and anti-corruption.
UN Sustainable Development Goals	The Sustainable Development Goals or Global Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.
Weighted Average Carbon Intensity	Average carbon intensity of the portfolio weighted by the weight of the company in the portfolio. This measure is recommended by TCFD.

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