Environmental, Social & Governance Investment

Principles and Policy Guidelines

Standard Life Investments

May 2017

This document is for investment professionals only and should not be distributed to or relied upon by retail clients.

About Standard Life Investments

Standard Life Investments is a leading asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive *Focus on Change* investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence.

As active managers, we place significant emphasis on rigorous research and a strong collaborative ethos. We constantly think ahead and strive to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

As of 31 December 2016, Standard Life Investments managed £277.9 billion on behalf of clients worldwide. Our investment capabilities span equities, bonds, real estate, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs more than 1,700 talented professionals. We maintain a presence in a number of locations around the world including Boston, Hong Kong, Paris, London, Beijing, Sydney, Dublin and Seoul. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

Our parent, Standard Life plc, was established in 1825. A leading provider of long-term savings and investments, Standard Life floated on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Standard Life Investments launched as a separate company in 1998 and has established a reputation for innovation in pursuit of our clients' investment objectives.

Our investors rank among some of the world's most sophisticated and high-profile institutions. They include pension plans, banks, mutual funds, insurance companies, fund-of-fund managers, endowments, foundations, charities, official institutions, sovereign wealth funds and government authorities.

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Introduction

Our Principles and Policy Guidelines apply to all relevant securities managed by Standard Life Investments.

At Standard Life Investments, the integration of environmental, social and governance (ESG) issues into our investment process is an important component of our *Focus on Change* investment philosophy. We take our responsibilities as an investor seriously and seek to use our influence to encourage companies to adopt best-practice ESG standards, with a view to protecting and enhancing the value of our clients' investments. As long-term investors, we value having a constructive dialogue with directors and senior executives of companies about ESG topics, especially when it helps us to understand the company's circumstances and risk profile.

We have prepared these Principles and Policy Guidelines to assist our ESG investment team and wider investment teams in fulfilling their stewardship responsibilities. They are applied with professional care and discretion when evaluating the ESG credentials of companies in which we are, or might be, an investor. The Board of Standard Life Investments has approved the Principles and Policy Guidelines, which can be tailored to the circumstances of each company and the legal and regulatory jurisdictions in which it operates.

Standard Life Investments is a signatory to the UK Stewardship Code for institutional investors and the UN-supported Principles for Responsible Investment. In addition, we are active participants in various industry bodies including the Investment Association, the Investor Forum, the International Corporate Governance Network and the Asian Corporate Governance Association. We shall have regard for their policies, as and when appropriate, in implementing these Principles and Policy Guidelines.

We will review and refresh the Principles and Policy Guidelines at appropriate intervals to ensure they remain relevant and compatible with the prevailing stewardship environment.

You can find further details about our approach to stewardship and ESG investment on our website www.standardlifeinvestments.com

Principles

We will:

- take into consideration, in the investment process, company policies and practices on environmental, social and governance matters
- seek to enhance long-term shareholder value through constructive engagement with the companies in which we invest
- seek to vote our clients' securities and engage with companies on their behalf in a manner consistent with their long-term best interests
- seek to influence the development of principles and standards of corporate governance and corporate responsibility
- communicate our ESG Principles and Policy Guidelines to clients, companies and other interested parties
- be accountable to clients within the constraints of professional confidentiality and legislative and regulatory requirements
- be transparent in reporting our engagement voting activities.

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Constitution

We expect a company to have articles of association, by-laws or other acceptable forms of constitution that its shareholders have approved. The constitution should include:

- the responsibilities of the board and its own constitutional arrangements
- arrangements pertaining to the AGM and other shareholder meetings
- the classes of shares and their rights

We support the principle of 'one share, one vote'.

We do not support constitutions that incorporate 'poison pills' or other provisions designed to frustrate generally accepted principles of corporate governance.

Directors

The board
Every company should be headed by an effective board. The board has ultimate responsibility for a company's affairs and is primarily accountable to shareholders for ensuring that appropriate and effective processes are in place for carrying out the key tasks that enable it to fulfil that responsibility. The board must act in line with its legal obligations to promote the success of the company.

These key tasks include:

- the identification and management of the principal business risks
- setting the company's risk appetite and keeping it under review
- the recommendation and appointment of auditors
- the oversight of the company's operations and control structures to maintain their integrity and effectiveness, including its environmental, health & safety and social management systems
- the development and implementation of strategy
- the development and maintenance of management structures that are consistent with enhancing shareholder value over the long term
- the oversight of succession planning and board refreshment
- the development and implementation of appropriate remuneration policies.

The board is responsible for ensuring that the company complies with all relevant laws and regulations and should ensure that relevant controls are in place to enable such compliance.

In addition, the board is responsible for determining the company's purpose, culture and values, and for ensuring they are upheld and reflected in business practices adopted throughout the company.

Board balance & composition
The board should include a balance of executive and non-executive directors, including independent non-executive directors, such that no individual or small group of individuals can dominate or inappropriately influence a board's decision-making or the processes associated therewith.

We strongly prefer a unitary board which should have two or more executive directors.

The board should include a balance of relevant experience and appropriate skills, such that the board as a whole is able to assess and understand all aspects of the business, both financial and non-financial.

The board should give due consideration to diversity of membership. The company should publicly explain its policy on board balance and diversity.

In evaluating the balance of a board, we will consider the extent to which the chairman is, or has been, closely involved in the running of the company. We will also consider the strength of the non-executive representation, particularly whether there is a strong

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independent and recognised leader among the non-executives. We will generally oppose any new appointments that combine the roles of chairman and chief executive.

A director who is influential and demonstrably independent should be available to communicate with shareholders and be capable of representing, upon request, their views to the board or others, as appropriate. At some companies, the chairman can perform this function. At others, one of the other directors should have this role.

Supply of information

The board and its committees should be supplied in a timely fashion with information in a form, and of a quality, that enable them to discharge their duties.

Board effectiveness

We expect a board to have processes to evaluate its effectiveness at regular and appropriate intervals. It should disclose these processes in the annual report and, when it has undertaken an evaluation, there should be a meaningful account of its outcome.

Appointments to the board

There should be a formal and transparent process for the nomination of directors to the board. This process should be the responsibility of the nomination committee, which should comprise a majority of independent non-executive directors. There should be a meaningful report of this process and a commentary to support appointments made during the year.

Re-election

All directors should be required to submit themselves for re-election at regular intervals, preferably annually and at least every three years.

Non-executive directors

We strongly prefer that a board should have three or more non-executive directors who are independent of executive management and other conflicts. Independence should be interpreted with professional discretion but have regard to whether the director:

- has been a former employee of the company or group (or any other material connection) within the past three years
- has, or has had, a material business relationship with the company within the last three years, either directly or as a partner, shareholder, director or senior employee of a board that has such a relationship with the company
- has received, or receives, additional remuneration from the company apart from a director's fee, participates in the company's share option or performance-related pay scheme, or is a member of the company's pension scheme
- has close personal ties with any of the company's advisors, directors or senior employees
- holds cross directorships or has significant links with other directors through involvement in other companies or bodies
- represents a significant shareholder
- has served on the board for more than nine years.

Stakeholder relations

The board of a company that is run in the long-term interests of its shareholders should manage the company's relationships with its employees, suppliers and customers effectively and have regard for the environment and society as a whole. The board should provide an explanatory and meaningful account of how it has fulfilled these responsibilities.

Culture, values and business practices

We believe that a company that is run in the long-term interests of its shareholders should have values that respect its responsibilities to not only its employees, suppliers and customers but also the environment and society as a whole. It should also adopt business practices throughout the company that are consistent with its culture and values. We expect companies to meet internationally recognised standards or industry best practice standards, whichever are higher.

We believe that companies should:

- ensure their boards exercise effective oversight and direction in respect of corporate responsibility policies and practices
- accept responsibility for the environmental impacts of their activities and endeavour to achieve best practice standards in the management and reduction of those impacts
- inform shareholders of the policies and practices they have adopted to ensure that they meet their obligations to manage their environmental responsibilities
- respect internationally recognised labour rights and provide safe and healthy working environments for their employees
- take reasonable steps to ensure that the impact of their operations should be positive and not violate internationally recognised standards on human rights
- demonstrate a commitment to best practice standards of business ethics, and ideally publish a Code of Conduct which outlines its expected standards of business practice
- have whistleblowing arrangements that enable employees to raise matters of legitimate concern anonymously or otherwise with the benefit of appropriate protection
- have effective mechanisms in place to ensure that critical issues that may adversely affect the company's financial position, reputation and risk profile are escalated to the board's attention in an efficient and timely manner.

We expect the board to determine the company's culture and values in a thoughtful manner so that they are specific to the company and capable of implementation and monitoring by the board at regular intervals.

Furthermore, we look to the board to set and be seen to set the right tone from the top, consistent with upholding the values throughout the company over the long term.

Each year, the board should acknowledge in the annual report its responsibility for determining and maintaining the company's culture and values, and ensuring that they are reflected in the company's business practices. It should provide an explanatory and meaningful account of how it has fulfilled these responsibilities.

Environmental and social management

We recognise that the management of environmental and social responsibilities is affected by, and subject to, many influences and will consider companies in context, in relation to their peers, and with consideration for the particular circumstances, industries and locations in which they operate. We use the UN Global Compact's four areas of focus in assessing how companies are performing.

Environmental responsibility

It is generally accepted that companies are responsible for the impacts of their operations and products on the environment. The steps they take to assess and reduce those impacts can lead to cost savings and reduce potential reputational damage. Companies are responsible for their impact on the climate and face increased regulation from world governments on activities that contribute to climate change.

We expect that companies will:

- comply with all environmental laws and regulations, or recognised international best practice as a minimum
- identify, manage and reduce their environmental impacts
- understand the impact of climate change along the company value chain, develop group-level climate policies and set targets to manage the impact where relevant
- report on its policies, practices and actions taken to reduce carbon and other environmental risks within its operations.

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Employee relations
Companies that respect internationally recognised labour rights and provide safe and healthy working environments for employees are likely to reap the benefits. This approach is likely to foster a more committed and productive workforce, and help reduce damage to reputation and a company's license to operate.

We expect companies to comply with all employment laws and regulations and adopt the International Labour Organization's (ILO) convention as a minimum. In particular, companies will:

- take affirmative steps to ensure that they uphold decent labour standards
- adopt strong health and safety policies and programmes to ensure the implementation of such policies
- adopt equal employment opportunity and diversity policies and a programme for ensuring compliance with such policies
- adopt policies and programmes for investing in employee training and development
- adopt initiatives to attract and retain talented employees, foster higher productivity and quality, and encourage in their workforce a commitment to achieving the company's purpose
- ensure policies are in place for a company's suppliers that promote decent labour standards, and programmes are in place to ensure high standards of labour along supply chains (particularly relevant in developing countries, where rule of law is weak)
- report regularly on its policy and implementation of managing human capital.

Human rights and international operations
Companies that operate in, or source their goods from, countries with a record of human rights abuse risk the safety of their staff and operations. They also expose themselves to the possible risk of action by consumers and non-governmental organisations, who oppose commercial activities as an opportunity for oppressive regimes to exploit. In addition, companies may face reputational damage should they be associated with, or contribute to, the human rights abuses of such countries.

We expect that companies, wherever they operate, will:

- recognise international human rights standards, such as the UN Declaration of Human Rights
- take affirmative steps to ensure that they have strong policies in place to respect human rights
- introduce systems and processes to ensure company actions do not violate or infringe upon the human rights of its stakeholders, including employees, business partners and civil society
- where appropriate, use the UN Guiding Principles on Business and Human Rights to help develop systems and mechanisms to manage human rights within business operations
- be transparent and report on how human rights are managed and measured within business operations.

Business ethics
As institutions of wealth and influence, companies have a significant impact on the prosperity of their local communities and the wider world. At the same time, a company's failure to conform to internationally recognised standards of business ethics on matters such as bribery and corruption can impact its reputation and image. We expect companies to:

- adopt best practice in relation to the impact on communities in which they operate
- adopt stringent policies in relation to anti-bribery and corruption, to ensure high standards of business conduct are maintained
- monitor, measure and regularly report on how these policies are implemented and managed.

Remuneration

Remuneration committees

We expect remuneration committees to be robust in their approach to developing and implementing remuneration policies. The remuneration committee should comprise at least three independent non-executive directors with appropriate experience, knowledge of the business, independence and status. Remuneration committees should have a formal and transparent procedure for developing policies on executive remuneration and for determining the remuneration packages of individual directors. No executive director should be involved in setting their own remuneration.

The level and composition of remuneration

Remuneration policies and the overall levels of pay should be aligned with strategy, attracting and retaining talent and incentivising the decisions and behaviours needed to create long-term value. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance and they should be considered in the context of the remuneration policies when taken as a whole. We recognise the benefits of simplicity in forming the policy, which should clearly link outcomes to expectations for those receiving the remuneration, as well as external stakeholders. The remuneration committee should clearly demonstrate regard for the company's employees, for wider society and be cognisant of the company's licence to operate when considering policy and the overall level of remuneration.

Disclosure

A company's annual report should contain an informative statement of remuneration policy which communicates clearly to stakeholders how it has developed and evolved. This should include details of any stress testing that may have been undertaken to understand the policy outcomes for different business scenarios.

The remuneration committee should provide a clear description of the application of the policy, and the outcomes achieved.

Discretion

We expect details of any use of discretion to be disclosed by the remuneration committee. Its use should be justifiable, appropriate and clearly explained. We would expect policies to be sufficiently robust so that discretion is only necessary in exceptional circumstances.

Directors' service contracts

Directors' service contracts should have notice periods which do not exceed 12 months unless there is special justification. We oppose the award of additional remuneration above contractual entitlements in the event of early termination or a change in control of the company.

Performance-related pay

A company should structure performance related pay to incentivise and reward management in a manner that is aligned with the company's sustainable performance and risk appetite over the long term.

The performance measures used to determine performance-related pay should be disclosed and should:

- incentivise participants to achieve above-average performance through the use of challenging targets
- seek to measure significant improvements in the underlying financial performance of the company.

In addition, we:

- oppose provisions for early release of rewards unless the spirit of the performance condition has been, or is likely to be, achieved
- oppose retesting of performance conditions when grants of conditional awards are being made on a regular basis
- encourage vesting of awards three years or longer after the period of grant
- encourage sliding scale performance measures
- encourage retention of vested shares over the long term
- oppose the repricing of share incentives that have been conditionally awarded to directors.

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We oppose the use of total shareholder return and other share price-based performance measures if they are not underpinned by a challenging measure of underlying financial performance.

Where not commercially sensitive, we expect the targets set for incentive awards to be disclosed.

Ex-gratia payments

We oppose ex-gratia and other payments and financial awards to directors and former directors that are not within the terms of the company's stated remuneration policy, unless such payments have been the subject of prior approval by shareholders.

Share ownership

We support share ownership guidelines for directors and senior executives. The levels of share ownership should be meaningful in the context of the remuneration policies, taken as a whole.

We encourage executive directors to contribute to their ownership through personal investment and not solely through the retention of vested share incentive awards.

We support arrangements that require directors and senior executives to retain an appropriate proportion of their shareholding, as determined with reference to their share ownership guidelines, for one year or more after they leave the company.

Employee schemes

We support employee sharesave, profit participation and similar schemes provided they comply with relevant guidelines.

Accountability and audit

Corporate reporting

A company's board should present a balanced and understandable assessment of the company's position and prospects, financial and non-financial, and of how it has fulfilled its responsibilities. We support the principle of full disclosure of relevant and useful information, subject to issues of commercial confidentiality and prejudice. Boilerplate disclosure should be avoided. We encourage companies to consider using the International Integrated Reporting Council's Framework as a reporting mechanism.

Internal control

A company's board should maintain a sound system of internal controls to safeguard the company's assets.

Audit committees

Boards should have audit committees of at least three members, who should all be independent non-executive directors. At least one member of the committee, preferably the chairman, should have significant, recent and relevant financial experience.

The annual report should include a description of the role and responsibilities of the audit committee and an informative account of the action taken by the committee to discharge those responsibilities.

Audit committees should annually recommend to the board the reappointment or otherwise of the auditors. They should have a policy for putting the audit out to tender at appropriate intervals.

Non-audit services

A company's board should have processes to ensure that its audit committee or other suitable body reviews and approves/ratifies non-audit services provided by the auditors. The nature of such services and the level of payment for them should not compromise the auditors' independence and objectivity.

Auditors

The auditors should independently report to shareholders in accordance with statutory and professional requirements and independently assure the board on the discharge of their responsibilities in accordance with professional guidance.

Our stewardship activities

Engagement
We will participate willingly in constructive discussions with companies about their strategy, performance, quality of management, values, risk profile and other relevant issues with a view to achieving improvements that could enhance shareholder value.

We expect companies to have processes that ensure there is a regular and effective dialogue about ESG topics and other issues between boards and their significant or otherwise influential investors. We expect non-executive directors, in general, and the chairman and/or the lead independent director, in particular, to be willing to be involved in this dialogue in order to enhance its effectiveness.

Voting
We will vote the shares we manage at all shareholder meetings, except when otherwise instructed by the beneficial owners of these shares or where it is otherwise neither cost effective nor in the best interests of our clients.

Voting decisions will be made in accordance with our Principles & Policy Guidelines and regional voting guidelines, which take into account local practice and other relevant factors. We will vote against resolutions which:

- are not consistent with our guidelines
- we do not consider to be in our clients' best interests
- conflict with the spirit of relevant guidance provided by the representative bodies of institutional investors, such as the Investment Association.

When we vote against management recommendations at a shareholder meeting, we will use best endeavours to inform the company beforehand and explain the reasons when it is practical and cost effective so to do.

Attendance at general meetings
We will attend and speak at AGMs and other shareholder meetings when it is consistent with our clients' best interests.

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