



Sustainable & Responsible Investment

Midyear Report 2013

Contents

- 1 Introduction**
- 2 SRI Engagement; Sector Level**
- 3 SRI Engagement; Company Level**
- 9 Sustainable Engagement Summary**
- 11 Initiatives and Partners**

Sustainable & Responsible Investment Midyear Report 2013

Introduction

Standard Life Investments has a dedicated Sustainable Responsible Investment (SRI) team which engages and evaluates the environmental and social performance and policies of companies in which we are, or potentially, an investor. This process is underpinned by our SRI Investment Policy and is applicable across all of Standard Life's investments. We believe that companies with robust environmental and social practices will enjoy long term financial benefits and seek to encourage such practices, with a view to protecting and enhancing investments held on behalf of our clients.

This document provides examples of some of our engagement activity at both sector and company level during the first half of 2013.

Further information on our approach to Sustainable Responsible Investment can be found on our website www.standardlifeinvestments.com.

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Sector Level

Below are some examples of our engagement with industry bodies on environmental and social issues.

We attended a roundtable meeting hosted by the United Nations Environment Programme Finance Initiative (UNEP FI). The meeting explored public-private partnerships for **clean energy finance activities in transitional economies**. Topics discussed included the current use and potential for growth of hybrid mini-energy grids and the development of policy risk assurance being considered within energy markets.

We offered our views to the Electronic Industry Citizenship Coalition (EICC) on the levels of **transparency within the electronic industry**, particularly in relation to supply chains. The EICC is a coalition of the world's leading electronics companies working to improve social, ethical, and environmental responsibility within the sector.

We took part in an industry working group convened by the Sustainability Accounting Standards Board, which considered material environmental, social and governance (ESG) issues within the financial sector and how these areas should be reported upon. This represented one of a number of working groups established by the SASB. Working groups will consider how material ESG issues could be incorporated into the **Security and Exchange Commission (SEC) reporting process** across a number of sectors.

We attended a meeting hosted by Global Engagement Services (GES) which considered the EU's upcoming **European Accounting and Transparency Directives**. We highlighted our support for revenue transparency initiatives within the appropriate context, such as the EITI. We also raised concerns relating to the effectiveness of the new EU legislation and its

potential to be over burdensome on companies. We submitted our views to a **UNPRI Consultation** on strategic barriers to a sustainable financial system. We will continue to engage with the consultation as the process develops.

We attended the first meeting of the **Investment Leadership Group (ILG)** to agree the focus and activities of the group. Facilitated by the University of Cambridge, the ILG is a three-year project designed to understand how investors can realise positive environmental, social and economic outcomes along with robust long-term investment returns. Potential areas of focus include; the value of responsible investment and measures of its investment impact, the feasibility of new products and the influence of active ownership.

To coincide with launch of the **new Equator Principles Standards** (a set of social and environmental standards for the banking sector) we produced an article commending the work that Equator Principle signatories had undertaken to produce the standard. We also highlighted the growth of project finance in Asian markets and the current lack of Asian financial institutions which are signatories to the Principles.

Finally, we are pleased to announce that Standard Life Investments was awarded the **SRI/ESG Provider of the Year**, at the UK Pensions Awards 2013. This year's awards were rigorously judged by a panel of thirty senior scheme managers, trustees and advisers and showcase excellence and innovation in institutional fund management.

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Below are some examples of our engagement with companies on environmental and social issues.

Company	Commentary
Abertis	<p>The company's main business areas are; toll roads, telecommunications, infrastructures and airports. It has operations in 12 countries across Europe and America and has over 18,000 employees.</p> <p>We had concerns regarding the Group's expansion into different geographies and areas of its operations in South America. After engagement with the Group we were supportive of a number of positive sustainability initiatives that it had in place, which are not fully reflected in its current reporting channels. We encouraged the Group to increase its level of transparency and welcomed the Group's willingness to address the issue.</p>
AG Barr	<p>AG Barr has been making soft drinks since 1875 and has operations throughout the UK. At the time of our meeting the company was in talks regarding a possible merger with Britvic PLC.</p> <p>We discussed the potential merger between the Group and Britvic. Our specific focus was on the potential impacts this could have on employees and the current processes in place to manage water consumption, waste water management and emission levels. We were encouraged to learn that the Group has a number of processes in place to support employees and manage environmental impacts.</p>
Antofagasta	<p>Antofagasta owns and operates copper mines in Chile and conducts exploratory activities in Chile and Peru. Its main markets are found in Asia.</p> <p>We provided the company with feedback on its latest sustainability report and questioned it on a number of environmental and social issues impacting its operations. We were encouraged by the various measures taken to manage these issues and suggested greater transparency on its approach to human rights.</p>
Barclays	<p>Barclays is engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. It is one of the largest financial services companies in the world by market capitalisation, and has circa 140,000 employees, operating in over 50 countries.</p> <p>We were concerned to see the results of the Libor incident and had a number of meetings with the Group to discuss the matter. Including a meeting hosted by the Barclays's CEO, Anthony Jenkins, to discuss the launch of its strategic programme 'Transform' and its plans to create cultural change within the Group. We believe that there is a genuine commitment to apply this new strategy, however this will be a considerable challenge in an organisation of Barclays' size and will take some time to fully implement. We will continue to engage with the Group as it progresses through this process.</p>

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Company	Commentary
Barry Callebaut	<p>Barry Callebaut manufactures high-quality cocoa and chocolate products and is involved in both the sourcing and production processes. It has over 8000 employees with production sites in Europe, Africa, North and Latin America and Asia/Pacific.</p> <p>We highlighted Barry Callebaut's operations in West Africa and questioned what steps were in place to ensure that its suppliers met the standards set out in the Group's code of conduct. We expressed our concern regarding the incidents of child labour within cocoa production in West Africa, and welcomed the actions that the company is taking to ensure that child labour was not used in its supply chain. This is a complex issue which we will continue to monitor the company's progress.</p>
BASF	<p>BASF is a chemical company with six key business segments: chemicals, plastics, performance products, functional solutions, agricultural solutions, and oil & gas. The Group has a global footprint and over 100,000 employees.</p> <p>We questioned the Group on its expansion into emerging markets and the new environmental and social challenges that this presented. Environmental and social considerations are one of BASF's four strategic business principles and this approach has supported the Group's expansion into emerging markets. We noted how BASF's approach to sustainability supported its licence to operate, particularly in emerging markets.</p>
BHP Billiton	<p>A diversified resource company, BHP is among world's largest producers of major commodities, including aluminium, coal, copper, oil and gas, iron ore, manganese, nickel, silver and uranium.</p> <p>The focus of our meeting was the challenges which the company faced in water stressed areas, where a lack of water or even too much water could have a direct impact on its operations. During our discussion it was evident that this issue is high on the company's agenda, and it demonstrated a strategic plan at both a local and regional level to deal with potential impacts.</p>
Bord Gais Eireann	<p>Bord Gais is owned by the Irish state and comprises of two major divisions: Bord Gais Networks (BGN) and Bord Gais Energy (BGE). Under the terms of the EU-IMF bailout, the Irish Government's 'NewEra' scheme plans to raise between €1-€1.4 billion from the sale of BGE. The sale is expected to go ahead in late 2013.</p> <p>We discussed the Group's current sustainability practices and if the sale of Bord Gais Energy's assets would impact upon them. Bord Gais Networks will remain largely under ownership of the Irish state and is about to oversee the introduction of water metering for the first time in the Republic of Ireland. We found Bord Gais Networks to have a sound approach to sustainability issues but remain concerned regarding Bord Gais Energy's practices.</p>

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Company	Commentary
BP	<p>The Group operates in oil and natural gas exploration, field development and the production of lubricants and petrochemical. It has also established an alternative energy segment which focuses on biofuels and wind farms.</p> <p>Our meeting provided a useful update on the various sustainability initiatives being conducted at the company. We were encouraged to learn that BP established a new Group Risk team in 2012 to review the Group's risks, coordinate reporting activities on these risks, and maintain BP's risk management systems. Of particular importance is the work BP is conducting around contractor management, where it is identifying potentially high-consequence activity contractors in order to improve oversight of their activities.</p>
Centrica	<p>Centrica is an integrated energy company that operates at every stage of the energy chain. It has global operations and circa 40,000 employees.</p> <p>We discussed the Group's possible expansion in the shale gas market and highlighted our concerns regarding the operational and environmental risks posed by shale gas extraction. We have encouraged the Group to consider these risks and membership of the recently established Centre for Sustainable Shale Development. We welcomed Centrica's continued growth in the renewable sector, and wind power now represents circa 15% of the total power generated by the Group.</p>
CEZ	<p>CEZ Group is an integrated electricity conglomerate headquartered in the Czech Republic, with operations in a number of countries in Central and South Eastern Europe and Turkey. Its principal businesses encompass power generation, power distribution, trading in natural gas and coal mining.</p> <p>Our discussion focused on the Group's rapid expansion and the changes in its energy portfolio from fossil fuels toward nuclear energy, mixed with some renewable energy sources. We highlighted that the Group's level of disclosure is not in line with that of its peers, particularly in Western Europe. We encouraged the Group to bolster its reporting practices particularly in relation to policies linked to bribery and corruption. The Group outlined steps it is taking to review its reporting practices.</p>
Domino's Pizza	<p>Domino's is a pizza delivery company with over 10,000 outlets in 75 countries. It has over 180,000 employees and more than 2,000 franchisees.</p> <p>The Group's current reporting on its corporate social responsibility (CSR) activities is limited and during our engagement Domino's acknowledged that this needs to be improved. We found the company's CSR practices to be robust and it has taken positive steps to ensure that its supply chain and food quality are of a high standard. We highlighted the challenges the convenience food industry faces in addressing the issue of obesity. We were encouraged by the steps taken by the company to produce healthy eating options in addition to nutritional information for its range of products.</p>

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Company	Commentary
easyJet	<p>easyJet is one of Europe's largest low cost airlines, and operates across more than 30 countries with over 8,000 employees. In 2012 the company flew over 60 million passengers.</p> <p>We highlighted the expansion of the EU Emissions Trading Scheme (EU ETS) to include European airlines and questioned what steps the Group has taken to reduce emission levels and the cost of EU ETS carbon credits. Current CO2 emissions per passenger are relatively low and a modern fleet has served to increase efficiency levels. We encouraged the Group to consider how it engages with its employees and highlighted the operational risks posed by employee disputes. Employee engagement is a challenging area for that company which it is seeking to address. We will continue to monitor its progress.</p>
EDF	<p>The Group's operations span power generation, trading, and distribution in both regulated and deregulated markets. In March of 2013 the Group received approval from the UK Government to proceed with the construction of a £14bn nuclear power plant at Hinkley Point in Somerset and Sizewell in Suffolk.</p> <p>We discussed the regulatory and operational risks linked to the construction of new nuclear energy in the UK, specifically the disposal of nuclear waste, on going discussion with the UK Government on a "strike" price for nuclear-generated energy, the use of new nuclear technologies (European Pressurized Reactor) and the concerns raised after Japan's Fukushima disaster. EDF has recognised these risks and continues to liaise with the UK Government to work through them. We will continue to engage with the Group on the progress of its UK nuclear operations.</p>
ENEL	<p>Enel is an integrated energy provider with global operations. The group has a significant renewable energy portfolio and in 2012 over 42% of the energy provided by the Group was sourced from carbon free power plants.</p> <p>We discussed the Group's HydroAysen Dam Project in Chile and questioned what measures had been taken to limit environmental and social impacts. The Group outlined a range of initiatives to ensure that the impacts of the project were limited, along with a number of social and environmental policies that it had in place. We believe that the Group has identified and is managing the current environmental and social issues linked to the project. We will continue to monitor the consistency of this approach as the project develops.</p>
Galp Energia	<p>Galp is a Portuguese oil and natural gas integrated operator. The Group has operations in fifteen countries, over 7000 employees and are involved in the exploration, production and distribution of oil and natural gas.</p> <p>The company asked if we would review its current sustainability practices and offer details of our expectations. Overall we have a positive view of the Group's current approach and suggested that this could be bolstered with further details on the KPIs used to measure progress and the application of the UN Guiding Principles on Business and Human Rights.</p>

Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Company	Commentary
GlaxoSmithKline	<p>GlaxoSmithKline (GSK) produces medicines that treat major diseases such as anti-viral and infections. It also produces consumer goods such as health drinks, dental products and skin care products. GSK is headquartered in the UK and has offices in over 100 countries, with major research centres in Europe, USA, Spain and China.</p> <p>The Group launched a qualitative consultation with a number of senior stakeholders to support the progress of its corporate responsibility and sustainability strategy. We offered our views on the sustainability challenges facing the sector and highlighted a number of sustainability areas that the Group might address. We welcomed the steps that the Group had taken to address issues of fraudulent behaviour in its US operations and highlighted the various challenges that its operations faced in emerging markets.</p>
Kier Group	<p>Kier Group is a construction, services and property group specialising in building and civil engineering, support services, commercial property development and structured property financing. The Group operates globally and has over 16,000 employees.</p> <p>We questioned the Group on its current health and safety practices and allegations that a consortium it was part of was using the practice of “Blacklisting” to discriminate against employees, who were or had been members of a Union. The Group detailed a number of processes that it had in place to ensure best practice in health and safety. It also offered detail on the steps taken to ensure freedom of association and the effective recognition of the right to collective bargaining, for all of its employees.</p>
Lenovo	<p>Lenovo is a Chinese based technology company specialising in the production of personal computers. The company is a result of a merger between Legend holdings in China and IBM’s Personal Computing Division in the United States.</p> <p>The Group outlined the increased social and environmental demands made by commercial buyers. We noted our support for the company’s sustainability policies and practices and were encouraged to find that this approach is helping it to win business. We encouraged the company to consider the integrity of its supply chain as it expanded and to disclose further information on its approach to bribery and corruption.</p>
Royal Bank of Scotland	<p>The Group has the UK’s largest bank network of more than 2,000 branches. RBS offers private banking and insurance products through Coutts Group and Adam & Company. Other divisions include Ulster Bank, which operates in Ireland and Northern Ireland, Citizens Financial, which operates as Citizens Bank and Charter One in the USA.</p> <p>After being identified and fined as a result of the manipulation of Libor, the Group has expanded its Board level Sustainability Committee’s remit to include areas such as conduct, culture and reputation. The Group has also taken steps to increase lending to small to medium sized enterprises (SMEs) in the UK and new mortgage applications. We welcomed these steps and encouraged the Group to consider areas which presented further reputational risks, such as tax avoidance and soft commodity trading.</p>

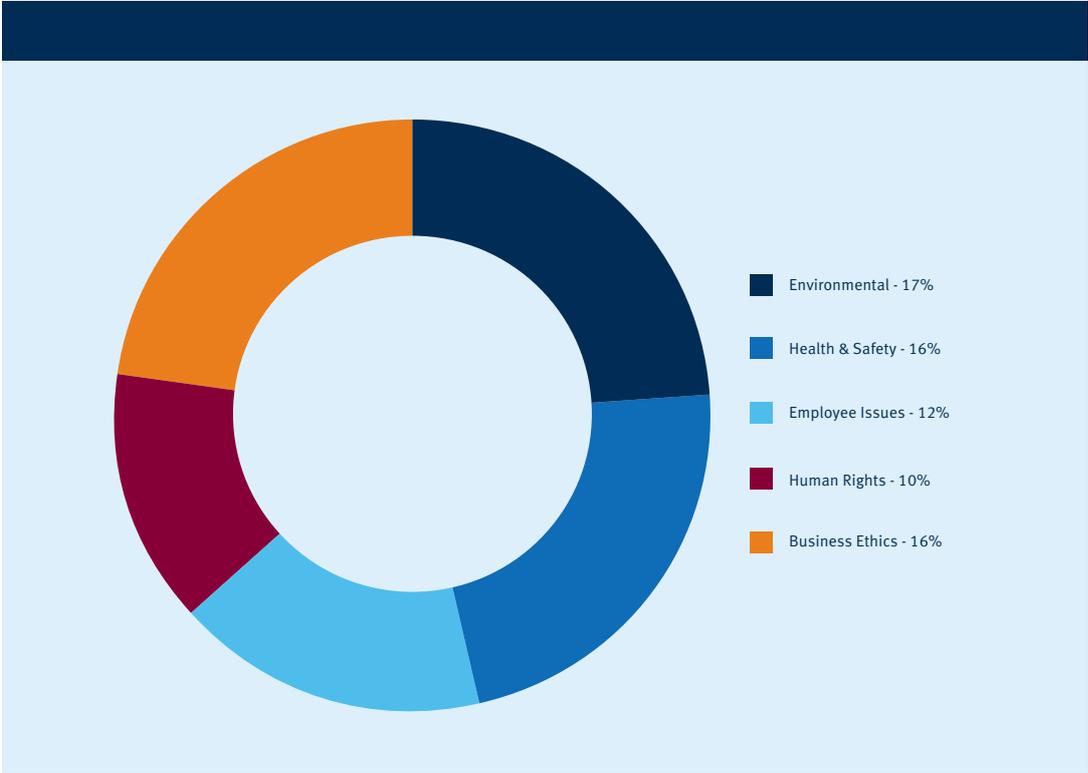
Sustainable & Responsible Investment Midyear Report 2013

SRI Engagement; Company Level

Company	Commentary
<p>TenneT</p>	<p>TenneT is Europe's first cross-border electricity grid operator. It has 36 million end-users in the Netherlands and Germany and ranks among Europe's top five electricity transmission system operators.</p> <p>The Group's role as a transmission system operator in Germany has produced a number of challenges in light of Germany's new clean energy policy. We discussed the company's approach to environmental and social risks and believe that it is well positioned to manage the various sustainability challenges posed by Germany's new green energy targets.</p>
<p>Vedanta Resources</p>	<p>Vedanta Resources is a globally diversified natural resources group with revenues in excess of US\$ 11 billion. It is the world's largest integrated Zinc Lead producer and is also active in copper, silver, aluminium, iron ore and power generation.</p> <p>We expressed our concerns regarding the operation and expansion of various assets within the Group, which remain subject to legal proceedings largely focused on environmental and social impacts. We also highlighted concerns regarding the number of employee fatalities during 2012. We encouraged the Group to improve its disclosure on what strategies are being employed to meet these challenges, and to produce corresponding KPIs. The Group has improved practices and adopted a new sustainability framework and human rights policy, since September 2011. However, we believe a number of areas remain that could improve further, specifically engagement with impacted communities and adherence to the principles of Free Prior and Informed Consent (FPIC). We will continue to engage with the Group and monitor its progress.</p>

Sustainable & Responsible Investment Midyear Report 2013

Sustainable Engagement Summary



Sustainable & Responsible Investment Midyear Report 2013

Sustainable Engagement Summary (continued)

Company	Environmental	Health & Safety	Employee Issues	Human Rights	Business Ethics
Abertis			●	●	●
AG Barr	●	●	●		
Antofagasta	●		●		●
Barclays			●		●
Barry Callebaut	●	●		●	●
BASF	●	●		●	●
BHP Billiton	●	●	●	●	
Bord Gais Eireann		●			●
BP	●	●	●	●	
Centrica	●	●			●
CEZ	●	●			●
Domino's Pizza	●		●		●
Easy Jet	●	●	●		
EDF	●	●			●
ENEL	●	●		●	
Galp Energia	●	●		●	●
Glaxo Smith Kline		●	●		●
Kier Group			●	●	
Lenovo	●	●		●	●
Royal Bank of Scotland	●		●		●
Tennet	●	●			●
Vedanta Resources	●	●	●	●	●

Sustainable & Responsible Investment Midyear Report 2013

Standard Life Investments works with a range of initiatives and partners to support sustainable and responsible investment.



The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to develop a more sustainable global financial system.



Eurosif (the European Sustainable Investment Forum) is a pan-European network and think-tank whose mission is to develop sustainability through European Financial Markets.



The UK Sustainable Investment and Finance Association (UKSIF) is a membership network for sustainable and responsible financial services.

The Group seek to support sustainable economic development, enhanced quality of life and protection of the environment.

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