



Our Approach to Responsible Investment

Standard Life
Investments

September 2015

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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 30 June 2015, Standard Life Investments managed £250 billion* on behalf of clients worldwide. We offer impressive credentials in equities, fixed income, commercial real estate and private equity. We also provide high-quality multi-asset and liability-driven products, as well as absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs 1,500 talented professionals. We have offices in a number of locations around the world including Boston, Hong Kong, London, Beijing, Sydney, Dublin, Paris and Seoul. In addition, we enjoy 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 listed on the London Stock Exchange in 2006 and is now a FTSE 100 company. Standard Life Investments launched as a separate company in 1998 and has quickly 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.

*US\$393.1 billion, €352.9 billion, AUD\$511.5 billion, CAD\$490.8 billion. Exchange rates used are US dollar = 1.572700, euro = 1.411507, Australian dollar = 2.046189, Canadian dollar = 1.963438, as at 30 June 2015.

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The importance of responsible investment

At Standard Life Investments, responsible investment (RI) encompasses the research, analysis and engagement work on social and environmental issues affecting our clients' investments. As a leading global investment house, we take our role in this area seriously. We therefore have a growing team of four specialists dedicated solely to integrating RI matters into every stage of our business and investment process.

Our commitment

We believe that companies with robust environmental, social and governance (ESG) practices will enjoy long-term financial benefits. We encourage such practices in the companies in which we invest, with a view to protecting and enhancing investments held on behalf of our clients.

A fully integrated approach

Our RI team is active throughout Standard Life Investments, working closely across asset classes with all our investment teams and the governance & stewardship team (G&S). The overall objective is to ensure every facet of ESG is integrated across our business. We apply this approach throughout our investment processes and to mandates which have tailored sustainable, responsible investment (SRI) or ethical criteria.

Importantly, we have the buy-in from all our colleagues regarding ESG issues and the positive impacts this can have on our business as a whole, as well as on the performance of our clients' investments.

Our primary focus

Our primary focus is to integrate ESG issues throughout Standard Life Investments' portfolios. As part of this, we assess

the environmental and social risks and opportunities facing the companies in which we invest. We then feed these findings into our investment process.

We base all our activities on the four pillars of the UN Global Compact.

- ▶ Environmental responsibility
- ▶ Employee relations
- ▶ Human rights & community
- ▶ Anti-corruption

In addition, we apply our work to a number of different investment strategies, detailed below.

SRI – we use SRI principles to screen companies on their commitments to sustainability.

Ethical strategies – we screen and select companies based on their business activities. In doing so, we avoid those companies involved in unacceptable behaviour (arms, tobacco, etc.) in favour of those with operations that benefit both the environment and society.

Impact investing – we invest in companies with the intention of generating measurable positive environment and social impacts, in addition to a financial return.



Amanda Young
Head of Responsible
Investment

“Responsible investment continues to make great strides as the issues at its core gradually enter the investment mainstream. At Standard Life Investments, we fully support this move and can clearly see the benefits that an enhanced focus on sustainable business practices can offer. We believe that our strong capabilities in this area offer the best solution for our clients, as well as for our firm.”

Our RI mission

We aim to be the industry leader in responsible investment, contributing to a sustainable world and a better financial future for our customers. Our approach centres on protecting and enhancing the investments held on behalf of our clients, by encouraging companies to consider fully their environmental and social impacts with robust, transparent management processes. We expect our investee companies to meet internationally recognised standards or industry best practice standards, whichever are higher.

In order to evaluate corporate behaviour, the RI team uses a series of bespoke guidelines based on the four pillars of the UN Global Compact.

Human rights and community relations

We believe that companies have a responsibility to ensure that their actions do not violate or infringe upon the human rights of their stakeholders, including employees, business partners, communities and civil society. While companies cannot be expected to take the role of public authorities when it comes to protecting those rights, they do have a duty to 'respect' human rights. This means acting with due diligence to ensure they avoid infringing the rights of any individual or public body affected by their business operations.

More than that, we believe businesses that respect human rights, the rule of law and promote best practice are the ones that will thrive in the modern corporate world.

Environmental responsibility

We believe that companies who value the environment and address the impacts which they have upon it will gain long-term

economic benefits. We therefore assess companies we invest in on their commitment to environmental responsibility and their environmental performance.

Employee relations

Employees are usually a company's greatest asset and resource, and should be treated accordingly. Moreover, companies that respect internationally recognised labour rights and provide safe and healthy working environments for employees are likely to have a more committed and productive workforce.

Business ethics, culture and anti-corruption

Corruption is a major impediment to sustainable economic, political and social development. It increases the cost of doing business, restricts cross-border investment and trade, leads to the inefficient use of public resources and erodes public trust in both business and the state. For companies, it hinders their ability to attract and retain staff, imperils their licence to operate and increases the likelihood of regulatory fines.



David Paine
Head of Real Estate

"We continue to drive down the environmental impacts of our real estate assets and our performance statistics demonstrate that we are meeting or exceeding the targets we have set throughout our global real estate portfolio."

Our RI solutions

We take a comprehensive approach to responsible investment and have successfully integrated this into our mainstream investment process. We have the infrastructure and capabilities in place to provide enhanced responsible investment solutions, such as ethical, SRI and impact investing.

Our investment capabilities

Our investment capabilities span equities, fixed income, real estate and private equity, as well as multi-asset solutions that incorporate relative, absolute return and liability-aware investment strategies. Responsible investment issues are embedded across these asset classes, while still seeking to enhance the clients' return.

In addition to fully integrating environmental and social matters across our investment process, our in-depth analysis can also be applied across a range of dedicated responsible investment styles.

The ethical choice

Ethical investments are a popular choice for investors concerned about environmental and social issues. Investing ethically can provide the satisfaction that comes from putting their values into practice, as well as offering the potential for financial returns.

For example, through our range of ethical investments, we seek to invest in companies that have strong corporate responsibility practices and that contribute positively to society and the environment. As part of this process, we also apply strict negative criteria to our ethical funds, so that if a company is involved in any of the activities on our screening list, we will not invest. Red flags include causing environmental damage and pollution, testing products on animals, production or sales of weapons, and many more.

We offer a suite of specialist ethical strategies. Examples include:

- ▶ UK Ethical
- ▶ European Ethical
- ▶ Ethical Corporate Bond.

Sustainable and responsible investment (SRI) products

The criteria for these is to exclude companies that do not comply with the UN Global Compact, are involved in controversial weapons or have poor responsible investment scores in high- and medium-impact sectors.

Impact investing

Standard Life Investments also has the infrastructure and capabilities in place to deliver impact investing solutions, which aim to generate measureable positive environment and social impacts, in addition to a strong financial return. Based on research and engagement, the RI team has developed a bespoke system that rates companies on the impact themes to which they are exposed.

Investment ideas are then considered by both the financial return prospects and impact rating, before selecting those that have the highest impact in both areas. The RI team has developed tools to measure and report on environmental and social impact for the impact themes considered, at both a stock and portfolio level.

Real estate and sustainability

Our approach to sustainable real estate investment not only looks for assets that will achieve the financial returns expected by investors, but also incorporates respect for society and the environment so that community and individual rights are protected, environmental impacts are reduced and resources are conserved. To support this approach, we have a dedicated sustainability manager within our real estate investment team, as well as a Real Estate Sustainability Focus Group, which includes one of our RI analysts.

Working in partnership

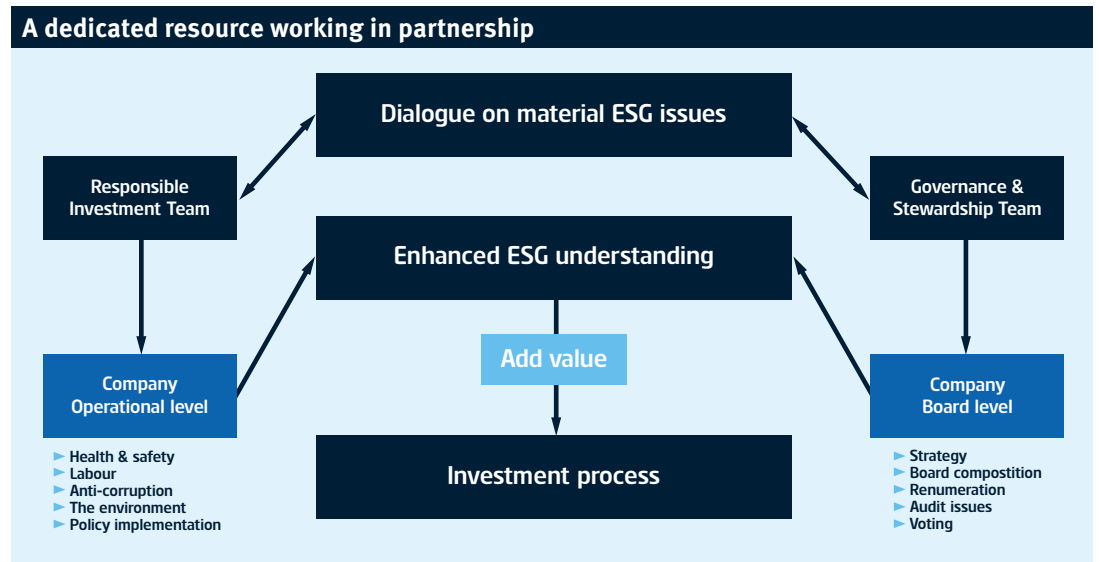
The trend within the investment industry is towards establishment of a single ESG function. However, we believe there is merit in developing distinct skills and expertise within this field. Consequently, we have both a responsible investing team (environment and social issues) and a governance & stewardship team (governance matters).

Two dedicated resources

The RI team seeks to identify risks and opportunities relating to environmental and social operational issues in the companies in which we invest. Research is at the heart of this process. The team examines board policies, such as those relating to health & safety, labour, anti-corruption and the environment. Further, the RI team explores how these policies are implemented in practice, normally involving one-to-one discussions with the CEO and senior management. This allows a fuller understanding of whether the tone set at the top of a company is being embedded throughout the business.

Governance & stewardship (G&S) team

Our RI team works closely with our seven-strong G&S team, which focuses on board oversight and the governance framework within which companies operate. This includes how a business is governed, the development and delivery of strategy, board composition, remuneration, audit issues and voting at shareholder meetings. Its process normally includes discussions with the company chairman and board, particularly non-executive directors.



David Cumming
Head of Equities

“Having specialised resources is a real coup for our asset managers. Each area has extensive experience in their respective disciplines and together they enable us to form a comprehensive view of a company and the risks and opportunities that it faces.”

Voting on environmental and social issues

The RI team has worked closely with the G&S team to develop a policy on voting on all environmental and social resolutions lodged at company AGMs and EGMs. While the G&S team conducts all voting on the shares we hold on behalf of our clients, the RI team has the in-depth knowledge and expertise on environmental and social matters. This information is fed into the process to ensure we have given due oversight with regard to a company's policies and activities, and can make informed judgements on the validity of these resolutions. Hence, there is a formal process of identifying, assessing and voting on these resolutions.

Ethical Funds Advisory Board

Chaired by Standard Life's Group Operations Director, the Group's role is to oversee our specialist ethical strategies. It meets every six months to ensure our policies and procedures are applied correctly, and accurately reflect the views of those invested in these strategies.

The importance of regular dialogue

First and foremost, having two teams gives us two different access points within a company, which provides great insights as to how policy is set and implemented by the company's management team.

To facilitate this process, the teams meet regularly and share information across a broad range of issues. In addition, the heads of both teams meet bi-monthly to discuss wider strategic issues.

In-depth reporting

Given the nature and types of conversation held with our investee companies, the RI team reports quarterly on activities and its approach to current issues. It also publishes numerous articles, thought-leadership pieces and white papers.

Similarly, the G&S team produces an annual review of how it has met its responsibilities. This report outlines significant engagement achievements and Standard Life Investments' views on a number of evolving public policy and regulatory issues that have particular relevance to the interests of long-term investors.

Industry recognition

Our strong capabilities and expertise in integrating responsible investment aspects into our processes were recognised in July 2015, when Standard Life Investments was named the No.1 Leading UK Asset Management Firm for SRI/ESG at the Excel 2015 Awards. This is a coveted award, reflecting the views of over 350 investment professionals from 25 countries, making it one of the most extensive assessments of socially responsible investing in the European investment world. In addition, in our 2015 assessment by the UN-backed Principles for Responsible Investment (PRI), we were given their top rating of A+.



2015 UK Leading Asset Management Firm for SRI/ESG

In-depth research and engagement

At Standard Life Investments, we pride ourselves on detailed analysis to ensure we fully understand the companies in which we invest. Our process consists of two complementary stages: in-depth research and company engagement. These activities are conducted in conjunction with our investment desks across Standard Life Investments and ultimately feed into our investment process.

Comprehensive research

We carry out rigorous research on the companies in which we invest to assess environmental and social risks and opportunities, and how these are being managed. We look across a range of factors that could impact our investments, from macro, through sector to company-specific.

Materially focused

We take a materially focused approach, identifying the key issues affecting performance. We score companies on their policies, management systems, performance and reporting. Our ratings benchmark companies against others in their sector using a proprietary, in-house assessment tool.

We systematically rate underperforming companies in our clients' portfolios and evaluate what action, if any, might enhance the value of our investments.

This process is subject to ongoing assessment and revision, as new sources of ESG data become available and our internal processes evolve.

Identify opportunities and *Focus on Change*

Our approach is based on Standard Life Investments' differentiated *Focus on Change* investment philosophy. This is predicated on the belief that assets are driven by fundamentals and that, more importantly, most market participants are inefficient at pricing changes in these fundamentals.

Our aim is to anticipate what is changing in environmental and social trends and to capitalise on this before the market view comes into alignment with our own.

From an ESG perspective, a *Focus on Change* opportunity can take many different guises such as changes in industry competitive dynamics, the regulatory or political environment, societal values and advancements in technology.

Comprehensive engagement

We engage actively and regularly with companies in which we have or may have a financial interest. This enables us to learn more about a company's sustainability strategy and performance, appraise company management, encouraging best practice on ESG issues and/or exchange views.

Informing decisions across Standard Life Investments

Ultimately, our RI research will be used across Standard Life Investments, informing a range of activities, from our company practices and responses to legislation, to how we construct our investment portfolios or manage the properties we own.

Examples of responsible investment engagement



Craig MacDonald
Head of Credit

“The close integration of the responsible investment team with our investment managers has heightened our appreciation of the potential risks that environmental and social issues can pose.”

Meet the team

As one of the largest institutional investors in the UK, it is only fitting we should have a dedicated responsible investment team to focus on developing and implementing a professional approach to the field.



Amanda Young
Head of Responsible
Investment

Amanda joined Standard Life Investment in 2013, as Head of Responsible Investment. Prior to joining Standard Life Investments, Amanda was the SRI Officer at Newton Investment Management where she integrated environmental, social and governance matters into Newton's investment process. Before joining Newton, Amanda worked at CCLA Investment Management and started her career at Rabobank International, in the economic research department. She graduated from Lancaster University with a BSc in Psychology and is a main board director of the UK Sustainable Investment and Finance Association.



Andrew Mason
Responsible Investment
Analyst

Andrew started at Standard Life Investments in 2012. Prior to this, Andrew worked on the development and implementation of environmental, social and ethical risk policies at Royal Bank of Scotland and led the company's relationship with key stakeholders on sustainability issues. He also chaired a working group of the Equator Principles and was active in the UK Network of the UN Global Compact. Andrew has a masters degree in Social Sciences from the University of Edinburgh and a postgraduate diploma in Sustainable Business from the University of Cambridge.



Rebecca Maclean
Responsible Investment
Analyst

Prior to joining Standard Life Investments in 2013, Rebecca worked with environmental consultancy Trucost. Here, she integrated quantitative environmental insight into investment decisions and explored the link between environmental and financial performance. Rebecca also led several environmental externality valuation studies for companies across a range of sectors. Rebecca holds a BA Honours in Experimental Psychology from the University of Oxford and an MA in International Relations from King's College, London.



Alix Chosson
Responsible Investment
Analyst

Alix started at Standard Life Investments in 2013. Prior to this she worked for Generali Investments in Paris where she was an SRI Analyst. While at Generali, Alix specialised in assessing and rating the ESG performance of European companies in the oil and gas, utilities and technology-related sectors. Alix started her career as a governance analyst at Amundi. Alix holds an MA in Economics and Finance from Sciences Po Lyon and an MA in Portfolio Management from Université Paris Est Créteil.

Comprehensive communications

We believe it is important be clear and informative on the major ESG issues surrounding both our own business and our investee companies. It is also imperative that we understand how our clients consume information, as well as the priority they place on ESG issues. As such, the RI team takes a multimedia approach to its communication activities.

Targeted annual and quarterly reporting

The team's flagship Responsible Investing Quarterly document includes numerous thematic pieces on environmental and social trends, as well as several thought-leadership articles. It also details the various responsible investment activities the team has undertaken, including the guidance and recommendations it has made regarding companies' ESG practices.

Industry-leading white papers

Given Standard Life Investments' standing in the investment community, the RI team also publishes numerous white papers, detailing its views across a range of environmental and social issues. Titles can be found at our website, with examples below.

- ▶ Stranded assets – challenging the status quo
- ▶ Anti-bribery and corruption – considerations for companies and investors
- ▶ Human rights and Burma
- ▶ UK labour relations

ESG webcasts

We have introduced a series of quarterly ESG webcasts for our clients. These cover a variety of investment topics, including major ESG issues delivered by both our RI and G&S teams.

Annual ethical survey - the importance of engagement

Upholding the beliefs of our ethical investors is of paramount importance. As such, each year the RI team conducts a survey to gauge the major ethical considerations that are influencing a sample of our clients. This is to ensure that the composition of our specialist ethical strategies remain consistent with our clients' views, without compromising fund performance.

Learning gateway

As part of our ongoing commitment to educating clients on all facets of the investment world, we launched Learning Gateway. This comprehensive online training portal provides a range of modules on various assets classes and investment techniques, including sections on ESG topics.

Find out more

The team encourages open dialogue on all aspects of RI. You can therefore get in touch at responsible_investment@standardlife.com

Visit us online



[standardlifeinvestments.com](https://www.standardlifeinvestments.com)

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