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.

Standard Life Investments manages £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 individuals. 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.

As stewards of the assets entrusted to us we believe that the consideration of environmental, social and governance (ESG) factors is key to our role. This serves to enhance the long-term value of our clients’ investments and to protect their interests at all times.

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.

*US$343.5 billion, €325.5 billion, AUS$ 474.2 billion, CAD$460.5 billion. Exchange rates are US dollar - 1.2356, euro - 1.1715, Australian dollar - 1.7065, Canadian dollar - 1.6571, as at 31 December 2016
Our ESG investment capabilities

We consider company policies and practices on environmental, social and governance (ESG) matters to be an integral part of the investment process. We firmly believe that companies demonstrating a commitment to sustainable business practices and high standards of stewardship will likely enjoy a competitive advantage in the long run. More and more frequently, business practices are coming under the spotlight as companies are seen to flourish or deteriorate based on their response to the opportunities and risks that their activities present. From carbon emissions and pollution management strategies, to employee relations, board composition and corporate culture, ESG considerations have the potential to materially affect businesses across sectors and geographies.

At Standard Life Investments, the combination of our Focus on Change philosophy and the extensive, experienced resources across our investment and ESG investment teams offers scale to create positive ESG outcomes alongside robust, long-term sustainable returns. Our approach seeks to add value to our investment process in the ways detailed below.

1. **Materiality driven analysis:** our ESG Investment team, which comprises Responsible Investment and Governance & Stewardship experts, provides robust analysis of the factors that have the potential to affect financial performance.

2. **Dynamic screening:** identifying companies at the forefront of their industries (leaders) and those that are behind the market (laggards) in their management of sustainability and governance issues enables our investment teams to easily assimilate the ESG rankings and sustainability ratings of companies into their analysis.

3. **Systematic engagement:** the active engagement with companies undertaken by our Responsible Investment and Governance & Stewardship experts encourages greater transparency, accountability and compliance with codes of best practice. These discussions feed into our own fundamental analysis and help companies to meet the expectations of their shareholders in this regard.

4. **Active voting process:** voting is the primary method by which we exercise our clients’ rights as shareholders and is the means by which boards of companies can formally be held to account. The Governance & Stewardship function has oversight of all our voting globally.

In addition to integrating ESG matters across our investment process, we can apply our in-depth analysis across a range of dedicated responsible investment styles, including ethical products, sustainable & responsible investment (SRI) and impact investing solutions. The strong track record we have in managing these products demonstrates the skill and expertise of our investment teams. They also allow investors to align their personal beliefs and values with our strong stock-picking capabilities.

“**We aim to be the industry-leader in ESG, helping to protect and enhance the value of clients’ investments, while contributing to a sustainable world.”**

Euan Stirling
Head of Stewardship and ESG Investment
Companies do not operate in isolation. The manner in which firms conduct their businesses affects both the environment and society. The long-term decisions that companies make in successfully delivering their strategy need to consider environmental and social externalities.

Understanding the governance process and a company’s management of environmental and social aspects is key to making our investment decisions. We believe those companies that adopt due consideration and fully embrace the evolution of these issues will be better able to seize high-value opportunities and manage risks. Over the longer term, well-managed companies should achieve a premium, ultimately in the interests of their shareholders.

At Standard Life Investments, our approach is materiality focused and includes the following:

- assess and understand the governance factors that are important to our investment decision making
- consider investee company policies and practices on ESG matters throughout the investment process
- improve shareholder value through constructive engagement on ESG issues with the companies in which we invest
- seek to contribute to the development of principles and standards of corporate governance, corporate responsibility and stewardship
- encourage high levels of transparency and communication, which we believe are key for customers, intermediaries and the companies in which we invest
- hold boards and companies to account through effective use of the votes attached to shareholdings.

Our strong heritage (we founded our governance team in 1992), capabilities and expertise in integrating governance and responsible investment aspects into our processes have received industry recognition.

- Standard Life Investments was named the No. 1 Leading UK Asset Management Firm for SRI/ESG in the Extel 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 awarded its top rating of A+.
- We collected a total of 15 ‘Green stars’ in the 2016 Global Real Estate Sustainability Benchmark (GRESB) Survey. This is the highest number of any participant globally.
- Finally, we won Best Application of ESG at the Asia Asset Management Best of the Best Awards 2016.

Our ESG approach

A cornerstone of our Focus on Change philosophy is the understanding that ESG factors have a fundamental impact on long-term investment returns.
Dedicated resources

The ESG landscape is continually evolving as values shift and change and investor awareness increases. This necessitates the ongoing monitoring and scrutiny of developments in this fast-moving investment discipline and therefore requires dedicated professional resource.

Recognising the critical role of ESG matters in the investment process, we have had dedicated resources in place for 25 years. Laying the foundations with our Governance & Stewardship team, which analyses how a company is governed and implements an active voting process, we then expanded this to include environmental and social expertise. As a result, we now have what we believe is one of the best-resourced ESG investment teams in the industry.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Years in the industry</th>
<th>Years at the firm</th>
</tr>
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<tbody>
<tr>
<td>Euan Stirling</td>
<td>Head of Stewardship and ESG Investment</td>
<td>21</td>
<td>16</td>
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<tr>
<td><strong>Responsible Investment Function</strong></td>
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<tr>
<td>Amanda Young</td>
<td>Head of Responsible Investment</td>
<td>19</td>
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<tr>
<td>Andrew Mason</td>
<td>Responsible Investment Analyst</td>
<td>11</td>
<td>5</td>
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<tr>
<td>Sophie Rahm</td>
<td>Responsible Investment Analyst</td>
<td>7</td>
<td>&lt;1</td>
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<tr>
<td>Katharina Lindmeier</td>
<td>Graduate Responsible Investment Analyst</td>
<td>1</td>
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<tr>
<td>Elizabeth Meyer</td>
<td>Responsible Investment Analyst</td>
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<td><strong>Governance &amp; Stewardship Function</strong></td>
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<tr>
<td>Mike Everett</td>
<td>Governance &amp; Stewardship Director</td>
<td>31</td>
<td>19</td>
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<tr>
<td>Alison Kennedy</td>
<td>Governance &amp; Stewardship Director</td>
<td>32</td>
<td>12</td>
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<tr>
<td>Deborah Gilshan</td>
<td>Governance &amp; Stewardship Director</td>
<td>16</td>
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<tr>
<td>Douglas Wilson</td>
<td>Governance &amp; Stewardship Manager</td>
<td>24</td>
<td>17</td>
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<tr>
<td>Joanna McNeill</td>
<td>Governance &amp; Stewardship Manager</td>
<td>14</td>
<td>2</td>
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<tr>
<td>Nick Duncan</td>
<td>Governance &amp; Stewardship Manager</td>
<td>19</td>
<td>1</td>
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<tr>
<td>Nicola Robertson</td>
<td>Governance &amp; Stewardship Process &amp; Controls Manager</td>
<td>13</td>
<td>10</td>
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<tr>
<td>Claire Leighton</td>
<td>Governance &amp; Stewardship On-desk Support</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Standard Life Investments, 31 March 2017
**In-depth research and engagement**

At Standard Life Investments, we pride ourselves on our in-depth analysis to ensure we fully understand the companies in which we invest.

The diagram below demonstrates the role played by the Responsible Investment and Governance & Stewardship functions within the ESG Investment team. The Responsible Investment function undertakes assessment from an operational angle in order to assess and understand the relevant policies and their implementation within the investee company. The Governance & Stewardship function analyses the governance of the company through assessment of the board and its oversight of key topics such as strategy, executive management, audit and remuneration.

This two-pronged approach allows us to better understand the role played by boards of directors while also analysing the success of the operational implementation of policies and practices. It also provides the opportunity to corroborate information obtained at board and operational levels, leading to better information for our investment process.
In evaluating corporate behaviour from an environmental and social standpoint, we use a series of bespoke guidelines based on the four pillars of the UN Global Compact: human rights and community relations, business ethics, employee relations and environmental responsibility.

### The four pillars of the UN Global Compact

<table>
<thead>
<tr>
<th>Human Rights and Community Relations</th>
<th>Business Ethics</th>
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<tbody>
<tr>
<td>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 and civil society. More than that, we believe that businesses that respect human rights and the rule of law, and promote best practice are the ones that will thrive in the modern corporate world.</td>
<td>Issues such as corruption are major impediments to sustainable economic, political and social development. They increase the cost of doing business, restrict cross-border investment and trade, lead to the inefficient use of public resources and erode public trust in both business and the state. For companies, they hinder their ability to attract and retain staff, imperil their license to operate and increase the likelihood of regulatory fines.</td>
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<table>
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<tr>
<th>Employee Relations</th>
<th>Environmental Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees are a company’s greatest asset and resource, and should be treated accordingly. Companies that respect internationally recognised labour rights, develop their workforce and provide safe and healthy working environments for employees are likely to reap the benefits, including a more committed and productive workforce.</td>
<td>We believe companies that 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.</td>
</tr>
</tbody>
</table>

Source: Standard Life Investments

We analyse environmental and social themes and trends on a global scale, which also includes a focus on a region or a sector particularly affected. Using macroeconomic analysis of trends, future regulation and sector- and company-specific risks, we determine the themes that are of greatest significance for our investments. We then use our ongoing engagement programme to encourage companies to change their behaviour where required and help them meet the high standards that we expect.

Standard Life Investments is a signatory to the UK Stewardship Code for institutional investors and complies with its principles. In addition, we participate in the formulation of policy through the International Corporate Governance Network, the Asian Corporate Governance Association, the Investment Association, the US Council of Institutional Investors, the Principles for Responsible Investment, and other representative bodies. We have regard for their policies as and when appropriate in implementing our own bespoke ESG Principles and Policy Guidelines.

These Principles and Policy Guidelines provide flexibility that allows them to be applied to the individual circumstances of each company and the legal and regulatory jurisdiction in which they operate. They cover shareholder rights; the composition and duties of the board; values and business practices; remuneration; audit and risk control; and the quality of corporate reporting. The various principles and standards for which we have regard provide the basis on which we can assess the standards within a company. Through this, we can identify companies which may subject our clients' portfolios to additional risk.
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 management of ESG risks and hold it to account. During 2016, Standard Life Investments conducted over 595 direct engagements with companies on ESG issues. The diagram below demonstrates the nature and global spread of these engagements.

Examples of ESG engagement

Our ESG Principles and Policy Guidelines set out our expectations for the companies in which we invest and are publicly available on our website. In engaging with companies, we seek to gain assurance from the board and those responsible for the oversight and management of ESG issues. We expect to be informed of any material change in a company’s risk profile that may have a bearing on the value of our clients’ investments.

We believe that it is mutually beneficial for companies and long-term investors such as Standard Life Investments to have a relationship based on accountability, engagement and trust. Such a relationship helps to ensure that each has a good understanding of the other’s views and expectations, and enables us to exercise constructive influence as and when appropriate. We believe that this serves to enhance the long-term value of our clients’ investments and to protect their interests when necessary.
Integration into the investment process

We assess the extent to which the financial performance of a company may be affected by its management of ESG issues and risks. Our analysts use a number of resources to inform their view, including external research providers, public information, screening tools and our own internal analysis and engagement. Based on research and engagement, the ESG Investment team scores companies on environmental and social policies and, separately, for their governance arrangements. These scores are made up of external and proprietary in-house assessment tools which allow identification of ‘leaders and laggards’ as well as those whose scores may be changing, either positively or negatively. These scores form the basis of discussions between the ESG Investment team and our company analysts, giving an opportunity to further analyse those companies that present the greatest risks for our clients’ portfolios.

Equity and credit

Across our equity and credit strategies, we utilise a fundamental bottom-up stock selection process. In line with our Focus on Change philosophy, our portfolio managers aim to understand the drivers of change within individual companies and identify the potential impacts of these changes ahead of the market. The work of our equity and credit teams is closely aligned with that of our ESG Investment team, with all parties focusing on material changes in the short, medium and long term.

In addition to the availability and distribution of thematic research, sustainability ratings and meeting notes, our teams also come together through:

- contributing to daily equity and credit team meetings, stock selection meetings and sector reviews to integrate ESG analysis into investment discussions
- presenting developments in regulation, thematic research and company news on ESG factors at investment meetings
- communicating key ESG risks and opportunities with the sector analysts before and after engagement
- regularly attending company meetings with mainstream analysts, as well as conducting engagement activities together.

Addressing ESG issues within our investment analysis provides opportunities to reduce risk and to develop value creation. We designed our active engagement style to avoid surprises that have the potential to change the fundamental standing, strategy or dynamics of the companies in which we invest.

Real estate sustainability

We believe that embedding sustainability in our real estate operations is vital to our future success and to maximise value for investors. As such, our approach to real estate investment not only looks to achieve the financial returns expected by investors, but also ensures that ESG factors are embedded at all stages in the investment process. To support this approach, we have two dedicated sustainability specialists within our real estate investment team, as well as the Real Estate Sustainability Focus Group, which includes one of our Responsible Investment analysts.

We are committed to sustainability in all phases of an asset’s cycle: acquisition, operational asset management, redevelopment and disposal. Our strategic priorities for sustainable real estate investment (SREI) cover occupier satisfaction, resource scarcity and climate change. We have specific quantitative targets for energy and water efficiency, greenhouse gas emissions and waste management.
These topics are embedded within our SREI policy, which defines our high-level commitments on sustainability. Our Corporate Real Estate Sustainability Management System and environmental management system procedures for asset operation and developments are the means by which we achieve continual improvement and embed sustainability throughout our activities and our supply chain.

Engaging with our stakeholders is an essential part of our approach to sustainable real estate investment. Creating a dialogue with those involved in, and affected by, our real estate investment activities means we can incorporate feedback into our approach and identify opportunities for collaboration.

We can demonstrate measurable improvements in our portfolios as a direct result of implementing our SREI policy. Standard Life Investments is a participating member of GRESB (Global Real Estate Sustainability Benchmark), and our sustainability manager sits on its European Benchmark Committee. We submit all of our direct real estate funds to the GRESB Assessment on an annual basis. In 2016, we received 15 Green Stars, the highest number of any participant globally.

We produce an annual Sustainable Real Estate Investment Report that discloses the sustainability performance of our global real estate portfolio. This report is available online at:

Active voting process

Voting is the primary method by which we exercise our clients’ rights as shareholders and is the means by which boards of companies can formally be held to account. The Governance & Stewardship function has oversight of all our voting globally. Standard Life Investments votes all shares for which we have voting authority except when otherwise instructed by the beneficial owner of these shares or, where, for practical reasons (such as share-blocking), this is not appropriate.

We use our Global Voting Platform to achieve this. In doing so, we use the services of Institutional Shareholder Services (ISS), which is a reputable provider of proxy voting research and voting recommendations. Although ISS has its own voting guidelines, we provide a custom voting policy based on our regional guidelines that it is required to follow when implementing the voting decisions we make on behalf of our clients.

We implement considered voting policies based on the ESG Principles & Policy Guidelines approved by our board when voting the shares we manage. We have now published our Regional Voting Guidelines covering all major regions of the world where we invest on behalf of our clients. We apply our guidelines with appropriate professional care and flexibility, holding boards to account, engaging where necessary, and at all times representing the best interest of our clients.

We use these guidelines to create the custom voting policy used by ISS when assessing company meeting resolutions on our behalf. Our natural inclination is to support a board’s voting recommendation, but we do vote our clients’ shares against resolutions that are not consistent with their best interests as shareholders or which conflict with the spirit of Investment Association (IA) or other institutional guidance. When making voting decisions in the UK, we also make use of the IA’s Institutional Voting Information Service. We analyse special shareholder resolutions on a case-by-case basis and consider whether the resolution calls for action that would lead to an increase in shareholder value.

For our holdings other than in the US, we undertake an assessment of voting opportunities using a three-tiered significance approach driven by the market of listing and the size of our holding.

- For the most significant holdings, we separately undertake a full detailed assessment of any voting opportunity.
- For a mid-range of significance, we review the voting research and recommendations by ISS before instructing our vote.
- For the smallest holdings, we use our proxy adviser’s analysis against our custom voting policy to define our vote.

In addition to the tiered approach, we also review any vote against management proposed by our advisers. We review our votes on a regular basis to ensure these have been instructed as intended.

In the US, our company analysts based in Boston assess meeting resolutions and provide their voting decisions to the Governance & Stewardship function. Should the instruction be out of line with the advice received from ISS based on our custom voting policy, the analyst will provide a rationale for the divergence.

In the event that we vote our clients’ shares against a resolution at a UK shareholder meeting, this decision is discussed and agreed with the investment team. We will always use best endeavours to discuss this with the company beforehand and explain the reasons. We also use reasonable endeavours to do so in respect of abstentions. The purpose of such engagements is to seek to influence changes in company policy and practice. In exceptional circumstances, we shall attend and speak at shareholder meetings to reinforce our views to the company’s board.

We disclose all our voting records for shareholder meetings on our website.
Our tailored responsible investment solutions

At Standard Life Investments, we take a comprehensive approach to ESG and have integrated these practices into our mainstream investment process. In addition, we can apply our in-depth analysis across a range of dedicated responsible investment styles.

Please note that funds and products referenced in this section are not authorised for distribution in the US and some of the other jurisdictions in which we operate. For further information, please speak to your usual contact at Standard Life Investments or visit our website (www.standardlifeinvestments.com).

The ethical choice
Standard Life Investments has managed ethical funds for around two decades. These are available for UK investors and are a popular choice for those concerned about environmental and social issues, and business practices and values. Investing ethically can provide the satisfaction that comes from putting personal values into practice, as well as offering the potential for financial returns. With our ethical fund range, we screen and select companies based on their business activities. In doing so, we avoid those companies involved in unacceptable industries such as arms, tobacco, etc. in favour of those with operations that benefit both the environment and society. Our range includes:

- the UK Ethical Fund
- the European Ethical Equity Fund
- the Ethical Corporate Bond Fund
- ethical pension and life funds.

We develop our ethical criteria in collaboration with our clients invested in our ethical funds and they are publicly available on our website. We survey our ethical clients annually to see if we need to make any changes to our Ethical Policy. Our Ethical Funds Advisory Group, which includes three of our ethical investors as well as senior managers from Standard Life Investments, reviews the results. The Group’s role is to ensure that current ethical views are applied across our ethical fund range.

Sustainable & responsible investment (SRI) products
With our SRI products, we screen companies based on their sustainability practices. This includes screening out companies that do not comply with the UN Global Compact, are involved in controversial weapons, tobacco, coal or have poor sustainability and responsible investment scores in relation to the risk of their sector’s impact. The Responsible Investment function then works closely with the portfolio manager to select the best investment ideas. Companies on the ‘watch list’ that are owned are priority targets for engagement. Our SRI product range includes our flagship European Corporate Bond SRI Fund (available as a SICAV in various currencies), launched in 2012.

Impact investing
We have the infrastructure and capabilities in place to deliver impact investing solutions, which aim to generate measurable positive environmental and social impacts, in addition to a strong financial return. Based on its research and engagement, the ESG Investment team has developed a bespoke system that rates companies on the impact themes to which they are exposed. We then consider investment ideas based on both financial return prospects and their impact rating, before selecting those that have the highest impact in both areas. The Responsible Investment function has developed tools to measure and report on the environmental and social impact at a stock and portfolio level.

Ethically screened portfolios managed by Standard Life Wealth
Our UK onshore and offshore discretionary fund manager Standard Life Wealth has the capability to manage ethically screened segregated portfolios for charity clients and private clients. Thirty percent of their charity clients use ethical criteria, an important feature in the not-for-profit sector.
A comprehensive suite of communications

We believe it is important to 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 sustainability issues. As such, the Responsible Investment and Governance & Stewardship functions take a multimedia approach to communication activities.

Annual and quarterly reporting

Our ESG Investment team produces quarterly and annual reports outlining emerging themes and topics, key engagements we have undertaken and important voting outcomes. We publish and distribute the reports in hard copy format and they are also available on our website. In addition, we regularly publish our voting and engagement records on our website, including rationales when we vote against management and other resolutions we deem to be sensitive. Finally, we provide details of important news and events, as well as any articles or statements we may have issued relating to ESG matters of interest. Our engagement and our voting records are audited annually by our external auditors. This demonstrates our commitment to ESG – we are one of the few teams in the industry that applies such rigour to our transparency.

Industry-leading white papers

Given Standard Life Investments’ standing in the investment community, our teams publish numerous white papers, detailing the company’s views across a range of issues. For example, we have now completed a series of white papers that cover the four key pillars of the UN Global Compact.

ESG webcasts

We have introduced a series of quarterly webcasts for our clients. These cover a variety of investment topics, including major ESG issues delivered by both our Responsible Investment and Governance & Stewardship experts. If you would like to participate, please visit our website and register for upcoming events. Webcasts are presented live, which means that any questions can be submitted straight to our experts throughout the presentation.

Annual ethical survey (UK only)

Safeguarding our investors’ integrity and upholding their beliefs is of paramount importance. As such, each year the Responsible Investment function conducts a survey to gauge the major ethical considerations that are influencing investors in our ethical fund range. This ensures that the composition of our ethical funds remains consistent with our clients’ views, without compromising fund performance.
Find out more

To find out more about our ESG capabilities, please visit our website www.standardlifeinvestments.com/esg

You can also contact the ESG Investment team at:

🔗 esg_investment@standardlife.com
Important Information

The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. Past performance is not a guide to the future. This material is for informational purposes only. This should not be relied upon as a forecast, research or investment advice. It does not constitute an offer, or solicitation of an offer, to sell or buy any securities or an endorsement with respect to any investment vehicle. Please note that some of the investment vehicles referenced in this publication are not authorised for distribution in all of those jurisdictions in which Standard Life Investments operates. For further information, please speak to your usual contact at Standard Life Investments or visit our website (www.standardlifeinvestments.com).