



Ethical Funds Investment Policy

June 2017

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Standard Life Investments recognises that the world faces significant environmental and social challenges. We run a number of Ethical Funds (the funds) that seek to invest in companies that are supporting the solutions to these challenges and uphold the highest standards of corporate responsibility. The criteria of the ethical investment policy aim to reflect this.

While we recognise the personal nature of everyone's ethics, we aim to ensure that the funds are reflective of the wider views of those who invest in them. We regularly review the criteria, both positive and negative, through customer surveys and consultations to ensure they remain relevant and industry leading.

This policy is overseen by the Standard Life Investments Ethical Funds Advisory Group, consisting of both independent external members and key Standard Life Investments staff. For information relating to this policy please contact the Responsible Investment Team on responsible_investment@standardlife.com

Positive Criteria

Using **positive criteria**, we favour companies that are involved in activities that benefit society and the environment. We use the UN Global Compact to define the four areas where we seek positive business practices and services.

1: Environment

We seek to invest in companies that have a positive impact on the environment, through strong policies, processes and management, recognising the finite resources available in the world. In addition, we seek companies that contribute to environmental protection and enhancement through their products and services, such as environmental technologies, renewable energy (such as wind, solar, geothermal, tidal), pollution mitigation, energy and resource efficiency, environmental protection and conservation of biodiversity and natural resources.

2: Human Rights & Community

We seek companies that respect and support the human rights of those affected by its business, particularly those companies upholding the highest standards of business conduct in countries with a weak rule of law. We seek to invest in companies that offer products and services that provide access to some of the world's most basic rights, such as water, sanitation, education, healthcare, food, shelter and energy, in a bid to enhance livelihoods and society. We seek companies that have strong relationships within their communities and ensure that their business activities provide positive benefits to the local environment in which they operate.

3: Employment

We seek to invest in companies that have strong labour practices, where employees are valued and treated with respect and dignity. Companies that demonstrate strong policies, practices and reporting on issues such as equal opportunities, diversity, freedom of association, right to collective bargaining, training, education, and wellbeing will be favoured. In addition, we favour companies implementing strong safety, health and welfare policies, particularly those involved in hazardous activities.

4: Anti-bribery and corruption

We favour investment in companies that uphold the highest standards of business ethics and demonstrate strong anti-corruption policies including oversight, commitment and anti-corruption practices. We will seek to invest in companies that have adopted and embed a code which encourages employees to follow principles of good business behaviour and positive corporate culture. This code should be publicly available and actively communicated to all employees, suppliers and stakeholders.

Corporate Governance

The funds adopt a formal corporate governance policy. We actively vote at the AGMs of the companies held in the funds. Due consideration is given to issues such as board independence, excessive remuneration and audit issues. Voting is conducted within the terms of the Ethical Funds Investment Policy and in the best of interests of the investors in the funds.

In addition, the funds will adopt a policy of voting:

- ▶ against the Chairman of any company where the board fails to have set policy, have oversight or take responsibility for environmental, social, health & safety and human rights issues.
- ▶ against members of any health, safety and environment committee where insufficient oversight has resulted in poor performance in these areas.

Engagement

The funds pursue an active engagement policy. We engage with companies on a range of environmental and social issues with the aim that good corporate behaviour is adopted by the companies in which the funds invest. Where engagement proves ineffective and concerns remain over corporate behaviour and oversight of these issues, we will disinvest from a company. It is our ambition that this active engagement will challenge and encourage companies in which the funds invest to improve their environmental and social performance and practices.

Current Negative Criteria

We also use **negative criteria** to avoid investing in companies involved in certain industries and activities that our customers are concerned with. If a company is involved in the activities listed below, the funds currently avoid investing in them.

UN Global Compact: The funds will avoid companies that have failed one or more of the ten principles of the UN Global Compact (www.unglobalcompact.org)

Environmental protection: The funds will avoid investing in companies that:

- ▶ fail to recognise the environmental responsibilities associated with their activities
- ▶ have a significant or unmitigated harmful effect on the environment or its inhabitants
- ▶ are involved in highly carbon intensive activities or have high greenhouse gas emissions and have failed to show commitment to address climate change issues
- ▶ have significant carbon intensive mining operations, such as in coal or tar-sands
- ▶ manufacture chemicals of concern (such as ozone depleting chemicals and pesticides) without stringent policies, processes and practices to mitigate the harmful impact of their processes and products
- ▶ are involved in GMOs for agricultural crop or livestock production
- ▶ have operations that produce, manufacture or use commodities (such as cotton, timber, soya, palm oil or cattle) without sufficient processes in place to ensure their activities do not contribute to significant or unmitigated deforestation, significant biodiversity loss, or harm to the environment or communities.

Weapons: We will exclude any company that manufactures or sells whole or strategic parts of weapons systems and weapons platforms. We will also exclude companies that derive more than 20% of revenue from non-offensive military sales, such as vehicles or support to the military.

Human rights: The funds avoid any company:

- ▶ that operates in any country with a poor record of human rights and fails to have a human rights policy in place
- ▶ with continued accusations of human rights abuses, no matter where it operates

- ▶ that has been involved in controversial projects that have been linked to human rights abuses
- ▶ deemed to be supporting controversial regimes.

Nuclear: We will exclude miners of uranium, and operators and owners of nuclear power stations, deriving more than 5% revenue from nuclear power generation.

Alcohol production: The funds will not invest in companies that derive 10% or more of revenue from alcohol production.

Animal testing: The funds will not invest in companies that manufacture products or ingredients that have been tested on animals.

Animal husbandry: The funds will avoid investment in companies with significant exposure to activities which may lead to poor animal husbandry (such as intensive or factory farming), where there is evidence of poor practices or that do not respect the five freedoms (freedom from hunger and thirst; discomfort; pain, injury and disease; behave normally; fear and distress).

Fur: The funds will not invest in companies that manufacture or sell fur products, that are not a by-product of the meat industry (e.g. wool or leather).

Pornography: The funds will avoid companies that derive 3% or more revenues from adult entertainment services, including publishing and distributing pornographic magazines or newspapers, or violent video games.

Marketing breast milk substitutes: The funds will avoid companies that market breast milk substitutes and have failed to commit to adopting industry leading marketing practices (such as those defined under the World Health Organisation's International Code of Marketing of Breast-Milk Substitutes).

Tobacco: The funds will avoid investment in companies that manufacture tobacco products.

Involvement in gambling: We will exclude companies that derive 10% or more revenue from involvement in gambling.

Poor business practices: The funds will avoid companies with evidence of poor business practices that cause harm to society or their employees that have not already been captured under other criteria (such as predatory lending and high interest rate lenders which have demonstrated poor business practices). The funds also seeks to avoid companies which have a harmful effect on their employees, such as mining companies with poor health and safety practices, or companies with evidence of abusive employment practices.

¹ Percentage thresholds are determined by the importance our investors place on each criterion.

If you would like to find out more about our investment strategies, please visit www.standardlifeinvestments.com where you will find contact details for your location.

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