Responsible Investment

Quarterly Report
Q4 2015

Standard Life Investments

Contents

Introduction

Standard Life Investments is committed to being a responsible investor. This quarterly report details engagements our responsible investment team has undertaken throughout the period with various companies specifically related to environmental, social and governance issues*.

While not an exhaustive list, this report is a comprehensive representation of the various steps taken by Standard Life Investments to remain an active and responsible steward of our clients' assets.

In addition to details of specific corporate engagement, we have included recent reports written by members of our responsible investment team. These research papers provide insight on the pressing issues of cyber security, China's food security, the rise of Millennials and many more.

Standard Life Investments is one of the world's leading investment companies, offering global coverage of a broad range of investment instruments and markets. With global assets under management of £253.2 billion (as at 31/12/2015) our capabilities span equities, fixed income, real estate, private equity, multi-asset and absolute return solutions.

Headquartered in Edinburgh, Standard Life Investments employs over 1,500 talented professionals. As a global investment manager, we maintain a presence throughout the world including Boston, Hong Kong, Paris, London, Beijing, Sydney, Dublin and Seoul.

*A separate governance and stewardship team report on their ESG activities will be produced in their end of year review.
See: http://www.standardlifeinvestments.com/governance_and_stewardship/index.html

Foreword

Amanda Young
Head of Responsible Investment

As we look back through 2015, it strikes me that much has moved on for responsible investment. We have experienced a number of significant incidents relating to environmental, social and governance matters that have affected companies, such as the scandal at Volkswagen and the Samarco Tailings dam collapse owned by Vale and BHP Billiton.

But it was not all bad news. The year finished off with an historic agreement being reached at the United Nations climate conference in Paris. As a result, 196 nations have reached consensus that global temperature rises need to be limited through the reduction of greenhouse gas emissions. These countries have agreed to review progress regularly and tighten their commitments if necessary. However, while this is momentous, the way this plays out in practice is still to be determined. It still leaves uncertainty for investors, as we grapple with which stocks are likely to be most affected and when.

What is clear, though, is that governments have begun to recognise the environmental challenges the world faces. This is likely to increase regulation for the companies in which we invest. The responsible investment team will need to assess how and when this regulation is likely to happen. This will enable us to ensure that we are engaging with companies to calculate both the risks and opportunities they may face.

Last year was a busy period for the team. We were involved in a number of initiatives, such as the UK's Good Money Week, PRI in Person, zero-hours contracts, modern slavery and the UN Sustainable Development Goals. We also produced a number of white papers, completing our series on the four pillars of the UN Global Compact. As a result, we now have a white paper on the environment, human rights, bribery & corruption and labour issues. In addition, we published papers on privacy and data protection, the rise of the Millennials and the impact on values-based investing, and precarious working conditions in the UK.

In our quarterly reporting, we have covered a number of responsible investment topics, including climate change, integrated utilities & future power generation, privacy in the digital age and automotive real-world testing.

As always, we welcome your views. We wish to ensure our reporting remains as useful as possible to our clients and external stakeholders. Please send comments to our team mailbox at responsible_investment@standardlife.com

The responsible investment team

Who are we?

The responsible investment team is dedicated to research and analysis of environmental and social issues that have a bearing on Standard Life Investments' client portfolios. We place specific focus on four key areas:

- employment issues
- human rights & community issues
- environmental matters
- anti-corruption.

The team works closely with our separate governance and stewardship team and seeks to ensure that ESG considerations are embedded throughout our investment process. Collectively, the team has over 30 years' experience in responsible finance. Further details on our approach and how we engage with investee companies can be found on our website.

The team

Alix Chosson
Analyst, Responsible Investment

Rebecca Maclean
Analyst, Responsible Investment

Andrew Mason
Analyst, Responsible Investment

Katharina Lindmeier
Graduate, Responsible Investment

Contact the responsible investment team at

responsible_investment@standardlife.com

Thematic commentary

Building cyber resilience

Cybersecurity is a growing and strategic risk for most companies. According to a study conducted by PwC, since 2008 the number of IT security incidents has risen by 60% annually around the world. This trend is set to continue. All sectors are concerned, but those managing sensitive information or managing critical assets are the most vulnerable. Cyber risks are set to continue to increase due to many structural trends, including digitalisation of many sectors, the proliferation of mobile devices and the emergence of the Internet of Things.

Cyber-attacks are becoming more sophisticated and hackers seem to always be one step ahead of authorities. Hacking has become an extremely lucrative business. Tremendous amounts of personal data are sold daily on underground markets.

The impact of a cyber-attack or data breach is multi-fold.

- Revenue loss, including brand and reputational damage, loss of competitiveness due to loss of IP or sensitive information.
- Operational costs, including the need to reinforce protection and processes, continuous investments in security, training, due diligence on business partners.
- Fines. Stakes are getting higher: under the UK Data Protection Act the maximum fine for data breach is £500,000. With the coming EU General Data Protection Regulation, this amount could go up to 4% of global revenue.

Building up cyber resilience has become vital for companies. A robust cybersecurity approach needs to give adequate consideration to three core aspects: people, processes and technology.

The difficulty in assessing companies' preparedness is due to the lack of agreed common standards – there is no 'one-size-fits-all' approach. It is generally recognised that companies need to invest more in cybersecurity, especially when they are digitalising most of their operations and business. The dilemma is striking the right balance between security and the user's experience.

However, we believe that some good practices are emerging that we will continue to encourage in our company engagements.

- Good cybersecurity governance should include board level ownership, with a Chief Information Security Officer in place that has the necessary power to act when needed, as well as having unfettered access to the most senior executives. This individual should also provide regular updates and training to top management and the board.
- Most companies have adopted a risk-based approach, often using the traditional three lines of defence method. However, only 5% of organisations have a threat intelligence team with dedicated analysts and external advisors. Just over half of companies surveyed by Ernst & Young have established a Security Operations Centre to centralise and monitor their cyber-protection. Most advanced companies are starting to use Big Data analytics and real-time analysis of users' behaviours to assess vulnerabilities.
- Employee training is crucial. After all, they are the root of most cyber breaches, as well as the first line of defence. Employees need to understand the value and function of cyber protection tools, such as identity & access management and data protection rules. They also need to be mindful of simple software updates and basic mailbox protection. Training and raising awareness should be conducted at regular intervals to ensure a culture of cybersecurity is ingrained within an organisation ('cyber hygiene').
- Monitoring and working together with business partners (suppliers, contractors, etc.), as well as sharing knowledge with peers, is becoming vital. Cyberattacks often target small- or medium-sized companies to gain a foothold into interconnected business ecosystems.

- Data protection & privacy should be part of a robust cybersecurity strategy. Ensuring the company collects, protects and processes personal data in a responsible way (including data minimisation, privacy-by-design, and encryption of sensitive personal data) is key to prevent any data breach or data mismanagement and maintain customers' trust. The EU General Data Protection Regulation should reinforce requirements in Europe, including how companies should respond to data breaches. A paper titled 'Privacy and Data Protection' can be found on the responsible investment pages of our website.

We are engaging with companies that we believe are most at risk on these issues. We will continue communicate on the outcome of these engagements in our quarterly reports.

Food security in China: exploring the sustainability challenges

Food security is a priority for all nations; however, China faces an acute challenge to feed its huge and growing population. Not only does the country need to lift domestic food safety standards, but it must also ensure that food is produced and processed in a way that protects the environment for the long term.

China has 20% of the world's population, but only 8% of arable land and 7% of freshwater resources. There is limited arable land available in China; with only 0.08 hectares per capita versus 0.49 hectares in the US. Not only does the country lack sufficient arable land, but soil pollution and water availability (or lack thereof) present further hurdles. The Ministry of Environment has reported that one-fifth of agricultural land is polluted with heavy metals.

We participated in an investor tour of China to investigate the sustainability challenges present throughout the country's food value chain. We met a range of participants, from seed producers to agricultural equipment companies, dairy farmers, meat processing firms and food retailers.

We drew three key ESG conclusions from the trip.

1. Food safety remains a key concern
According to one survey, 87% of respondents were 'highly concerned' about drinking water and food in China. Consumer confidence in domestic food products has been affected following high-profile food scandals surrounding infant milk formula, meat, and fruit and vegetables.

In 2008, it was reported that infant milk was being adulterated in China with melamine to give the appearance of higher protein content. The milk caused protein deficiency and several infant fatalities, sparking public anxiety. Following this controversy, public confidence in domestic dairy products fell and demand for imported milk and infant milk powder accelerated.

In 2013, it was reported that 16,000 dead pigs were found floating in a river outside Shanghai. The river was a source of municipal water to the city. The pigs allegedly carried the circovirus. The incident raised concerns about animal husbandry in China.

Worries about food safety persist. We heard from an industry insider that consumers are concerned about the speed at which chickens are reared by large poultry producers. An executive from a dairy training centre highlighted that more testing is needed in the dairy industry and that antibiotic use needs to be controlled.

On 1 October 2015, China implemented a new food safety law. It includes requirements for infant milk formula and regulation for health foods. Importantly, this regulation points to more stringent criminal and civil penalties for individuals found to be adulterating or serving unsafe food.

We spoke to a food safety official in Shandong province about the increasing level of enforcement of food safety standards. We expect the trend of raising these standards to continue in China, driven by consumer demand and regulation.

Standard Life Investments will continue to review food traceability innovations being developed by food companies operating in China. It is our view that best practice food companies are raising standards across their industries by working with farmers and suppliers to educate on safety, quality and sustainability.

2. Water is already a scarce resource in certain regions

Agriculture accounts for 63% of China's water use and 50% of water pollution. The country has regions of high water scarcity (less than 1,000 cubic metres of water per capita) in the coastal provinces of Hebei, Beijing, Tianjin, Jiangsu and Shandong. 34% of total sown area is located in water-scarce provinces.

We visited farmers in Shandong to discuss water availability. This region receives water from the South-North water diversion project. This US$60 billion diversion project will eventually transport an annual 44.8 billion cubic metres of water from central China to the North China plain. We spoke to farmers about the cost of water for domestic use and agricultural use. Following these discussions, it is our view that the price of water in some high water risk regions does not reflect its value and therefore fails to promote sustainable use. There is a risk that the cost of water will increase for industry and households as a result. We intend to monitor this development and consider the implications for industry players.

3. Action is needed to reduce soil degradation and clean up soil pollution

It has been estimated that it would cost China US$1.1 trillion (RMB7 trillion) to clean-up soil pollution. Soil pollution in China is driven by heavy industry and urbanisation. In addition, excessive and inappropriate use of fertilisers on agricultural land has led to soil degradation. To compound the issue, the country has historically had a problem with fake fertilisers.

So what is being done to improve soil quality? The government issued guidance in its Water Pollution Prevention Plan and included a target for zero growth of fertiliser use by 2020. We are expecting details of further action to be included in the Soil Pollution Prevention Plan, to be released in 2016.

Agricultural sustainability will be enhanced as farms become larger and farmers move towards sustainable practices. Land consolidation in China is driven by urbanisation, changes to land use rights and machinery subsidies. This and government policy should lead to improved agricultural efficiency and an increase in the use of low toxicity fertilisers.

Overall, the trip highlighted the sustainability issues that challenge China's aim to achieve food self-sufficiency. Whether or not public perceptions are grounded in facts, there is no denying that consumer confidence in domestically produced food has been low. Images of dead pigs floating in rivers outside cities are powerful. That said, the Chinese government has set out a range of measures to improve agricultural efficiency and domestic food safety standards. These policies are designed to give a boost to domestic food producers, as well as help clean-up environmental pollution.

So what does this mean for investors? Chinese consumers and regulators are demanding higher sustainability standards from players in the food value chain. This has consequences for a range of sectors. For example, domestic food producers that are promoting industry standards will be supported by government policy, including the new food safety law. Meanwhile, international food corporations are able to harness consumers' demand for brands perceived to be 'safe'. They therefore need to work hard to protect this brand value.

Land consolidation continues in China, leading to agricultural efficiency. Scaled farms are more likely to buy branded, less toxic agricultural chemicals and have higher levels of mechanisation. Further, large farms are more likely to invest in water efficiency technologies. We will continue to monitor this trend since it has implications for chemical and machinery companies.

Finally, we believe the theme presents opportunities for agricultural providers. Food companies that offer innovations around food traceability give the consumer more information about products and are therefore well placed to raise consumer confidence. E-commerce gives the consumer access to imported foods and can help cut down the number of intermediaries between the farm and consumer.

Paris climate negotiations signal a new normal in collective thinking

The Paris Climate Change Agreement marks a global commitment to a new normal, one where carbon emissions and climate change are explicitly considered in government policy strategy and investment planning. Many of the excuses voiced against carbon mitigation have been softened as 196 countries – representing 95% of global carbon emissions – agreed to strong climate aspirations. Developed countries can no longer accuse developing countries for not preparing to limit future carbon emissions; while developing countries point to developed nations dragging their heels.

We did not expect the Paris conference to bring any significant surprises – and it did not – but that was a benefit of its design. Negotiators entered the Conference of the Parties 21 (COP) with more realistic, considered and aligned expectations, enabling the announcement of a legally binding agreement. The significant developments came to light prior to the conference in the form of bilateral agreements (such as between the US and China) and the intended nationally determined contributions (INDCs), which is each countries national climate pledge.

Throughout 2015, we monitored climate negotiations closely. During COP21, we paid particular attention to the proposed framework for oversight, ratcheting up mechanisms and climate finance that are needed to support the process beyond Paris.

The conference was a topic of interest for many clients and the media. Below we respond to a few frequently asked questions.

Is the Agreement ambitious enough?
There is a wide gap between the estimated warming inferred by stated climate pledges and the climate ambitions agreed at the conference. The Paris Agreement states the aim of holding the global average temperature increase to 'well below' 2°C above pre-industrial levels and recognises a 1.5°C ambition. If countries adhere to their climate pledges set out in the INDCs, the aggregated efforts point to a global average temperature rise of 2.7°C.

That said, the framework agreed in Paris outlines a 'ratcheting up' mechanism whereby all parties review and update their climate ambitions and financial commitments every five years. The emphasis on progression beyond current positions should provide an impetus for the national contributions to become more ambitious over time, as low carbon technologies become cheaper and economies develop.

Will momentum for climate action fade following Paris?
We do not think so. In 2015, 187 countries put into writing the climate goals and objectives post-2020 in the form of INDCs. We think momentum will be maintained for two reasons. First, in 2016 we expect to see details emerge of the national policy and legislation to be put in place to deliver the Paris commitments on the ground. Second, transparency of mitigation targets and financial commitments will be reviewed and updated every five years, as defined by the ratcheting up mechanism. Rather than waiting to 2025 to start this process, governments have agreed to 'facilitative dialogue' in 2018 with a view to 'communicate or update' climate pledges in 2020.

It is our view that further clarity of climate policy and enhanced transparency will help to maintain the momentum of Paris.

Will countries stick to the climate pledges?
It is hard to say at this point whether all parties submitting an INDC will fulfil their climate pledges. This is largely because the INDCs are voluntary, non-binding and reversible. The final Agreement includes no provision for fines or penalties to countries who fail to meet their stated commitments. Rather, the aim of the framework is to facilitate implementation of the climate pledges.

Some progress was made in the area of monitoring and oversight, including a working group to develop guidance for national greenhouse gas emmissions (GHG) accounting. In our view, however, this aspect of the framework could have been stronger.

Political risks certainly remain, most notably in the US. The outcome of the presidential election on 8 November 2016 is likely to set the direction for US climate policy action.

The EPA Clean Power Plan requires significant reductions in carbon emissions from power plants in the US and is key if the country is to meet the target to cut carbon emissions by 26-28% below 2005 levels by 2025. While a Democratic Party victory is likely to support the current policy trajectory, a Republican appointment could lead to setbacks in achieving stated climate goals. However, momentum may continue at a state level, where we are already seeing the implementation of low carbon policies.

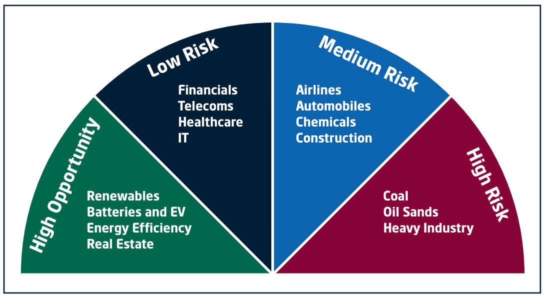
In the table on page 11, we compare China and the US, the two highest carbon-emitting countries globally. China emits half the carbon emission per capita than the US; nevertheless, the climate policy outlook for the coming years is in our view more certain and set to tighten.

Who will pay?
Despite delegates having made financial commitments, the details of how the agreement will actually be paid for remains unclear. Climate finance marked one of the biggest hurdles for the negotiators leading up to and during the summit. Emerging countries argued strongly that external support is needed to help finance low carbon development and climate adaptation. HSBC estimates that USD220 billion of climate finance pledges were made at COP 21.

In September, China announced RMB20 billion (USD3.1 billion) to fund developing countries mitigation and climate resilience in the form of the 'China South-South Climate Cooperation Fund'. The Green Climate Fund has reached USD10.2 billion, of which USD3 billion is from the US. Finance is expected to be in the form of private and public funds. Disappointingly, however, the final Agreement and Decision did not shed much new light on how the stated ambition of USD100 billion of annual climate funding by 2020 will be raised and spent.

Who are the winners and losers?
The answer is dependent on a number of factors. The sector and company implications will be largely driven by the national and regional policies put in place to mitigate carbon emissions from energy, industry and transport, as well as those to promote the use of renewables. We did not expect any significant surprises at COP 21 that would impact particular stock names; rather, the Agreement signals the expansion of a macro trend that will lead to greater scrutiny of climate issues. The Agreement points to government policy supportive of low carbon and energy efficiency solutions. This should partially abate policy uncertainty for a range of industries.

The chart below provides a high-level assessment of sector exposure to climate regulation.



Companies can be affected by changes to government legislation, subsidies and consumer preferences. At a policy level, we expect carbon pricing (in the form of carbon tax or emission trading schemes) to continue expanding globally, increasing environmental regulation on high carbon sectors, ongoing renewable capacity additions in certain countries and a focus on fossil fuel subsidies.

In late 2015, China announced the national roll-out of its carbon cap-and-trade system by 2017 and new ultra-low emission upgrades for all coal-fired power plants by 2020. These policies highlight the range of environmental regulations that contribute to national climate ambitions. It also shows the potential financial implications these rules present for high carbon-emitting sectors.

What are the next steps?
The Agreement is to be ratified in April 2016. We expect further national and regional policy clarifications to be announced throughout this year and beyond. In particular, China's 13th Five-Year Plan, to be announced in 2016, is likely to build on existing policies to tackle air, soil and water pollution and provide details of its national climate policy and energy strategy.

Conclusion

The Paris Agreement sets out a framework for global action to address climate change. While this should reduce policy uncertainty for businesses and investors, the translation of the high level commitments to national legislation is still required.

The outcome includes a meaningful framework that promotes greater transparency of climate goals and finance, with flexibility to adjust the level of ambition going forward. The Agreement lacks a strong definition of infrastructural oversight and monitoring of climate commitments, and leaves questions about where the targeted USD100 billion of climate finance will come from. Nevertheless, it is our view that Paris COP 21 sends a strong signal to investors, businesses and civil society that action will be taken to address the causes and impacts of climate change post-2020.

US and China: a comparison	US	China
% global GHG emissions (2014)	17%	28%
Carbon (tonnes) per capita	19	7
Primary energy breakdown 2014 Oil Natural gas Coal Nuclear Hydro and renewables	 36% 30% 20% 8% 6%	 18% 6% 66% 1% 10%
INDC climate pledge (Absolute versus relative target)	Cut carbon emissions by 26-28% below 2005 levels by 2025 (Absolute)	Peak emissions by 2030 and cut carbon intensity of GDP by 60-65% below 2005 levels by 2030 (Relative)
Climate finance commitments	USD3 billion Green Climate Fund	USD3.1 billion China South-South Climate Cooperation Fund
Climate policy trend	Uncertain	Tightening
Renewables energy capacity and projections	Wind power capacity 70GW in November 2015, contributing to 4.5% US electricity, uncertain projection	Wind power capacity to 200GW by 2020, from 115GW end 2014 Solar power capacity to 100GW by 2020 from 26.5GW end 2014
2016 milestone	US elections November 2016	13th Five-Year plan, March 2016

Collaborative engagement and events

Good Money Week

Good Money Week in the UK focuses on promoting and raising awareness of the role personal values play when people invest money, including investments that benefit both society and protect the environment.

Standard Life Investments was proud to be a key sponsor of this year's Good Money Week, run by UKSIF. We used the opportunity to focus marketing activities on themes connected with values-based investment. As part of the week, we published our paper on "The Rise of the Millennials and the Impact on Values-based Investment". This can be found on our website and is covered in this quarterly report.

A YouGov survey was also conducted to assess what the UK population thought about investing their savings with regards to their values on environment and social issues. Its finding supported our published paper's argument on ethics and a focus on values-based investing. In particular, it demonstrated a correlation between younger generations and the importance they place on investing in companies that have a positive impact on society. Over half of those respondents between 18 and 24 who had an investment held a values-based product. We also found that female investors are more likely to invest ethically.

In promoting Good Money Week, Standard Life Investments held a number of events, covering different audiences, including press, pensions market, charities, consumers, advisors and internal colleagues. The week received substantial media coverage, including on Asset TV's Master Class on climate change and by Simon Read of The Independent.

Standard Life Investments and Standard Life UK also promoted Good Money Week using social media. Advisor and consumer guides were published by Standard Life UK, which provided information on a range of values-based investment propositions on Standard Life's platforms.

Standard Life Investments' sponsorship of Good Money Week brought together various parts of the Standard Life business to promote values-based and responsible investment, with a focus on our ethical funds.

This included Standard Life Investments' responsible investment team, ethical and SRI fund managers, as well as the marketing, client and press teams. In addition, Standard Life Wealth's marketing team and Standard Life Savings' press, consumer, advisor, investment governance and media teams were all involved.

UNGC Europe 15th anniversary

The Foundation of the German Global Compact Network hosted a conference on the 15th anniversary of the UN Global Compact. The event was held subsequent to the adoption of the Sustainable Development Goals and a few weeks prior to COP 21 discussions in Paris.

The conference included Global Compact Networks from across Europe, stakeholders from governments, civil society and business associations, and welcomed the newly appointed Executive Director of the UN Global Compact, Lise Kingo.

We presented our approach to company engagement during the event and highlighted how we collaborate with our investee companies, the sustainability issues that we believe will impact different sectors in the future and the opportunities we see for business. We were encouraged by the range of issues discussed at the conference and the positive steps companies are taking to make their operations more sustainable. The investment community has a key part to play in this process and attendees were responsive to our insights.

Investor field trip: visit to Repsol's refinery in Cartagena

In collaboration with a group of investors, we participated in a visit to Respol's Cartagena refinery (Spain) that was organised by the company. The purpose of the trip was to explore how the refinery was managing its sustainability risks, including safety, CO2 emissions and relationship with local communities.

We visited the refinery complex, including the security monitoring centre, which is equipped with state-of-the-art technology and operates 24/7. We discussed operational and environmental performance, security and maintenance operations with operators and the managers of the refinery.

Thanks to significant investments in previous years, the Cartagena refinery is one of the most environmentally advanced in Europe. At the end of 2014, the refinery had already achieved a 22% reduction of its CO2 emissions compared with 2010. It is now targeting a 35% reduction by 2020, mainly by replacing fuel oil with natural gas and using cogeneration plants. While the refinery has doubled its production since 2010 (and is now processing much heavier crude), NOx emissions have been reduced by 64%, SO2 by 68% and particles by 80%. The company has installed desulphurisation units and a sulphur recovery plant that enables it to recover and sell the sulphur in solid form.

The refinery is linked by pipelines to the berths in the harbour, to the nearby terminal of CLH (Alumbres and Alicante) and to the main Spanish network of oil pipelines. We visited the harbour and the monitoring centre where we met with the operators in charge and discussed operating procedures.

This visit was an opportunity to see the real-time operations and safety systems of a refinery and converse with operators on the ground. It was also a good example of the measures that can be taken to limit environmental impacts in the downstream segment.

Integrating natural capital into finance

In late November, we attended an event on integrating natural capital into finance held at the Green Investment Bank in Edinburgh as part of the World Forum on Natural Capital. The event coincided with the publication of the Natural Capital Declaration's Scoping Study. Speakers included representatives from the Global Canopy Program, UNREDD and the World Bank (who presented the work done so far by the Natural Capital Declaration's working groups and outlined the report).

The Natural Capital Declaration is a global finance-led initiative that aims to integrate natural capital considerations into financial products and services, financial accounting, disclosure and reporting. The recently published scoping study aims to create a business case for the integration of natural capital and establish capacity by assessing global knowledge. It also looks to evaluate current approaches used by banks and asset managers to understand and assess natural capital risks.

Sector and asset class reports

What the Millennials mean for investment

The financial industry and the products it supplies have always evolved to meet market challenges and opportunities. Today is no different. One of the key factors that will drive the industry over the coming years is the rise in prominence of the so-called Millennials; a generation just beginning to think about savings and investments. This is the generation born between the early 1980s and 2000 and follows on from Generation X and the Baby Boomers. Millenials have grown up in a time of rapid change and their outlook on life has been moulded by the generations and events that came before them, such as 9/11 and the banking crisis of the late noughties.

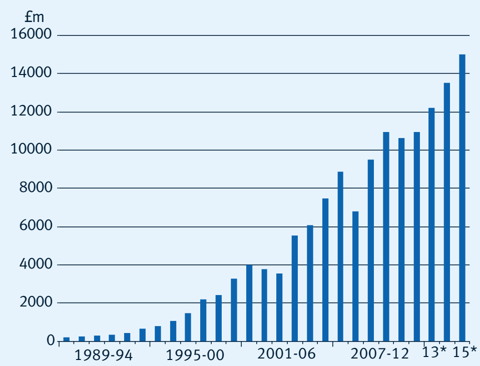
This generation has been influenced by rapid technological change – earning them the nickname 'Digital Natives'. They have also been shaped by globalisation and challenging economic environments. The expectations and values of this tech-savvy group differ from those that have gone before them, most notably when it comes to social, economic and environmental issues.

The sheer volume of information available to Millenials also means they can quickly and easily understand the challenges facing the world. It has been some time since companies have operated in isolation. Major world events such as an earthquake, a political uprising or an explosion at a factory, can be appear on social media in a matter of seconds. The BP Macondo spill, for instance, received extensive coverage as events unfurled. Access to information is reflected in purchasing decisions, where Millennials looks beyond the brand of the item they are buying to consider the impact the products have on our wider society and environment. There is also evidence that Millennials have a stronger set of social values than previous generations.

All of this therefore needs to be considered when companies develop new business products and services. Nowhere more so than in the financial industry. We are witnessing the emergence of a new generation of savers, whose starting point for engaging with money is quite different to those who have gone before. Their drivers and values will influence how they think about their money over the next few years.

This group is acutely aware of environmental issues and has grown up witnessing a number of significant incidents, often associated with climate change. In response, a number of organisations have emerged focusing on offering services to fund managers on how to decarbonise portfolios and take active approaches to include climate change matters in portfolio construction and engagement with companies. We continue to see demand for ethical and socially responsible investment strategies, as can be witnessed in the rise in money invested in these strategies over the past 25 years.

Growth in UK ethical and SRI retail funds



*estimated

Source: EIRIS 2015

To satisfy a new wave of environmentally and socially conscious investors, companies will have to ensure they act responsibly and investment managers will need to hold companies to account through their investments. The investment industry will need to develop more values-based investment products and services that reflect the principles for the customers of the future.

ESG considerations for emerging market sovereign debt

Public debt, inflation, fiscal deficits, current account balances and foreign exchange reserves are some of the key macroeconomic variables that define a country's creditworthiness. As investors in emerging market sovereign debt, we spend a great amount of our time analysing trends and turning points in those economic indicators. This is because they often determine a sovereign's ability to meet its obligations. Willingness to repay debt is equally important and this is why our emerging market debt investment process has always included a judgement on politics and governance.

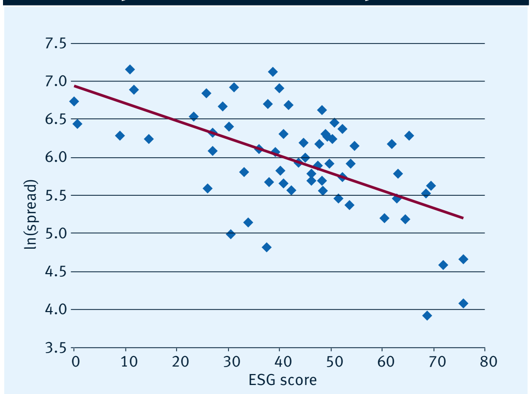
In response from a growing number of clients interested in incorporating ESG issues into their investment portfolios, we have worked with our responsible investment team to develop our environment, social, governance and politics (ESGP) tool.

Through this, we assess over 80 investable emerging countries on four dimensions. Using our knowledge of the importance of environmental and social indicators, we identified 17 potential relevant indicators from various public sources (World Bank, United Nations, think tanks and NGOs) and calculated an average rank across each of the four UN pillars. For instance, the chosen indicators emphasise the extent of corruption, the strength of the state, respect for obligations and fiscal transparency, all of which are especially important for investors in sovereign debt. We also selected environmental and social factors, such as measures of inequality, health and education that may influence a country's ability to achieve sustainable growth over time. Given emerging markets' specificities and our assessment of relative importance of each indicator, we assigned different weights to each one of the four UN pillars: environment (15%), social (35%), governance (25%) and politics (25%). The weighted average of these is our overall ESGP rank.

At first sight, there is a positive relationship between the ESGP rank and market spreads (see chart). This suggests that we may be able to extract useful signals when market pricing differs from what is implied by the ESGP rank. For example, based on this simple bivariate analysis, the spread earned by owning bonds from Ghana compensates investors more than its above-average rank would suggest. We recognise that some of the indicators used can often be out-of-date, so we also combine this analysis with our expectations of each country's direction of travel from an ESGP perspective. For instance, changes in governments can lead to significant social and environmental policy shifts and changes in governance. Further work will investigate whether the link between ESGP ranks and spreads is robust to the inclusion of other variables. We also recognise that issues with the source data, and changing methodologies for collecting each indicator, warrants further investigation. Nevertheless, these preliminary findings are interesting.

The tool is also useful for highlighting some of our investors' concerns about countries where corruption is rampant or where institutions lack transparency. For example, the government of ex-Ukrainian President Yanukovich frequently tapped international bond markets to finance itself and the practice likely played a role in keeping the corrupt regime in place for longer than it otherwise would have. Another recent example is the issuance of a large foreign bond by a Malaysian state-owned company. Several law enforcement agencies are now investigating the company, as it might have been used as a conduit for fraud by the country's prime minister. In this regard, our ranking system may be used to exclude investments in countries that do not meet investors' specific constraints.

ESG and politics rank versus spread



Source: Standard Life Investments

Sandy Macdonald
Head of Sustainability, Standard Life

Standard Life plc Group Sustainability Report

It is natural at the turn of the year to reflect on the past and look ahead to the coming year. For anyone with an interest in global issues, and especially those like me whose job involves a focus on sustainability, the second half of 2015 was momentous. UN heads of government agreed the new Sustainable Development Goals, and at COP 21 in Paris an agreement was reached to limit global warming within the target limit of two degrees. How can Standard Life contribute to these goals and how do we define our priorities as a responsible, corporate citizen? We start by analysing a few main areas, detailed below.

- Major global trends that prompt potential risks and opportunities, like demographics and climate change.
- Specific risks, such as regulatory changes or cybersecurity.
- What key stakeholders – our clients, shareholders and investors, employees and government officials – are telling us is important to them.
- The nature of our business, and where we have a particular impact on society – for example, as a major employer in Edinburgh, as a leading workplace pension provider in the UK and as a global investment business.

We then develop our priorities accordingly and report on our progress annually in our sustainability report. We have an advantage over some other businesses in that, at Standard Life Investments, we have award-winning responsible investment and governance teams. This means we have access to superb insight on major trends and what investors expect from companies like Standard Life. 2015 was a good year for us across our various priorities. Our full sustainability report is now available and here are a few key achievements from last year.

- We were recognised for our sustainability leadership in the main indices – DJSI World and Europe, FTSE4Good and Climate Disclosure project (CDP).
- We maintained our focus on being a leader for employability and, specifically, on diversity and inclusion. In 2015, we were recognised in the Times Top 50 Employers for Women. Our Young Persons Development network was awarded best new network at the Inclusive Network Awards. We won the Corporate Responsibility of the Year Award 2015 at the HR network awards in recognition of our work in this area.
- We were the first private sector company in the UK to be awarded Living Wage Friendly Funder status, an extension of our existing living wage employer accreditation.
- Standard Life Investments sponsored Good Money Week, a UK campaign that raises awareness of sustainable, responsible and ethical finance.
- Of the 5.2 million new pension savers in the UK through auto-enrolment, 800,000 are saving with Standard Life.
- We offered full flexibility from day one of the new pension freedoms being launched in the UK and provided a range of advice and support to help savers navigate the changes.

While these are some of the highlights, it's important we do not just communicate the positives but that we are also transparent about areas where we believe we can improve. These include gender diversity at senior management levels, as well as accessibility and financial inclusion for excluded customer groups in the UK. We also intend to review our environment strategy to reflect the impact of rising international travel as we grow as a global investment business. These areas are all reflected in our plans for the year ahead and also complement the aims of the COP 21 agreement from Paris and the Sustainable Development Goals. It is a challenging but extremely rewarding time to be active in sustainability and we look forward to working with all our partners in 2016 to have the biggest positive impact we can.

Sustainability engagement

During the fourth quarter of 2015, we engaged with a wide variety of companies regarding environmental and social issues. Below we give a snapshot of this engagement.

Engagement snapshot

Company	Topics discussed
AkzoNobel	The focus was on the environmental impact of the company’s products and its work on sustainable solutions.
Alstom	We questioned the company on allegations of corruption in the transport division.
China Mengniu Dairy	We discussed the company’s approach to product safety.
Daimler	We questioned the company on environmental performance certification and air pollution standards.
Danske Bank	We questioned the company on incentives for employees and discussed cyber security and the new corporate responsibility strategy.
Engie	The company provided us with a strategic update including its green strategy.
Heineken	The focus of the meeting was on water stress and discussed opportunities for water recycling.
Novo Nordisk	The company highlighted its approach to access to medicine, and we discussed its code of conduct and its impacts.
Orange	We spoke to the company about digital transformation and cybersecurity.
Philips	We discussed the circular economy and the company’s access to healthcare strategy.
Renault	We questioned the company on the reduction of NOx emissions and discussed its alliance with Nissan.
Roche	We assessed the company’s continuing work on access to medicine and questioned it on its approach to bribery and corruption risks.
Schneider Electric	The focus of the meeting was on the company’s positioning on energy efficiency and low carbon solutions.
Stella	We questioned the company on the management of its workforce and animal welfare.
Telenor	We discussed the allegations of corruption/operations in countries with high social risks.
Thales	We highlighted the risk of bribery & corruption to the company and discussed its environmental impacts.
Unibail-Rodamco	We highlighted the issue of tenants’ environmental performance and discussed sustainability reporting.
Vedanta	The focus of this PRI collaborative engagement was on human rights.
Zurich Insurance Group	We discussed the company’s approach to employee retention and the impact of extreme weather events through climate change.

Further details of these interactions, in addition to a summary of all company meetings, can be found below. We use a matrix approach to identify the companies with which we engage. This approach considers a number of criteria, including: internal mandates, specific client mandates and company performance. The key below offers details of the drivers for engagement with individual companies. Further information on our approach to engagement can be found at:

http://www.standardlifeinvestments.com/sustainable_and_responsible_investing/engagement.html

Key

- Internal mandate
- Client mandate
- Performance based engagement

AkzoNobel

Engagement driver:	
Internal mandate Performance based engagement Engagement topic: ► Labour ► Environment	AkzoNobel is a leading global paint and coatings company and a major producer of speciality chemicals. We questioned what steps the company was taking to address the environmental impacts of its products and to create sustainable solutions. AkzoNobel highlighted that its 'Planet Possible' strategy is ingrained in the business and seeks to identify risks and opportunities from global trends including increased populations, further urbanisation and constraints on natural resources. A large portion of the company's research and development investment is focused on tackling sustainability issues and its 'eco-premium solutions' offers a number of products to customers who are environmentally friendly. During product production, Akzo continues to improve its resource efficiency and steps have been taken to reduce the energy, waste and carbon emissions embedded in its products. We highlighted that a number of the chemicals used within production have detrimental environmental effects, including volatile organic compounds (VOCs) and oil based paints & solvents. The company detailed a number of steps it was taking to reduce this impact. It is reviewing all harmful substances and has developed a number of alternatives to replace different chemical compounds, including a move towards water-based paints. This was an encouraging meeting and the company has a strong approach to social and environmental issues. It is seeking to gain market advantage through this strategy. Eco-premium solutions continue to develop and it is well positioned to produce alternatives to harmful substances ahead of its peers.

Alstom

Engagement driver:

- Internal mandate
- Client mandate
- Performance based engagement

Engagement topic:

- Environment
- Ethics

Alstom offers a broad range of solutions for the rail industry, from tramways to high-speed trains.

We discussed allegations of corruption in the energy and transport divisions.

We questioned the company on the efforts made to strengthen ethics and compliance systems, following several corruption allegations and an ongoing investigation from the UK's Serious Fraud Office. We believe some developments are encouraging (the company is no longer using agents, for example) but there is still some way to go and legacy issues on former contracts might keep arising.

We believe Alstom should benefit from sustainable mobility as a business driver, especially the move to public transportation and intermodal shift. We were also encouraged by the investments into local content and capabilities, which we see as a key factor for winning contracts.

Next steps: we will keep monitoring the development of the corruption cases.

China Mengniu Dairy

Engagement driver:	
● Performance based engagement	China Mengniu Dairy is the largest dairy producer in China. We sought to speak to the company about its approach to sustainability following high-profile product safety issues in the Chinese dairy industry. Milk safety and quality is of utmost importance to the company. Mengniu implements strict quality control practices and it has worked to improve industry standards. The company works closely with suppliers; for example, farmers are set standards relating to quality of milk, animal welfare and labour standards. Mengniu educates farmers, conducts evaluations to identify problems, and provides advice at the farm level. We were encouraged to learn about the resources Mengniu has in place in its sourcing department to promote standards in its supply chain, including on cow breeding, disease prevention and health monitoring. In October 2015, the Chinese government implemented a new food safety law. The prominent changes include streamlining regulation on health foods, increased requirements for infant formula design and manufacturing, and increased administrative, civil and criminal penalties for regulatory violations. We believe this is supportive of Mengniu's strategy and we will monitor the law implementation and implications. The stated vision of Mengniu is "becoming a consumer-oriented and innovated leader, providing healthy and nutritious products to consumers." We questioned the company on innovations regarding traceability. This is an area where we are seeing some interesting developments, which could help build consumer confidence. We will therefore monitor developments in this area.
Engagement topic: ► Human Rights ► Labour ► Environment ► Ethics	

Daimler

Engagement driver:	
Performance based engagement Engagement topic: ► Human Rights ► Labour ► Environment ► Ethics	Daimler is a European automotive manufacturer. The driver of engagement was to understand more about the emissions performance of Mercedes-Benz vehicles in light of tightening regulation and the Volkswagen scandal. Daimler was quick to issue a public statement that Mercedes-Benz does not use defeat devices to limit the effectiveness of exhaust after treatment system. We questioned the company on the governance of environmental performance certification. We were reassured to learn that at Daimler there is a clear separation between motor development and certification teams, all the way to below the executive committee. Furthermore, the company spoke of its third-party-run whistleblowing policy and culture of open corporate culture. European car manufacturers are facing tough air pollution emission standards following the move to introduce real-world testing procedures. We asked the company to explain the base case for Euro6c NOx standards in light of this regulatory uncertainty. The company provided clarification of the use of Selective Catalytic Reduction technology to reduce the NOx emissions of vehicles. Standard Life Investments has considered the outlook for diesel in Europe in light of changes to subsidies and a focus on air pollution mitigation in cities. We questioned the company on this uncertainty and implications for meeting European 2021 carbon standards. We discussed the firm's research into hybrid and electric vehicles. In 2014, 1.2% of Daimler sales were EV and hybrid. The company highlighted a 'conflict of interest' in that whereas hybrids and EVs are more fuel and carbon efficient, they require the input of more materials. This is an area in which we intend to do more research.

Danske Bank

Engagement driver:

Internal mandate

Engagement topic:

- Human Rights
- Labour
- Ethics

Danske Bank is the largest bank in Denmark, serving personal customers, businesses and institutional clients. The group operates in 15 countries, with a main focus on Nordic and Baltic nations.

We discussed the establishment of the bank's new Business Integrity Board (BIB), which has a mandate to make formal recommendations on corporate responsibility strategies and policies. The CEO chairs the board, which meets circa three times per year and reports directly to the board on an annual basis.

One of the first steps taken by the BIB was to develop a new corporate responsibility strategy and to identify which sustainability areas are the most material to the group. Danske highlighted that its current work has identified customer satisfaction, business ethics and anti-corruption and financial stability as the most material issues. It will shortly publish details of a new corporate responsibility strategy, which focuses on these areas.

We questioned Danske on how it incentivised its employees and if this produced a risk of misconduct. Danske highlighted that it has a strong focus on its people and culture and that in addition to financial incentives, non-financial measures play a part in its approach to remuneration. This mix of non-financial and financial incentives is applied to all employees, including at a board level.

The number of Danske's branches has reduced significantly, which is a growing trend within the sector as retail customers move to online and telephone banking. We questioned if this loss of branches was impacting access to services for certain customers and if it was taking steps to support those in financial difficulty. The bank detailed that while it was reducing the number of branches, this was reflective of customer demand and that key banking facilities were available to customers along with a free app providing banking services. Danske also highlighted that it was conducting a lot of work to improve financial confidence and accessibility, including financial education programmes and provisions for individuals with special needs, such as the visually impaired.

We highlighted that cyber security is an ever increasing risk to the sector and that certain geographies where Danske operated could present higher risks. The bank advised that it was aware of these risks and that it had a number of systems in place to combat this threat. These systems are also subject to continuous review.

This was a positive meeting and we believe that Danske is taking a number of steps to support its customers. We will review the publication of the bank's new sustainability strategy once published.

Engie

Engagement	
Engagement driver: Internal mandate Client mandate Engagement topic: Labour Environment	Engie offers a full range of electricity, gas and associated energy and environment management services throughout the world. We discussed with Engie its current reorganisation and the impacts both in terms of business and workforce. We were encouraged by the renewed strategic focus on energy management services and low carbon solutions. Engie has committed to doubling its renewable capacities in Europe from 8GW to 16GW by 2025. We also discussed the company's ambitions in nuclear, especially after the numerous issues Electrabel encountered in Belgium. Next steps: it was an encouraging meeting but we are now waiting for a strategic update in early 2016 to assess the company's long-term carbon strategy.

Heineken

Engagement	
Engagement driver: Internal mandate Client mandate Performance based engagement Engagement topic: Human Rights Labour Environment Ethics	Heineken produces and distributes beers, wines and soft drinks internationally. We have identified water availability as a key ESG issue for the company and this was the focus of much of the engagement. Circa 95% of beer is made up of water. We asked the company about the water intensity of its operations. Heineken has decreased its water footprint by 24% since 2008. The company has an average water use per litre of beer produced of 3.9 litres. Through the discussions, Heineken explained the variance in water intensity between its owner operating assets and the factors that drive water efficiency. We questioned Heineken on water stress. The company has experienced disruption to operations in Ethiopia, even after water risk was included in due diligence. This highlighted the regionally specific and variable nature of water risk. We welcome the work done by Heineken to assess water risk across its portfolio and identify high-risk assets. We discussed opportunities for water recycling. Overall, it is our view that the company demonstrates industry-leading practices for water risk assessment and management. Heineken sets aside 10% spend on responsible consumption messages promoting moderate alcohol consumption as aspirational. We welcome this proactive approach to managing its license to operate. We highlighted an increased reputational risk when using platforms, such as Facebook, owing to the challenge to control the age of the viewer. This is an area that we intend to monitor.

Novo Nordisk

Engagement driver: ● Performance based engagement Engagement topic: ► Human Rights ► Ethics	Novo Nordisk is an international pharmaceutical company that is mainly focused in the US and Europe (circa 71% of sales). The company is a global leader in diabetes care and also focuses on haemophilia and growth hormone treatment. We questioned how the company applies its code of conduct and if it slows its speed to market in certain geographies. Novo detailed the work of its business ethics board, which has oversight of the company's code of conduct, reporting directly to the board and ensuring that business ethics training is applied across the company. Novo highlighted that its code of conduct has not had a significant impact on its 'speed to market'. During our discussion, Novo highlighted that up to 50% of people suffering from diabetes have no access to medicine and that it is the company's intention to treat 40 million patients by 2020. It currently treats circa 24 million people. To achieve this goal, the company has created a local pricing strategy which offers medicine at a discounted rate in emerging markets. Novo also highlighted that there were issues regarding the diagnosis of diabetes and that it is focusing on how it can train doctors to identify symptoms. We were encouraged by the steps being taken by the company and will continue to track its pricing strategy, particularly for the treatment of diabetes, which continues to impact people globally.

Orange

Engagement driver: ● Internal mandate ● Client mandate Engagement topic: ► Human Rights ► Labour	Orange provides telecommunications services to residential, professional and large business customers in various markets in Europe and Africa. We previously met with the company in August 2015 and discussed its workforce management. We questioned Orange on its digital strategy and the impacts on its business and workforce. We were encouraged to learn about the 'Essentials 2020' plan that aims to transform the company into a digital champion. It includes significant investments in training and developing digital skills. These changes usually take time to materialise, but we believe the company is going into the right direction. We welcomed the efforts it has invested in cybersecurity, through organic investments and acquisitions. We believe Orange has robust systems in place. We were encouraged by the positive results of Orange Money and other m-services in developing markets and welcomed the fact that the company is now working on measuring its social impacts. Next steps: we will continue monitoring the digital transition with a particular focus on social impacts.

Philips

Engagement driver: Internal mandate Performance based engagement Engagement topic: ► Human Rights ► Labour ► Environment ► Ethics	Koninklijke Philips N.V. manufactures medical systems, domestic appliances, consumer electronics and lighting. We discussed with Philips the extent to which the circular economy constitutes a business driver across its divisions. We were very encouraged by the company's investments and positioning on this topic. We also discussed Philips's strategy regarding access to healthcare. We were encouraged to learn about the innovative solutions and business models put in place to provide healthcare solutions to underserved populations and helping with the provision of home care. Next steps: we will continue engaging regularly with the company.

Renault

Engagement driver: Internal mandate Performance based engagement Engagement topic: ► Environment	Renault is a European automotive manufacturing company. The driver of engagement was to follow up on the company's response to the Volkswagen emissions scandal and question the company on a move to real-world testing procedures. We asked Renault about the outlook for meeting European 2021 carbon targets in light of a potential shift away from diesel in Europe. 58% of Renault's sales in Europe are diesel and the company has planned to reduce this number. The company pointed to its relatively carbon-efficient fleet compared to peers. Further, 60% of research and development is on EV and circular economy. We expect many automotive companies to face additional risks of failing to meet fuel economy standards if the share of diesel sales in Europe falls below expectations. We questioned the company on the technologies available to reduce NOx emissions in vehicles in light of a move to real-world testing conditions in Europe. The company outlined its use of Selective Catalytic Reduction technology to reduce the NOx emissions of vehicles. Finally, we discussed Renault's alliance with Nissan and highlighted media speculation about changes to the arrangement. Renault remains focused on the alliance with Nissan, with manufacturing, engineering and technical portfolios shared with synergies to be found. The company pointed to the French government's comments on a potential merger and clarified its position on the issue.

Roche

Engagement driver: Internal mandate Client mandate Performance based engagement Engagement topic: ► Human Rights ► Labour ► Ethics	Roche is a global pharmaceutical company which provides both pharmaceutical and diagnostic products. We last met with the company during the second quarter of 2015, where we discussed its current approach to access to medicine. The company highlighted that its access to medicine strategy continues to evolve. It is driven by a number of factors, including the medicines which are most needed in certain countries and what steps Roche can take in collaboration with others to ensure the greatest impacts. The company also highlighted that it is considering how it can be supportive of the Sustainable Development Goals, particularly goal three, which seeks to "ensure healthy lives and promote well-being for all at all ages." Since our previous meeting, the company detailed a number of initiatives it had taken part in, including improving access to breast cancer medicine in Cote d'lvorie, supporting those with hepatitis in Vietnam and providing support to HIV sufferers in various developing countries. We highlighted that misconduct and a number of bribery & corruption cases had impacted the sector and questioned how Roche's approach is evolving to manage these risks. Roche detailed a robust compliance system which it has in place. This includes linking compliance goals with employee bonuses, the separation of medical and commercial divisions, ongoing training and audits and the reduction and increased scrutiny of third parties. Roche highlighted that its compliance mechanisms act to create competitive advantage in a number of geographies and that it was one of the few large pharmaceutical companies which is not subject to a corporate integrity agreement. We were encouraged by the steps Roche is taking to ensure it has robust compliance mechanisms and its support to access to medicine. We will continue to monitor the company's progress, especially in relation to the Sustainable Development Goals.

Schneider Electric

Engagement driver: Internal mandate Client mandate Engagement topic: ► Human Rights ► Environment	Schneider Electric manufactures power distribution and automation systems. Its products are sold under various brands and it derives 44% of revenues from new economies. We discussed Schneider's positioning on energy efficiency and low carbon solutions. We were encouraged to learn about the company's strong position in smart buildings and smart grids. We also welcomed the fact that Schneider aims to have 100% of its products sold with a comprehensive and transparent estimate of their CO2 impacts and gains. The company has historically been strong on eco-design, in particular with its Green Premium brand. We were also encouraged to learn about its programmes to provide access to energy to underserved populations. Solar powered lighting solutions and microgrids are of particular interest to provide energy on a large scale at the lowest cost. Next steps: we will continue engaging regularly with the company.

Stella

Engagement driver: Internal mandate Performance based engagement Engagement topic: ► Human Rights ► Labour ► Environment ► Ethics	Stella manufactures footwear products for global brands and distribution. The company has operations in China, the Philippines, Vietnam and Cambodia. Stella is listed in Hong Kong. We questioned the company on how it managed its workforce and manages employee turnover levels considering high recruitment costs. Stella explained that its workforce is highly skilled and it takes three years to train employees. This includes relocating production to inland China where employees can benefit from Huko and the workforce is more stable. We were encouraged to hear that this proactive and long-term corporate strategy in relation to managing its workforce has lowered employee turnover rates across the company. The company reports labour costs and benefits by country. We welcome Stella's disclosure of human capital indicators. Stella has bought a factory in Myanmar but it is yet to start operating. We questioned the company on the level of social and environmental due diligence, recognising the specific risks present in the country. Standard Life Investments recommends that the company conducts a human rights impact assessment before operating in the country. We asked the company about managing animal welfare in its leather supply chain. The company sources the majority of its leather from the US. Finally, Standard Life Investments encouraged the company to report its health & safety practices and performance.

Telenor

Engagement driver: Internal mandate Performance based engagement Engagement topic: ► Human Rights ► Labour ► Ethics	Telenor is an international provider of telecommunication services, and has mobile operations in 13 markets across the Nordic region, Central and Eastern Europe and Asia. We previously met with the company in May 2014 and discussed its operations in Myanmar and business ethics issues. We questioned Telenor on its management of the Vimpelcom corruption scandal and the impacts on the company in terms of business and governance. We were encouraged to see the efforts invested in reinforcing anti-bribery and corruption systems. We also discussed the regulatory challenges it is facing in some Asian markets and the difficulties of operating in countries where freedom of expression and privacy are not protected by the state. We were encouraged to learn that Telenor now publishes a law enforcement report that lists the number of governments' request to access its networks. This is in line with sector best practice. Next steps: we will continue to monitor the Vimpelcom case and developments in sensitive countries in South East Asia.

Thales

Engagement driver: Performance based engagement Engagement topic: ► Labour ► Environment ► Ethics	Thales is a world leader in mission-critical information systems for the aerospace, defence and security markets, with products including radars, air traffic management systems and avionics. The company operates through three key segments: aerospace, transport, and defence & security. The company has circa 65,000 employees in over 50 countries. We highlighted the high risk of bribery & corruption, particularly within the defence segment of the business and within certain geographies. We were encouraged by Thales' response, which detailed that an ethics and corporate responsibility committee is in place that reports to the board on an annual basis. Its audit committee also continually reviews and monitors practices, while certain areas of the business were subject to audit by the French government. We highlighted that the group has an ageing workforce and questioned what steps are being taken to a) support its current employees and b) attract new employees. Thales recognised these challenges, detailing the various steps it is taking to retain employees and highlighted that a lack of new engineering students is an issue with impacts across the sector. It is taking steps to attract new talent and has been rated in the top three of preferred employers for French engineering students. Thales highlighted the various steps it was taking to reduce its environmental impacts, which have continued to develop positively including ISO 14001 certification for 125 Thales entities accounting for 82% of its workforce. The company also identified a number of environmental opportunities in its air and rail transport segments through eco-design and environmental technologies. We believe that Thales is taking a number of positive steps to manage its social and environmental risks and has identified a number of opportunities, especially within its eco-design products. We encouraged the company to disclose further information on its anti-bribery & corruption measures, particularly the application of its whistle-blowing policy.

Unibail-Rodamco

Engagement driver:

- Internal mandate
- Client mandate
- Performance based engagement

Engagement topic:

- Human Rights
- Labour
- Environment

Unibail-Rodamco is a European real estate company, leasing and renting shopping centres and office buildings. The focus of our engagement with Unibail was to see how it manages the sustainability performance of operated and leased assets.

We questioned the company on progress in implementing the restructure announced in February 2014. We asked whether environmental performance of an asset can influence the decision regarding disposal. The company confirmed this was not an active consideration.

We commend the company on its ‘best in class’ sustainability reporting. Unibail confirmed that by 2016, 80% of portfolios will have BREEAM certification. We challenged the company as to the benefits of an ‘excellent’ versus ‘outstanding’ BREEAM rating in relation to cost of compliance. We gained reassurance that the company has a practical approach to investment to improve the environmental performance of assets. It also highlighted the importance of sustainability performance in office real estate and spoke about the link to vacancy duration and rent. Unibail noted that the dynamic is different for shopping centres.

A key sustainability challenge for real estate companies is how to manage tenant’s environmental performance. We welcome the work done by Unibail to integrate green clauses in leases that are non-binding. The company recognises the role of education and best practice sharing to promote sustainability with tenants.

At Standard Life Investments, we consider green credentials to be only part of the sustainability agenda for real estate. Asset quality in terms of functionality, design and connectivity are financially relevant factors for real estate companies to consider. We commend the work done at Unibail to assess and audit assets on broader metrics, including connectivity, customer satisfaction and health & safety.

Vedanta	
Engagement driver: Internal mandate Client mandate Performance based engagement Engagement topic: ► Human Rights ► Labour ► Environment	Vedanta Resources mines copper, aluminium, and zinc in India and Australia and operates refineries and smelters. We previously met with the company in July 2015. We participated in Vedanta Sustainability Day with a focus on stranded assets and human rights. We met with the company as part of a PRI engagement initiative on human rights in the extractive industry, aimed at encouraging oil & gas and mining companies to implement the UN Guiding Principles. We questioned Vedanta on how it was implementing the UN Guiding Principles in practice, with a particular focus on stakeholder engagement and access to remedy. We discussed extensively the situation in Odisha and how the company is engaging with local communities to uphold its human rights commitment and maintain its licence to operate. Next steps: we will keep monitoring these issues and especially the situation in Odisha.

Zurich Insurance Group

Engagement driver:

- Performance based engagement

Engagement topic:

- Labour
- Environment

Zurich is Switzerland's largest insurer and one of the top three corporate insurers worldwide.

We highlighted that Zurich's employee turnover rate appeared high at 12.4% over the previous year and questioned what it was doing to attract and retain employees. Zurich agreed that its employees are its key resource and that although the current rates are high they are broadly in line with its peers. However, Zurich is still keen to reduce this figure and have taken steps to address the issue, including greater board level oversight of employee retention and attraction.

We questioned what impacts climate change is having upon the group's business, particularly extreme weather events. Zurich highlighted that its national catastrophe models typically run on a 1-5 year horizon and that it has seen an increase in the frequency of medium-sized national catastrophes. We welcomed these steps and encouraged it to consider longer time horizons, which could capture the potential impacts of climate change.

Zurich displays positive steps to address social and environmental issues, including participation in a flood resilience programme. This has a global reach and focuses on flood mitigation as opposed to post-event flood relief. The programme is an alliance of five organisations, to which Zurich has committed USD35.6 million. The company has also produced an app for customers to assess flood risk.

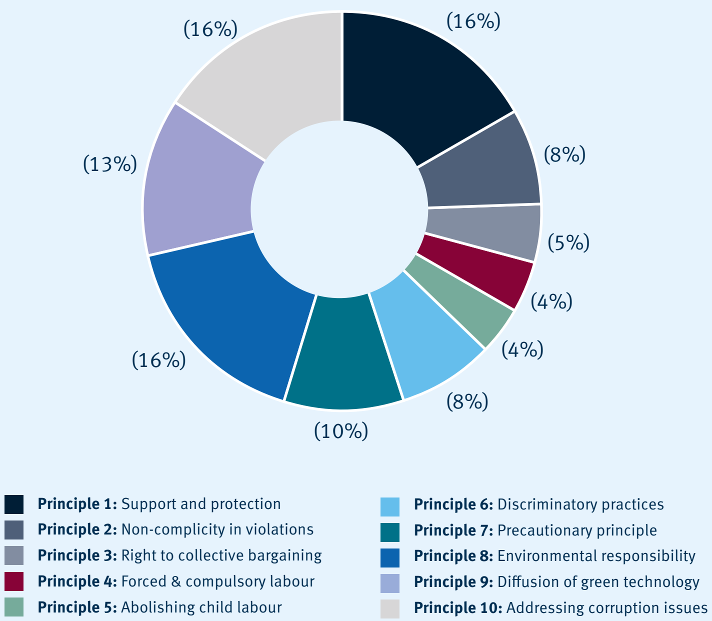
We noted that some insurers are beginning to consider services to support clients impacted by cybercrime and questioned if this is an area that the company is considering. Zurich highlighted that it has considered the impacts of cybercrime and that it was difficult to create products because of the lack of historic reference or understanding of the full impact.

Subsequent to our meeting there have been a number of changes to Zurich's senior management team. We will follow the company's progress with interest.

Sustainability engagement summary

	Human Rights		Labour				Environment			Corruption
Company	Principle 1: Support and protection	Principle 2: Non-complicity in violations	Principle 3: Right to collective bargaining	Principle 4: Forced & compulsory labour	Principle 5: Abolishing child labour	Principle 6: Discriminatory practices	Principle 7: Precautionary principle	Principle 8: Environmental responsibility	Principle 9: Diffusion of green technology	Principle 10: Addressing corruption issues
Alstom									•	•
ArcelorMittal		•						•		
AkzoNobel			•			•	•	•	•	
BorgWarner							•		•	
Carrefour	•						•	•		
China Mengniu Dairy	•							•		
Daimler							•	•	•	
Danske Bank			•			•		•		•
Dassault Systemes									•	•
Engie (GDF Suez)		•					•	•	•	
Essilor	•									
Heineken	•					•	•			•
General Dynamics	•	•								
Michelin	•						•		•	
Novo Nordisk	•					•		•		•
Orange	•					•				•
Philips	•							•	•	•
Renault							•	•	•	
Roche	•							•		•
Schneider Electric	•							•	•	
Stella	•			•	•		•			•
Stora Enso	•	•			•					
Swiss RE			•			•				•
Telefonica	•	•				•				•
Telenor	•	•		•	•					•
Thales		•		•				•	•	•
Unibail								•		
Vallourec	•							•		•
Vedanta	•	•	•	•	•	•		•		
VW							•	•	•	•
Zurich Insurance Group			•						•	•
Total	17	8	5	4	4	8	10	17	13	16

Engagement summary Q4 2015



Contact the responsible investment team at

responsible_investment@standardlife.com

Important Information

All information, opinions and estimates in this document are those of Standard Life Investments, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons.

This material is for informational purposes only and does not constitute an offer to sell, or solicitation of an offer to purchase any security, nor does it constitute investment advice or an endorsement with respect to any investment vehicle. Any offer of securities may be made only by means of a formal confidential private offering memorandum. This material serves to provide general information and is not meant to be legal or tax advice for any particular investor, which can only be provided by qualified tax and legal counsel.

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL.
Standard Life Investments Limited is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (Hong Kong) Limited is licensed with and regulated by the Securities and Futures Commission in Hong Kong and is a wholly-owned subsidiary of Standard Life Investments Limited.

Standard Life Investments Limited (ABN 36 142 665 227) is incorporated in Scotland (No. SC123321) and is exempt from the requirement to hold an Australian Financial Services Licence under paragraph 911A(2)(l) of the Corporations Act 2001 (Cth) (the 'Act') in respect of the provision of financial services as defined in Schedule A of the relief instrument no.10/0264 dated 9 April 2010 issued to Standard Life Investments Limited by the Australian Securities and Investments Commission. These financial services are provided only to wholesale clients as defined in subsection 761G(7) of the Act. Standard Life Investments Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws.

Standard Life Investments Limited, a company registered in Ireland (904256) 90 St Stephen's Green Dublin 2 and is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (USA) Limited is registered as an Exempt Market Dealer with the Ontario Securities Commission and as an Investment Adviser with the US Securities and Exchange Commission. Standard Life Investments (Corporate Funds) Limited is registered as an Investment Adviser with the US Securities and Exchange Commission.

Calls may be monitored and/or recorded to protect both you and us and help with our training.

INVBGEN_14_1184_Responsible_Investing_Quarterly_Report_Q4_2015_TCM 0316