

SLI Ethical Funds' Investment Policy

We recognise that the world faces significant environmental and social challenges. We run a number of Standard Life Investments (SLI) 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 Ethical Funds Advisory Group, consisting of both independent external members and key members of staff.

Positive Criteria

Using **positive criteria**, we allocate the majority of the funds to companies or issuers that are involved in activities that benefit society and the environment. We use the UN Global Compact (www.unglobalcompact.org) to define the four areas where we seek to invest in companies with positive business practices and services.



Environment

Companies that:

- have a positive impact on the environment, through strong policies, processes and management, recognising the finite resources available in the world
- 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, conservation of biodiversity and natural resources.

01



Human Rights & Community

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
- 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
- have strong relationships within their communities and ensure that their business activities provide positive benefits to the local environment in which they operate.

02



Employment

Companies that:

- have strong labour practices, where employees are valued and treated with respect and dignity
- demonstrate strong policies, practices and reporting on issues such as equal opportunities, diversity, freedom of association, right to collective bargaining, whistleblowing, training, education, and wellbeing
- implement strong safety, health and welfare policies, particularly those involved in hazardous activities.

03



Anti-bribery & corruption

Companies that:

- uphold the highest standards of business ethics and demonstrate strong anti-corruption policies including oversight, commitment and anti-corruption practices
- have adopted and embedded 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.

04

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 Chair 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, social and governance 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, social and governance performance and practices.



Negative criteria

We also use **negative criteria** to avoid investing in companies involved in certain industries and activities that our customers are concerned with. We will avoid investment in companies involved in the activities listed below:¹

Alcohol production: companies that derive 10% or more of revenue from alcohol production.

Animal testing: companies that manufacture products or ingredients that have been tested on animals.

Animal husbandry: 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; from discomfort; from pain, injury and disease; to express normal behaviour; from fear and distress).

Environmental protection: 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
- have a business model based on the production of fossil fuels (such as oil & gas exploration and production companies)
- 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.

Employment: companies that have a harmful effect on their employees. This will include, but is not limited to, companies that –

- use child or forced labour
- demonstrate a lack of regard for their employees' health & safety
- have been linked to bad employment practices, such as modern slavery, lack of collective bargaining, not paying the minimum wage, or other abuses of employees.

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

Gambling: companies that derive 10% or more revenue from involvement in gambling.

¹Where applicable, percentage thresholds are applied which aim to exclude key companies without significantly reducing the investable universe.

Human rights: companies that –

- operate in any country with a poor record of human rights and fail to have mechanisms in place to uphold human rights
- face continued accusations of human rights abuses, no matter where they operate
- have been involved in controversial projects that have been linked to human rights abuses
- are deemed to be supporting controversial regimes.

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

Nuclear: companies involved in the mining of uranium, and operators and owners of nuclear power stations, deriving more than 5% revenue from nuclear power generation.

Poor business practices: 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).

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

Tobacco: companies that produce tobacco products or grow or process raw tobacco leaves. Equally, companies that derive more than 20% of revenue from supplying products essential to the tobacco industry.

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

Weapons: companies that manufacture or sell whole or strategic parts of weapons systems and weapons platforms. Equally, companies that derive more than 20% of revenue from non-offensive military sales, such as vehicles or support to the military.

This Policy is applied to the following funds:

- Standard Life Ethical Pension Fund
- Standard Life Investments UK Ethical Equity Funds
- Standard Life Investments European Ethical Equity Fund
- Standard Life Investments Ethical Corporate Bond Fund

Important Information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. This is not a complete list or explanation of the risks involved and investors should read the relevant offering documents and consult with their own advisors before investing.

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ASI_1267_Ethical_Funds_Investment_Policy_TCM 0119
GB-200219-83385-1

