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Labour and employment – our approach for investments

At Aberdeen Standard Investments, we recognise the crucial link between a company's workforce practices and its long-term success. As responsible investors, we also acknowledge our influence in encouraging our investments to uphold labour rights, improve job quality and, by implication, contribute to stronger societies.

The risks

Companies are under increasing scrutiny from consumers, civil society and regulators regarding the treatment of their direct employees, as well as the workers along their supply chains. A company's management of its workforce exposes it to a range of regulatory, operational and reputational risks.

The landscape of labour-related risk is further complicated by new ways of working, technological advances and changes in consumption trends. Issues such as the rise of automation, treatment of workers in the gig economy and modern slavery can present delicate challenges for companies to manage.

The opportunities

Human capital – the intellect, skills, attitudes and abilities of a company's workforce – is a key driver of value creation.¹ Investing in human capital is critical for firms wanting to become more innovative, increase their productivity and improve their brands and reputation. Moreover, there is a positive correlation between the way companies manage their human capital and their financial performance.² For example, improvements in cognitive diversity, the fairness of pay, the quality of training and development, and work-life balance can boost firms' competitive advantage and thus their long-term earnings potential.³

Contributing to the UN SDGs

The eighth of the 17 UN Sustainable Development Goals specifically targets the creation of 'decent work for all'. However, we recognise that, in most countries, this goal represents an aspiration for what the long-term future could look like, rather than a realistic target for the short term.

Technology and globalisation have disrupted the availability and nature of work; employment has become increasingly precarious for many; gender and ethnic pay and opportunity gaps remain wide; and illegal labour practices are still common. In addition, each of these structural barriers to comprehensive decent work is currently being made worse by the Covid-19 crisis.

As a large asset manager, Aberdeen Standard Investments acknowledges that we can contribute to this goal by ensuring that the firms we invest in adopt responsible labour practices.

Our approach to labour and employment issues

1. Understanding the complexity of the issues

The complex nature of labour and employment issues defies a one-size-fits-all approach. When assessing a company's workforce practices, it is essential to consider a range of factors in our analysis. This requires us to use a methodology that combines baseline criteria, such as compliance with national regulations and internationally recognised labour standards,⁴ with metrics tailored to different sectors and jurisdictions.

In practice, we conduct risk analysis of labour issues that takes into account both sectoral and geographic factors. At a company level, we examine a mix of qualitative data and quantitative workforce-related key performance initiatives. These we cross-reference against labour-related controversies uncovered by the media, concerns raised by non-governmental organisations and the views of other watchdog organisations.

2. Promoting better workforce data

The availability and usability of workforce data remains a challenge for all investors. Reporting is not comprehensive, and even when data is available, it is often inconsistent and inaccurate. That in turn makes analysis more difficult. We use our voice as investors to encourage our investments to report a greater amount of data and to ensure that it is of higher quality. We actively support organisations working to achieve this, such as the UK-based Workforce Disclosure Initiative.

3. Allocating capital to good employers

We run Impact strategies such as our UK Equity Impact – Employment Opportunities Fund and Global Equities Impact Fund, through which we allocate capital to support companies that demonstrate commitment to good employment practices and the creation of decent jobs.

4. Engagement, proxy voting

For our actively managed investments, we engage with our portfolio companies to do the following:

- Gain a better understanding of how they manage their human capital;
- Ensure compliance with employment regulations; and
- Encourage improvement in labour practices, as well as job quality.

¹ Haskel and Westlake. (2018) Capitalism without Capital: the Rise of the Intangible Economy.

² Bernstein, A and Beeferman, L. (2015) The Materiality of Human Capital to Corporate Financial Performance.

³ Larsson, D and Mörling, A. (2015) The Causal Relationship between Human Capital & Stock Performance - A quantitative study on the Stockholm Stock Exchange.

⁴ E.g. ILO (International Labour Organisation) Conventions, UN Global Compact, and those developed by OECD.

For certain industry-wide labour issues such as modern slavery, or, where appropriate, living wages, we collaborate with other like-minded investors and industry bodies to effect positive change.

Additionally, we vote in line with our principles and, where appropriate, will support shareholder resolutions that require investee companies to improve labour standards and implement better workforce policies and practices. This is done in the belief that strong labour practices will generate positive outcomes for the company and its stakeholders.

5. Advocacy

While we have a crucial role to play in improving labour practices, we believe this task will require a concerted effort by all stakeholders, including governments, civil society and industry organisations. We are involved in external discussions to share insights and views. For example, we have supported public policies that mandate disclosure of material workforce data, set standards for fair wages and strengthen enforcement of labour regulations.

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Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

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