

Integrating a responsible approach to your pension investments

The Standard Life Assurance Limited approach on how we incorporate environmental, social and governance (ESG) factors into our unit-linked and with-profits investments.

This document has been created for people who are familiar with investment terms. If you're unsure of any of the words or descriptions used, you can find out more on our **website**.

Standard Life

There's a lot to look forward to



Contents

- 01 Who we are
- 03 Committing to a sustainable future
- 04 Our approach to responsible investing
- 06 Reflecting your values and investments
- 07 How we select our asset managers
- 08 Active stewardship
- 09 How we disclose and report on responsible investing
- 09 Industry leadership

Who we are

Standard Life Assurance Limited (Standard Life) is a provider of pensions plans, savings products and retirement solutions. We are part of the Phoenix Group.

The Phoenix Group has around 13.9 million policies and £323 billion¹ in assets under administration and is the UK's largest long-term savings and retirement business. As an insurer and long-term global investor, we have a duty of care to act in the best interests of all of our customers, shareholders and stakeholders.

The value of investments can go down as well as up and you may not get back what was paid in.

What is responsible investment?

Responsible investment (RI) is the practice of incorporating environmental, social and governance (ESG) factors into investment decisions and active stewardship.

ESG issues can take many forms and cover a wide range of topics.

Here are a few of the many examples:

- Environmental: climate change, resource depletion, waste, pollution, deforestation
- Social: human rights, modern slavery, child labour, working conditions, employee relations
- Governance: bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, tax strategy

¹ As of June 2020.

This document aims to tell you how we incorporate RI practices into the management of your unit-linked and with-profits funds. It covers all our insured funds and EFLs and all asset classes in all markets including equities, fixed income, property, private markets, as well as alternative asset classes.

While we don't expect our RI approach to change often, we may change this at any time to reflect the needs of our customers, shareholders, and stakeholders.

We do expect our approach to evolve as the business environment changes. We will review our approach on at least an annual basis, or more frequently if there are reasons to do so.

At Standard Life, we delegate all of our investment management activities to third-party asset managers. They are responsible for the day-to-day investment management activities. For discretionary managed funds and internal insured funds, typically, Standard Life instructs the asset managers on the requirements and expectations we have for the fund objectives.

Internal insured funds and external fund links

Internal insured funds are funds where Standard Life is responsible for briefing an asset manager on what they want a fund to do, and the asset manager carries that task out within the boundaries set by [Standard Life]. The manager is responsible for day-to-day investment decisions.

External Fund Links ('EFLs') are funds which invest in an existing fund run by external asset management groups. The Phoenix Group has no direct control over how these funds are run.

Committing to a sustainable future

Our vision, 'Committing to a sustainable future' sets out how we are integrating ESG considerations into our everyday operations. Fostering responsible investment ('RI') is one of the four key sustainability commitments and is central to our mission of improving outcomes and delivering value for customers. Our four sustainability commitments are outlined below.

To foster responsible investment

By making RI decisions and considering the sustainability of our investment in safeguarding the interests of our customers, shareholders, and stakeholders.

To deliver for our customers

By providing the right products, solutions and services to help them enjoy a secure financial future;

To reduce our environmental impact

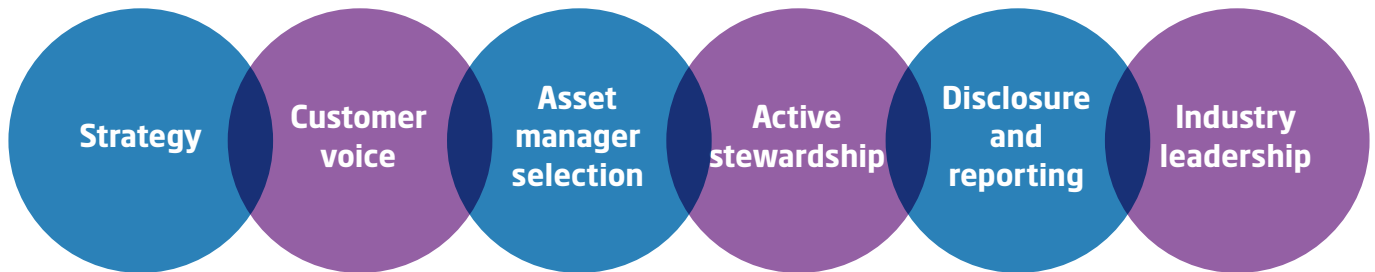
By minimising our impact on the environment and promoting good environmental practices. Our aspirations are to be Greenhouse Gas emissions efficient and neutral by 2030 and to remove single-use plastics from our operations by 2030.

To be a good corporate citizen

By being a diverse, engaged and enabled workforce and good corporate citizen in the communities in which we are based.

You can find out more information on our sustainability commitments and our Group RI philosophy on our [website](#).

Our approach to responsible investment



We place our customers at the heart of our decisions. This lets us manage risks, support informed investment decisions and help generate long-term results for you.

To make sure that RI factors are incorporated into investment decisions and how our assets are managed, we have adopted the approach described below.

What are ESG risks?

With any investment, there are associated risks. Risk is simply a way to measure the level of uncertainty of an investment getting the returns that an investor might be expecting. Risks can come from many sources such as economic, political, market or, of course, ESG.

There are many ESG risks, which include those related to climate change, environmental management practices, human rights issues, and anti-bribery and corruption practices. They also consider emerging regulations or voluntary guidelines, such as the UK Modern Slavery Act, as well as the requirements of wider stakeholders for transparency.

Climate change is one of the biggest risks that we all currently face, and it also poses risks and opportunities to your funds, in terms of both transition and physical risks.

Our investment strategy and processes are and will remain consistent with the latest climate change best practice and scientific research. So we'll monitor and assess initiatives the government, regulators and industry take in terms of their impact on our investment processes and portfolios.

In December 2020, the Phoenix Group announced the commitments for its operations being net zero by 2025 and its investment portfolio net zero by 2050. We will be working with our strategic partners in the years ahead to look at all our solutions, our benchmarks, and stewardship, with our important net-zero 2050 commitments front of mind.

Our asset managers are responsible for monitoring and managing these risks, see below for more information on how we ensure this is managed appropriately and consistently with our approach.

Types of climate risk

There are two types of climate risk:

Transitional: where there's a risk of losing value due to regulatory changes within the economy e.g. carbon taxes impacting the value of an oil firm.

Physical: where there's a risk of climate change physically disrupting the business operations of a firm, leading to losses.

Opportunities

Where there is a risk, there is an opportunity. Companies that have good ESG credentials have been shown to be more resilient to adverse economic events. Many of our asset managers believe that incorporating ESG considerations into investment-making decisions can boost returns over the long-term. You could try to take advantage of opportunities like this by investing in our range of ESG-focused funds.

What is ESG integration?

ESG integration is an approach which aims to identify and quantify the effect of ESG risks and issues on companies and their performance. At Standard Life, we believe that considering important financial ESG issues in the investment process improves the decision making and delivers better outcomes for our customers.

All funds will be managed in one of two ways: 'active' or 'passive'.

A fund that is 'active' will have its asset manager actively manage the assets in it.

A fund that is 'passive' will track an investment market or benchmark as closely as possible.

Passive and active investing

We expect both active and passive managers to use effective stewardship to positively influence the companies within our funds. There are some passive funds that take ESG factors into account in a more direct way, usually by tracking a revised index benchmark.

Managers of internal and external active funds must consider ESG factors when selecting assets for investment into the fund.

Exclusions

Our portfolios currently exclude cluster munitions, anti-personnel landmines and other controversial weapons.

As our philosophy on sustainability-related issues develops, our exclusion policy will evolve. Any proposals for future exclusions will follow standard governance procedures and assessment based on our responsibilities.

Reflecting your values and investments

Non-financial matters

When handling your investments, we understand that there are matters to consider that cannot be quantified and categorised as a financial matter. These can reflect non-monetary and long-term values important for all our policyholders.

These non-financial matters are arguably just as important as the financial matters that we have discussed previously. These can include, but are not limited to:

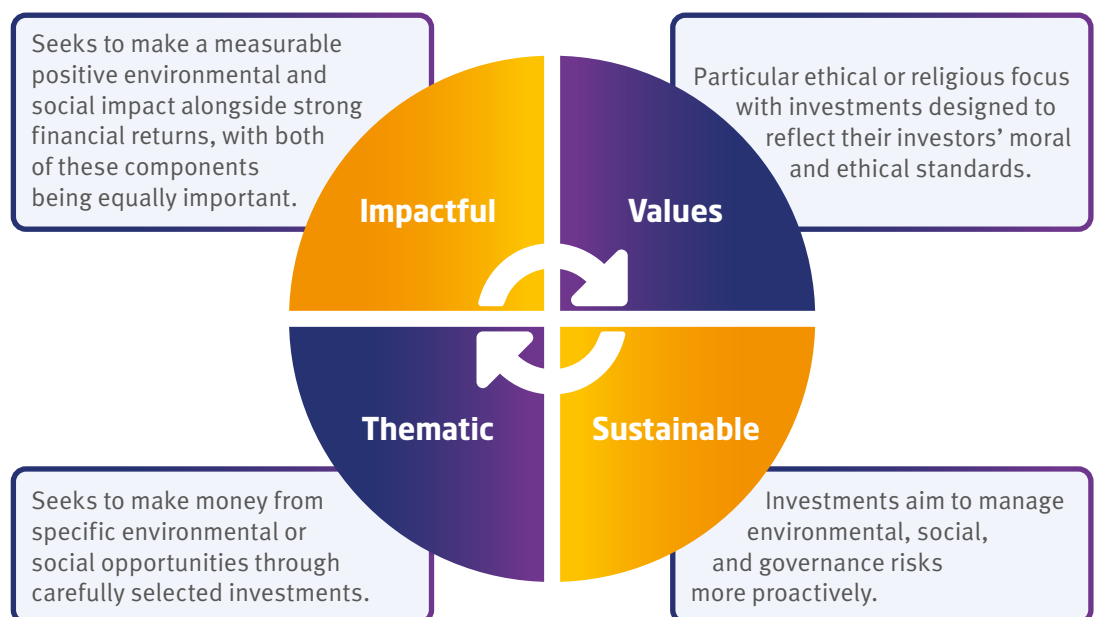
- Ethical considerations;
- Religious considerations; and
- Social impact considerations.

We understand that many of our customers wish to invest in ways that reflect their own personal values.

We conduct annual customer research and have used this to identify four distinct categories to help you understand the different ways you can invest.

We have developed a range of funds that may be suitable and can align to these values. For more information on our fund offerings please visit our [website](#).

We want the funds in our ethical fund range to reflect our values, concerns and principles. To help us do this, we carry out an annual survey of our ethical funds' investors to gather their views on which ethical issues are most important to them. We then review and amend our ethical funds' sustainability approach as required.



How we select our asset managers

Due diligence

We carry out a thorough initial due diligence exercise for all potential asset managers (including EFLs) to make sure they are fit for purpose and suitable for managing funds. This includes assessing their capabilities, investment processes, financial reports, business structure and alignment with regulatory and industry bodies, including the United Nations supported 6 Principles for Responsible Investment (UN PRI).

We also conduct annual ESG due diligence exercise on all of our current asset managers to evaluate how they approach RI.

How we assess for ESG

We have appointed external consultants to support us with the selection and monitoring of our asset management partners' RI processes. We're setting up so we continue and deepen this work ourselves.

The different aspects of our asset management ESG due diligence process



If we find poor RI behaviours when monitoring and reporting on our asset managers, it will factor into our manager selection and due diligence process. If managers of EFLs do not meet our RI standards, then we would look to work more closely with them to seek improvements.

Active stewardship

What is stewardship?

Stewardship is the responsible allocation, management and oversight of money invested to create long-term value for you and leading to sustainable benefits for the economy, the environment and society. There are two key aspects to stewardship: voting (where rights exist) and engagement, which is applicable more broadly across asset classes.

Stewardship is an integral part of ESG management and it's our responsibility to engage with our asset managers to make sure they are carrying out effective stewardship to influence them to make positive change where possible. We make sure your funds are being managed in line with stewardship best practice.

The UK Stewardship Code 2020, published by the Financial Reporting Council ("FRC"), sets high stewardship standards for asset owners and asset managers, and for service providers that support them. You can read the [FRC's Stewardship Code](#).

Our minimum requirements



Driving improvement

We continuously engage with the asset managers of our internal insured fund to encourage them to always improve their RI practices. We also expect our asset managers to report to Standard Life on RI activity regularly.

While we have less influence with the managers of our EFLs, stewardship is a key aspect of our initial due diligence process and influence the selection of these managers.

Engagement process

As stewardship activity is delegated to asset managers, Standard Life doesn't engage directly with the companies they invest in on ESG issues. We expect all our asset managers to incorporate ESG considerations when they engage with these companies and make sure they meet our ESG requirements.

We engage with our asset managers, looking for evidence of how they have engaged with the firms that they choose to invest in.

External asset managers

You can find out more about the engagement and voting activity of these managers on their websites. Below are links to the managers who run our larger external fund links:

[Vanguard](#)

[BlackRock](#)

[Aberdeen Standard Investments](#)

Voting policy and process

As mentioned, as part of our stewardship role, asset managers vote on our behalf and we make sure all of our asset managers have a voting policy in place. For more information, view our stewardship **statement**.

We're currently working with our asset managers to develop stewardship reports that cover both voting and engagement.

If companies don't improve ESG standards after extensive engagement, then we would no longer invest with them.

How we disclose and report on responsible investment

Standard Life is committed to reporting on goals, actions and results we take to meet our RI approach. We are also committed to making sure that our asset managers' report on any responsible investment activities they take when managing your money.

We are and will continue to work with our asset management partners in developing and improving ESG and stewardship reporting.

Industry leadership

We're committed to talking to and working with other institutions, national as well as international associations, and trade bodies to promote RI and raise standards across the industry.

The Phoenix Group is currently part of the Institutional Investors Group on Climate Change and The Green Finance Institute.

Promoting responsible investment

As a minimum, we expect all new asset managers to be signatories to the UN PRI. This makes sure that they follow the UN PRI principles when managing our internal and external funds.

Industry engagement

The Phoenix Group is a member of a number of industry bodies and is committed to open dialogue and collaboration with other institutions, national as well as international associations, to promote RI. The Group is part of the following industry bodies:

United Nations Principles of Responsible Investment

The Phoenix Group principles are aligned to the United Nations supported 6 Principles for Responsible Investment ('UN PRI') and we are a signatory to the UN PRI, which means that the Group will be committed to complying with and will report annually on actions taken to adhere.

Institutional Investors Group on Climate Change ('IIGCC')

The IIGCC is the European membership body for investor collaboration on climate change. The Group joined the IIGCC in 2019 and has been an active member; contributing to various working groups and discussions of the Paris Aligned Investment Initiative programme.

Green Finance Institute ('GFI')

The GFI was established in 2019, initially funded by HM Treasury, the Department for Business, Energy and Industrial Strategy and the City of London Corporation. Its purpose is to serve as a forum for public and private sector collaboration in green finance.

Standard Life

There's a lot to look forward to

Standard Life Assurance Limited is owned by the Phoenix Group and uses the Standard Life brand under licence from the Standard Life Aberdeen Group. You can find out more information about Standard Life Aberdeen plc's strategic partnership with Phoenix at www.standardlife.com/partnership

Standard Life Assurance Limited is registered in Scotland (SC286833) at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.

Standard Life Assurance Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. www.standardlife.co.uk

INVCP53 0121 © 2021 Standard Life Aberdeen, reproduced under licence. All rights reserved.
STA1220711750-001