Integrating a responsible approach to your pension investments

The Standard Life Assurance Limited policy on how we **incorporate environmental, social and governance (ESG) into our unit linked 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

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About Standard Life

Standard Life Assurance Limited (Standard Life) is one of the largest pension providers in the UK.

We offer a wide variety of workplace and personal pensions and other savings products which help our clients save for the future. Our range of funds is robust and designed for the long term.

As a pension provider, we take **environmental, social and governance** (ESG)-related issues seriously.

What does our ESG policy cover?

Our ESG policy covers our insured (pension and life) fund range. It's relevant for the majority of our pension customers, as most of our pension plans only offer insured funds.

Internal insured funds: these are funds where Standard Life is responsible for briefing an investment manager on what they want a fund to do. The investment manager, which is typically Aberdeen Standard Investments, manages the fund within the boundaries set by Standard Life and is responsible for day-to-day investment decisions.

External fund links: these are Standard Life funds which invest in an existing fund run by external fund management groups. These groups include Aberdeen Standard Investments, BlackRock, Invesco, Schroders and Vanguard among others. Standard Life doesn't have any say over how these investment managers run their funds.

For more detailed information on what this means, please see our document **Understanding Unit Linked Funds.**

Our ESG policy covers our insured (pension and life) fund range. It's relevant for the majority of our pension customers.

We have a comprehensive ESG policy

We've developed a comprehensive ESG policy that considers how we will integrate these issues into our investment processes. ESG-related risks and opportunities can be financial in nature. Careful management of these factors can potentially lead to better, long-term returns for our customers.

We want to know the investment managers we work with take ESG seriously. As such, we expect the investment managers of our internal funds to have a holistic understanding of these issues and to make it part of their investment process.

We understand that well-managed businesses are potentially better positioned to leave a positive impact on the environment and on the society in which they play a role. So when our investment managers allocate money to these types of businesses, we believe we're in a stronger position to offer potentially better long-term returns to our customers and clients.

Being accountable for the investments we make on your behalf

How we engage with our investment managers for you

As a pension provider, Standard Life engages with its investment managers on your behalf; we call this our Stewardship role. We have undertaken due diligence to inform us on how each investment manager is integrating the main ESG considerations into their investment process.

We will continue to develop our Stewardship role, making clear our expectations for our investment managers and how we'll review their integration of ESG. This will include examining how the investment manager uses analysis to make a decision on whether they buy, sell or hold an asset and in what proportion.

Our review will focus on how our investment managers are integrating ESG into their ongoing assessment of the assets they hold. This will include, but won't be limited to, how they assess on these three areas:

01 Environmental: land, sea, air, wildlife, plant life, and human existence

This includes factors that are related to climate change or carbon and greenhouse gas emissions, such as rising sea levels and/or changes in weather patterns.

02 Social: company's relationship with its employees, suppliers and the community where it operates

This could cover labour or working practices, human rights, supply chain issues, and/or relationships with local and indigenous communities.

03 Governance: issues that might affect a company's management and operations

This could assess the board and its structure, business oversight, the scale of diversity of thought within the business, how it manages risk and opportunity, its approach to operational and financial due diligence, how it agrees remuneration/compensation for its employees, and how it sets its strategy.

Governance also looks at how resilient a business might be to changes in legislation, which might point to potential stranded assets (see page 9 for definition) or which may impact the business's ongoing concern within a particular sphere.

We have high expectations of our investment managers

Active investment managers are able to make investments decisions that take key material ESG-related risks and opportunities and other material factors into account. As part of this, we expect all our active investment managers and key investment partners to:

- engage effectively with companies and, when necessary, escalate this engagement to drive better long-term performance from the business as a whole
- use whatever voting rights they have to encourage positive commitments or practices
- deliver robust reporting on their ESG engagement activities, including details on the factors they discuss and any actions or outcomes agreed during these meetings

We understand that there are certain limitations to what we could expect our passive managers to report. However, we expect them to engage with some holdings on significant risk and opportunities, and to use their voting rights, where they're able to.

'Active' fund management is when investment managers usually do in-depth research to help them choose where your money should or shouldn't be invested, in an 'active' attempt to beat the performance of the fund's benchmark.

'Passive' fund management is when an investment manager "tracks" the performance of a benchmark or index rather than making regular decisions about where your money is invested. So, if the benchmark or index goes up or down, the fund performance (before charges) will follow.

We are creating four core expectations of our investment managers

We believe any investment manager investing on our behalf should have their own ESG and/or Stewardship policy in place. This should explain how they're integrating ESG and what levels they'll go to analyse and incorporate key ESG and financial considerations into their normal investment process.

This includes the approach the investment manager will take when considering changes to legislation. It also looks at the investment manager's ability to demonstrate how they're doing this and how they're expanding on their active ownership.

ESG and engagement policy

Going forward, we think every investment manager should have a policy covering:

- how they engage, vote and report on ESG
- any policies they have that exclude particular sectors or activities, such as cluster munitions, anti-personnel land mines, controversial weapons, tobacco, coal, etc
- statements on the group's signatory/member status or support for the UNPRI, UN Global Compact, UK Stewardship Code, 30% Club, etc

Exposure to changes in legislation

We expect investment managers to be aware of how any changes in legislation will impact their exposure to those investments and to report on their decisions as a result of this type of legislative changes. This could be investments associated with:

- climate-related financial risks; for example fossil fuel suppliers
- environmental risks; such as mining companies
- high climate change indicators; for example greenhouse gas emissions, carbon intensity, or poor sustainability metrics
- the potential for becoming stranded, as per IORP II's definition

Embedding analysis of risk and opportunity management

We will expect the investment manager to be able to demonstrate how they incorporate ESG considerations, including the points articulated above where appropriate, into their investment process.

We will also seek to understand how they make sure material considerations are implemented and embedded effectively as part of their overall risk and opportunity management strategy.

Active ownership

We expect investment managers to be proactive in their engagement and stewardship activity, such as:

- engaging effectively with companies on ESG matters where they're considered material and relevant to the investment case
- using their shareholder votes appropriately, in line with ESG and other data they have on the company
- reporting on their voting and engagement activities regularly

We've given a short reminder of some of the terms used on page 9.

How we will govern ESG investment

1. Standard Life is committed to questioning whether investment managers are meeting our expectations for ESG

We issue ESG questionnaires to investment managers at the outset and on a periodic basis. We do this to make sure we're meeting our commitments and that our investment managers are adhering to our expectations. Where an investment manager may not be meeting our expectations, we'll explore this further with them. As ESG practices are developing across the industry, we'll work with our investment managers to develop their activities and reporting.

2. We report our findings from our assessment

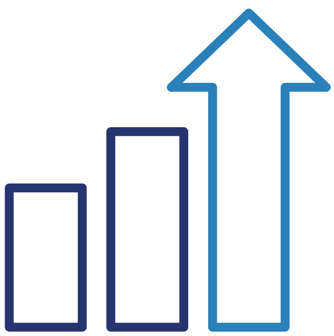
We survey each of our investment managers and, we'll report their full submissions where possible.

3. We'll engage and manage our ESG impacts

Given we expect our investment managers to demonstrate active ownership, it's only sensible that we do the same. Therefore, we will commit to engaging with our investment managers on their ESG track record, with a view to driving improved ESG delivery within investment manager firms. We'll commit to using ESG considerations within our overall due diligence processes for adding funds to our ranges.

4. We're committed to continual improvement by instigating regular reviews of our policy and by setting up a robust internal governance system

We'll build an ESG Committee. It's purpose will be to review our policy and to monitor and challenge the unit-linked business to make sure it's following the principles set out in our ESG policy. We also recognise that ESG policies will continue to evolve and we're committed to evolving with them.



A reminder of some of the terms used

Environmental, social and governance (ESG) or responsible investing can highlight problems missed by more conventional risk analysis. Essentially, it's a good indication of a company's overall quality. Investment managers use it to assess the financial health and risks of a company based on the actions they take (or don't take) around environmental, social and governance factors.

Carbon intensity is the emission rate of a given pollutant relative to the intensity of a specific activity, or an industrial production process.

A greenhouse gas (sometimes abbreviated to GHG) is a gas that absorbs and emits radiant energy within the thermal infrared range.

Indicators of sustainability are different from traditional indicators of economic, social, and environmental progress. Traditional indicators – such as stockholder profits, asthma rates, and water quality – measure changes in one part of a community as if they were entirely independent of the other parts.

A stranded asset is generally accepted to be a fossil fuel supply and generation resource which isn't able to earn an economic return because of changes associated with the move to a low-carbon economy.

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