

Standard Life
There's a lot to look forward to

Values-based investing - for a better future



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What do we mean by values-based investing?

Values-based funds are simply investments aligned to suit people's values – whether these are about the environment, society, sustainability or faith.

In the past, ethical funds that excluded certain types of investments, such as tobacco and weapons, were the only choice if we wanted to match our investments to our values. These funds are still popular but they're now joined by other options. For instance, we can now invest in funds that aim to make a positive social or environmental impact.

As the choice of funds has increased, so too have the terms used. There's socially responsible investing (SRI), sustainable, green, impact, and environmental, social and governance (ESG). At Standard Life, this is why we've chosen values-based investing as our umbrella term – so we can talk about some of these different options as a range of investments that relate to people's personal values.



Please remember that the value of your investments can go down as well as up and may be worth less than you paid in.

There are many ways to invest for a better future

The world faces numerous challenges, including climate change and pollution, inequality and poverty. When it comes to investing our money, we have the opportunity to help address such issues, as well as the potential to make financial returns.

With today's growing choice of values-based funds, we can feel good about the positive statements and impact our investments are making.

More of us are looking for ways to bring about positive change in our communities and in our environment. And this includes how we invest our money. Demand for ethical-type investments is being fuelled by changes in society and an increasing awareness that the companies we invest in have a direct impact on the environment and society.

The good news is that there's a dynamic response to this demand – a growing world of options for people who want to match their investments to their values.

The choice includes:

- traditional ethical funds, which exclude investments in companies connected to things like alcohol, tobacco and weapons
- socially responsible funds, which invest in companies that manage their practices for the greater good of society
- faith-based options, such as Shariah investing which derives its principles from Islamic law
- the latest impact funds, which invest in companies that aim to make a positive social and environmental impact alongside financial returns

It's an exciting time to be a values-based investor.

Investors often ask: can you make a difference and make returns?

Yes you can. In fact many investors believe that investing in companies that meet sustainability criteria should actually help improve the potential for outperformance. If companies take into account all the risks and impacts of their operations – including human rights, environmental issues and how they manage their employees – their businesses tend to be better managed. In turn, this can help lead to outperformance over the longer term.

As with all investments, it's important to look at a fund's performance over the longer term and understand the strategy its investment manager adopts. It's worth bearing in mind that any fund that excludes large elements of the marketplace (as values-based funds generally do) may have performance challenges if those areas of the market underperform over a given period. Such funds may be more volatile over shorter periods.

“Astute companies recognise that contributing positively to employees, the community and society means they can be better placed for future growth. On the other hand, those companies that pay no regard to their impacts risk harming both their reputation and ability to generate long-term investor returns.”

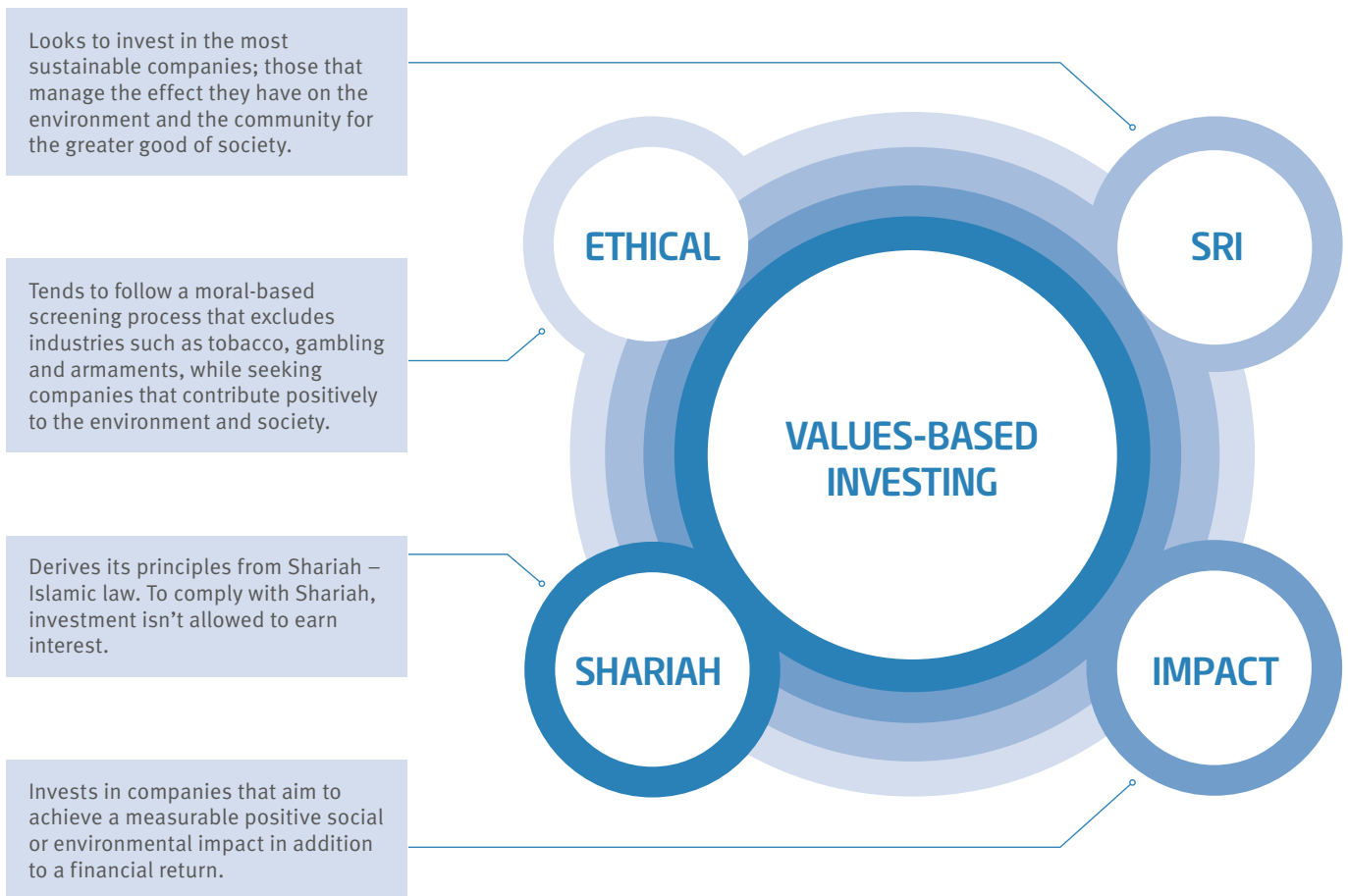
Euan Stirling, Global Head of Stewardship and ESG Investing, Aberdeen Standard Investments

Match your investments to your values with Standard Life

Standard Life offers a core range of values-based investment options that may suit your individual financial objectives and your personal values.

You can also visit www.standardlife.co.uk/funds to find out more, including:

- daily fund prices, fund performance information and factsheets
- a wider range of funds managed by other well-known ethical and SRI managers – if you're an ISA or Self-Invested Personal Pension (SIPP) customer you can choose from these as well as our core range



Where does environmental, social and governance (ESG) fit in?

As we mentioned earlier, when you explore values-based investing you're likely to come across terms including ethical, SRI, sustainable, green and ESG. Different investment managers use these terms in different ways, meaning it's not always simple to compare. However, there's broad agreement from many investment managers on the importance of considering environmental, social and governance factors (ESG). Many

investment managers, such as Aberdeen Standard Investments*, use ESG measures across all their funds – not just those categorised under the values-based sector.

Aberdeen Standard Investments defines ESG as the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process. Aberdeen Standard Investments does this to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption.

*Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.



“We wanted to bring together the simple but powerful principles of achieving positive social outcomes while generating a financial return for investors. And it’s brought investment to some of the UK’s most deprived sectors and regions.”

Simon Bond, Director of Responsible Investment Portfolio Management and Manager of the Threadneedle UK Social Bond Fund

“Our active engagement will challenge and encourage companies in which the funds invest to improve their environmental and social performance and practices.”

Amanda Young, Head of Global ESG Investment Research, Aberdeen Standard Investments

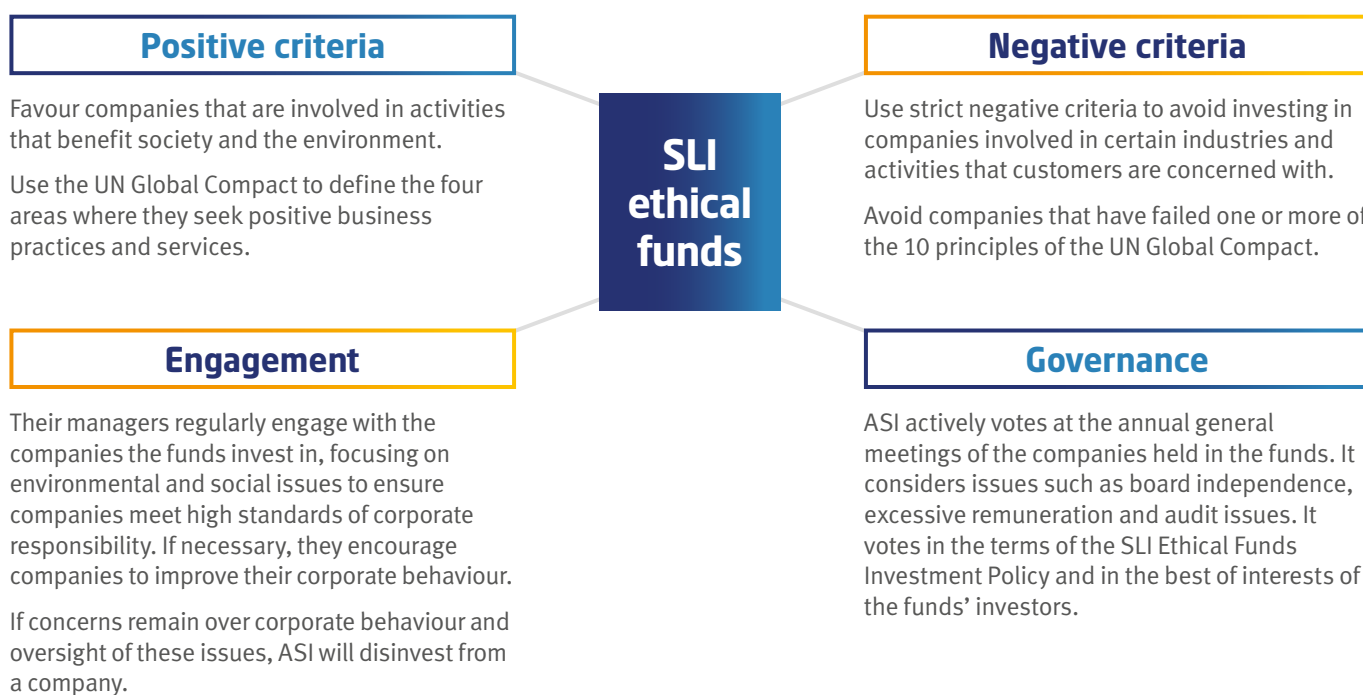


Standard Life Investments (SLI) ethical funds

Aberdeen Standard Investments (ASI)* recognises that the world faces significant environmental and social challenges. ASI offers a number of SLI ethical 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 funds' ethical investment policy aim to reflect this.

While ASI recognises the personal nature of everyone's ethics, it aims to ensure that the funds are reflective of the wider views of those who invest in them. ASI regularly reviews the criteria, both positive and negative, through customer surveys and consultations to make sure it remains relevant and industry leading. In fact, ASI is the only ethical fund provider to carry out an annual survey of ethical investor sentiment.

*Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.



**#Find out more about the
UN Global Compact**

AberdeenStandard
Investments

Proud sponsor of Good Money Week

You can find out more about the policies Aberdeen Standard Investments promotes [here](#) and its approach to [active engagement](#). The ethical policy is overseen by the SLI Ethical Funds Advisory Group, consisting of both independent external members and key Aberdeen Standard Investments staff.

For information relating to this policy please contact the Responsible Investment Team at esg_investment@standardlife.com

Find the fund factsheets at <https://www.standardlife.co.uk/c1/funds/ethical-investments-page>



Standard Life
Ethical Pension
Fund

SL SLI UK
Ethical Pension
Fund

Standard Life
Investments
UK Ethical
Fund (ISA)

SL SLI Ethical
Corporate
Bond Pension
Fund

Standard Life
Investments
Ethical
Corporate
Bond Fund (ISA)

SL SLI European
Ethical Equity
Pension Fund

Standard Life
Investments
European
Ethical Equity
Fund (ISA)

UK social impact fund from Columbia Threadneedle Investments

Launched in January 2014 in partnership with Big Issue Invest, the Threadneedle UK Social Bond Fund was the first mainstream investment fund that set out to achieve both an investment return and a positive social outcome.

It aims to do this by investing in bonds issued by companies considered to have a clear focus on achieving and supporting positive outcomes for individuals, communities, or society as a whole. These companies operate in areas such as housing, employment, education, transport and health. At least two thirds of assets in the fund are invested with UK companies.

The fund's investments have supported:

- the Charities Aid Foundation in enhancing their work with donors and charities
- Cardiff University in helping fund an innovation campus
- Manchester University in supporting the development of a new Cancer Research Centre
- PenArian Housing Association who provide social housing to communities across North Wales

Reaching areas with the greatest social need

There is a unique Social Assessment Methodology for the fund which *Big Issue Invest* developed with the Responsible Investment Team at Columbia Threadneedle Investments. Each investment is evaluated according to this methodology and given a ranking based on the intensity of social outcome.

This allows the fund's manager to maximise the fund's social performance – so that investment is targeted to people and places with the greatest social need. You can find out more about this process in the fund's [2017 annual performance review](#).

“Social elements have been the least developed of environmental, social and governance investing, but with the uptake of the UN Sustainable Development Goals, and the growth of dedicated social bond issuance, it's clear that interest is increasing.”

“This fund helps to extend and support Big Issue Invest's mission: to prevent and dismantle poverty and inequality.”

Simon Bond, Director of Responsible Investment Portfolio Management and Manager of the Threadneedle UK Social Bond Fund

Pension and ISA customers can invest in the UK Social Bond Fund.

Find the fund factsheets at <https://www.standardlife.co.uk/c1/funds/ethical-investments-page>



SL Threadneedle UK Social Bond Pension Fund

Threadneedle UK Social Bond Fund (ISA)

Socially responsible investment (SRI) funds from Vanguard

Vanguard is a specialist in passive funds. Its funds aim to track the performance of a given index – so they're often also referred to as tracker funds.

To appeal to investors who are concerned about the ethical, social and environmental impact of their investments, Vanguard has designed socially responsible indexing funds.

These funds are designed to provide similar returns to the ordinary index they track (for example, the FTSE® Developed Index), but exclude any companies which don't meet the ethical principles detailed below.

Using sophisticated computer programs, the funds invest in the companies in a chosen benchmark that haven't been excluded by the SRI screen, in a way that seeks to deliver the return of the broad market index.



FTSE's® Responsible Investment Unit develops the criteria a company must fit to be socially responsible. It uses a third-party agency that rigorously analyses all companies in the benchmark index and assigns SRI ratings. It regularly reassesses, and if companies fail the criteria they're excluded from the funds.

The exclusion criteria are based on the *UN Global Compact, made up of 10 principles of SRI*.

The funds won't invest in companies:

- involved in the **production of land mines, cluster bombs and nuclear weapons**
- involved in **human rights** abuses or complicit in human rights abuses

- that refuse to recognise freedom of association and collective bargaining, engage in forced or **child labour** or **discriminate** in hiring practices
- that don't take account of **environmental concerns** or promote environmental responsibility and eco-friendly technologies
- involved in **corruption of any form**, including extortion and bribery

The SRI funds hold fewer investments than the non-SRI benchmarks that they track. This means that their performance may differ more than a standard Vanguard index fund over short periods. However, they're managed to provide a similar return to the benchmark over the long term.

You can invest in the following SRI indexing funds from Vanguard.

Find the fund factsheets at <https://www.standardlife.co.uk/c1/funds/ethical-investments-page>



SL Vanguard SRI European Stock Pension Fund

Vanguard SRI European Stock Fund (ISA)

SL Vanguard SRI Global Stock Pension Fund

Vanguard SRI Global Stock Fund (ISA)

Islamic index fund from HSBC Global Asset Management

HSBC Global Asset Management has, through its joint venture in HSBC Saudi Arabia, extensive expertise and resources in Shariah-compliant investment. It's uniquely positioned to understand, structure and deliver financial solutions that are compatible with the requirements of Shariah – Islamic law. HSBC Global Asset Management offers an index-tracking fund that follows the principles of Islamic finance.

The major principles of Islamic finance that differ from conventional finance are:

- ban on interest (Riba)
- ban on uncertainty (Gharar) and transactions involving uncertainty or risk
- ban on speculation and gambling (Maisir)
- both parties in a financial transaction must share the associated risks and profits
- Shariah prohibits investing in activities considered 'Haraam' – those activities which are contrary to Islamic values and deemed unlawful under the Quran, such as alcohol, pornography, gambling, weapons and pork-based products
- each financial transaction must be tied to a "tangible, identifiable underlying asset" and Islamic transactions also require 100% asset backing

Investments must be certified as Shariah compliant by experts in Shariah. This is generally through a committee of Shariah scholars who are qualified to rule on financial transactions. The SL HSBC Islamic Global Equity Index Fund is overseen by the HSBC Global Asset Management Shariah Committee to ensure full compliance with Shariah principles. As part of the Committee's remit, it prepares the annual Shariah compliance certification for the fund.

The fund aims to mirror and track the Dow Jones Islamic Market Titans 100 Index. This index consists of the 100 largest Shariah-compliant companies that have been endorsed by an independent board of Islamic scholars who advise Dow Jones. Companies in the index have passed a two-step screening process:

Step 1: Exclusion of sectors prohibited by Shariah

Step 2: Financial ratios screening to remove companies with unacceptable levels of debt or impure interest

Impure income

Some Shariah-compliant companies may still generate a small part of their revenue, which must be less than 5%, from non-compliant activities such as financing operations. Shariah dictates that this impure income be donated to charity.

Dow Jones analyses the annual reports of each Shariah-compliant company to determine how much revenue can be attributed to non-Shariah-compliant activities and how much dividend is therefore considered impure. As part of the index calculation, they provide the ratios to calculate the impure dividend.

Any impure income the fund earns is donated to charity. HSBC Global Asset Management proposes charities which the Shariah Committee then approves. However, the target benchmark (Dow Jones Islamic Market Titans 100 Index) reinvests all the dividends, including the impure income – which means there tends to be some tracking difference between the fund's total returns and those of the benchmark.

"The most distinctive element of Islamic finance is that money is a means to an end and is not allowed to earn interest."

Carmen González-Calatayud, Senior Product Specialist for the Islamic Index capability at HSBC Global Asset Management

You can invest in the following HSBC Islamic index fund.

Find the fund factsheet at <https://www.standardlife.co.uk/c1/funds/ethical-investments-page>



SL HSBC Islamic Global Equity Index Pension Fund

“Using the power of the capital markets to direct capital for a social good has the ability to drive significant positive change.”

Amanda Young, Head of Global ESG Investment Research,
Aberdeen Standard Investments

Find out more

Each year, **Good Money Week** helps to raise awareness of sustainable, responsible and ethical finance: <http://goodmoneyweek.com/>

You can read about Aberdeen Standard Investments' approach to ESG and responsible investing by visiting: www.aberdeenstandard.com/en/what-we-do/stewardship-and-esg

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