ESG Investment

Quarterly Report Q1 2017

Standard Life Investments

April 2017

This document is intended for institutional investors and investment professionals only and should not be distributed to or relied upon by retail clients.

Contents

Introduction

At Standard Life Investments, we are committed to being a responsible investor. We also believe it is important to be clear and informative on the major environmental, social and governance (ESG) issues surrounding our own business, our investee companies and the world in which we live.

As such, this quarterly report details the numerous thematic research documents we have written on the major environmental, social, and governance trends, as well as thought leadership and insight papers from across the ESG spectrum.

The report details many of the engagements we have undertaken with various companies specifically related to ESG issues. While not an exhaustive list, this is a comprehensive representation of the various steps taken by Standard Life Investments to help ensure it remains an active and responsible steward of our clients' assets.

Standard Life Investments is one of the world's leading investment companies, with global assets under management of £277.9 billion (as at 31/12/2016). Our capabilities span equities, fixed income, real estate, private equity, multi-asset and absolute return solutions.

Headquartered in Edinburgh, Standard Life Investments employs over 1,700 talented individuals. We have offices in a number of locations around the world including Boston, Hong Kong, London, Beijing, Sydney, Dublin, Paris and Seoul. In addition, we enjoy close relationships with leading institutions in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

The ESG Investment team

As a UK-domiciled asset manager, Standard Life Investments is a signatory to the UK Stewardship Code. We also seek to apply the UK standards to our global investments. In addition, we are a signatory to the PRI, the world's leading proponent of responsible investment, and we apply its principles to our global investments.

We believe it is mutually beneficial for long-term investors and companies (including Standard Life Investments) to have a relationship based on accountability, engagement and trust. Such a relationship helps to ensure that each party has a good understanding of the other's views and expectations. It also enables us to exercise constructive influence as and when appropriate. We believe that this serves to enhance the long-term value of our clients' investments and to protect their interests at all times.

Our ESG mission is: 'To be an industry leader in ESG, helping to protect and enhance the value of our clients' investments while contributing to a sustainable world.'

The ESG Investment team

We have a dedicated team focused on developing and implementing best practice standards. The team is widely regarded as one of the leaders in stewardship, environmental, social and governance matters.

Contact the team at

esg_investment@standardlife.com

Foreword

Euan Stirling
Head of Stewardship and ESG Investment

I am delighted to welcome you to the latest quarterly report of the Standard Life Investments ESG Investment team. The team was formed in April 2016 by joining the Responsible Investment and the Governance & Stewardship teams. We believe that this combination has increased our influence as we seek to improve standards of corporate organisation and behaviour, and that it will continue to assist in value-creation for our clients' investments.

A defining feature of our investment process is our active engagement with the companies in which we invest our clients' capital. This report is designed to highlight some of the significant engagements of the last three months in a timely and transparent manner. It will also inform you of our voting activities at companies' general meetings, as well as the research that we have published across the spectrum of ESG issues.

Policy activity this quarter included the UK government's green paper on corporate governance, the progress of the Task Force for Climate Related Financial Disclosure, and the India UK Financial Partnership report on stewardship codes. Further detail on these areas is included within the report. It has also been a notable quarter for business and human rights, with the launch of the OECD consultation for Responsible Business Conduct and the publication of the Corporate Human Rights Benchmark. These standards are an important mechanism for the private sector, in collaboration with government and civil society, in seeking to ensure that human rights are upheld. They are also important for the investment community and, as active investors and stewards of our clients' money, we seek to ensure that investee companies uphold internationally agreed human rights standards.

It has also been a significant quarter for Standard Life plc, with the announcement of a proposed merger with Aberdeen Asset Management, which will create the UK's largest active investment manager. Both companies have a robust approach to long-term responsible investment. I believe that we can further enhance our effectiveness in improving corporate standards to the benefit of our clients' investment portfolios.

Finally, on a personal note, I have completed my first year as Head of Stewardship and ESG Investment at Standard Life Investments. I have learned a huge amount from my colleagues and thank them for their energetic contributions. We have enhanced our connections with investment decision-makers across the firm and continue to further embed ESG considerations into the investment process – to the ultimate benefit of our clients.

I hope this quarterly document proves to be an interesting, informative and timely account of our activities and the issues that we have encountered to date.

Collaborative engagement and events

UK Sustainable Investment and Finance Association Edinburgh Conference, 23-24 February 2017

In February 2017, Standard Life Investments attended and sponsored the UK Sustainable Investment and Finance Association (UKSIF) Edinburgh conference. This annual event is an opportunity for delegates to debate and discuss current issues, developments and practices in sustainable investment and finance in Scotland, the UK and beyond.

Among the topics discussed were ESG integration, impact investing, the UN's Sustainable Development Goals and the challenges posed by the current political climates in the UK and the USA.

As a lead sponsor, Standard Life Investments participated in a panel on climate change risk. We were invited to debate the findings of the Asset Owners Disclosure Project, taken from its 2016 Global Climate 500 Index survey. From this, it was shown that more than half of the world's largest asset owners are failing to mitigate climate risk and only a handful are protecting their portfolios from stranded asset scenarios (assets, such as coal, that can suffer from unexpected or premature writedowns, devaluations or conversion to liabilities).

We argued that pension scheme trustees may not view climate change risk mitigation as an element of their fiduciary duty. After all, with a focus on securing the right returns to meet the pension funds' obligations, the sense of responsibility for many only extends to financial performance. This most likely relates to a lack of understanding of the financial implications of climate change risk, and the fact that climate issues can affect performance. An additional obstacle to appropriate consideration for this risk may be the nature, as well as investment principles, of a pension fund. The time horizons of beneficiaries within a single fund can differ, with younger beneficiaries likely to be most affected by climatic changes. In addition, some asset classes can be more challenging than others with regards to climate analytics. Finally, the scheme sponsor will play an important role: it is likely that organisations with strong environmental and social credentials will have reflected these views in their pension plans.

Despite these challenges, there have been some positive developments. A few asset owners, such as the UK's Environment Agency Pension Fund, are leading the way on understanding the financial implications of climate change risk. Asset-led initiatives like the Transition Pathway Initiative (supported by Standard Life Investments) are also moving the needle on the issue. Lastly, the regulatory landscape continues to evolve, particularly in the EU.

In our view, asset managers can do more to help trustees understand that managing climate change risk in portfolios is a financial exercise that can help preserve returns. This should encourage a different and more inclusive approach to fiduciary duty.

Investor Forum AGM

The Investor Forum was created as a result of the Kay Review (2012), which analysed UK equity markets following the financial crisis of 2007/08. One of the recommendations of the review was the creation of an investors' forum to "facilitate collective engagement by investors in UK companies". The purpose of the organisation is to allow investors to apply collective influence in order to improve corporate standards. As a result of this recommendation, the Investor Forum was created under the initial support of the Investment Association. In 2016, Standard Life Investments joined the Investor Forum and has since taken part in a number of its collective engagements, including with Sports Direct International plc.

In January, the Investor Forum held its annual general meeting and published its first annual review. This provided details of the purpose of the of Investment Forum, its activities in 2015 and 2016 and, in particular, information on the collective engagements that it had undertaken over that period. We have found the Investor Forum a beneficial addition to our company engagement options. It gives us more opportunities to work with other investors in the UK and overseas to engage with companies on matters relating to governance, strategy and other aspects relating to specific companies. We believe that it assists us and companies to create more aligned views on matters relating to the long-term success of UK businesses.

A link to the Investor Forum Annual Review for 2015/2016 is provided below.

https://media.wix.com/ugd/1cf1e4_661b01aaeab94b47b72d10b14e8de45d.pdf

Workforce Disclosure Initiative

In March, we hosted a roundtable led by ShareAction at our offices in London. The event brought together a group of investors to discuss the WDI (Workforce Disclosure Initiative), a programme launched by ShareAction to secure comparable workforce reporting data from listed companies. The programme is modelled on the Carbon Disclosure Project work on environmental data. It is intended that a pilot survey will go to FTSE 50 companies and 15 additional mega-cap firms later this year.

The aim of this roundtable was to introduce the programme and gather feedback from investors. The initiative will build on existing reporting standards and seeks to gather information from companies on workforce composition and development, as well as employee engagement.

There has been increasing public and media scrutiny of the way companies manage their workforces, with recent high-profile cases demonstrating the risks faced by companies with questionable employment practices. In addition, employment models are changing and becoming more flexible, which brings additional challenges for companies. At Standard Life Investments, we regularly engage with companies to ascertain how they manage their workforce and to encourage better practices and disclosure. However, a lack of publicly available data and a common reporting standard make it difficult for investors to assess companies' employment practices and draw meaningful comparisons.

As such, we welcome ShareAction's work on this topic and believe it will make a significant contribution to achieving better reporting standards and, ultimately, improved employment practices.

Innovation in Sustainable Investment Conference

At the end of this quarter, we co-hosted the Innovation in Sustainable Investment Conference with the University of Edinburgh and the Investment Innovation Benchmark (IIB). The University and the Edinburgh Centre for Carbon Innovation continue to develop methodologies to create a more sustainable future. The IIB's work continues to enhance and incentivise innovation to create a more sustainable financial system.

Topics discussed included: innovation in sustainable investing, the need for focused sustainable investments sales forces, and innovation in Scottish sustainable investing Key speakers were Euan Stirling, the Head of Stewardship and ESG at Standard Life Investments, Donald Macdonald, the chair of the IIB and Andreas Hoepner, Associate Professor of Finance at Henley Business School. They considered how different stakeholders can collaborate to create more sustainable financial systems, the consolidation of stock exchanges, and how financial data could support returns within fixed Income.

We believe that it is important as asset managers to engage and collaborate with multiple stakeholders, including academia. The event brought asset managers, asset owners, consultants and members of the academic community together to discuss methods to create a more sustainable future.

http://pdf.standardlifeinvestments.com/exported/pdf/GO_Governance/GO_Governance_M03_17.pdf

Japan corporate governance

There has been significant change in the governance environment in Japan, driven by a desire to revitalise the economy and push companies to improve capital efficiency. However, in her latest article, Alison Kennedy, Governance and Stewardship Director at Standard Life Investments, highlights that there remains considerable work to be done.

To find out more, please go to our Global Outlook report for March, which can be found on the **Standard Life Investments Global webpage.**

Thematic commentary

Andrew Mason
Analyst, Responsible Investment

OECD public consultation for Responsible Business Conduct

During the quarter, the Organisation for Economic Cooperation and Development (OECD) produced a public consultation on the Due Diligence Guidance for Responsible Business Conduct. The guidance is based on the OECD guidelines for multinational enterprises and seeks to provide practical methods of applying the guidelines. It is not only targeted at multinational enterprises, but also small to medium-sized enterprises operating in countries that have adopted the OECD guidelines.

The guidance focuses on responsible business conduct, including areas of disclosure, human rights, consumer interests and combating bribery. It highlights that by applying due diligence for responsible business conduct, companies can have positive impacts on society and contribute to sustainable development; for example, through job creation, human capital development, raising investment and fostering innovation. Failure to do so can have adverse effects on human rights, workers' conditions, the environment, bribery disclosure and consumers rights through their own activities or their business relationships (Source: OECD 2017).

As active asset managers, we are also aware of OECD guidance and consider it in relation to our own practices and the practices of the companies in which we invest. As stewards of our clients' investments, we recognise the need to understand and promote best practice in line with responsible expectations among the companies in which we invest. We believe this helps to improve long-term returns and is in the best interests of our clients.

We also seek to leverage our influence to effect change in the wrongful practices that have caused harm. In addition, we encourage future strategies that are best for the entity and those it affects in the long-term. Our business relationship differs from that of a supplier or business partner. We are supportive of the greater clarity provided in relation to definitions of "cause", "contribute to" and "directly linked" regarding responsible business conduct.

However, the business world has a limited sphere of influence and its responsibilities are not boundless. Therefore, in order to address many of the Responsible Business Conduct risks highlighted in the report, it is important that we take a multi-stakeholder approach, which includes the work of governments, businesses and civil society. We believe the guidance provides greater clarity on the scope of responsibility, how the various stakeholders we previously listed collaborate and mechanisms that these stakeholders can apply to ensure effective remediation planning.

We are supportive of the guidelines and welcome their alignment with other OECD guidance. We also commend their links to existing international standards, such as the UN Guiding Principles and International Labour Organisation Declaration on Fundamental Principles and Rights at Work. Although referenced, we would like to see greater detail as to how existing international norms and new norms will be included as part of the guidance. We believe this is particularly relevant with regard to the UN's Sustainable Development Goals (SDGs). Further, we think the guidance and the diligence methodologies it proposes can support positive impacts on society and, as such, encourage companies to take action on the SDGs and measure outcomes as they conduct their diligence.

Through our engagement with companies, we look to leverage our investments to help ensure best practice is achieved. This can take considerable time, however, such an active approach to company engagement can create real change. The most recent OECD guidance and the various other initiatives it has produced are invaluable tools that allow us and our investee companies to achieve better practices.

Thematic commentary

Mike Everett,
Governance and
Stewardship Director

UK Corporate Governance Reform green paper

In the aftermath of the UK's vote to leave the EU, corporate governance reform was a key part of Theresa May's speech that launched her campaign to become leader of the Conservative Party and prime minister. Key to this was the need to address executive pay and hold management to account.

Mrs May has been good to her word and, in November, the UK government issued a consultation paper (green paper) entitled Corporate Governance Reform. This consultation will be managed by the Business, Energy and Industrial Strategy (BEIS) Department within the government. The UK parliament also operates a system of select committees, aligned to various government departments and made-up of cross-party members of parliament. Their role is to scrutinise the actions of the government. In preparation for the green paper, at the end of 2016 the BEIS Select Committee also sought evidence regarding the state of corporate governance in the UK.

The green paper sought input on three specific areas of corporate governance:

- the influence of shareholders on executive pay
- the extent of connections between boards of directors and company stakeholders, including employees and suppliers
- the application of corporate governance standards to private companies.

We are aware that the government has received significant feedback from investors, issuers, industry associations, regulators, other representative groups and individuals. Our parent company, Standard Life plc, also provided written feedback and took part in preparing the feedback from relevant industry bodies. It also provided input at a number of conferences about the subject.

A summary of Standard Life's views is provided below.

> "We welcome the interest in this important area and the opportunity to contribute to the consultation process. As acknowledged in the green paper, the UK has a highly developed and effective framework of legislation and corporate governance codes and is viewed as a world leader by many other countries. It is important, however, that we continue to raise the standards of stewardship and engagement, thereby ensuring the UK retains this pre-eminent status."

The influence of shareholders on pay

The 2016 voting season demonstrated that shareholders are willing to display their dissatisfaction where a remuneration committee's decisions deliver outcomes that are not in line with the company's overall performance. We suggest that the introduction of an escalation process that requires companies to re-present their remuneration policy for a shareholder vote earlier than planned would create additional impetus for remuneration committees to ensure that pay outcomes are in line with shareholder expectations. This could be invoked by a significant shareholder protest vote.

We note that the binding shareholder vote on pay policies has led to increased engagement between companies and shareholders. However, it is also important for companies to demonstrate how they have considered the interests of wider stakeholders, including employees, and the links to strategy and behaviours when developing their remuneration policies.

Stakeholder voice

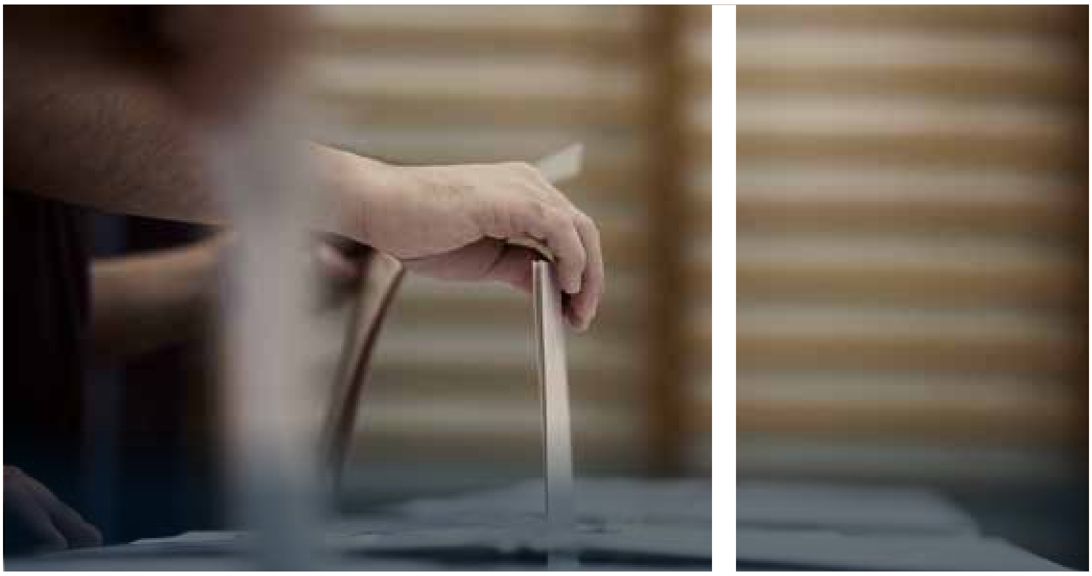
We believe that great companies have great relationships with their people and their customers, which leads to benefits for all parties. On the other hand, poor or deteriorating relationships are a signal that the company's business strategy is stretched or stressed and may fail. It is very important for boards to demonstrate, through transparent reporting, the processes by which they consider the interests of employees and their relationship with customers and suppliers when making decisions relating to the long-term success of the company.

We are not convinced that having employees on boards is the best mechanism to achieve this. We strongly believe, however, that boards should take sufficient time to understand and respond to the views of employees and put in place robust mechanisms for doing so. For example, boards should hold formal engagement sessions with employee representatives at least twice a year.

Corporate governance in private companies

Private companies of sufficient size should be held to similar standards as those applied to public companies. This is because the impact of such companies' activities on their stakeholders, the environment and society is not dependent on their corporate structure. In other words, bad companies should not be able to use the 'private' world as a dark corner to hide poor practices.

There is currently no apparent mechanism to ensure boards and management of private companies are acting for the long-term success of the company. As such, it is our view that some form of regulator or ombudsman may be necessary to monitor private companies and, where necessary, hold them to account.



Thematic commentary

Sophie Rahm
Analyst, Responsible Investment

Taskforce on Climate-related Financial Disclosure

In his famous speech to Lloyd's on the 'tragedy of the horizon', Mark Carney, Governor of the Bank of England and chairman of the Financial Stability Board (FSB), stated that the combination of the weight of scientific evidence and the dynamics of the financial system suggests climate change threatens financial resilience and long-term prosperity.

The Taskforce on Climate-related Financial Disclosure (TCFD) was subsequently established by the FSB. It seeks to encourage and develop consistent disclosures from companies on the financial implications of climate change risk. In a series of recommendations released in December 2016, the TCFD considered the physical, liability and transition risks associated with climate change. It also set out what constitutes effective financial disclosure from companies in all sectors. Further, it provides specific guidance on how asset managers and owners can use this information to achieve better investment decisions for the benefit of their clients.

Following the publication of these recommendations, the TCFD launched a consultation process, inviting stakeholders to provide feedback on the desirability, content and feasibility of the recommendations.

Standard Life Investments submitted its response in early February. We are generally supportive of the recommendations. We believe they will contribute to improving the quality and usefulness of climate change disclosures by companies. By making climate analysis a core component of the financial reporting framework, investors will be able to make financial sense of climate change risk.

We are in a unique position to use the TCFD recommendations. As a user of climate change data, we analyse investee companies' disclosure for efficient capital allocation. A systematic view of climate change risk by companies will help to gauge the nature and scale of the risk. We aim to follow the recommendations in order to demonstrate to the markets why climate change analysis is relevant for investments and how it can inform our approaches to strategy, governance and risk management.

Nevertheless, we were also keen to highlight that some important obstacles remain. For example, the lack of standardised, as well as robust and good-quality climate data, make it difficult to compare companies. Although we view carbon scenario analysis as the new norm to assess carbon transition risk, the vast majority of companies' management teams are unable to share how their businesses would fare under different carbon-constrained outlooks. For investors, climate risk analysis at the portfolio level remains a challenge, while the variety of funds, asset classes and investment time horizons render the exercise arduous.

We believe that implementing these recommendations to the best of our ability and encouraging their adoption by our investee companies will offer a range of potential benefits. These include the anticipation of future regulations and client expectations, the improvement of both risk and business resilience, the retention of a competitive advantage and the support of our thought leadership approach.

We are able to capitalise on solid foundations and will continue to drive the integration of ESG issues further into the investment process. However, we also recognise that the size of benefits is commensurate with the size of the challenge. The full adoption and implementation of the TCFD recommendations is likely to take significant time and effort, not least because it will require greater coordination efforts within Standard Life Investments.

We will continue to focus on ESG integration in line with the recommendations, with an initial focus on carbon risk analysis. We are committed to:

- improving our climate risk disclosure and publishing results of carbon footprint analysis, both at the asset class and portfolio level
- continuing to engage with investment managers internally on the meaning of the analysis
- encouraging our investee companies to recognise and adopt the TCFD recommendations.

Through these, we will then be better equipped to preserve the value of our investments and deliver improved performance for our clients at a time when the transition to a lower-carbon economy is likely to cause significant disruption to many business models.

Thematic commentary

Andrew Mason
Analyst, Responsible Investment

Cobalt mining

The Democratic Republic of the Congo (DRC) has nearly 50% of the world's cobalt, a metallic element used chiefly in the manufacturing of alloys. It also features predominantly in batteries, laptops and mobile phones. Demand for cobalt is expected to increase substantially – current estimates project 5% year-on-year growth as the use of electric vehicles and electronics continues to increase.

A number of human rights issues are linked to cobalt mining in the DRC, including the use of child labour, forced migration and poor working conditions. Mining is predominately 'artisanal', i.e. it is mined by hand from deep underground tunnels with only the aid of basic tools. The situation poses a range of risks to companies that are currently sourcing from the area. These are detailed below.

- Regulatory risk: for example, while section 1502 of the US Dodd-Frank Act currently dictates that companies sourcing the 3Ts & G (tin, tantalum, tungsten and gold) from the DRC must audit smelters and report these audits in SEC filings, it is possible that the act could be extended to include cobalt.
- Operational risk: artisanal mining and a lack of government regulation create an inefficient and unreliable cobalt source. Lack of clarity around ownership rights to mines (some of which are operated by militias), combined with hazardous working conditions and unsecure mining structures increase operational risk.
- Reputational risk: cobalt mining practices in the DRC are largely in breach of several articles of the UN Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.
- Consumer risk: to date, while there has not been significant risk at the point of sale, increasing industry awareness has the potential to spill over into mainstream information sources. For example, telephone companies have faced scrutiny in relation to child labour and poor working conditions in the past.

For end-product companies, these are long-tailed supply chain risks that could affect the cost and stability of the cobalt supply, and various initiatives have been launched to address some of these risks. Given that the majority of cobalt exported from the DRC is sent through China to be processed, steps have been taken by the Chinese government. This includes collaboration between a number of companies and the Chinese Chamber of Commerce for Metals, Minerals & Chemicals, together with the OECD, to launch the Responsible Cobalt

Initiatives. This will compel the government of the DRC, civil society groups and local communities to establish methods to ensure the responsible sourcing of cobalt.

In addition, the Electronic Industry Citizenship Coalition, a cohort of electronic, retail and auto companies with a combined annual revenue of US$4.75 trillion, has launched the Responsible Raw Materials Initiative. This will see them work with the Conflict Free Sourcing Initiative to identify and address risks in cobalt mining.

However, while these initiatives represent 'soft law', Dodd-Frank section 1502 is the only 'hard law' covering minerals from the DRC (and, as mentioned, is limited to the 3Ts & G). Further regulatory pressure could come from the DRC itself, which has proposed an export ban on cobalt in an effort to stimulate local industry to shift from mining into production. This was first raised in 2007, but has failed to gain traction largely due to a lack of infrastructure that would allow the DRC to domestically process the minerals. This could change, with a new government set to take office in 2017.

Meanwhile, given the rising prevalence of IT solutions and software integration into daily-use items, such as phones and cars, companies in varied sectors across IT, autos, industrials and chemicals may find themselves with increasing exposure to cobalt sourcing risks. A report issued by Amnesty International at the beginning of 2016 identified multiple companies that it claimed had exposure to cobalt from the DRC, but were not appropriately addressing these issues in their supply chain management.

Standard Life Investments has undertaken collaborative engagements and spoken directly to our current and potential investee companies about their potential exposure to cobalt mining practices in the DRC. The aim of this is to gain assurances they have a robust approach to managing and addressing the associated risks. The responses we received were mixed in terms of awareness of the issue, as well as various risk mitigation approaches. These included:

- denying any links to suppliers mentioned in Amnesty International's Report
- simple reference to general supplier policies without providing details
- lack of awareness as to the proportion of cobalt the company ultimately sources from the region
- highlighting some of the above-mentioned initiatives with which the company is involved, or voluntary codes of practice to which the company has subscribed
- comprehensive information about the steps companies are taking to progress issues in relation to cobalt mining practices in the DRC
- information about additional due diligence procedures that apply to cobalt sourced from the DRC in particular
- discussing the difficulties in stimulating change at the actual mines, given the company's position further up the supply chain.

That said, throughout this engagement process we have been encouraged by many of the steps taken by companies and industry bodies. However, we believe that there is further work to be done in order to establish and fully embed best practices in relation to this issue. We believe a robust due diligence process should be established in order to link miners with exporters of cobalt, smelters that process cobalt, and manufacturers using cobalt. Importantly, this process should be subject to audit and could emulate the current process applied by the Dodd-Frank rule, which includes certification and assurance schemes that are audited by the Securities and Exchange Commission in the US.

Following our discussions, we expect companies will release updated sourcing policies during the second half of 2017. This is a welcome step and we will re-engage with companies that have exposure to cobalt following the progression of the international initiatives and the upgrade of individual company policies.

Thematic commentary

Executive remuneration

Euan Stirling
Head of Stewardship and ESG Investment

As an ESG investment team, executive remuneration has been at the centre of our thoughts for quite some time.

Primary responsibility

We see it as a core responsibility of the companies in which we invest to recruit, retain and motivate the right calibre of people to lead their organisations to business success. Remuneration arrangements are often an important part of that. However, executive remuneration has become a much more important issue than mere payment of money.

Broader implications

In our engagement with companies, we seek to empower the board directors responsible for setting remuneration so that that they can robustly represent our interests as shareholders. Our experience tells us that is the best route to an acceptable outcome for all parties.

Where we have issues with a company's pay plans, we often find there are problems with other aspects of governance. In many cases, an inappropriately large remuneration package reflects the fact that a company has let slip the duty to plan succession and has left itself open to the demands of an 'irreplaceable' chief executive. However, events surrounding remuneration in 2016 tell us that it is not just about shareholder interests – executive remuneration has much wider implications.

As well as being an excellent barometer for standards of corporate organisation and behaviour, executive remuneration is also a key factor in supporting a company's licence to operate. That licence is not a specific permit issued by a regulator: it is a much more fragile and intangible authority associated with how a company treats the people that work for it and the people that buy its products. All of which makes the job of chairing a company's remuneration committee an unenviable task.

More broadly, investors and society now demand complete transparency over the process undertaken to define remuneration, as well as the final outcome on pay for senior executives. Meeting the expectations of all of the interested parties is an almost impossible task, but achieving an acceptable outcome has become all the more important.

In the UK, regulations were introduced to allow shareholders a mandatory vote every three years on the executive remuneration policy. For most large companies in the UK, that makes the 2017 AGM an important date in the calendar, as the majority of companies will need to validate their pay plans. Similar regulations are being introduced in other countries, with France a notable recent addition. The response to the additional attention on remuneration by

companies and investors has been mixed but, in our view, broadly positive.

We have seen a very thoughtful and considered approach from some of the UK companies that found themselves in hot water in 2016. As a result, we hope that they will find a smoother passage through their 2017 general meetings.

Some companies, though, have yet to alter their approach in response to the changing environment. For them, we fear that a turbulent period may lie ahead.

From the perspective of an institutional investor, we welcome the recent attention from politicians, regulators and the public on all aspects of corporate governance and on remuneration in particular. The shining of such a bright light on this area has encouraged ever more robust conversations between investors and companies, and also among groups of investors. This feels like the correct direction of travel and we expect it to result in better, more sustainable outcomes for all concerned.

Quantum and structure

As with every specialism, remuneration has become littered with acronyms – LTIP, PSP, RSP, SSIP...the list goes on.

Suffice to say, we are not natural supporters or opponents of any of these remuneration policies. We believe that each company should devise the correct remuneration arrangements to reflect their business strategy and the industry in which they compete. Inevitably, this results in a complex web of arrangements across our investee companies, which is why we devote so much resource and attention to the issue.

It is incumbent on the companies to devise the plans and then to stress test them across many scenarios. This will help them convince a sometimes sceptical audience that remuneration policies will deliver what they were designed to do.

That means that targets should be stretching but achievable; that the balance between fixed pay and variable pay should be appropriate; and that both long and shorter-term measures should be included in the calculation.

Achieving visibility and transparency in an area that has become complex is a difficult task, but should be at the forefront of all companies' considerations when it comes to remuneration.

Thematic commentary

Ruairi Revell
Sustainability Advisor,
Real Estate

The Sustainable Real Estate Investments report

We recently published our 2016 Sustainable Real Estate Investments (SREI) report. We believe that embedding sustainability in our real estate operations is vital for our future success and will help us maximise value for investors. As demonstrated throughout the report, we are making strong progress on this mission.

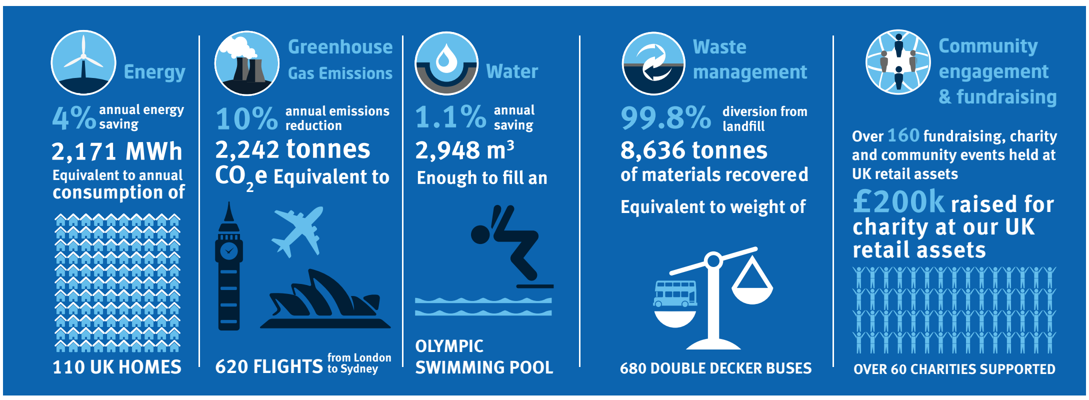
For example, we continue to perform well against our sustainability targets. Indeed, the reduction in our energy and greenhouse gas emissions has exceeded our five-year targets ahead of schedule. Key performance headlines at the company level are summarised in the figures below, with full results available in the report.

This year's report also includes features on award-winning sustainability initiatives in our UK shopping centres and the world's first Cradle to Cradle® logistics building in the Netherlands.

Having updated our mission and strategic priorities for SREI this time last year, we have worked hard to identify opportunities to realise additional value for our stakeholders. In particular, this has led to an increased focus on healthy buildings and the identification of opportunities to implement circular economy principles. As part of this focus, we are currently participating in the UK Green Building Council's Wellbeing Lab.

As our current five-year targeting cycle closes this year, we have the opportunity to reflect further on our performance to-date and define our future direction, including building on our strategic priorities. Over the coming months, we will review where we have done well and where obstacles remain to ensure our SREI strategy meets the challenges of the future.

Our 2016 SREI report is available at standardlifeinvestments.com



Health and safety

Global 'risks controlled' level of 97%

PRI Assessment 2016

Score of A in Direct Property Module compared with median sector score of C

GRESB 2016

15 Green Stars

3 Five Star rated funds

17 Funds 'Leaders' in Health & Wellbeing

Thematic commentary

Katherine Travers
Sustainability Consultant, Global Sustainability, Standard Life plc

Dow Jones Sustainability Indices (DJSI) and FTSE4Good

Standard Life plc (Standard Life Investments' parent company), is listed in the DJSI World and DJSI Europe indices, a collaboration between S&P Dow Jones Indices and RobecoSAM. We are also included in the FTSE4Good Global, Europe, UK 50 and UK indices, published by FTSE Russell Group. The indices are designed to help investors integrate ESG factors into their investment decisions. The indices' measurements are tailored to help identify companies within each sector that demonstrate strong management of ESG risks and opportunities. The indices can also be used as a framework for corporate engagement and stewardship, for research and as benchmark indices.

Both indices focus on promoting transparency and public accountability. FTSE4Good only accepts externally available information to verify the participating companies' adherence to their ESG criteria. In addition, RobecoSAM has collaborated with Bloomberg to publish companies' percentile ratings, creating an ESG company ranking dataset for investors.

Our progression and current position

Since we started participation in the indices, we have steadily increased our scores. In 2016, we achieved our highest scores and largest increase in both indices, placing us 6th out of the 74 companies in our industry for DJSI and in the top percentile for FTSE4Good. We also qualified for inclusion in the RobecoSAM 2017 Sustainability Yearbook, receiving the Silver Class distinction for the first time.

In the indices, we are consistently scored high in corporate governance, risk detection and management, environmental reporting, responsible investment & stewardship. In 2016, we achieved large increases in our scores for financial inclusion, social reporting, labour standards and human rights.

Why it is of value to us and others

Taking part, being included and scoring well in globally recognised and respected indices is valuable for both our external credibility and internal engagement.

Participation in the indices benefits internal engagement as it facilitates collaboration across business areas, creating new relationships and connections beneficial for business success. Being assessed for inclusion in the indices gives us independent, objective validation of how well we are managing and communicating the way we address our ESG risks and opportunities. Several years of taking part has also enabled us to build our knowledge of the indices' content and requirements. This

has helped us to understand their merits, allowing us to logically benchmark ourselves against our peers. We can use this insight to help us influence internal stakeholders to drive change that enhances our financial performance and sustainability.

Our participation and position in the indices demonstrates to our stakeholders that we are a responsible business, successfully managing our ESG risks and opportunities. It also sets a good example to the companies in which we invest and, as such, can be used as an engagement tool to explain how we expect their practices to align with our own.

From our experience, we know that investors use the indices to gauge our future success and benchmark us against our peers; as such, performing well is beneficial to our business. The indices also encourage corporate disclosure and, as they become more transparent, they allow investors and participants to benchmark companies more accurately.

Recent redundancies at RobecoSAM, including the head of indices and head of sustainability investing research, may indicate fundamental changes at the company which we will monitor. There are many ESG indices and benchmarking tools, with new ones launching each year, and we regularly assess their benefits and suitability to gauge if it would in our benefit to seek inclusion. Our participation in indices like DJSI and FTSE4Good is one of a range of methods we use to challenge, focus and measure our management of ESG risks. These include our materiality review, research, market insight and input from ESG experts. Combined, these help us identify how we can best deliver long-term value for all of our stakeholders and follow our purpose of investing for a better future.

Another highly successful year

You can find out more about our sustainable business strategy in our Sustainability Report, which shows what we achieved in 2016 across our four sustainable business priorities: responsible business, engaging employment, supporting saving and investing responsibly. Highlights include: publishing our new modern slavery statement; climate change investment statement and supplier code of conduct; focusing on inclusive employment, tackling pension scams and enabling over one million people to save into their workplace pensions; and Standard Life Investments receiving green stars for 15 of our real estate funds from GRESB – the leading benchmark real estate sustainability benchmark.

https://www.standardlife.com/dotcom/library/ARA2016.pdf

https://www.standardlife.com/sites/dotcom/library/sustainability_report_2017.pdf

Thematic commentary

Mike Everett,
Governance and Stewardship Director

Policy update

During the first quarter of 2017, there was significant policy activity that will affect our customers, as well as our activities in the ESG Investment team. In the UK, the focus was mainly on the improvements to corporate governance that we previously highlighted in this report.

Last year, the Financial Stability Board, under the leadership of Michael Bloomberg, set up the Task Force for Climate Related Financial Disclosure (TCFD). It issued its recommendations at the end of last year, which were then subject to public consultation. The recommendations are designed to improve investors, and others, ability to assess and price climate-related risk and opportunities. They also seek to improve the quality of financial disclosures related to the potential effects of climate change on organisations. As previously highlighted, we provided feedback to the questions raised in the public consultation.

The European Commission (EC) also started work on possible policy changes relating to companies' and investors' roles in managing the implications of climate change. We provided feedback to the EC's consultation last year and have continued to monitor developments in this area.

Finally, the global proliferation of stewardship codes continues apace. We also understand that regulators in India are to put a code in place following the involvement of the India UK Financial Partnership report on stewardship codes, a process in which we took part. In the US, a group of large investors has also created a stewardship code, which we endorsed as a non-US domiciled asset manager. We welcome the creation of stewardship policies and standards around the world, as we see them as important tools to raise standards in corporate governance and for the management of ESG risks.

ESG engagement

During the first quarter of 2017, we engaged with a wide variety of companies regarding environmental, social and governance issues. Below is a snapshot of this engagement.

Engagement snapshot

Company	Topics Discussed
Cineworld	Employment practices and recent strike action
Diageo	Water risk assessment in local supply chains
Dollar Tree	Succession planning for chairman
HSBC	Current deferred prosecution agreement and links to palm oil companies
Mattoli Woods	Founder and chairman moves to sub-board role
National Express	Health and safety standards and crash of Durha, School Services' bus in US
Topps Tiles	Board composition and succession planning. Discussion regarding a proposed one-off 2020 LTIP scheme in addition to the regular LTIP
Voting engagements	
Thomas Cook	Remuneration
TUI	Remuneration

ESG engagement summary

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Cineworld

Engagement driver:

- Client mandate
- Performance-based engagement

Engagement outcome:

- On track to meet objectives

Cineworld Group PLC operates cinemas throughout the UK and Ireland under its Picture House and Cineworld brands.

Since 2014, Cineworld has faced disputes with its employees at two of its Picture House cinemas in London. So much so, that strikes were invoked in September 2016. Employees were demanding the London Living Wage, sick pay and maternity/paternity pay for all staff.

We engaged with Cineworld several times to discuss the strike action and the company's employment practices more generally. The company expressed the view that some of the demands were unreasonable as it pays all employees above the minimum wage and above many peers. We encouraged Cineworld to engage both with the unions and with employees at the cinemas directly to reach an agreement.

In addition, we discussed the company's use of zero-hours contracts and highlighted our concerns about the risk of using these contracts. Cineworld assured us it uses zero-hours contracts in a responsible way. We will continue to monitor its progress on this matter.

Despite central oversight, we did not feel that HR practices across Picture House and Cineworld were fully aligned. Cineworld displays some good practices on learning and development, as well as on employee engagement, while Picture House seems to have better pay and contract conditions. We suggested greater alignment between the two chains to avoid further employee unrest.

We encouraged Cineworld to be more transparent about its employee practices. The company assured us that it had plans in place around alignment of employee initiatives and disclosure. In February 2017, Cineworld reached a pay agreement with the union that represents the majority of Picture House staff.

Diageo

Engagement driver:

- Internal mandate

Engagement outcome:

- Influential in achieving change

Diageo produces, distills and markets a range of alcoholic beverages worldwide. The company is an investor-participant in the PRI's working group on water risk management in agricultural supply chains. We discussed water management risks with the company's head of sustainability.

Water is essential to Diageo's business and it demonstrates best practice in terms of water management. It has published a Water Blueprint Strategy and is actively managing its direct operational impacts on the water resource. It puts a strong emphasis on communities, capacity-building and a holistic approach to the issue (looking at energy use, transport, treatment and discharge of water). This helps the company understand payback time and ROE (return on equity) of its water management initiatives.

The company has mapped its production locations against water-scarce regions, as per the World Resources Institute's Aqueduct tool. It is also involved in a number of industry initiatives in order to refine its approach. It estimates that one-third of its total production is located in water-stressed areas, with around 70% of the raw material supply sourced from local farmers in Africa (target: 80%). In 2017, it will use standards developed by the Alliance of Water Stewardship, of which Diageo is a member, and pilot water assessments at a couple of sites with an aim to improve water usage practices and assess more holistically its impact on communities.

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Diageo (continued)

Diageo is also involved in the Sustainable Agriculture Initiative, and will roll out its Excel-based farm water assessment to its local suppliers.

There are still some challenges for Diageo with regards to water management, detailed below.

- It has acquired a number of facilities in the last five years, some of which are located in areas of high water stress (Tanzania, Ethiopia and Turkey) and bringing them up to Diageo's standards will take time.
- Understanding the risks, engaging and creating an appropriate response toolkit is more difficult for third-party operators; food and beverage producers and retailers are putting more pressure on traders/brokers to improve their 'source of origin' disclosure.
- Diageo has collected a lot of data on water management, but further disclosure is need on how this data collection and the various initiatives in which it is involved in affect the wider company strategy (business development, financial planning, etc.).

Given that the company is collaborating with industry peers on water management, we expect to see some innovative approaches come through in the next couple of years. It is also recognising the importance of water in each of its country-specific policy plans. It asks for a robust national water management programme before entering a market, arguing that its economic contribution is at risk unless water is adequately managed by authorities. Despite these positive steps, we encouraged the company to provide more detail on how water scarcity may affect its strategy and business resilience.

Dollar Tree

Engagement driver:

- Internal mandate

Engagement outcome:

- Escalation candidate

Dollar Tree is an American chain of discount variety stores that sells items for $1 or less. Headquartered in Chesapeake, Virginia, it is a member of the Fortune 500 and operates approximately 13,600 stores throughout the US and Canada. The company also operates multi price-point variety chains under the names Deals and Family Dollar.

We raised the issue of succession planning for the chairman (74 years old), who was one of the co-founders of the company some 30 years ago. However, Dollar Tree could not provide reassurance that the succession planning was sufficiently advanced. The company was also unable to provide an answer as to whether or not it would keep the roles of CEO and chairman separate when the current chairman steps down. We asked the company to consider the age profile of its customers when planning board refreshment, and whether it may be open to appointing a younger director.

As the current chairman is not independent, it is important that the company has strong independent board leadership in the form of a lead independent director (LID). The LID at Dollar Tree is Thomas Saunders III (79 years old), who has been on the board for 23 years. We highlighted that this long tenure on the board meant that we did not consider him to be independent. We asked the company to take note of this when considering any future board refreshment.

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

HSBC

Engagement driver:

- Internal mandate
- Client mandate

Engagement outcome:

- On track to meet objectives

HSBC is headquartered in the UK and is one of the world's largest banks, providing personal, commercial, corporate and investment banking to over 100 million customers across the globe. It offers products and services through four customer groups: personal financial services, commercial banking, global banking & markets, and private banking.

We have had ongoing engagement with the company regarding its corporate culture, conduct fines and reputational issues it is facing. These include a DPA (deferred prosecution agreement) in the US as a result of a failure to fully manage anti-bribery and corruption processes, as well as charges from various regulators linked to offering services which enabled tax avoidance. During our last meeting, we questioned the company's tax services and encouraged it to improve whistle-blowing mechanisms and disclosure. We are encouraged to see that HSBC has made these adjustments and we are very supportive of the steps it has taken to disclose its approach to challenging bribery and corruption.

We questioned the company on its forestry policy and highlighted a report which alleged that it provided banking facilities to palm oil companies that were damaging Indonesian rainforests. The company noted that it provided public clarity on its approach to lending to the sector and it did not have exposure to the companies in question. During February 2017, HSBC produced a revised agricultural commodities policy detailing the need to safeguard rainforests and committing to play its part to promote sustainable palm oil. We are comfortable with the company's response and the robustness of its forestry policy.

HSBC continues to reduce its exposure to various countries and the mechanisms it is applying should improve corporate conduct. These include the use of a six-filter approach to manage bribery and corruption.

We have seen positive steps from HSBC since our last meeting and have asked that, in addition to managing and reporting on risk controls, it offers greater detail of its social utility. We will continue to monitor the bank's progress.

Mattioli Woods

Engagement driver:

- Internal mandate

Engagement outcome:

- On track to meet objectives

Mattioli Woods is a leading UK provider of wealth management and employee benefits services. It was founded in 1991 and both founders, Bob Woods and Ian Mattioli, have been instrumental in the growth and success of the company.

We contacted the company to request a meeting with Joanne Lake, the company's chairperson. This was our first detailed governance engagement with the company and followed the announcement last year that Bob Woods would step down from the role of chairman and from the board in October 2016. It was also announced that he would be succeeded as chairman by non-executive director Joanne Lake, who had been on the board since 2013. Woods remains as a full-time employee, but with a client-facing role; while his co-founder, Ian Mattioli, remains CEO. Founder-led companies often face challenges when transitioning to the next generation of leadership, and that is why we approached the company.

During our most recent visit with the company, we were reassured regarding Woods' new role, including confirmation that he would not attend board meetings. Meanwhile, Joanne Lake provided a good account of how resources and systems are being strengthened as the company grows. Mattioli Woods has a small board, consisting of the chairperson, five executive directors and two non-executives. In terms of board composition, we like to see an appropriate balance of executive and non-executive directors. As such, we suggested that the company consider adding a further independent non-executive director to the board.

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

National Express

Engagement driver:

Performance based engagement

Engagement outcome:

Influential in achieving change

National Express (NEX) is a UK-listed mass passenger transport company. It operates express coaches, buses, and trains in regions including the US, UK and Germany. It has a fleet of over 26,000 vehicles.

We last spoke to the company in the second quarter of last year to discuss various allegations in relation to human capital management and its approach to health & safety. Subsequent to the meeting, NEX highlighted that it was applying the European Foundation for Quality Management framework across the group, initiating an independent review of its employee practices and that it would issue an independently produced report.

We were assured by the steps taken by the company and the findings of the independent report. However, issues remained around safety standards. At the end of last year, a Durham School Services bus (a subsidiary of NEX) crashed in Tennessee killing six children and injuring 20. A preliminary report by the National Transportation Safety Board (NTSB) indicated that the crash was a result of driver error.

We engaged with the company to gain further details on the causes of the accident and the company's response. NEX advised that its CEO (Dean Finch) went to the US, met with the CEO of the US business (David Duke) and reported back to the board within 48 hours. The company is awaiting the outcome of a full report from regulators. As it stands, the company is already accelerating numerous activities relating to safety standards, which are listed below.

- Implementing a secure cloud-based complaint management system to directly connect all schools that the company serves. It is available in Chattanooga and will be rolled out to the entire customer base by end-2017.
- Installing smart cameras/drive-cam in all 16,000 Durham buses, which will record the driver and road whenever "unusual driving is sensed". It is available in Chattanooga and will be rolled out to the entire US customer base by end-2017.
- Appointing chief data and safety compliance officers by the end of Q1 2017. They will work directly with the senior vice-president of safety and report to the president and CEO.

This tragedy in Tennessee highlights the important responsibilities that transport service providers have. We await the final findings of the US Federal Motor Carrier Safety Administration and the NTSB investigation. We will continue to engage with the company and measure its progress on this and other issues.

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Topps Tiles

Engagement driver: Internal mandate	Topps Tiles is one of the UK's leading specialist retailers of tiles, focusing on the tile market for the refurbishment of domestic housing. Its customer base includes both homeowners (predominantly retail customers) and tile fitters (trade customers), with the business roughly split between the two customer types.
Engagement outcome: On track to meet objectives	We engaged with the company chairman, Darren Shapland, to discuss a wide range of governance topics including: board refreshment, remuneration, audit issues, strategy and risk. We voiced our opposition to the one-off 2020 long-term incentive plan (LTIP) award for executives and senior management, which is paid in addition to the regular company LTIP. This is because our experience tells us that one-off remuneration schemes are not effective motivational or retention tools. The targets under this scheme are very challenging, especially given that the operating environment has deteriorated in the last six months. We also highlighted that potentially unachievable targets can demotivate staff. Therefore, while it is unlikely to pay out, we cannot support this type of additional one-off scheme. We also discussed the issue of diversity. Out of six board members, one is female (16.7% of overall board); however, there is only one female among the 16 senior manager team (representing 6.3%). As such, we suggested the company should look at this area. The current situation is not ideal but it is an improvement from 2015 when there were no female senior managers. The board and the CEO will continue to actively address this issue. We had previously mentioned to Topps Tiles that the provision of remuneration advice by the incumbent auditor was not appropriate. The company has now changed its policy and the work is conducted by a different remuneration consultant. The audit committee chair has also now put in place a detailed policy covering the type of non-audit services the current auditor can provide, which is a positive development.

Voting engagement

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Thomas Cook

Thomas Cook Group is a holiday company with operations in the UK, continental Europe, Scandinavia and China. Its hotels and resort brands include Sentido, Sunprime, Sunwing, Sunconnect, Smartline and Casa Cook. It has airline operations in Belgium, Germany, Scandinavia and the UK. It has a fleet of over 90 aircraft under the Thomas Cook Airlines and Condor brands. It operates from approximately 20 source markets in Europe and China.

At its 2015 AGM, we abstained on, or voted against, a number of resolutions relating to concerns about remuneration matters. We were primarily concerned by a lack of transparency in the long-term incentives used by the company and a general lack of consultation with shareholders. Last year, Thomas Cook consulted us on numerous occasions with regards to changes to its remuneration policy. We then discussed these matters with the chairman of the company directly.

There were a number of matters upon which we expressed our views, which we have detailed below.

New long-term incentive scheme – during our discussions, the company informed us of its intention to introduce a new incentive scheme, the Strategic Share Incentive Plan (SSIP). This would replace the existing scheme, the performance share plan (PSP). Under the SSIP, executives could receive an incentive award once every four years instead of the normal annual PSP award (150% of salary).

Despite any concerns that we had expressed, the company proceeded with the scheme, only disclosing the details in the published AGM notice. We were concerned to learn that the SSIP would actually be more generous (225% of salary) than the PSP. An award would be based on strategic objectives measured over two years with a total shareholder return multiplier in year three. It was not clear how or when the strategic objectives would be disclosed. We did not believe that the new incentive scheme was necessary, as we believe the existing PSP should focus directors on key strategic matters.

Remuneration policy – given our objection to the SSIP, it seemed logical that we should oppose the remuneration policy that facilitated it.

Remuneration report – Thomas Cook decided not to use the SSIP this year, instead using the existing PSP. The scheme permits a normal annual award of 150% of salary. A larger award can be made of up to 200% of salary in exceptional circumstances, such as an external recruitment. The company informed us of its intention to exceed the normal annual award of 150% of salary, finally settling on a ceiling of 165% of salary. We objected in principle to the payment of exceptional awards during a period of impaired financial performance.

At the 2017 AGM, we voted against the resolutions to approve the new incentive scheme, the new remuneration policy and the remuneration report. Having abstained on the re-election of remuneration committee members in 2016 and given that there were new issues of concern, despite consultation and engagement with the company, we decided to vote against the chairman and members of the remuneration committee (with the exception of one committee member who had only recently been appointed).

Key driver

- Internal mandate
- Client mandate
- Performance-based engagement

Key outcome

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

TUI

TUI is the world's biggest leisure and tourism company. Its core activities involve the sale of flights and cruises, tours and hotel accommodation as individual components or packaged tours. It sells to wholesale and individual customers; its core brands include TUI and Thomson.

In 2014, Germany's TUI AG merged with its British subsidiary TUI Travel and subsequently became dual-listed on the London Stock Exchange and the Frankfurt Stock Exchange. At the time of this merger, the company stated that its intention, to the extent practicable, was to adhere to both the UK Corporate Governance Code and the German Corporate Governance Code. We recognise that being subject to German legislation means that the company is unable to be fully compliant with the UK Code in certain respects and we welcomed the explanations for areas of deviation from UK best practice contained within the company's corporate governance report. Nevertheless, we continue to expect progress towards increased alignment with the UK Code and were therefore disappointed that the 2017 AGM agenda did not provide shareholders with a vote on the company's annual report or remuneration report. The ability to vote on these reports is a valuable mechanism for shareholders to express their views to the board, particularly where there are areas of concern.

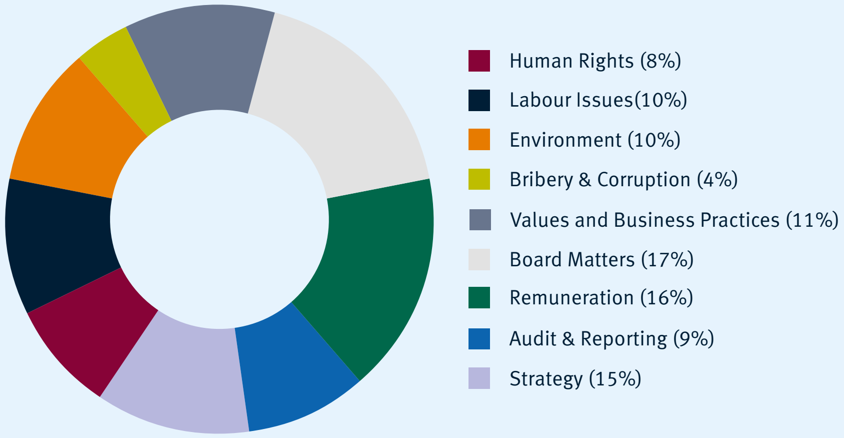
With respect to executive remuneration, we had concerns regarding the structure and outcomes for the financial year 2015/16. Key concerns were the provision for, and payment of, discretionary bonuses in connection with the merger; the absence of retrospective disclosure of annual bonus targets; and the vesting of a portion of the long-term incentive plan for below median total shareholder return. As we were unable to direct our concerns regarding remuneration through a vote on a remuneration-related resolution, we took the decision to vote against the discharge of supervisory board chairman, Klaus Mangold. This also underlined our disappointment at not having the opportunity to vote on the annual report or remuneration report.

At the time of the AGM, we engaged with the company and reiterated our expectation that votes on the annual report and remuneration report be provided at future AGMs. We intend to meet with a board representative in the coming months to discuss this further.

Voting Summary Q1 2017	
Shareholder meetings at which our clients' shares were voted	209
Number of resolutions voted	2,310
Shareholder meetings at which our clients' shares were voted against management*	46
Number of resolutions voted against management	78
Shareholder meetings at which our clients' shares abstained*	40
Number of resolutions abstained	49

*On one or more resolutions

Engagement Summary Q1 2017



Source: Standard Life Investments

Engagement summary Q1 2017

Company	Human Rights	Labour Issues	Environment	Bribery & Corruption	Board Matters	Remuneration	Audit & Reporting	Strategy
4imprint Group					●	●	●	
Akzo Nobel	●	●	●					
Babcock				●				
Bank of America					●			
BASF	●		●	●	●			
Boston Scenitific	●	●						
Chesnara					●	●		●
Cineworld		●						
Diageo			●					
Dixons Carphone					●	●	●	●
Dollar Tree					●	●	●	●
Entertainment One					●	●	●	●
GVC Holdings					●	●		●
HSBC		●	●	●				
Huntsman	●		●					
International Consolidated Airlines		●						
ITV					●	●	●	●
Johnson Matthey		●	●					
JRP Group					●	●	●	●
Kesko					●	●	●	
KeyCorp					●	●	●	
Kier Group		●	●					
LafargeHolcim	●			●				
Lloyds	●					●		
Mattioli Woods					●			
Morgan Sindall Group					●	●	●	●
National Express	●	●						
Petrofac					●			●
Prosegur	●	●						
Ryanair		●	●					
Saint Gobain	●							
SSE		●	●					
Suncor			●					
Telecom Plus					●	●	●	●
Thomas Cook						●		
TUI						●		
Topps Tiles					●	●	●	●
Veolia Environnement					●	●	●	●
Worldpay Group					●	●		●

Our voting is disclosed on our website on a monthly basis:-
http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/our_voting_records.html

Important Information

All information, opinions and estimates in this document are those of Standard Life Investments, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons.

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The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested. Past performance is not a guide to the future.

Contact the team at

esg_investment@standardlife.com

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