

Appendix 1 – Individual manager responses on their approaches to ESG

1. Aberdeen Asset Management (multi-asset and diversified growth)

- 1.1. The process of stewardship is a natural part of our investment approach. We integrate matters of governance and long-term risk management into our investment analysis. We do not see them as stand-alone matters but rather as indicators of the quality of management and the board and of the company's capacity to deliver its strategy. Alongside engagement and voting decisions being taken by our investment managers ESG is a key element within stewardship. ESG integration focuses holistically on the intrinsic risks and opportunities of our investments and thereby helps us to better understand the quality of an asset, along with its key concerns.
- 1.2. Equities: all of our equity teams follow the same approach, which is to assess holistically all of the risks and opportunities a company faces through our fundamental bottom-up research approach and to evaluate how these factors, both financial and ESG, will impact investment performance. Using this approach we can determine, in context, the whole picture of an asset and therefore assign appropriate risk weightings. In addition to this framework, we conduct a deep dive into the specific material ESG risks a company faces, which will vary considerably. Factors such as board structure and effectiveness, remuneration, cyber security, the impact of climate change, labour standards, innovation and diversity are all integrated into engagement and ultimately the investment decisions.
- 1.3. Fixed Income: Within fixed income, the material risks of an investment are examined across a spectrum of issues, including traditional financial metrics, governance issues, country- and industry-specific considerations, and environmental and social risks. Our ESG analysis is embedded into the fundamental in-house credit research, examining factors which have a potential, material impact on the credit risk of the underlying investment and categorising them according to severity. We assess how they are managed and mitigated, as well as the opportunities they create for the issuer and therefore the investor, exploring factors such as remuneration, board structure, corruption, climate change, human rights and supply chain issues.
- 1.4. Diversified Growth: our multi-asset funds are built around a clear philosophy of diversification and utilising the team's expertise in managing the market risks of traditional and alternative assets. All of the multi-asset solutions that we provide integrate ESG based on underlying funds' and managers' ESG policies, across in-house Aberdeen funds as well as external managers, from private equity to hedge funds and infrastructure. Due diligence of each of the underlying managers extends to their ESG considerations, to understand how managers integrate ESG considerations in to their investment analysis and decision-making. Integrating ESG factors into this process and decision-making can provide additional insight into the quality of a company's management, its culture and risk profile.
- 1.5. Aberdeen has been a signatory of both the Financial Reporting Council's UK Stewardship Code, where we are categorized in the top tier, since it was first published in July 2010, and the United Nations Principles for Responsible Investment (UNPRI) since 2007. As part of this network of international investors,

we submit an annual assessment report to the UNPRI and, for the last two years, have significantly outperformed the median, as shown below

UNPRI Module	2016 Aberdeen UNPRI Score	2016 UNPRI Median
Strategy & Governance	A	B
Listed Equity – Incorporation	A	A
Listed Equity – Active Ownership	A	B
Fixed Income – Corporate Non-financial	B	C
Fixed Income – SSA	B	C
Fixed Income – Corporate Financial	B	C
Fixed Income – Securitised	E	E

2.0 BlackRock (multi asset and diversified growth)

- 2.1 BlackRock has one of the largest engagement teams in the industry and we take our fiduciary responsibility seriously. We believe we are effective in encouraging companies to act in the long term best interests of investors. Our policy is to engage with management and help them, which we find to be more effective in the long term. As a fiduciary investor, BlackRock evaluates how companies manage the material ESG risks to their businesses, and may engage when there is an indication of a lack of operational excellence in this regard. We hold company leadership accountable for performance against the strategy it sets out to achieve. ESG considerations are integral to our investment stewardship activities of voting and engagement. We do not see it as our role to make social, ethical or political judgments on behalf of clients. Where no client-specific policy restrictions are mandated, BlackRock has its own principles which govern the manner in which responsible investment and ESG issues should be addressed. As a large investor, we are able—and feel a responsibility—to monitor the companies in which we invest and to engage with them constructively and privately where we believe that would help protect clients’ interests.
- 2.2 UK Equities: we partner with our Investment Stewardship Team and actively engage with companies in two respects, firstly we engage company management with a primary focus on long-term shareholder value; and secondly from a broader Investment Stewardship perspective. We do not see these as mutually exclusive: typically, we find that the companies where we have high investment conviction tend to be well managed companies that score well on environmental, social responsibility and corporate governance. We constantly look to improve and evolve our processes in order to help us improve performance for our clients.
- 2.3 Overseas Equities: The passive equity funds that the London Borough of Hounslow are invested in have no specific ESG constraints. The voting and engagement for the companies held by these funds is performed by our centralised Stewardship team as mentioned above.
- 2.4 Fixed income: the funds that the London Borough of Hounslow is invested in have no specific ESG constraints. That means that we can and do invest in tobacco, defence and drinks companies for examples. Fixed income investors and credit analysts do, however, consider ESG factors as they relate an issuer’s creditworthiness. We consider any factor that in our judgement will affect the

creditworthiness of companies, and therefore their ability to service their financial obligations to bondholders. These may include board leadership, management quality and risks that come from climate change, social trends, consumer behaviour or government intervention. On the systems side, we have integrated key ESG metrics into our investment and risk management platform, Aladdin, including portfolio-level ESG scores.

2.5 **Diversified Growth:** Aquila Life Market Advantage (ALMA). Our investment approach in ALMA emphasises broad diversification across factor and asset class dimensions to deliver a balanced exposure to global markets at low cost and with a very high liquidity profile. Security selection is not part of our remit; rather, we look for the most efficient vehicles (passive funds, index futures, index total return swaps) whose performance is linked to widely tracked and traded indices. The most liquid and least costly to trade indices are typically market cap-weighted benchmark indices, the vast majority of which do not embed ESG considerations in their index construction rules. As more investment options linked to ESG indices become available and have a compelling investment case as well as liquidity, we will certainly consider them as alternatives to our current asset class expressions.

2.6 BlackRock has been a signatory of both the Financial Reporting Council’s UK Stewardship Code, where we are categorized in the top tier, since it was first published in July 2010, and the United Nations Principles for Responsible Investment (UNPRI) since 2008. As part of this network of international investors, we submit an annual assessment report to the UNPRI and, for the last two years, have significantly outperformed the median, as shown below:

UNPRI Module	2016 BlackRock UNPRI Score	2016 UNPRI Median
Strategy & Governance	A	B
Listed Equity – Incorporation	A+	A
Listed Equity – Active Ownership	A	B
Fixed Income – Corporate Non-financial	B	C
Fixed Income – SSA	A	C
Fixed Income – Corporate Financial	B	C
Fixed Income – Securitised	E	E

3.0 Fidelity (multi asset income)

3.0 Fidelity has been a signatory of both the Financial Reporting Council’s UK Stewardship Code, where we are categorized in the top tier, since it was first published in July 2010, and the United Nations Principles for Responsible Investment (UNPRI) since 2012. As part of this network of international investors, we submit an annual assessment report to the UNPRI and, for the last two years, have significantly outperformed the median, as shown below:

UNPRI Module	2016 Fidelity UNPRI Score	2016 UNPRI Median
Strategy & Governance	A	B
Listed Equity – Incorporation	A	A
Listed Equity – Active Ownership	A	B
Fixed Income – Corporate Non-financial	A+	C
Fixed Income – SSA	A+	C
Fixed Income – Corporate Financial	A+	C
Fixed Income – Securitised	A+	E

- 3.1 The Fidelity Multi Asset Income (MAI) Fund invests in Fidelity and third party funds, as well as passive strategies such as tracker funds and ETFs. When making investment decisions, be it selecting strategies or companies (in the instance of the underlying Fidelity funds), we believe that investing responsibly generally makes good business sense and has the potential to enhance and protect economic value for shareholders. As such, environmental, social and governance (ESG) considerations are fully integrated into our research, and ownership practices. This includes assigning an ESG rating to each company and strategy analysed, and in 2016 voting at 97% of the 3,708 company meetings we analysed. Specifically relating to our third-party investments, we confirm / monitor whether these providers are signatories of the UNPRI and whether they have a responsible investment policy.
- 3.2 Our investment approach takes ESG into account when, in our view, these have a material impact to either investment risk or return. To facilitate this, an in-house dedicated ESG team look at and provide analysis of the ESG ratings of our third-party providers, and assist analysts and portfolio managers in investigating and addressing potential issues, e.g.:
- Support analysts to engage with investee companies and strategies on specific issues (e.g. remuneration, corruption);
 - Provide quarterly internal ESG reports highlighting best in class companies and strategies, and potential warning areas;
 - Highlight recent topics of active engagement including climate change, nutrition, bribery & corruption and cyber security.

4.0 **Columbia Threadneedle (property)**

- 4.0 ESG factors influence decision making on the Fund when a property is purchased, in our evaluation of the assets risk factors, during the holding period, and as we look to create value on the asset.
- 4.1 Before undertaking a purchase, the Property team pays close attention to all factors affecting the value of the investment opportunity including those relating to ESG. Planned preventive maintenance and refurbishment cost forecasts specifically consider ESG factors, including measures to increase the property's EPC Rating and to future proof it as part of any required refurbishment programme.
- 4.2 Furthermore, we undertake Phase I environmental assessments on all new property acquisitions, and more detailed Phase II and flood risk assessments, when appropriate. We assess and incorporate any cost implications identified by each property's Energy Performance Certificate (EPC) into our financial models.

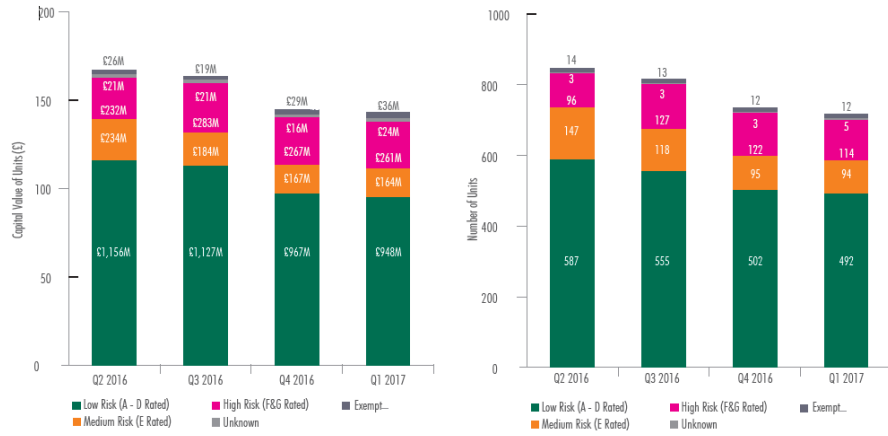
- 4.3 Our Property Governance and Insurance team undertakes a risk management assessment including providing an independent perspective across a range of issues including, but not limited to, deleterious materials, environmental factors, health and safety etc.
- 4.4 We also undertake a number of checks on our tenants including those relating to 'politically exposed persons' (PEP) and sanctions. While we do not explicitly restrict the type of tenant we have, the way tenants use the properties is an important consideration for our Property team, given the impact this can have on the holding and its investment value.
- 4.5 ESG issues also play a central role in our asset management decisions. Not only do we comply with all statutory requirements, specific ESG relevant policies are being reviewed for inclusion in all future refurbishment projects. We adopt cost effective yet relevant solutions that, through our rolling refurbishment plan, are improving the EPC rating across the whole portfolio. The Fund works closely with local communities to listen to any concerns they may have in relation to any planning issues and, where possible, these will be incorporated.
- 4.6 Our oversight team sets specific objectives on the property management teams we work with (Workman & Partners, Phoenix Beard and Colliers International). Not only must they comply with statutory requirements for EPC, CRC and Heat Network regulations, they also adhere to our ESG targets which apply to all assets and include:
 - 4.6.1 10% carbon saving
 - 4.6.2 Green energy procurement
 - 4.6.3 Smart/AMR metre installation
 - 4.6.4 Reduced boiler/AC operation times
 - 4.6.5 Voltage and boiler optimisation
 - 4.6.6 Power down
 - 4.6.7 Save water
 - 4.6.8 0% waste to landfill
 - 4.6.9 Green initiatives
- 4.7 Outsourced providers' progress and success against these targets are reviewed semi-annually.
- 4.8 Finally, we adhere to the Carbon Reduction Commitment (CRC), the Energy Saving Opportunity Scheme (ESOS), and heat network regulations. Columbia Threadneedle contributes to the Global Real Estate Sustainability Benchmark (GRESB).
- 4.9 Columbia Threadneedle is a founder signatory of both the Financial Reporting Council's UK Stewardship Code (first published in July 2010 - we are presently categorized in the top tier) and the United Nations Principles for Responsible Investment (the "UN PRI", the principles themselves having launched in April 2006). As part of this network of international investors, we submit an annual assessment report to the UNPRI and, for the last two years, have significantly outperformed the median, as shown below:

UNPRI Module	2016 Col. T/n UNPRI Score	2016 UNPRI Median
Strategy & Governance	A+	B
Listed Equity – Incorporation	A	A
Listed Equity – Active Ownership	A	B
Fixed Income – Corporate Non-financial	A	C
Fixed Income – SSA	A	C
Fixed Income – Corporate Financial	A	C
Property	A	C

5.0 CBRE (property)

- 5.0 Comprehensive governance and guidelines on ESG matters are provided by the firm as part of its Investment Management Policies and Procedures and Code of Ethics. The CBRE UK Property PAIF complies with these: improving sustainability and the environmental ‘footprint’ is a key element of the investment process and external Energy and Sustainability consultants are retained on an ongoing basis to help manage our ESG risk: recommendations are given as to where improvements can be made to the property to lessen its environmental impact. The team considers these reports when defining the strategy and capital expenditure programme for the portfolio and, based on the results, “green” initiatives are formulated and incorporated into the portfolio’s operations. Typical focus areas for improvements include energy, water and waste management savings, amenities, common area refurbishments, landscaping improvements and achieving BREEAM or other building certifications.
- 5.1 The property managers at the portfolio assets integrate ESG into their daily management and liaise directly with our E&S consultants to ensure we are monitoring and improving assets whenever possible. Examples include: interacting with the E&S team during refurbishments to obtain consultation on possible energy efficiency improvements, acting as gateways to tenants when the E&S team identify energy efficiency projects at tenanted sites and providing energy supply data for compliance & voluntary GHG reporting. All assets in the portfolio have specific ESG targets including EPC and carbon emissions which are carefully monitored.
- 5.2 The fund has participated in the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis since 2015. We continue to improve our score and aim to achieve a ‘Green Star’ rating in the 2017 reporting period. We also measure our ESG performance through our Annual Responsible Investment Report where we measure the sustainability and ethical impact of the fund. Areas covered include: energy, water & waste consumption, flood risk, tenant engagement programmes and green leases.
- 5.3 The chart overleaf shows graphs from the ESG Risk Mitigation Programme report conducted by our ESG consultants (CBRE). This demonstrates how we have been reducing the ESG risk over time and the breakdown of risk types within the portfolio composition.

Figure 1: Change in level of risk across all units (left) and value (right) within the fund.



5.4 CBRE Global Investors has been a signatory to the Principles for Responsible Investment (PRI), formerly UNPRI, since 2009. As part of this network of international investors, we submit an annual assessment report. We have worked hard on this year's submission (2017 which covers activity in 2016) to increase our score as we now understand the scoring system better.

UNPRI Module	2016 CBRE UNPRI Score	2016 UNPRI Median
Strategy & Governance	C	C