Aberdeen Standard Investments

UK Equity Impact Employment Opportunities Fund

Annual Impact Report 2019

July 2019

Aberdeen Standard Investments supports the UN Sustainable Development Goals

Big Issue Invest

The collaboration with Aberdeen Standard Investments (ASI) has helped Big Issue Invest (BII) advance its mission to dismantle poverty and create opportunity for people and communities across the UK. The Standard Life Investments UK Equity Impact – Employment Opportunities Fund was designed specifically to achieve these goals.

A percentage of the Fund's annual management charge goes to BII, enabling the organisation to continue financing social enterprises that are delivering business solutions to social problems. The success of the Fund has a direct effect on BII's ability to scale its work across other arms of The Big Issue Group and also to expand its own social investment programmes, particularly to help most deprived communities.

Big Issue Invest manages or advises upon **£213 million of social funds**

BII has directly invested in over **350 social enterprises** since its launch

The Big Issue Group has supported over **100,000 people to earn a living** by selling **The Big Issue magazine**

The Big Issue Group launched a **£10 million facility** to finance the provision of **affordable housing in London**

Within the last 12 months alone The Big Issue Invest investees have provided **over £18 million in ethical lending - 42,705 loans** to first-time and repeat customers

The Big Issue Group has had an enormous impact in the **homelessness and housing sectors**

In addition to the direct financial contribution the Fund has made towards BII's social investment agenda, through partnership, ASI has also played a vital role in the creation and delivery of Scotland's Power Up programme. This is a lending scheme that offers investment and expert advice to early stage social ventures across Scotland. ASI's mentoring has proved invaluable to the growth and ultimate success of these fledgling social businesses.[1]

[1] To find out more about Power Up and the companies supported by the scheme, please visit https://bigissueinvest.com/powerup/

"The Big Issue provides the means and opportunity for homeless and vulnerably housed people to earn a living through working. This Fund extends this core belief by creating job opportunities and ensuring good employment practices, both of which are vital poverty prevention tools. It also enables BII to expand its work by directly investing in more social enterprises that seek to dismantle poverty. We feel a huge sense of pride in what this partnership has already achieved – and there's more to come"

Nigel Kershaw
Chair, The Big Issue Group

Welcome to the 2019 impact report for our UK Equity Impact Employment Opportunities Fund

This is the first annual impact report for the UK Equity Impact Fund – Employment Opportunities Fund, launched in February 2018. The Fund positions itself as an innovative and compelling solution for those investors who wish to invest in UK equities in pursuit of both societal and financial benefits.

Conceived in collaboration with Big Issue Invest (BII), the social investment arm of the Big Issue Group, the impact objective of the Fund is to support 'decent job' creation in the UK. Employment opportunities are one of the most significant benefits business brings to society. Human capital management has moved to centre stage in corporate strategy. This is because investment in skills and attracting talent has become a basis for competitiveness, productivity and growth. Furthermore, the significance of creating decent jobs is reflected in the UN's Sustainable Development Goals; primarily in Goal 8, as well as also contributing towards Goal 4, 5 & 10.

Lesley Duncan
Deputy Head of UK Equities

Rebecca Maclean
Investment Director

"The creation of decent employment opportunities and productive jobs can help alleviate poverty and benefit society as a whole. We are delighted to report that the Fund holds twice the reference benchmark's level of exposure to companies that create employment opportunities in areas with high employment deprivation. This outcome underlines our commitment to furthering the Fund's financial and impact investment objectives."

In practice, we support 'decent job' creation in the UK through positive selection of companies that are impactful in generating quality employment opportunities across the country. We also conduct targeted engagements with investee companies to drive improvements on workforce practices. In addition, by sharing the management fee with BII, the Fund provides financial contributions to BII's investments in a variety of social enterprises and initiatives.

We define 'decent jobs' as stable employment with wages that enable people to live at a socially acceptable standard, as well as providing opportunities for learning and progression, particularly in employment deprived areas of the UK. To ensure the Fund's credibility in generating the designated impact, Aberdeen Standard Investments collaborated with The Good Economy to develop a four-pillar impact assessment framework. The Good Economy is a leading social advisory firm and specialist in impact measurement and management.

This framework assesses companies for inclusion in the Fund against four pillars: Job Creation, Wages, Workforce Development and Geographical Deprivation.

Besides the impact assessment, we also have in place an engagement strategy to drive improved performance from companies that we identify as lagging behind and/or exposed to labour issues (e.g., modern slavery, precarious work and automation-induced job loss) that pose legal, financial and reputational risks.

The Fund's Impact Policy and detailed Impact Assessment Methodology can be obtained directly from Aberdeen Standard Investments. This report provides a summary of the Fund's impact performance over the last year in achieving the ambition as set out at its inception.

"We define 'decent jobs' as stable employment with wages that enable people to live at a socially acceptable standard, as well as providing opportunities for learning and progression."

Results highlights

Nearly 70% of the Fund's companies (versus 59% of the FTSE 350) are concentrated in sectors with favourable decent job creation profiles.[2]

34% of the Fund's companies create employment opportunities in labour markets characterised by above-average employment deprivation, compared with 17% of FTSE 350 companies.

70% of the Fund's companies exhibited positive UK job creation over the last year (in total 1,637 jobs), with a median growth rate of 5.1% (versus 3.1% of FTSE 350 companies)[3]

56% of the Fund's companies provide their employees with good training & development, (versus 15% for the FTSE 350).

80% of the Fund's companies pay above the national average wage for their sectors (versus 84% of the FTSE 350)[4]

High-level impacts

This section presents a high-level view of the Fund's performance in promoting 'decent jobs'. While the Fund is not benchmarked against the FTSE 350 Index, we use the FTSE 350 to provide a useful context of the Fund's achievements towards its societal aims over the past year.

"It is important to note that while the Fund's performance results are not weighted by the percentage of its holdings, it is the intention of the Fund to allocate capital to companies deemed to have good employment practices."

[2]At the time of writing, there is insufficient data available to use a wider benchmark such as the FTSE All-Share.
[3]The 1-year UK Employment Growth figures are based on 52 companies (93% of the Fund) where UK workforce data is available.
[4]We recognised that the Fund's companies performed less well on wages. This is mainly due to the Fund's significant holdings in sectors such as retail, which struggled to become Voluntary Living Wage Employers. However, this does not mean that this cannot be improved upon. In fact, it is the Fund's more ambitious aim to drive better labour practices through positive selections of companies, as well as engaging with companies on employment-related issues.

Shareholder engagement

Shareholder engagement is a key strategy of the Fund for impact generation. In practice, this has been implemented through our annual questionnaire and targeted company engagements.

Annual questionnaire

The lack of public disclosure on workforce data by companies presents a challenge to an Impact Fund like ours that seeks specifically to promote 'decent jobs'. To address this, and to ensure the credibility of our job impact assessments on investee companies, we have designed a questionnaire to directly collect key data points from companies. These include percentage of staff in the UK, wages, training expenditure and workforce diversity.

Last year, **90%** of companies in the Fund responded to the survey. The data was then used to update companies' job impact ratings, as well as to inform engagement decisions.

Company engagements

Additionally, we have in place an Engagement Framework. This helps us identify firms that are performing less well on employment practices, and those with high exposure to labour-related thematic issues and wider ESG risks. We then engage in continuous and constructive dialogues with these companies to push for better labour practices. The table below summarises the engagements conducted over the past year.

Company	Topics Discussed	Outcome/Action
Ashmore	Human capital management, employee incentives	Green
Blue Prism	Governance, cyber security risks, impact of automation on job creation	Green
Boohoo	Environmental impact, supply chain transparency	Green
Dixons Carphone	Board and executive team restructuring, cyber security, new corporate sustainability programme	Green
EI Group	Health & Safety, employee engagement	Amber
Greene King	Employee engagement, workforce development, governance	Amber
Greggs	Healthy product range, responsible sourcing, human capital management	Green
JD Sports	Environmental impact, labour management, supply chain risks	Green
Mitie	Human capital management, employee engagement	Green
Severn Trent	Workforce development, apprenticeship and graduate schemes, succession planning	Green
Superdry	Supply chain risks, organic cotton sourcing, governance	Amber

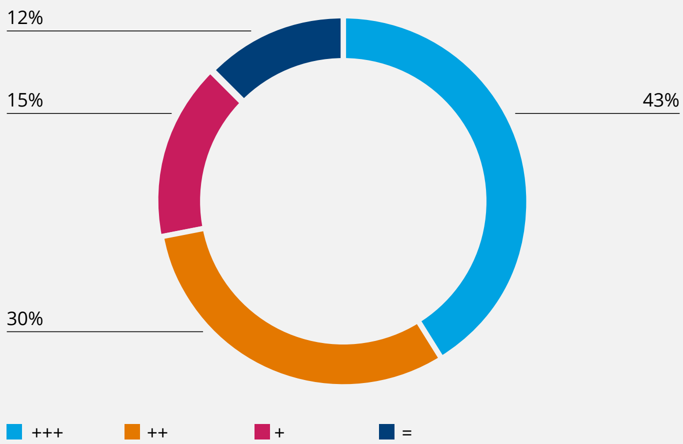
*Green: ASI is incrementally more positive on the company's employment practises/disclosure. Amber: reflects engagements that raised concerns that we monitor on a regular basis

Detailed Fund Analysis

This section provides a more detailed analysis of the composition and impact performance of the Fund on the four 'decent job' pillars over the last year.

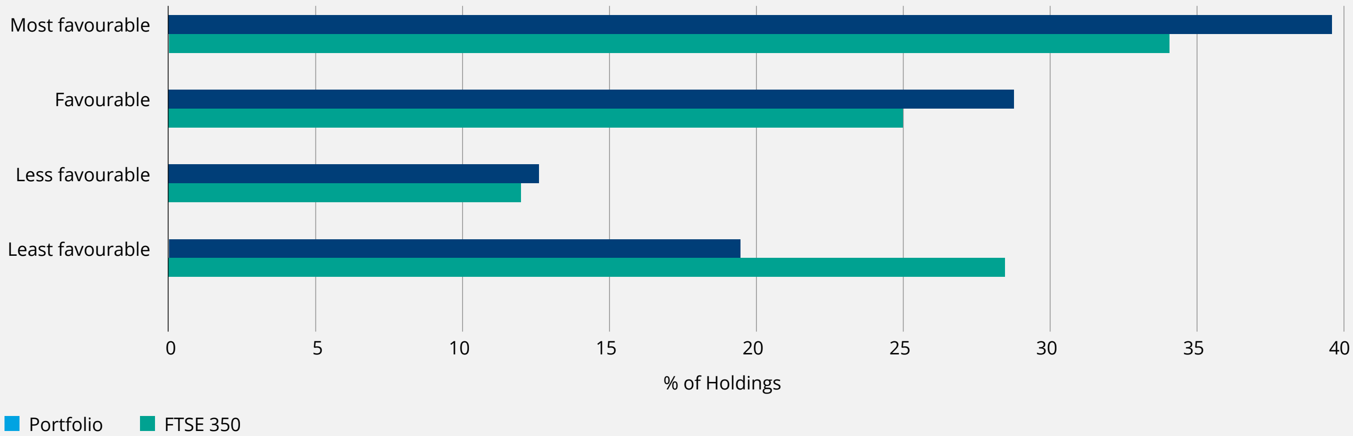
- **As at 28 February 2019, the investment portfolio comprised 56 equity holdings. (The top 10 holdings are shown in Figure 3.)**
- **73% of the portfolio holdings are in the FTSE 350. Small-cap and AIM-listed companies account for a further 12% and 15% respectively.**
- **68% of the holdings are concentrated in most favourable or favourable sectors[5], compared with 59% of FTSE 350 companies in general (as shown in Figure 2).**
- **As shown in Figure 1, 73% of the Fund is invested in +++ or ++ rated companies.**

Figure 1: Impact Split of the Portfolio Companies



Source: Aberdeen Standard Investments, May 2019.

Figure 2: Portfolio composition by Decent Jobs Sector, compared to FTSE 350



Source: The Good Economy, May 2019
Note: The FTSE 350 companies exclude those in the Portfolio and Equity Investment Instruments and REITs

[5]Examples of 'most favourable sector' include construction, utilities, transportation and tech manufacturing.

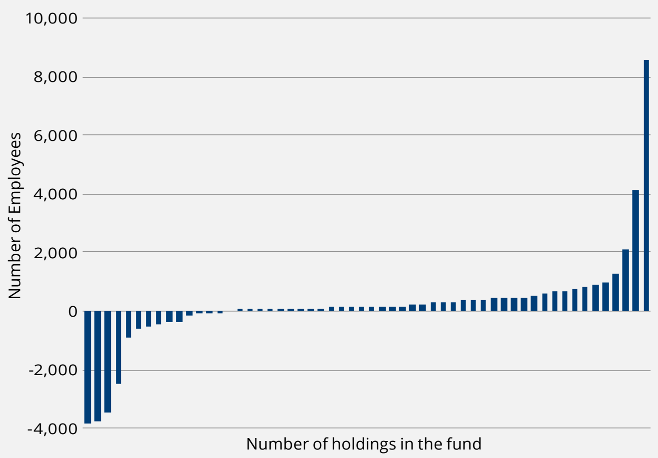
Top ten positions

Holding	% of portfolio	Impact rating	Impact case
Countryside Properties Plc	3.22	+++	Countryside Properties is in a most favourable sector, and it scores well on workforce development and deprivation.
Close Brothers Group Plc	3.13	++	Close Brothers is in a least favourable sector, and it scores highly on wages and workforce development, but poorly on deprivation.
Grafton Group Plc	2.95	++	Grafton is an accredited Living Wage Employer.
Polypipe Group Plc	2.94	+++	Polypipe has a good apprentice programme in collaboration with the University of Sheffield. It scores highly on deprivation, but also scores well on job creation and workforce development.
Redrow Plc	2.81	+++	Redrow is in a most favourable sector, where it scores well on deprivation and workforce development.
Kainos Group Plc	2.79	++	Kainos is in a less favourable sector. However, it scores well on job creation and has a good training and development programme that focuses on young people.
FDM Group (Holdings) Plc	2.78	+++	FDM scores extremely well on workforce development with a business model focused on training graduates, ex-army personnel and people returning to work after a career break.
Clinigen Group Plc	2.68	+++	Clinigen is in a most favourable sector, and it scores highly on deprivation.
RPC Group Plc	2.62	+++	RPC is in a most favourable sector, and it scores well on employment and deprivation.
Grainger Plc	2.60	+	Grainger is in a less favourable sector. However, it scores highly on wages and workforce development.

These securities have been used for illustrative purposes only to demonstrate the investment management style and not as an indication of performance or investment recommendation.

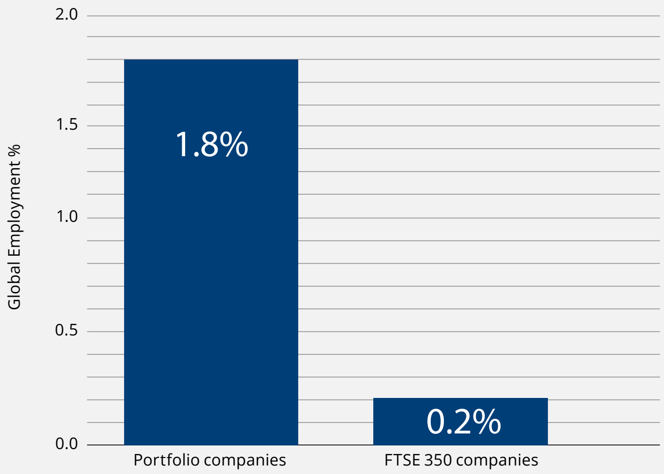
Job Creation

One-year UK employment growth by portfolio company



Source: ASI internal research, The Good Economy, May 2019 (Bloomberg)

One-year global employment growth rates for the portfolio versus FTSE 350 companies



Source: The Good Economy, ASI, May 2019 (Bloomberg)

The Fund's companies have created 1,637 jobs in the UK and 10,765 jobs globally over the last one-year period of reporting.

Overall one-year global employment growth for the Fund portfolio was 1.8%. The Fund's companies have outperformed FTSE 350 employment growth of 0.2%.

70% of the Fund's companies exhibited positive UK job creation over the last year, with a median growth rate of 5.1% (versus 3.4% of FTSE 350 companies). [6]

JD Sports had the biggest employment gain at 8,500 jobs (36% growth), while Mitie Group had the biggest loss with over 3,800 jobs lost (-7.2%).

[6]The 1-year UK Employment Growth figures are based on 52 companies (93% of the Fund) where the UK workforce data is available.

Case Study

Job Opportunities for Young Talents Kainos Group

Kainos Group, headquartered in Belfast, Northern Ireland, is a provider of digital services and platforms. As of March 2019, the company employed 1,127 people in the UK, having achieved a 63% UK job growth since March 2017. We learned from our engagement with the company that central to its recruitment strategy is its focus on bringing in young talent.

For six years, Kainos has been running a scheme called 'Earn as you Learn'. This has enabled the company to identify talent outside its traditional graduate recruitment pools. Designed to encourage young people into the digital industry, the programme takes in school leavers who then spends four days a week undertaking paid work and one day studying towards a degree in computer science from Ulster University. Since its inception, 62 people have been through the scheme. The vast majority of them have stayed on with Kainos and been integrated successfully into the company's operating divisions. On average, the company recruits about 100 people from schools and colleges every year.

The CEO of Kainos, Brenden Mooney, revealed that seven of the 11 executive team, including himself, joined the company from college. Cultivating young talent has always been part of Kainos's culture and long-term business strategy.

Wages

80% of the portfolio companies pay above the national average wage for their sector.

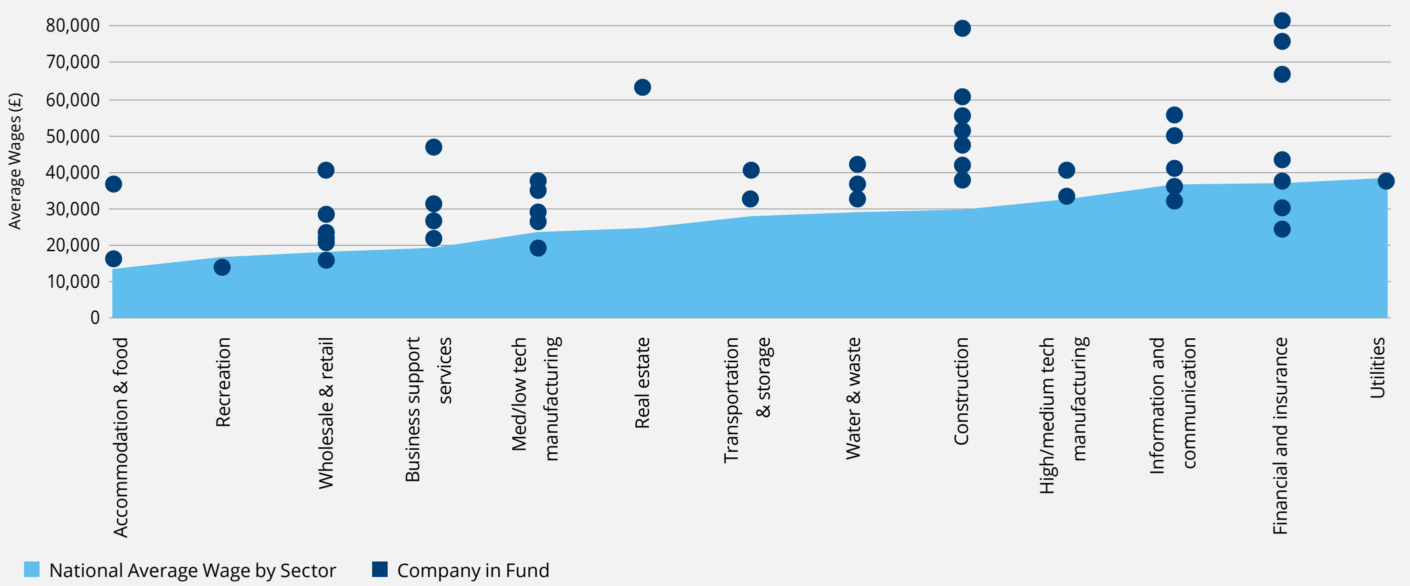
The average wage for employees in the Fund's companies is almost £31,000 per annum. This is 4% above the national average wage of £29,832.

11% of the Fund's companies are Voluntary Living Wage Employers, compared to 16% of FTSE 350 companies.

Out of all the sectors in the Fund, the wholesale and retail sector has the largest proportion of companies paying below average wages.

96% of holdings pay over 60%[7] of the national median wage (FTSE 350 94%)

Wage performance of portfolio companies



Source: The Good Economy, May 2019 (Bloomberg, Annual Survey of Hours and Earnings - ONS)
Note: Four companies average annual wages exceed £80,000 and are not shown. All are within the 'Finance and Insurance' and 'Information and Communication' sectors.

[7]As recommended by the Cambridge Impact Framework built by the Investment Leaders Group.
[8]Currently at £9.00 across the UK and £10.55 in London.
[9]Currently at £7.70 for under 25s and £8.21 for over 25s.
[10]https://www.marshalls.co.uk/documents/reports/marshalls-plc-annual-report-and-accounts-2018.pdf.

Case Study

The Real Living Wage Employer
Marshalls Plc

Marshalls is the UK's leading manufacturer of natural stone and concrete hard landscaping products, employing over 2,000 people in the UK. In 2015, Marshalls became a voluntary Living Wage employer.

This is accredited by the Living Wage Foundation, the organisation that sets the rates of the real Living Wage based on national consensus. As a Living Wage employer, Marshalls is committed to paying its workforce (including permanent employees, third-party contractors and suppliers) a minimum hourly wage[8] that is considerably higher than the UK's statutory National Living Wage.[9] Three years on, Marshalls has continued to be a certified voluntary Living Wage employer and remaining so is of its priorities for 2019.

In 2018, Marshalls benchmarked its average salaries against other industry peers. This showed its average pay rates for equivalent jobs were generally competitive or at the higher end of the comparable range.[10] The company believes that being a certified Living Wage employer has helped significantly with the retention and attraction of a talented workforce.

Workplace Development

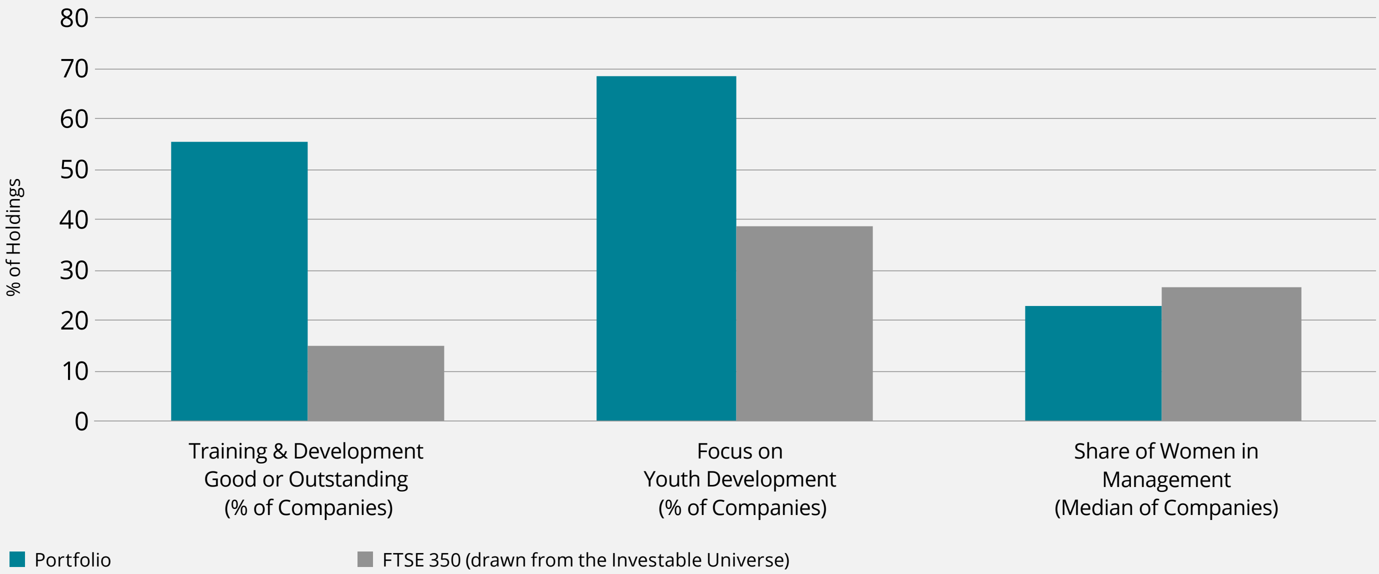
93% of portfolio companies have created employment opportunities for young people through apprenticeships and graduate schemes.

91% of companies in the Fund invest in staff training and development (by hours or spend), 56% of which display good or outstanding programs.

For 9% of companies in the Fund, group-wide career development is an integral part of their mainstream strategy. This is the case for only 1% of the FTSE 350 companies.

Opportunities for workplace progression for women is broadly similar in both the Fund and the FTSE 350. The median share of women in management across the Fund's companies is 23% compared to 27% for the FTSE 350.

Workplace Development performance of portfolio companies



Source: The Good Economy, May 2019 (Aberdeen Standard Investments)
Note: The FTSE 350 companies are those in the investable Universe, excluding those in the Portfolio

Case Study

Investing in People
Severn Trent Water

We have conducted internal research and actively engaged with Severn Trent. We have been impressed with the significant investment it has made in its workforce.

During a meeting, Liv Garfield, CEO of the company, talked about how the company was going through a process of “overqualifying staff”. Acknowledging the reality that many employees do not envisage a long-term career with Severn Trent, the company seeks to provide its staff with additional skills and qualifications beyond their job roles. It has committed £10 million to create a technical training academy, which goes live on 1 April 2020. This is designed to help employees adapt their skillsets so as to better protect them from future threats, such as automation.

The talent pool for engineers is dwindling. Rather than poach them from competitors, Severn Trent has decided to invest more in its graduate and apprenticeship schemes. Moreover, it ensures that at least 50% of the schemes’ candidates are sourced from social mobility cold spots.

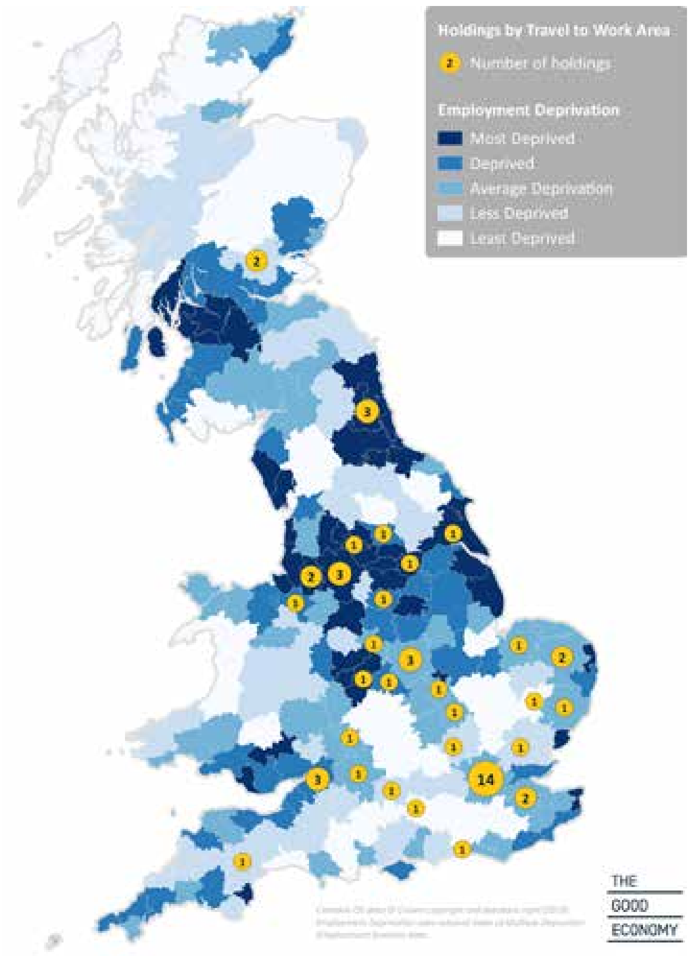
Geographic Deprivation

21% of the Fund's companies have head offices in the most employment-deprived local labour markets, compared with 13% of FTSE 350 companies.

29% of the Fund's companies have head offices in the UK's disadvantaged regional economies[12] – the FTSE 350 figure is 13%.

[12]These regional economies are the East and West Midlands, Yorkshire and the Humber, the North East, Northern Ireland and Wales where economic productivity is less than 85% of the UK national average (measured by Gross Value Added per head).

The Local Distribution of Portfolio Companies – by Employment Deprivation



Source: The Good Economy, as at May 2019.

Geography	Disadvantage	Portfolio (% of companies)	FTSE 350 (% of companies)
Local	Most Employment-Deprived Areas	21.4	12.5
	Above-average Deprived Areas	34.0	17
Regional	Regional Economies <85% of UK average (GVA per head)	28.6	12.5

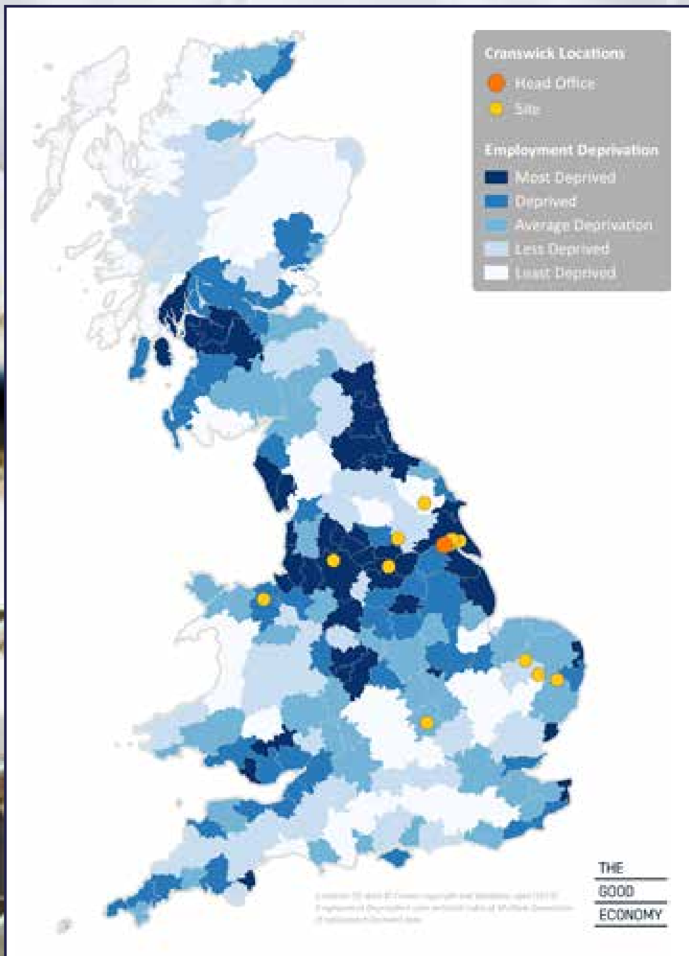
Case Study

Geographical Deprivation Cranswick Plc

Starting off as an animal feed producer in the 1970s , Cranswick has evolved into one of the UK's largest food producers.

It supplies to the country's grocery retailers under own-brand labels such as 'Taste the Difference' for Sainsbury's and 'Finest' for Tesco. The company is headquartered in Hessle and is the largest employer in Hull. Hull is one of the 20% most employment-deprived labour market areas in the UK, and a high proportion of the working age population is excluded from the local labour market. Of Cranswick's 15 production sites, 10 are located either in the 20% most deprived or 20% deprived areas of the UK, including Hull, Malton, Sherburn, Barnsley and Denbigh.

As at the end of 2018 financial year, Cranswick employed 10,323 people, having created additional 4,709 jobs (an 83% increase) from the previous year. Most of these jobs are located in the deprived areas of the UK. The company has recently moved two of its production and warehousing sites in Old Trafford, Manchester, to a new site in Bury. The capital investment in the new site is almost double the size of the previous two combined. The company also states that it has "plans for growth at the site and will continue to support the growth and development of the economy within and around Manchester."



About us

Aberdeen Standard Investments is a leading global asset manager dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons. The investment needs of our clients are at the heart of what we do. We offer a comprehensive range of investment solutions, as well as the very highest level of service and support.

At Aberdeen Standard Investments, we take our stewardship and environmental, social and governance (ESG) roles seriously. As we are active long-term responsible investors, stewardship and ESG are fundamental components of our company-wide investment philosophy and process.

Stewardship is about understanding everything there is to know about an asset, especially its risks and opportunities.

We do this before making any investment, ensuring we build only the highest-quality portfolios for our clients.

In addition to the review and integration of material ESG factors, we also offer clients bespoke solutions to meet their environmental and social needs, including impact investment strategies such as the Global Equity Impact Fund. This process is led by our Stewardship and ESG specialists for a fully integrated approach.

Standard Life Investments UK Equity Impact – Employment Opportunities Fund Advisory Group

Voting Members:

Claire Marshall
Global Head of Fund Governance, Chair of the Advisory Group

Nigel Kershaw
Chair of Big Issue Group

Amanda Young
Head of Global ESG Investment Research

Danyal Sattar
Chief Executive of Big Issue Invest

Additional to the internal investment team, we have set up a UK Impact Advisory Group to provide an external perspective on the Impact Investing market place. Members of the Advisory Group, along with other staff from both the Big Issue Invest and Aberdeen Standard Investments, meet on a regular basis. Its aim is to bring together informed opinion from prospects / investors, external experts and people from Aberdeen Standard Investments who manage, oversee and distribute our UK Equity Impact – Employment Opportunities Fund. While the advice of the UK Impact Advisory Group is not binding on Aberdeen Standard Investments, it does serve to provide an overall context for the day-to-day management of the Fund and influence its future development.

Other members of the Advisory Group:

Margaret Coughtrie
Investment Director Fund Governance, Secretary of the Advisory Group

Ziggy You
ESG Investment Analyst

"As we are active long-term responsible investors, stewardship and ESG are fundamental components of our company-wide investment philosophy and process."

Important Information

- The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.
- The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund's investments are concentrated in the UK. This may result in greater volatility than portfolios which are more geographically diversified.
- Interpretation of "Impact Investing" will vary according to beliefs and values. Consequently the fund may invest in companies which do not align with the personal views of any individual investor.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund does not make extensive use of derivatives.
- More details of the risks applicable to this fund can be found in the Key Investor Information Document (KIID) and Prospectus, both of which are available on request or at our website www.aberdeenstandard.com

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

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