

Principal adverse sustainability impacts statement

Schroder Investment Management (Europe) S.A, LEI 8AFAYMK9012QVGLMLS34 considers the principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated principal adverse sustainability impacts statement of Schroder Investment Management (Europe) S.A and its branch Schroder Investment Management (Europe) S.A, German Branch.

Definitions

Integration of Sustainability Risk Consideration: means consideration that explicitly and systematically includes analysis of a range of Sustainability Risks. In principle, this leads to a broader assessment of the environment in which investee companies operate and their performance in managing different stakeholders' interests, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone.

Sustainable Finance Disclosures Regulation (SFDR): See paragraph after Figure 1 below.

Sustainable Investment: as defined under SFDR, means (a) an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and on greenhouse gas emissions; or on its impact on biodiversity and the circular economy, or (b) an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or in economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. The terms used in this definition in turn depend for their meaning on their use in the SFDR.

Sustainability Risk: means an environmental, social or governance event or condition that, if it occurred, could cause an actual or a potential material negative impact on the value of investments. The terms used in this definition in turn depend for their meaning on their use in the SFDR.

Sustainable factors: mean environmental, social, employee matters, respect for human rights, anti-corruption and anti bribery matters. The terms used in this definition in turn depend for their meaning on their use in the SFDR.

Description of principal adverse sustainability impacts

As a global asset manager, the Schroders group plays an important role in understanding the relationship between the social and environmental challenges the world faces and the potential impact that these will have on the investments companies in the group make on behalf of their clients. Through the integration of Sustainability Risk Considerations, we apply an investment framework through which the risks and opportunities related to sustainability factors are considered by our investment teams as part of their investment process.

The integration of Sustainability Risk Considerations in our investment process is intended to provide a broad assessment of the market in which issuers operate, and their performance in managing different stakeholders' interests, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone. We recognise that companies do not operate in a vacuum: their long term competitiveness, profitability

and value are closely tied to their abilities to adapt to, and take advantage of, structural social and environmental trends. Understanding and incorporating trends such as globalisation, changing political landscapes, ecosystem disruptions, urbanisation, resource depletion, demographics, climate change, shifting employee attitudes or evolving consumer tastes are important factors in assessing issuers' potential long-term success.

We recognise that business activities, including those of the companies in which we invest, may result in impacts on the planet or on people. These impacts can be deemed positive or negative. By way of example, the impact of carbon intensive companies and of those that draw excessively on water resources is generally negative for people and the planet. As an asset manager we believe that understanding and communicating the impact of our investments is therefore critical.

We use a range of proprietary tools to support the consideration of Sustainability Risks along with supplementary metrics from external data providers and our own due diligence. This analysis forms a view of the potential impact of Sustainability Risk Considerations on an overall investment portfolio and, alongside other risk considerations, the likely financial returns of the portfolio.

CONTEXT and **SustainEx™¹** are among the main tools currently available for our investment teams that help them consider the potential sustainability impact of our investments and the Sustainability Risks. Through these tools we focus on the material issues.

CONTEXT looks at wide ranging data to assess a company's relationship with its stakeholders such as customers, suppliers, regulators and employees, as well as its impact on the environment and social communities. This tool is interactive and customisable, enabling our investment analysts to select and weigh the material sustainability trends for each sector and select the most relevant metrics for assessment. The tool gives our analysts the flexibility to make company-specific adjustments to reflect their specialist knowledge.

SustainEx™ is Schroders' proprietary measure of the social and environmental impact that a company may create. Incorporating independent data and research, the model combines measures of both the harm companies can do (for example, through activities like carbon emissions) and the good they can bring (for example, through paying a "living wage") to produce an aggregate measure of each company's social and environmental impact. The model enables our investment team's to integrate Sustainability Risk Considerations effectively by assessing the extent to which companies are in overall credit or deficit having regard to such measures, and the risks they face if the social and environmental "costs" they externalise are pushed into their own financial costs.

The output of our tools can not only help to inform investment teams of how sustainability factors may impact our investments, but also to identify material topics we wish to engage on. Effective and responsible active ownership has long been part of Schroders' approach to sustainability. It is essential to question and challenge companies about issues that we perceive may affect their value. Engagement and voting are also integral to our investment process. The overriding principles in exercising these are to protect and enhance value for clients and to work in their best interests. In the section below, on engagement, we provide further details of our approach to engagement.

The output from our proprietary sustainability tools is available to our clients, but we recognise that this proprietary lens does not allow our clients to directly compare the impact of their investments held with Schroders to those invested with other managers. In order to support our clients with this, we have identified nine metrics, based on publicly available data, which enable us to report key sustainability metrics across portfolios and may be used to compare with other managers.

¹Schroders uses SustainEx™ to estimate the financial or investment risk of an issuer's potential social or environmental impacts having regard to certain sustainability measures, compared to a product's benchmark where relevant. It does this using third party data as well as Schroders' own estimates and assumptions and the outcome may differ from other sustainability tools and measures. As SustainEx™ develops and issuers' impacts evolve these estimates may change.

Figure 1: Schroders reported sustainability metrics

	Measure	Units
People	Board Gender Diversity	Average % of women on Board
	CEO-Chairman Separation	% of companies with separate CEO and Chairman
	Employees Community Work Program	% of companies with employees community work programs in place
	Human Rights Policy	% of companies with human rights policy
	Independent Board Members	% of total directors who are independent
Planet	Carbon intensity	Tonnes of CO2 (scope 1&2 GHG emissions) per \$mn sales
	Policy Energy Efficiency	% of companies with a policy on energy efficiency in place
	Policy Emissions Reduction	% of companies with a policy on emission reduction in place
	Water intensity	Total water withdrawal (m3) per \$1mn of sales

Source: Schroders.

The nine metrics identified in Figure 1, were selected as they are meaningful across companies and additionally have good data coverage. In line with the regulatory timeline, we will update the metrics we report on to be consistent with the requirements under the updated draft Regulatory Technical Standards ('draft RTS')² which sets out the proposed content, methodologies and presentation of sustainability-related disclosures under the relevant Articles of Regulation (EU) 2019/2088 known as the Sustainable Finance Disclosure Regulation (SFDR). Table 1 of the draft RTS sets out the proposed final list of principal adverse impacts ('PAIs'). The list identifies the mandatory PAIs as being:

- **Investments in companies:** 14 mandatory PAIs plus a requirement to report on two further indicators: one environmental and one social/governance
- **Investments in sovereigns and supranationals:** 2 mandatory PAIs
- **Investments in real estate:** 2 mandatory PAIs

Engagement policies

We believe effective and responsible engagement are key to delivering long-term risk-adjusted returns for our clients. As such, engagement and voting are integral to our investment process. Schroders publishes our ESG Policy on our website; available [here](#). Both our engagement and voting policies are contained within this document. In particular, we describe our approach to both engagement and voting and identify the principles we follow when we vote. Our Shareholder Rights Directive II (SRD II) (Article 3g of Directive 2007/36/EC) statement is published [here](#).

Companies are at the centre of our framework and we monitor their abilities to navigate stakeholder relationships. Schroders firmly believes companies that are well-governed and operate transparently, responsibly and sustainably will support the long-term health of the company and increase stakeholder value. Our engagement activities are undertaken by our portfolio managers and the Sustainable Investment team.

The following four attributes are critical to the success of our engagement approach:

- **Knowledge:** We leverage the knowledge of our analysts and portfolio managers to really understand which sustainability issues matter to a company's long-term performance
- **Relationships:** We have built strong, long-standing relationships with the companies in which we invest, we have recorded and tracked all of our engagements since 2000
- **Impact:** The insight gained through engagement can directly influence the investment case
- **Incentive:** We have the power to reduce or even sell out of a holding if engagement is unsuccessful, or the option to avoid investing at all

²ESA, Final Report on draft Regulatory Technical Standards, published 2 February 2021
https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

Our engagement activities help to drive the sustainability agenda. Reporting on the outcome of all of our engagement activities is therefore key.

We recognise our responsibility to make considered use of voting rights. The overriding principle governing our approach to voting is to act in line with what we deem to be the interests of our clients. We aim to support company management of investee companies, but we will oppose management if we believe that it is in the best interests of our clients.

Transparency is key and we report to our clients the actions we have undertaken across both our engagement and voting activities.

Voting disclosures: On a monthly basis we disclose voting decisions at resolution level, including our rationale for any vote against management. Reports are available to download here:

<https://www.schroders.com/en/sustainability/active-ownership/voting/>

Engagement disclosures: Each quarter and annually we publicly disclose details of our engagement activities this includes a list of companies engaged, their geographic location and who at Schroders undertook the engagement. Case studies of individual engagements are also included in our quarterly reports. These are available to download here: <https://www.schroders.com/en/sustainability/active-ownership/sustainability-analysis-in-practice/>

References to international standards

Our approach is aligned to the UN Global Compact (“UNGC”) principles to which we became a signatory on 6 January 2020. We are committed to continuing to make the UNGC and its principles part of the strategy, culture and day-to-day operations of Schroders, and to engaging in collaborative projects which advance the broader development goals of the United Nations.

We comply with applicable human rights legislation in the countries in which we operate and, as a signatory to the UN Global Compact, we fully support the UN Guiding Principles on Business and Human Rights.

Respect for human rights is fundamental to contributing to society. Our Group Human Rights Statement describes the governance, policies and processes we have in place to actively manage our human rights risks as an employer, as a buyer of goods and services, and as a provider of financial services and an investor in companies. Our Slavery and Human Trafficking Statement details how we assess and manage modern slavery risks within our business operations and supply chain, including company engagement activities.

More information can be found in our [Human Rights Statement](#) and in [our latest Slavery and Human Trafficking Statement](#).

Schroders fully supports the following international conventions:

- The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions
- The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of antipersonnel landmines
- The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons
- Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons

We will not knowingly hold any security in an issuer that is involved in the production, stockpiling, transfer and use of these weapons. On occasion there may be additional securities recognised by clients or local governments; these will be added to the Schroders group exclusion list for those relevant jurisdictions or specific mandates. The list of excluded companies is available [here](#).

In addition, Schroders is a founding member of the Net Zero Asset Managers initiative where we commit to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. Schroders is one of the initial 30 global asset managers to join the initiative, further members have subsequently signed.

Important information

Nothing in this material should be construed as advice or a recommendation to buy or sell. Information herein is believed to be reliable but we do not warrant its completeness or accuracy. Any data has been sourced by us and is provided without any warranties of any kind. It should be independently verified before further publication or use. The material is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. No responsibility can be accepted for error of fact or opinion. Any references to securities, sectors, regions and/or countries are for illustrative purposes only. Schroders has expressed its own views and opinions in this document and these may change.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall. Past Performance is not a guide to future performance and may not be repeated.

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