



Why do we engage?

How will we engage?

Climate change

Natural capital and biodiversity

Human rights

Human capital management

Diversity and inclusion

Corporate governance

# Engagement Blueprint

Our vision for active ownership  
of listed assets at Schroders

January 2024




This document is intended to be for information purposes only and it is not intended as promotional material in any respect

Schroders



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# Introduction



**Kim Lewis**  
Head of Active Ownership

*We are committed to leveraging our influence as an investor with the goal of driving change that we believe should better protect and enhance the value of our clients' investments. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals.*

## Why do we engage?

**Through constructive and committed engagement with management teams at the companies and assets we invest in, active ownership is a key element of the value we can bring to our clients. Social and environmental forces are reshaping societies, economies, industries and financial markets and in doing so are increasingly influencing investment returns.<sup>1</sup>**

Approached thoughtfully and with focus, encouraging boards and management teams to adapt to these changes, and holding them accountable for doing so, can strengthen the long term competitiveness and value of their businesses. At the same time we believe it can accelerate positive change towards a fairer and more sustainable global economy. The importance of effective governance and corporate culture, good quality boards and management teams is vital to implementing successful investment strategies.

Engagement at Schroders occurs across a range of topics relevant to a company's long-term sustainability. While the Blueprint describes our approach to engagement on environmental, social and governance (ESG) topics, it complements our continued engagement on other critical factors such as good quality financial returns. We also continue to monitor the effectiveness of our engagement, and in 2023 we published research analysing the association between engaging companies and investor returns.<sup>2</sup>

Schroders has a long history of engagement and active ownership. We have engaged with companies on ESG- related items for more than 20 years. We published our first Engagement Blueprint in 2022 and this document builds on that foundation, focused on listed assets. It describes how we engage, why we engage and on which themes. The Blueprint is forward looking and guides our ambition to generate investment returns for our clients by encouraging change where we consider it is needed, and we note that the approach may differ by fund or mandate. The Blueprint is not intended to be a list of expectations for companies to meet in their entirety. We aim for our engagement and voting activities to be informed by the specific challenges and opportunities facing an investee company.

We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. We aim for the Blueprint to provide clients with a better understanding of how we plan to implement our active ownership responsibilities, and to provide clarity on our engagement priorities to investee companies. It also serves to summarise our approach to engaging on sustainability issues to policy makers, with whom we have a history of engagement.

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Schroders is a leading global investment manager headquartered in London, but operating from 38 locations across Europe, the Americas, Asia, the Middle East and Africa. As of 30 September 2023, we were responsible for managing £724.3 billion of assets for our clients who trust us to deliver returns.<sup>3</sup> We strive to provide excellent investment performance and solutions to our clients through active management. By serving clients, we serve wider society: by channelling capital into more sustainable and durable businesses we can deliver better investment returns over time and accelerate positive change in the world. As a large investment manager, we recognise that we have an important part to play in shaping the future of all our stakeholders.

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<sup>1</sup><https://www.stern.nyu.edu/experience-stern/about/departments-centers/initiatives/-centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance>

<sup>2</sup><https://mybrand.schroders.com/m/48264c85c129ca64/original/How-Engagement-Works-Governance-and>Returns-FINAL.pdf>

<sup>3</sup><https://mybrand.schroders.com/m/2476b24e1889faf0/original/Schroders-Q3-23-AUM-update.pdf>



## How will we engage?

As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the companies in which we invest. Our active ownership priorities seek to reflect the combined perspectives of our clients, fund managers, investment analysts and sustainability specialists across the firm, supported centrally by our Sustainable Investment team. While this document is focused on our engagement with publicly listed investee companies, we engage across other asset classes to implement a comprehensive approach to active ownership.

### Active ownership in practice

We identify two key methods for practising active ownership:

#### Engagement

We work with companies using a variety of approaches to:

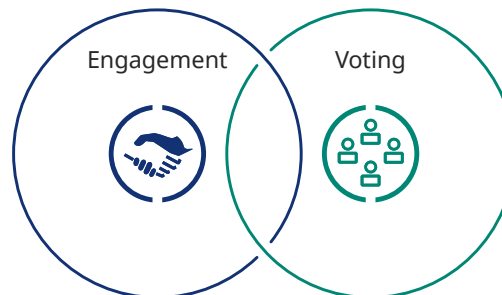
1. Gain insights into their understanding and management of ESG risk and assessment of ESG opportunity, and;
2. To encourage them to take action in the areas where we believe that change may be required to deliver long-term value.

We refer to these two approaches as insights and outcomes engagements respectively.

#### Voting

We use our voice and rights as shareholders to encourage these changes through regular voting as well as targeted voting as part of engagement escalation where appropriate.

These forms of active ownership can take place directly with companies, led by our fund managers, investment analysts and/or our Sustainable Investment team; they can also take place in collaboration with other investor and stakeholder groups. Forms of engagement can include telephone conversations, face-to-face meetings and written correspondence.



**Hannah Shoesmith**  
Head of Engagement



*To us, engagement isn't a box ticking exercise. It is fundamental to how we assess companies on material issues and drive long-term performance.*



## Outcomes-based approach

**Our approach to active ownership focusses on achieving meaningful outcomes and change, that's why we prioritise the depth and quality of our engagements over the volume of activity. When determining our engagement priorities and strategy, we would expect to consider the following factors amongst others:**

### 1. Materiality

We seek to focus our engagement on what we consider to be the most material sustainability threats and opportunities to the company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value. While we look at the sustainability issues companies themselves deem material, we also apply our own understanding and judgement. This may include using our proprietary ESG tools and research, such as SustainEX<sup>TM4</sup>, CONTEXT<sup>5TM</sup>, and consulting external research and subject matter experts.

### 2. Regional context

Our regionally-focused teams are well placed to ensure that engagement objectives are tailored to market-specific and regional contexts. Considerations such as ownership structure, regulatory environment or cultural factors are important to take into account when considering engagement strategies. Where possible we reference country or regional initiatives, regulations and leading practice from regional peers in our dialogue with companies.

### 3. Realistic outcomes

We consider both leading practice and what could realistically be achieved by the company in the next few years, including the size of the company or its market capitalisation, and how quickly it might effect change.

### 4. Ability to monitor progress

We aim to use objective, measurable metrics or indicators that can be used to assess company performance on an issue.

### 5. Length of engagement

We aim to set short- to mid-term objectives. Some objectives may be achieved more quickly than others; however, we recognise that objectives which require the issuer to make more robust change may require a substantial amount of time.

We aim to set pre-defined and suitable SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives. We aim to monitor progress against the engagement objectives at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding, typically at least annually. That said, we recognise that the length of time to achieve an objective will vary depending upon its nature. A measurable outcome from our engagement upon completion of an objective could be: better disclosure, a change to the company's strategy or an improvement in governance arrangements.

We recognise that success factors may be subjective, and that Schroders' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, as it is not always possible to accurately judge our influence on an outcome. However, recording that we have engaged with the company on an issue and that there has been a change that we desired remains important, no matter how large or small our influence may be.

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. We monitor our engagements and report on progress using four milestones in our quarterly sustainability reports. When our engagement has not led to meaningful progress over a reasonable timescale, we will escalate our concerns.

Decisions on whether and how to escalate are made on a case-by-case basis, considering the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. These may take place in any order or frequency depending on the nature of the engagement.

## ESG Tools

Our proprietary tools are used by analysts to conduct ESG analysis. These include SustainEx<sup>TM</sup>, which aims to provide our investment teams with an estimate of positive and negative externalities that companies and countries may create for society, and CONTEXT<sup>TM</sup>, used to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry.

<sup>4</sup> Schroders uses SustainEx<sup>TM</sup> to estimate the net social and environmental 'cost' or 'benefit' of an investment portfolio having regard to certain sustainability measures in comparison 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.

<sup>5</sup> CONTEXT<sup>TM</sup> is a proprietary tool used by Schroders to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders' investment-decision making or research by fund managers or analysts through the use of CONTEXT will reflect their judgement of the sustainability of one or more aspects of the relevant company's or issuer's business model rather than a systematic and data-driven score of the company or issuer in question.



### Methods of escalation

We use a variety of methods to escalate engagements and reinforce our position on material sustainability issues to boards and management. These can include voting against the board's recommendations; for example, we hold directors to account on issues by voting against the re-election of a director or directors we hold most responsible for overseeing the issue. We may also vote for shareholder or board proposals when we think that the request meets our criteria described in this document. We will oppose the board's recommendations if we believe that doing so is, taking into account relevant factors, in the best interests of shareholders and our clients. In addition to exercising our voting rights, we may collaborate with other investors, state our concerns publicly or divest. Escalation decisions are made in collaboration with our investment experts and wider sustainable investment team. Our [Climate Transition Action Plan](#) outlines the escalation framework for climate engagements.



Meeting or otherwise communicating with executive directors, non-executive directors or the Chair of the Board



Expressing our concerns via company advisers or brokers



Collaborative intervention with other institutional investors



Withholding support or voting against the board's recommendations



Publicly stating our concerns



Submitting resolutions at general meetings



Requisitioning shareholder meetings



Divesting, which may mean a full or partial exit

**We examine sustainability-related resolutions on a case-by-case basis and carefully consider the following questions, where they are relevant, amongst others:**

#### Is the resolution aligned to our Blueprint?

Our Blueprint summarises our views on issues we regard as having the potential to be particularly material to investment risk, taking into consideration both the financial materiality and the potential impact on stakeholders. We seek to ensure that our approach to voting aligns with our wider active ownership priorities.

#### Is a resolution the best way to address the issue?

We do not intend to micro-manage companies, but rather to provide oversight and guidance through engagement and voting. Moreover, we consider if other relevant stakeholders are better placed to address the issue, for example governments through regulation.

#### Does the resolution add value to what the company is already doing?

This could include improving transparency to help us better understand how companies identify and manage risks, providing reassurance that policies and practices are effectively implemented, strengthening management systems to resolve and prevent controversies, and encouraging companies to move towards sustainability best practice.

#### Can the resolution be implemented without the potential for causing an unintended negative impact?

We consider whether the proposal could reasonably be implemented in a way that does not have a negative impact on the company and its stakeholders, taking into consideration a range of contextual factors, including cost, sector, geography, and economic climate.



## Engagement and impact investment strategies

Our impact investment strategies aim to generate a positive and measurable societal or environmental impact via investee companies, alongside financial returns. A number of Schroders funds seek to apply impact investing principles throughout their investment process. Our ability to influence change in companies in which these funds invest through engagement is a key lever in delivering positive impacts through those investment strategies. For this reason, engagement can be a key element of an impact investment strategy.

There are many similarities in how we engage with companies on broader sustainability issues, and how we might engage in the context of an impact strategy. Across both contexts our approach to engagement focuses on achieving specific outcomes and lasting change, and we prioritise depth and quality in our engagements.

In addition, engagement priorities for impact strategies focus on actions that can accelerate the company's contributions to the impact objectives of the strategy in question, which is reflected through the 'Theory of Change'. The Theory of Change informs a tailored impact scorecard to select an investment aligned with the strategic impact objectives. Key impact performance indicators (KPIs) may be focused on the specific products and services companies provide.

We recognise that making changes in products and services can take longer than policy or disclosure changes, for example. As a result, engagement for an impact fund may follow a longer timescale than broader sustainability engagements.

Our managers for impact strategies typically engage closely with the portfolio companies at the time of the selection of the key impact KPIs as well as during the life of the investment to see how actual performance compares with the impact KPI targets set at the time of investment.

Examples of engagement in these types of strategies could include engaging with companies to increase the percentage of their revenues linked to impact-related activities during the life of the investment. Another example could be encouraging a company to allocate capital and research and development (R&D) resources to solutions in areas that will deliver positive impacts. Impact fund engagement may also focus on collecting more granular data on the 'additionality' of the company's strategy compared to other companies in the same sector, which could better target underserved regions and/or provide innovative investment solutions to a larger group of beneficiaries.





# Six core themes for active ownership

## Our priority engagement themes

We focus on sustainability issues that we determine to have the potential to be material to the long-term value of our investee holdings. When companies fail to address these adequately, we believe that over time they might negatively impact their financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. By strengthening relationships

with this range of stakeholders, business models become more durable. The governance structure and management quality that oversee stakeholder relationships is also a focus for our engagement discussions. In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement:

 <h3>Climate change</h3> <ul style="list-style-type: none"> <li>- Climate risk and oversight</li> <li>- Decarbonising and minimising emissions</li> <li>- Just Transition</li> <li>- Climate adaptation</li> <li>- Climate solutions</li> </ul>	 <h3>Natural capital and biodiversity</h3> <ul style="list-style-type: none"> <li>- Nature-related risk and management</li> <li>- Circular economy pollution and waste</li> <li>- Sustainable food and water</li> <li>- Deforestation</li> </ul>	 <h3>Human rights</h3> <ul style="list-style-type: none"> <li>- Overarching approach to human rights</li> <li>- Workers</li> <li>- Communities</li> <li>- Customers and consumers</li> </ul>	 <h3>Human capital management</h3> <ul style="list-style-type: none"> <li>- Corporate culture and oversight of human capital</li> <li>- Investment in the workforce</li> <li>- Engagement and representation</li> <li>- Health, safety and wellbeing</li> </ul>	 <h3>Diversity and inclusion</h3> <ul style="list-style-type: none"> <li>- Leadership and oversight of diversity and inclusion</li> <li>- Workforce diversity and inclusion</li> <li>- Value chain diversity and inclusion</li> </ul>	 <h3>Corporate governance</h3> <ul style="list-style-type: none"> <li>- Boards and management</li> <li>- Executive remuneration</li> <li>- Relationships with shareholders</li> <li>- Purpose, strategy and capital allocation</li> <li>- Transparency, risk and reporting</li> </ul>
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### + cross-cutting thematic priorities and sector specific issues

Our themes are underpinned by additional cross-cutting thematic priorities, such as business ethics and culture, and sector specific issues, like antimicrobial resistance (AMR), cybersecurity, emerging technology and health. We also increasingly recognise

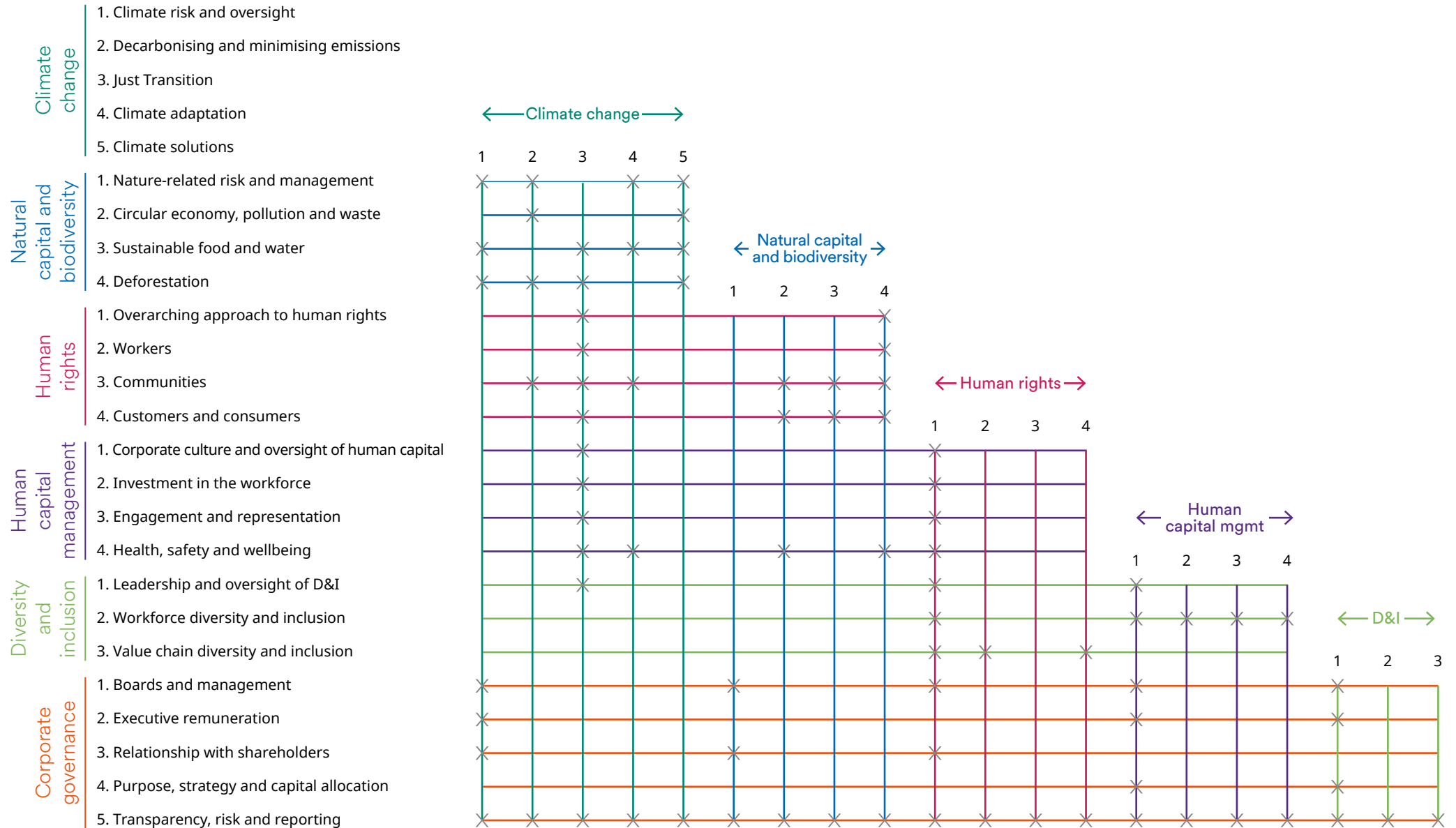
the interconnectedness of ESG themes, such as the 'Just Transition', which recognises the social dimension of the transition to a resilient and low carbon economy. We seek to reflect this interconnectedness where possible in our engagements with companies.





### Where themes interconnect

The six priority themes often connect to each other, and understanding these connections helps deepen the quality of our engagements. The below chart provides an illustration of where we identify connections between the themes. It is an indicative and non-exhaustive view of where themes intersect, and may change overtime as sustainability topics evolve.





## Reviewing our ambitions

We plan to regularly review our priorities and update this document, at least annually, as our understanding of the issues and market best practice evolves. This will help us to push for change in the right areas.

Over the following pages we outline, for each of our key themes, the long-term outcomes we aim to achieve and the corresponding short- to mid-term actions. Where possible we align our desired long-term outcomes with established international goals, such as the Paris Agreement or the UN Sustainable Development Goals (SDGs).

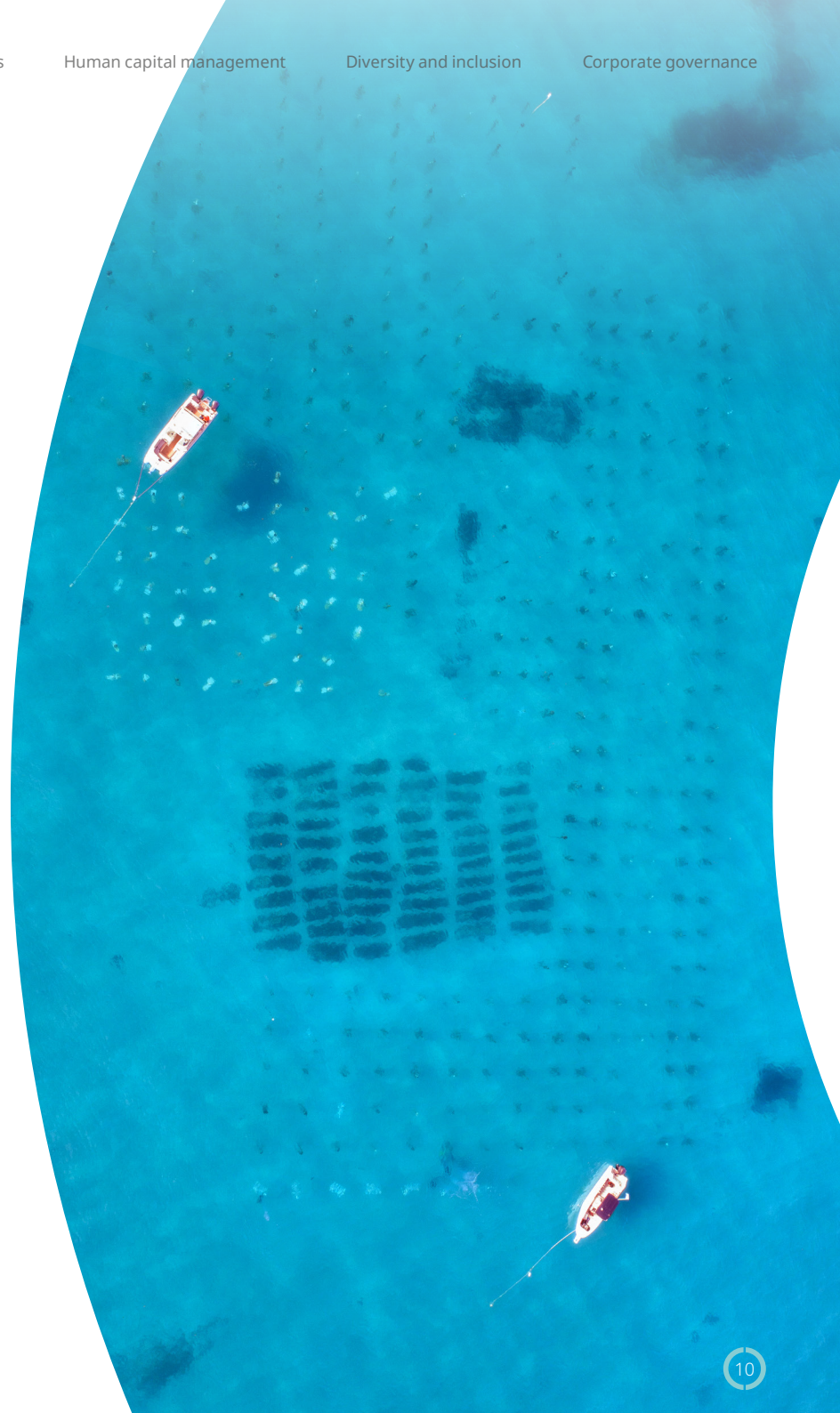
That said, the objectives we may set are unique to a specific company depending on its current practices, our determination of its most material issues and broader considerations such as company size, geography and sector. As such, we don't engage on all themes for all companies; rather, we focus on achieving positive outcomes for their most material themes, and our clients' most material holdings.

## Feedback

We believe that engagement should be a two-way street. We welcome companies, clients and our wider stakeholders contacting us about relevant issues and providing feedback on the framework we have set out in this document. Over the course of 2023, we have heard from clients on our approach to engagement, and consider their feedback as we review our engagement strategy. We also acknowledge that Schroders's own business is on a similar journey to many of our investee companies regarding progressing our own ESG priorities. We explain our approach as a public company in our Corporate Responsibility Report and Annual Report. We aim to be responsive to stakeholders looking to engage with us.

## Investee survey

In 2023, we surveyed over 350 investee companies from 45 countries to gather feedback on investor engagement. The survey gives companies an opportunity to provide direct feedback on engaging with Schroders. The [final report](#) highlights key findings and proposes three ways for investors to improve investment stewardship in our industry.





## Climate change

### Why do we engage?

We believe that companies urgently need to transform their business models to collectively avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises. As a long term active investor, we seek constructive and collaborative engagement that is dedicated to supporting companies' climate transition to protect and improve shareholder value.

The average global temperature has increased by at least 1.1°C above the pre-industrial baseline in 2022<sup>6</sup> and is on course for a temperature rise of around 2.7° by the end of the century based on current policies and action.<sup>7</sup>

We should be able to avoid the worst impacts of climate change if we manage to limit long -term temperature rises to around 1.5°C above pre-industrial levels.<sup>8</sup> We could achieve this by reducing emissions to 'net' zero by 2050. This means reducing emissions to an absolute minimum and finding ways to counterbalance residual emissions (including via the outright removal of greenhouse gases from the atmosphere).

Governments are taking action. As of September 2023, 176 countries representing almost 95% of global emissions have submitted new or updated climate plans.<sup>9</sup>

Over the two most recent annual United Nations Climate change Conferences, COP27 and COP28, countries have committed to deforestation and methane targets, to phase-down coal power and phase-out 'inefficient' fossil fuel subsidies, and agreed to establish and operationalise a loss and damage fund.<sup>10,11</sup>

We believe that companies' long-term financial success depends on their ability to transition their business models to a net zero or 1.5° pathway, and adapt to a changing climate. We engage with companies as a way of encouraging positive change that we believe can future-proof their businesses and help to generate returns for our clients. For companies that have already committed to act, engagement and voting is our route to holding them to account for their progress.

Schroders has joined the [Net Zero Asset Manager](#) initiative and committed to the [Science-Based Targets initiative](#). Our [Climate Transition Action Plan](#) sets out how we will manage our business towards net zero emissions in our own operations and value chain, and through the investments we make on behalf of our clients.

**We define five key areas of focus for our climate engagements, each representing one of the key responses to climate change:**

#### 1. Climate risk and oversight

Strong governance is critical to ensure companies are equipped to deal with strategic and financial risks from climate change. Our priority asks will be for the disclosure of key information on material climate factors – outlined on the following page – that could impact the company, and to hold the board to account for their oversight of climate strategies and risk.

#### 2. Decarbonising and minimising emissions

The pathway to 1.5°C requires a dramatic reduction in emissions within the next decade. Scientific consensus indicates that a 45% reduction in global emissions by 2030 is necessary to stay on this path.<sup>12</sup> We engage to encourage companies to develop a robust and inclusive path to net zero.

#### 3. Just Transition

The transition to a low-carbon economy involves the restructuring of many industries which have historically been key drivers of jobs and economic activity, with implications for companies' many stakeholders. We engage with companies to encourage them to mitigate the potentially costly social effects of their net zero transition.

#### 4. Climate adaptation

As a result of climate change, the frequency and severity of weather, climate and water events will increase. With economic losses due to these extremes rising sevenfold since the 1970s<sup>13</sup> we engage to strengthen climate resilience and adaptation to minimise such losses.

#### 5. Climate solutions

To limit warming to 1.5°C, it is essential that the deployment of technological solutions is accelerated and 'negative emissions' strategies are implemented. The latter involves the removal of carbon dioxide from the atmosphere. We engage to encourage companies to develop scalable climate solutions, and to protect the world's natural carbon sinks where their business models do not allow faster emissions reductions in their existing assets and operations.

<sup>6</sup><https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>.

<sup>7</sup><https://climateactiontracker.org/global/cat-thermometer/>.

<sup>8</sup><https://www.ipcc.ch/sr15/>.

<sup>9</sup><https://www.climatewatchdata.org/2020-ndc-tracker>.

<sup>10</sup><https://www.un.org/en/climatechange/cop26>.

<sup>11</sup><https://www.un.org/en/climatechange/cop27>.

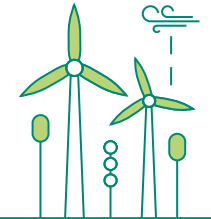
<sup>12</sup><https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>.


<sup>13</sup> World Meteorological Organisation (2021), Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970–2019), [https://library.wmo.int/index.php?lvl=notice\\_display&id=21930](https://library.wmo.int/index.php?lvl=notice_display&id=21930).



### How will we engage?

We have marked with a ♦ the climate expectations that we believe large and medium companies<sup>14,15</sup> need to adopt to align their business models with the transition to a net zero economy. Where appropriate, we have aligned our engagement expectations with those of collaborative initiatives in which we participate, including The Institutional Investors Group on Climate change (IIGCC) and Climate Action 100+.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Climate risk and oversight</b> Robust governance and oversight of climate-related risks 	Climate risk management and reporting	♦ Report annually on the company's climate-related risks, and the steps the company is taking to manage these risks (e.g. TCFD reporting) <ul style="list-style-type: none"> <li>– Provide accurate and comprehensive disclosure of Scope 1, Scope 2, and relevant Scope 3 emissions, and explain any gaps in emissions disclosure<sup>16, 17</sup></li> <li>– Conduct climate-scenario analysis across short-, mid- and long-term time horizons, publish the results and integrate into business strategy</li> <li>– Reflect material climate factors in the company's annual report and accounts</li> <li>– Seek to obtain independent third-party assurance on climate disclosures</li> </ul>
	Board accountability	<ul style="list-style-type: none"> <li>– Establish director responsibility for oversight of climate change, including the company's climate transition plan</li> <li>– Take steps to ensure there is sufficient climate-related expertise on the board</li> <li>– Hold senior management accountable for performance against appropriate emissions and other climate targets</li> </ul>
	Climate lobbying	<ul style="list-style-type: none"> <li>– Publicly disclose any climate-related lobbying activity and trade association membership over the year</li> <li>– Set out how the company aligns its direct lobbying activities and trade association membership with the goals of the Paris Agreement and with the company's climate strategy</li> </ul>

<sup>14</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. For this reason, we consider the largest 80% of companies we hold via public equity or corporate bonds as in scope (assessed by market cap or enterprise value). We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

<sup>15</sup> Our desired engagement outcomes are the same across developed and emerging markets. However, we recognise that companies based in emerging markets may need more time to meet our desired outcomes due to, for example, the trajectory of Nationally Determined Contributions (NDCs) in their operating countries, limited government policy response to climate change in some countries, or limited of financial support/incentives available to help companies transition compared to those based in developed countries. When assessing a company's progress against our desired outcomes, we do take into account regional variations in standards of good practice.

<sup>16</sup> Scope 1 emissions are direct emissions that occur from sources owned or controlled by the company, Scope 2 emissions are indirect emissions from the purchase of energy, and Scope 3 emissions are all other indirect emissions that occur in a company's value chain.

<sup>17</sup> We recognise that it may not be practical for companies to set targets across all scopes and timeframes e.g. a short-, medium- and long-term Scope 3 target. The key point is that we are looking for interim, and well as long-term, targets for all relevant emissions.



Desired long-term outcomes

Engagement topic

Desired short/mid-term actions

Decarbonising and minimising emissions

Avoid the worst impacts of climate change by limiting global warming to 1.5°C

1.5°C alignment



- ◆ Commit to decarbonise business models towards net zero by mid-century
- ◆ Set long-, medium- and short-term science- based targets, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions
- ◆ Publish a detailed and timebound transition plan explaining how the company will transition to net zero and meet its targets<sup>18</sup>
  - Publish the company's performance and progress against its emissions targets, and wider transition plan, annually
  - Set out the proportion of the company's total greenhouse gas emissions covered by targets, and clearly define the scope, definitions and methodologies used
  - Seek to verify emissions metrics and targets via an independent third-party
  - For relevant sectors (e.g. oil and gas companies), set methane reduction targets and seek to eliminate routine flaring

Allocate capital to limit warming to 1.5°C, focusing on regions and technologies with the greatest climate impact

Climate finance



- For relevant sectors (e.g. financials, materials, energy, utilities, etc.):
- Set out how the company will align its loans and/or investments toward activities that support the company's climate goals and targets, and how this aligns to the goal of 1.5°C
  - Disclose short- and medium-term capital expenditure plans for activities related to decarbonisation and emissions mitigation and reduction

<sup>18</sup> As an interim step, our desired short-term engagement outcome for companies that have not yet set targets, particularly smaller companies and those in emerging markets, is that they start to measure and report their emissions, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions.





Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
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### Just Transition

Support workers, communities, suppliers and consumers impacted by a rapid transition to a low carbon economy



Social implications of climate change

- For relevant sectors, identify the key social impacts of companies' climate transition plans, policies and adaptation measures, across both the operations and the wider value chain, and include implications for [human rights](#), [human capital management](#), and [diversity and inclusion](#)
- Engage constructively with impacted local communities and indigenous groups, applying the principle of Free, Prior and Informed Consent (FPIC)
- Set out how the company plans to consult and support impacted workers, such as facilitating a smooth transition to new jobs or providing reskilling/upskilling opportunities
- Where phase-out or divestment from certain activities or markets forms part of the company's climate transition plan, set out how the company is considering, and mitigating impacts on, affected stakeholders where possible
- Work with suppliers, peers and policy makers to design suitable adaptation strategies that consider the impacts on workers

*Engaging on the Just Transition may vary considerably by region and sector. It covers a wide range of topics in addition to those set out above, including concerns around energy access, affordability and security, and the disproportionate physical impacts of climate change being experienced by vulnerable nations*

### Climate adaptation









Strengthen resilience and adaptation to adverse impacts of climate change



Climate resilience

- Undertake a physical risk, resilience and opportunity assessment
- Set out how the company plans to effectively manage, monitor, and report on relevant physical climate risks and build climate resilience
- Disclose physical events (e.g. floods) that have damaged the company's assets or caused disruption to business operations and value chain



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Climate solutions</p> <p>Accelerate the deployment of technological solutions to limit warming to 1.5°C</p>    	<p>Climate technology, transport and innovation</p>	<p>For relevant sectors (e.g. energy, power, basic resources, transport, etc.):</p> <ul style="list-style-type: none"> <li>– Set out how the company intends to scale-up new and existing climate technology and solutions, and/or grow renewable energy procurement and capacity across geographies, including the potential positive impact of these activities<sup>19</sup></li> </ul>
<p>Protect, restore and create natural carbon sinks and scale up viable carbon capture technologies</p>    	<p>Carbon capture and removal</p>	<p>For relevant sectors (e.g. energy, power, basic resources, etc.):</p> <ul style="list-style-type: none"> <li>– Set out the company's policy to limit negative impacts of its activities on natural carbon sinks, such as peatland and forests</li> <li>– Disclose the contribution of any nature-based solutions towards 1.5°C alignment</li> <li>– Disclose the contribution of any technology-based carbon removal projects (e.g. carbon capture, utilisation and storage) towards 1.5°C alignment</li> </ul> <p>For companies using offsets:</p> <ul style="list-style-type: none"> <li>– Prioritise reducing emissions before offsetting emissions, and provide transparency on the company's offset strategy, including the share of emissions reduction targets that rely on offsets</li> <li>– Disclose how the company selects, verifies and accounts for offsetting projects</li> </ul>

<sup>19</sup> This could include, for example, information on 'Scope 4' avoided emissions, which are emissions saved indirectly by products and services through the substitution of high carbon activities with low carbon alternatives. As the emissions are saved outside the value chain of a company's activity, they are not captured under conventional Scope 1 (direct), Scope 2 (indirect) and Scope 3 (value chain) emission measures. For further information on this topic, see our 2021 report, A framework for Avoided Emissions analysis, developed in collaboration with Singapore's sovereign wealth fund GIC.



## Natural capital and biodiversity

### Why do we engage?

The benefits that nature provides often go unpriced, resulting in their excess use. This is one of the reasons we are seeing ecosystem decline and degradation as well as rising ecological scarcity. In 2022 the World Economic Forum (WEF) identified biodiversity loss as one of the top three most severe risks on a global scale over the next 10 years.<sup>20</sup> The potential economic impacts of inaction we believe are large: the World Bank estimates that a partial ecosystem collapse could cost 2.3% of global GDP (or \$2.7 trillion) per year by 2030<sup>21</sup>.

In practical terms this could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Sectors such as agriculture, food and marine, which are heavily reliant on ecosystems that are either not valued or undervalued currently, may see company valuations affected when these are eventually valued appropriately. Furthermore, regulatory and policy pressures, which could have direct revenue impacts, are already beginning to build and crystallise.

Schroders is a member of the Natural Capital Investment Alliance and Finance for Biodiversity. Our Group Environment Statement sets out our position in relation to the environmental management of our operations. Our Plan for Nature and our Group Nature and Biodiversity Position Statement set out our approach to the investments we manage and our own operations with regards to nature and biodiversity. Schroders has made a commitment to use best efforts to eliminate forest-risk agricultural commodity-driven deforestation at the companies in our investment portfolios and in our financing activities by 2025<sup>22</sup>.

**We prioritise four key areas of focus within the broad topic of biodiversity and natural capital. These reflect what we believe to be the key natural capital and biodiversity issues faced by investee companies:**

#### 1. Natural capital-related risk and management

The degradation of natural capital, including the loss of biodiversity and depletion of renewable stocks, poses a risk for businesses, their earnings and their value over the medium and longer term. We engage to encourage companies to develop strong governance on this issue to reduce, and ultimately avoid, their negative impacts on nature and contribute towards the regeneration and restoration of nature aligned with the Global Biodiversity Framework (GBF) agreed at COP-15. We want companies to adopt emerging best practice on nature-related financial disclosures and target setting.

#### 2. Circular economy, pollution and waste

Creating a circular economy that limits pollution and waste, such as plastic pollution, and promotes re-use and recycling is critical in reducing the intensity of natural resource consumption and alleviating environmental pressures. We engage to encourage companies to minimise waste and pollution, and to promote circularity.

#### 3. Sustainable food and water

The world's food system must transform to meet population growth, and address malnutrition and other health risks. Moreover, the food and water system is both at risk from climate change and is a significant contributor to greenhouse gas emissions and other environmental pressures; for example, through the use of fertiliser and pesticides. We engage to promote a food and water system that is more environmentally sustainable, protects the marine environment, respects animal welfare, and is better able to meet the needs of a growing population.

#### 4. Deforestation

Forests are an important source for sequestering and storing carbon. They also play a critical role in the earth's water cycle and in sustaining biodiversity. Deforestation is a major contributor to greenhouse gas emissions and biodiversity loss. We expect companies to eliminate exposure to commodity driven deforestation and to promote the sustainable management of forestry assets.

<sup>20</sup> [https://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2022.pdf](https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf).

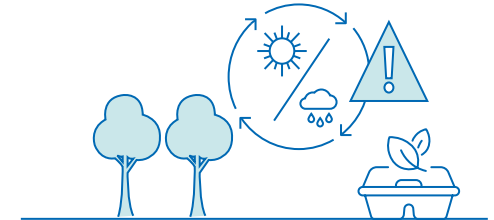
<sup>21</sup> <https://www.worldbank.org/en/topic/natural-capital#:~:text=The%20World%20Bank%20estimates%20that,%2C%20fisheries%20and%20timber%20provision>.





<sup>22</sup> [https://racetozero.unfccc.int/wp-content/uploads/2021/11/DFP-Commitment-Letter-.pdf?\\_gl=1\\*1ew3wpg\\*\\_ga\\*ODYxMDAzMjU3LjE2OTc2MTg2ODg.\\*\\_ga\\_7ZZWT14N79\\*MTcwMDc1MjcyMC4zLjAuMTcwMDc1MjcyMS4wLjAuMA](https://racetozero.unfccc.int/wp-content/uploads/2021/11/DFP-Commitment-Letter-.pdf?_gl=1*1ew3wpg*_ga*ODYxMDAzMjU3LjE2OTc2MTg2ODg.*_ga_7ZZWT14N79*MTcwMDc1MjcyMC4zLjAuMTcwMDc1MjcyMS4wLjAuMA).



## How will we engage?

We have marked with a ◆ the priority natural capital and biodiversity actions for our engagement with large and medium companies<sup>22</sup>. Where appropriate, we seek to align our engagement expectations with those of major collaborative initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD), Nature Action 100 and Science-Based Targets for Nature (SBTN).



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<h3>Natural capital related risk and management</h3>		
<p>Reduce and avoid biodiversity loss and protect and restore natural capital by 2030</p>    	Governance	<ul style="list-style-type: none"> <li>◆ Establish board level responsibility and accountability for biodiversity and natural capital                             <ul style="list-style-type: none"> <li>- Disclose in line with emerging best practice such as TNFD</li> <li>- Set management KPIs related to reversing contribution to nature loss</li> </ul> </li> </ul>
	Strategy	<ul style="list-style-type: none"> <li>◆ Put in place comprehensive policies to manage, reduce and avoid negative impacts on nature and biodiversity                             <ul style="list-style-type: none"> <li>- Set out plans to regenerate and restore nature aligned with the Global Biodiversity Framework</li> <li>- Commit to limit and avoid conversion of ecosystems, prioritising ecosystems of high conservation value</li> </ul> </li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>◆ Establish measurement systems to understand impacts and dependencies on nature                             <ul style="list-style-type: none"> <li>- Conduct a nature-loss scenario analysis and integrate material findings into business strategy</li> <li>- Develop site specific biodiversity management plans to protect and restore nature, where necessary and material</li> <li>- Take action to protect endangered, threatened or protected species</li> </ul> </li> </ul> <p>Sector specific:</p> <ul style="list-style-type: none"> <li>- Establish an animal welfare policy and disclose use of animal testing in product portfolios</li> </ul>
	Metrics and targets	<ul style="list-style-type: none"> <li>◆ Set targets to reduce and avoid negative impacts on nature, and increase contribution to regeneration and restoration of nature                             <ul style="list-style-type: none"> <li>- Work towards disclosure of location data on assets, operations and material suppliers of high impact commodities</li> </ul> </li> </ul>

<sup>22</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
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### Circular economy, pollution and waste

Develop sustainable consumption and production practices



Circular economy and waste

- ◆ Implement responsible waste disposal, recycling and lifecycle management practices to promote a circular economy across the lifecycle of products
  - Set targets for waste reduction, including to increase recycling, use of recycled materials and recyclability of products
- Sector specific:
  - Take action across the value chain to reduce food waste

Plastics

- Set targets to decrease the use of total plastic and virgin plastic and increase the use of recycled plastics (rPET) as a raw material
- Take steps to reduce and eliminate plastic pollution from the plastic value chain
- Play an active role in efforts to clean up plastic pollution and restore impacted ecosystems

Pollution and hazardous chemicals

- Measure, disclose and set targets to reduce non-greenhouse gas pollutants where relevant (for example nitrous oxides, sulphur oxides, volatile organic compounds, particulate matter, ammonia and heavy metals)
- Disclose the volumes and sales of hazardous chemicals in product portfolio
- Seek to reduce the use of hazardous chemicals and seek to phase out use of Per- and Polyfluoroalkyl Substances (PFAS ) within a reasonable timescale
- Take steps to reduce the negative impacts of pollution on human health and impacted ecosystems

### Sustainable food and water

A more resource-efficient, healthier and sustainable food and water system



Agriculture

- Sector specific:
  - Disclose and seek to increase share of products sourced from regenerative agricultural practices
  - Establish a plan to grow the share of alternative proteins in the product portfolio
  - Develop environmental management plans for the sustainable use of fertiliser and pesticides

Aquaculture and marine

- Sector specific:
  - Adopt sustainable fishing practices and efforts to increase sustainable sourcing and traceability
  - Take action to reduce and avoid pollution into marine and coastal environments, including excess nutrient runoff and abandoned equipment

Fresh water

- Identify and disclose operational and supplier water basins, and develop site specific management plans for at risk water basins
- Monitor and report total water withdrawn, used and discharged by water type (e.g. surface water, ground water) and establish quantity and quality targets
- Regularly consult with local communities on the impacts of water management practices



Desired long-term outcomes

Engagement topic

Desired short/mid-term actions

Deforestation

Promote sustainably managed forests and end deforestation



Strategy and ambition

- ◆ Set timebound commitments to end illegal or unsustainable deforestation in operations and supply chains and disclose progress towards targets annually
- Target no commodity-driven deforestation by 2025 at the latest and report yearly on progress

Governance and oversight

- Demonstrate board-level and management accountability for forest-related risks
- Publish a publicly available comprehensive no-deforestation policy

Traceability and supply chain management

- Conduct commodity specific deforestation risk-assessments for operations and/or supply chains
- Develop adequate traceability systems – including mechanisms to monitor compliance with commitments
- Disclose locations of production sites, processing facilities and/or suppliers
- Demonstrate compliance with a credible certification scheme and set targets to improve levels
- Conduct high conservation value and high carbon stock assessments for new developments and acquisitions

Metrics and targets

- ◆ Disclose the metrics used to assess commodity-driven deforestation risks and progress to mitigating them
- Disclose quantifiable progress towards deforestation commitments, including efforts to improve traceability across the supply chain





## Human rights

### Why do we engage?

All companies have the potential to impinge on the rights that are inherent to us as human beings<sup>23</sup>. There is increasing recognition of the role that businesses can and should play to respect human rights, as well as children's rights as a specific sub-set of this. We seek to align with international frameworks that consider human rights issues through the lens of saliency<sup>24</sup>. We believe that these salient issues are likely to become material as businesses involved in human rights controversies could face higher operational, legal and financial risks, and could suffer damage to their reputation.

The global standard for preventing and addressing the risk of human rights abuses is the UN Guiding Principles on Business and Human rights, unanimously endorsed by the UN Human rights Council in 2011<sup>25</sup>. The Guiding Principles provide operational clarity for the two human rights principles that are championed by the UN Global Compacts<sup>26</sup>, and help businesses adhere to the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, as well as national and sub-national laws and regulations related to human rights. Moreover, many human rights due diligence laws and trade and tariff sanctions related to human rights abuses are being introduced across the globe.

The Guiding Principles state that companies should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. Moreover, the principles are increasingly reflected in national legislation, with financial penalties for non-compliance, forcing companies to establish and disclose processes to eliminate modern slavery from their businesses and supply chains. This responsibility applies across operations and to all business relationships, including those throughout a value chain.

Our engagement aims to work with companies to implement the Guiding Principles. This means that businesses should formally commit to respect human rights, carry out effective human rights due diligence, and provide access to effective remedy for any victims of human rights abuses. [Schroders' Group Human rights Statement](#) and [Modern Slavery Statement](#) set out Schroders' position for its entities and employees in relation to the respect of human rights and the remedy of any infringements relating to its employees, supply chain, clients and investments.

**As well as engaging to ensure companies have strong foundational approaches to business and human rights in line with international principles, there are also specific stakeholder groups on which we focus particular attention for our engagement:**

#### 1. Workers

It is estimated that 27.6 million people are in forced labour, many of them children carrying out hazardous work, and 86% of forced labour occurs within the private sector<sup>27,28</sup>. We recognise that vulnerable workers in the supply chain face increased risks of modern slavery and human rights violations. We engage to encourage companies to adhere to relevant global laws, and conduct the necessary supply chain human rights risk assessments and effective due diligence to protect and uphold the rights of workers in supply chains. We encourage companies to report on workforce metrics across supply chains, conduct supply chain audits of working conditions, work with suppliers to improve conditions and, where necessary, facilitate or provide remedy<sup>29</sup>.

#### 2. Communities

The World Bank estimates that there are over 476 million indigenous peoples living around the world, and in 2021 nearly four people a week were killed worldwide protecting their land from business exploitation<sup>30</sup>. We engage to encourage companies to uphold and respect internationally recognised human rights, including land and resource rights, and use the mechanism of free, prior and informed consent (FPIC) to protect the rights of those in the communities in which companies operate. Moreover, when operating in conflict-affected and high risk areas (CAHRAs), there is a higher risk of companies becoming involved in grave human rights violations. Such heightened risks call for enhanced or heightened due diligence procedures to meet international standards on business and human rights.

#### 3. Customers and consumers

Companies have an important role to play in driving human rights and sustainable development through supporting access to basic products and services, while also ensuring that products and services do not cause harm and adversely affect human rights. We expect that companies respect and uphold the rights of consumers and users of their products and services, and consider the impact of new and emerging technologies on human rights, such as artificial intelligence (AI).

<sup>23</sup> The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

<sup>24</sup> A company's salient human rights issues are those that are at risk of the most severe negative impacts through a company's activities or business relationships. The concept uses the lens of risk to people, not the business, as the starting point, recognising that there is often a strong convergence of the two.

<sup>25</sup> Other UN instruments elaborate further on the rights of indigenous peoples, women, national or ethnic, religious and linguistic minorities, children, persons with disabilities and migrant workers and their families.

<sup>26</sup> The human rights principles championed by the UN Global Compacts are Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses. The Ten Principles | UN Global Compact.

<sup>27</sup> <https://www.walkfree.org/reports/global-estimates-of-modern-slavery-2022/>.

<sup>28</sup> [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_855019/lang-en/index.htm#:~:text=Most%20cases%20of%20forced%20labour.cent%20of%20all%20forced%20labour.](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_855019/lang-en/index.htm#:~:text=Most%20cases%20of%20forced%20labour.cent%20of%20all%20forced%20labour.)

<sup>29</sup> Workers in the direct operations of a company are captured within our human capital management theme.

<sup>30</sup> <https://www.globalwitness.org/en/campaigns/environmental-activists/decade-defiance/>.

## How will we engage?

We have marked with a ♦ the priority human rights actions for our engagement with large and medium companies<sup>31</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the [Investor Alliance for Human rights](#) and the [Find It, Fix It, Prevent It](#) campaign.



### Desired long-term outcomes

### Engagement topic

### Desired short/mid-term actions

## Overarching approach to human rights

Promote human rights for sustainable development

Implementing the UN Guiding Principles

- ♦ Establish and implement a human rights policy in line with the United Nations Guiding Principles on Business and Human rights (UNGPs), International Labour Organisation (ILO) and/or other international frameworks which commits to respect human rights
- ♦ Establish board responsibility for oversight of human rights policies and processes, and for this responsibility to be engrained in relevant governance documents and charters
- ♦ Introduce robust human rights due diligence processes in line with the human rights policy, including:
  - a. Identifying and assessing actual or potential adverse human rights impacts
  - b. Integrating findings in processes and taking appropriate action
  - c. Tracking effectiveness of the measures, including through broad access to thorough and transparent grievance mechanisms
  - d. Communicating how impacts are being addressed
- ♦ Provide for or cooperate in remediation where the company identifies that they have caused or contributed to adverse impacts
- ♦ Strive to conduct meaningful engagement with rights holders or legitimate representatives and other relevant stakeholders
- ♦ Assess the effectiveness of the human rights due diligence process



<sup>31</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.



**Desired long-term outcomes**

**Engagement topic**

**Desired short/mid-term actions**

**Workers**

Protect labour rights and promote safe and secure working environments in the supply chain

Supply chain working conditions

- Develop a responsible sourcing policy or supplier code of conduct, aligned with international labour standards, and make it publicly available
- Implement and uphold responsible sourcing and purchasing practices
- Conduct ongoing and effective supply chain human rights due diligence to identify actual and potential human rights impacts, including forced labour indicators where relevant
- Design and implement remediation plans where necessary and report on their effectiveness



**Communities**

Protect fundamental freedoms and provide equal access to economic resources and control over land and property for all

Indigenous and community rights

- Commit to apply the ILO and UNGPs to protect indigenous rights
- Apply the principle of FPIC before a potentially impactful project begins and on an ongoing basis, and as far as possible ensure communities are able to participate in the benefits of company activities, including receiving fair compensation
- Commit to addressing grievances and disputes constructively and proactively with local communities and indigenous groups



Operations in high-risk and conflict-affected areas

- Take adequate steps to identify the interaction between the company's core business operations and conflict dynamics to prevent causing harm
- Adapt existing policies and due diligence measures to the specific needs of conflict-affected and high-risk contexts, performing enhanced due diligence in these contexts and ensuring responsible exit where human rights risks associated with remaining in location cannot be mitigated





**Desired long-term outcomes**

**Engagement topic**

**Desired short/mid-term actions**

**Customers and consumers**

Respect for fundamental rights and universal provision of basic needs



Access to fundamental products and services

- Develop clear strategies for access to and affordability of fundamental products and services for underserved and/or vulnerable communities including low- and middle-income countries, for example medicines, nutrition, technology/connectivity and finance. Strategies should outline approaches to:
  - Governance of access
  - Research and development
  - Product delivery
  - Responsible marketing
- Disclose quantitative and qualitative outcomes from access strategies

Responsible and ethical products and services

- Ensure company human rights policy encompasses the protection of rights in products and services (entire value chain), including for the development and deployment of new and emerging technologies, for example artificial intelligence (AI)
  - Include risks from the company's products and services in the company's overarching assessment of salient human rights risks, and take steps to mitigate against these where relevant, such as performing screening of customers or business partners
  - Encourage business partners to respect human rights in line with the company's policy
  - Establish and implement a responsible approach to sales and marketing which considers potential adverse impacts on vulnerable populations, such as children
  - Monitor use of products to ensure they uphold human rights, including digital rights, and do not cause adverse effects on society
  - Where AI technology is deployed, establish a policy or principles for the responsible use of AI, and seek to align this with the OECD Principles on Ethical AI
- Sector specific:
- Disclose the nutrient profile of products and portfolios and set targets to increase the share of healthier products and improve food safety
  - Establish a policy on the responsible use of antimicrobials within animal husbandry and take action to improve value chain standards



## Human capital management

### Why do we engage?

Human capital management refers to how a company acts with respect to people working within the direct operations of a company and includes the practices to recruit, retain and develop human capital. We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage<sup>32</sup>. Our own research highlights the importance of human capital management in driving investment returns and the persistence of business models<sup>33</sup>. We also recognise a number of links between high standards of human capital management and a company's ability to address one or more of the UN's Sustainable Development Goals.

We believe that not every company is exposed to the same human capital risks, or exposed to an equal degree. There are also significant regional differences in human capital management expectations which we consider in our engagement and expectations of companies.

Schroders' people strategy aims to develop an agile and diverse workforce so that we can continue to attract, retain, develop and motivate the right people for our current and future business needs. This is outlined in our [Annual Report](#).

### We prioritise four key areas of focus within the broad topic of human capital management:

#### 1. Corporate culture and oversight of human capital

We have seen that negative organisational culture has featured prominently in numerous corporate failures in recent years. We engage with companies to understand how they invest and develop their corporate cultures including how they approach oversight and management of their culture. This is done with a view to our building a picture of how companies create and sustain human capital, and how they foster an innovation culture, both of which can give them a key competitive advantage against their peers.

#### 2. Investment in the workforce

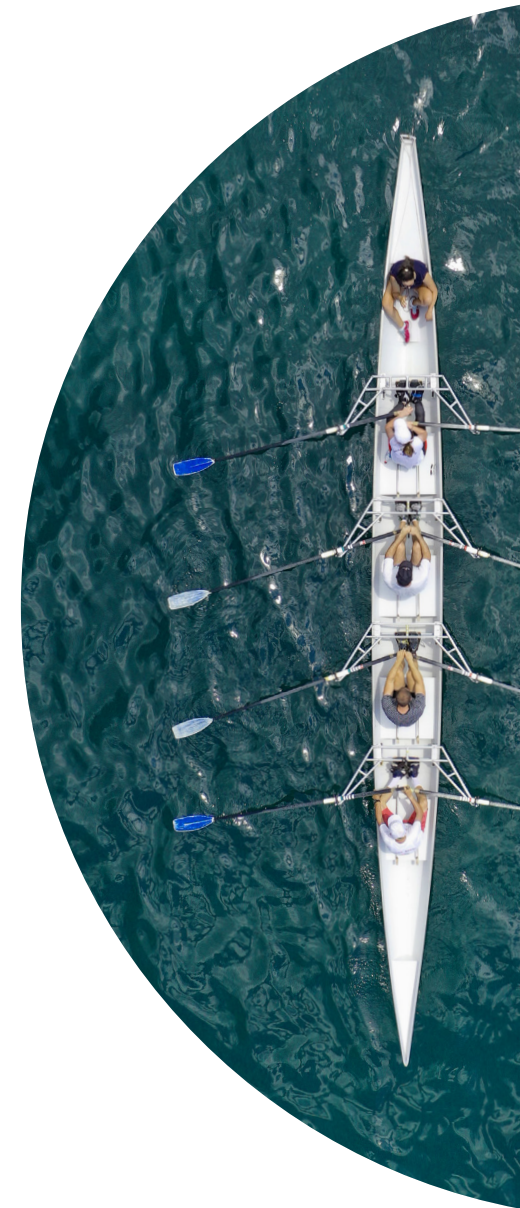
19% of the world's wage earners, 327 million workers, are paid at or below their countries' minimum wage<sup>34</sup>. This excludes workers in the informal economy. Evidence shows that paying workers a living wage leads to better health outcomes, and increased ability to recruit and retain staff, and increased productivity<sup>35,36</sup>. We encourage companies to go beyond compliance with local minimum wages to pay a living wage that allows for workers to live a decent life free from poverty. We also encourage companies to consider employee compensation and benefits holistically to ensure the broad financial wellness of the workforce, recognising that basic wage levels are not the sole driver of worker financial wellness. Moreover, almost one-third of jobs will need to reskill by 2030<sup>37</sup>. We therefore engage to ask that companies disclose details of activities within strategic workforce planning. These might include examples of how the company identifies skills gaps or workforce requirements, how it seeks to invest in the development of the workforce, how it aligns workforce skills with long-term strategy and how it helps prepare the workforce for sector-wide transitions, for example the energy transition.

#### 3. Engagement and representation

There is evidence that strong employee engagement contributes to increased profitability<sup>38</sup> as engaged employees support innovation and growth. We engage to ask that companies proactively solicit input from their workforce and monitor their engagement and motivation.

#### 4. Health, safety and wellbeing

Almost 2 million people die from work-related causes each year<sup>39</sup>. Employers have a duty of care to their workers; we therefore engage to encourage companies to provide safe and secure working environments for workers, in terms of both physical and mental health.



<sup>32</sup> <https://hbr.org/2007/03/maximizing-your-return-on-people>.

<sup>33</sup> <https://www.schroders.com/en-us/us/institutional/insights/human-capital-management-research-how-people-are-our-greatest-asset/>.

<sup>34</sup> <https://www.ilo.org/infostories/Campaigns/Wages/globalwagereport#minimum-wages>.

<sup>35</sup> [https://www.livingwage.org.uk/sites/default/files/IWFM-Living-Wage-Report-Screen-2022-2023\\_2.pdf](https://www.livingwage.org.uk/sites/default/files/IWFM-Living-Wage-Report-Screen-2022-2023_2.pdf).

<sup>36</sup> [https://www.qmul.ac.uk/geog/media/geography/livingwage/docs/FINAL\\_Report\\_LWFsurvey2013.pdf](https://www.qmul.ac.uk/geog/media/geography/livingwage/docs/FINAL_Report_LWFsurvey2013.pdf).

<sup>37</sup> <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/>.

<sup>38</sup> <https://www.globalwitness.org/en/campaigns/environmental-activists/decade-defiance/>.

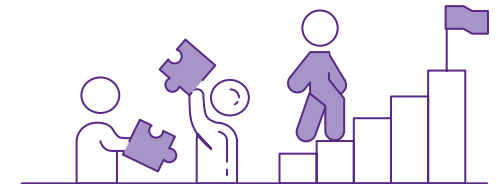
<sup>39</sup> <https://www.who.int/news/item/17-09-2021-who-ilo-almost-2-million-people-die-from-work-related-causes-each-year>.






### How will we engage?




We have marked with a ♦ human capital actions for our engagement with large and medium companies<sup>40</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the [Workforce Disclosure Initiative](#) (WDI) and [Human capital management Coalition](#) (HCMC).






Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote a strong ethical culture which provides decent work and drives long-term sustainable growth  	Board oversight of human capital management (HCM)	<ul style="list-style-type: none"> <li>♦ Establish clear board responsibility for human capital management oversight</li> <li>♦ Commit to uphold the ILO’s five basic human values in the Declaration on Fundamental Principles and Rights at Work and respecting local and national labour laws</li> <li>♦ Clearly define the HCM factors and information that the company should measure, monitor, disclose and set targets for</li> <li>♦ At a minimum disclose: the total number of people employed (including employees and contingent workers, broken down by contract type), the total cost of the issuer’s workforce (including wages, benefits and other expenses), voluntary and involuntary turnover (or another stability metric), and workforce diversity data across different levels of seniority</li> </ul>
	Corporate culture	<ul style="list-style-type: none"> <li>- Articulate the company’s corporate culture and values and explain how the board ensures that these are being applied throughout the organisation</li> <li>- Disclose how the company measures and assesses company culture, and the outcomes of this assessment</li> <li>- Monitor how changes in company culture indicators lead to changes in employee outcomes</li> </ul>

<sup>40</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Investment in the workforce</b>		
<p>Foster a culture where all workers can afford a decent and secure standard of living for their families</p> 	Financial wellness	<ul style="list-style-type: none"> <li>- Assess the financial wellness of the company's workforce to understand how the company can support workers. One such measure could be disclosing the living wage deficit or an equivalent metric</li> <li>- Commit to pay all direct employees a living wage (or equally valued equivalent) and in the mid-term, commit that all workers (including contractors in direct operations) are paid a living wage (or equally valued equivalent)</li> <li>- Disclose the paid time off and wider benefits, including sick pay, available to employees, and assess if the benefits provided by the company sufficiently support the financial wellness of employees</li> <li>- Ensure decent notice for shifts and a guaranteed number of working hours a week (living hours), while ensuring that working hours are reasonable and comply with the law and industry standards</li> </ul>
<p>Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship</p>  	Training and development	<ul style="list-style-type: none"> <li>◆ Disclose activities of strategic workforce planning in line with long-term business strategy</li> <li>- Communicate an understanding of potential future skills gaps of the company in line with long-term strategy, and outline a plan to address these</li> <li>- Disclose programmes to upskill and reskill workers, including for economic transitions</li> <li>- Disclose how the company measures the effectiveness of such initiatives, for example assessing the return on investment of training initiatives</li> <li>- Disclose measures of career mobility within the organisation</li> </ul> <p>Sector specific:</p> <ul style="list-style-type: none"> <li>- Commit to help facilitate a smooth transition to new jobs for employees whose jobs are at risk, ensuring that new positions are high-quality jobs aligned to the four pillars of the ILO Decent Work Agenda</li> <li>- Work to support local communities who may experience indirect job loss</li> </ul>

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Engagement and representation</b>		
Protect labour rights 	Worker voice	<ul style="list-style-type: none"> <li>◆ Put effective grievance mechanisms in place, support remediation, and disclose when and how grievance mechanisms and remediation programmes are deployed through quantitative and qualitative metrics</li> <li>– Establish clear and trusted mechanisms for worker voice in corporate governance</li> <li>– Disclose how the company creates and ensures a culture of actively embracing freedom of association and the right to collective bargaining by upholding international standards such as those outlined by the ILO</li> </ul>
	Employee engagement	<ul style="list-style-type: none"> <li>– Establish regular employee feedback channels with demonstration of actions taken as a result of feedback</li> <li>– Disclose key outcomes and results from employee engagement mechanisms</li> </ul>
<b>Health, safety and wellbeing</b>		
Promote safe and secure working environments for all workers and promote mental health and well-being  	Mental health	<ul style="list-style-type: none"> <li>– Acknowledge mental health as an important issue and disclose a commitment or policy to addressing poor workplace mental health</li> <li>– Assess and establish a strategy that addresses the root causes of poor mental health in the workforce and provides mental health resources and support for workers, including how the company assesses the effectiveness of such measures</li> </ul>
	Physical health and safety	<ul style="list-style-type: none"> <li>◆ Establish a health and safety policy and ensure it is implemented as intended</li> <li>– Adopt a strong culture of safety in the conduct of business and have safety considered alongside all business strategy decisions</li> <li>– Set measurable targets, using both lagging and leading indicators for safety and disclose progress</li> <li>– Assess the effectiveness of the health and safety measures</li> </ul>



## Diversity and inclusion

### Why do we engage?

We believe that companies should strive to create diverse and inclusive organisations. Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction<sup>41</sup>. Inclusion is what allows diversity to thrive. Moreover, we identify increasing regulatory pressures around diversity and inclusion; however, progress on this topic remains slower than in some other engagement areas.

We encourage companies to consider diversity broadly, in terms of both demographics and professional diversity. We recognise that there are significant regional differences in diversity and inclusion definitions and expectations, which we consider in our engagement and expectations of companies. In national laws, diversity characteristics commonly include: race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation<sup>42</sup>. Companies may also consider additional grounds where discrimination may occur<sup>43</sup>, including cognitive diversity.

Schroders' [Workforce Diversity Report](#) is an important step to being transparent with data about the diversity of our own workforce, so that we can aim for meaningful and relevant aspirational targets (operating lawfully) and be held to account for our progress.

### We breakdown our engagement on diversity and inclusion into three key areas of focus:

#### 1. Leadership and oversight of diversity and inclusion

We believe that directors with diversity across multiple dimensions bring a valuable range of outlooks and opinions, and when coupled with an inclusive board culture, ultimately bring about better decision-making, debate and problem-solving on boards. We expect genuine diversity to be present, actively thought about and managed on the board. We expect companies to have a diverse representation in key decision-making positions which allows for greater breadth of experience and perspective. We believe this allows for a greater ability to relate to employees, clients and consumers.

#### 2. Workforce diversity and inclusion

We ask that the workforce broadly represents the communities that the company operates in and the customers that it serves across all levels of the organisation, and that the company creates an inclusive culture which supports and increases employee engagement and productivity.

#### 3. Value chain diversity and inclusion

We encourage companies to extend their diversity practices across the value chain, where possible, so that their products and services are inclusive and take into account feedback from diverse consumer groups. We also encourage companies to review their procurement processes and ensure the procurement opportunities they provide do not discriminate and are inclusive for all.



<sup>41</sup> <https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case>.

<sup>42</sup> [https://www.ilo.org/empent/areas/business-helpdesk/WCMS\\_DOC\\_ENT\\_HLP\\_BDE\\_EN/lang-en/index.htm](https://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_BDE_EN/lang-en/index.htm).

<sup>43</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-6>.

## How will we engage?

We have marked with a ◆ the priority diversity and inclusion actions for our engagement with large and medium companies<sup>44</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the WDI and HCMC.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<h3>Leadership and oversight of diversity and inclusion</h3>		
Full and effective participation and equal opportunities for leadership for women and underrepresented minorities   	Oversight of diversity and inclusion	<ul style="list-style-type: none"> <li>◆ Commit to the elimination of discrimination and bias throughout the organisation</li> <li>◆ Articulate how the company seeks to create an inclusive board and corporate culture</li> </ul>
	Board composition	<ul style="list-style-type: none"> <li>◆ Disclose board diversity characteristics, perspectives and approaches (at a minimum to include director gender, nationality and professional background)</li> <li>- Commit to improving and seeking genuine board diversity, including an articulation of how the board assesses cognitive diversity</li> <li>- Implement a policy requiring the board to consider one or more diverse candidates each time it has a vacancy</li> </ul>
	Diversity in decision making	<ul style="list-style-type: none"> <li>◆ Disclose diversity characteristics of the executive committee</li> <li>◆ Set targets for increasing diversity of the executive committee</li> <li>- Outline a robust strategy to achieve the targets set</li> <li>- Implement a policy requiring each vacancy to consider at least one or more diverse candidates for executive recruitment</li> <li>- Disclose how diversity in CEO and C-suite succession planning is considered</li> </ul>

<sup>44</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
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### Workforce diversity and inclusion

Empower and promise the inclusion of all



Workforce composition and inclusive cultures

- ◆ Publicly state leadership commitments and expectations for action on diversity and inclusion and establish an inclusion policy
- ◆ Collect and disclose workforce diversity data across a range of diversity characteristics (while respecting local regulation)
  - Set time-bound targets for workforce diversity and inclusion and disclose a strategy to achieve the targets
  - Disclose family and parental leave policies
  - Disclose gender and ethnicity pay gap information for the key markets the company operates in (where data is available)
  - Disclose metrics to assess inclusive culture and set targets for increasing inclusivity (e.g. employee sentiment on inclusion, turnover, retention and promotion rates)
  - Assess effectiveness of diversity and inclusion programmes in creating an inclusive culture
  - Disclose how the company provides for the needs of a diverse workforce

### Value chain diversity and inclusion

Empower and promise the inclusion of all



Supplier diversity

- Disclose policy on sourcing from 'diverse suppliers' to ensure that all relevant, potential suppliers have the fair and equal opportunity to compete for business within the supply chain
- Engage major suppliers on diversity and inclusion performance and expectations

Inclusive products and services

- Assess potential adverse impact of products and services on diverse populations
- Disclose approach to engaging with diverse stakeholders when developing and promoting products and services
- Disclose approach to ensuring products and services, including their availability, do not perpetuate biases towards, or exclude, minority populations (e.g. technology, communications, finance, healthcare, nutrition, affordable housing, etc.)



## Corporate governance

### Why do we engage?

We believe that it is essential that strong governance policies and practices are in place to help to ensure that businesses act in the best interest of shareholders and other key stakeholders, in order to drive long-term sustainable value creation. We also recognise that, in most cases it is likely, in order to see progress and performance on other material issues, strong governance structures should be in place. Structures, policies and practices are, however, insufficient. It is also important that boards and management teams encourage and exhibit the leadership attributes that demonstrate and encourage high ethical business standards, including an open, honest and accountable culture without which performance is likely to suffer and issues are less likely to be identified or addressed well.

We believe boards should play an active role in engagement with shareholders on long-term strategy, board composition, executive remuneration and capital allocation topics, alongside broader material and salient environmental and social matters. Schroders plc's approach to corporate governance is described in the governance section of our Annual Report.

#### We prioritise five key aspects of corporate governance for our engagement:

##### 1. Boards and management

Through their fiduciary duty, boards represent the interests of shareholders and play a critical role in overseeing the company's management and strategy. Board composition and structure is fundamental to good governance practices. We expect boards to maintain a significant level of independence, and to appoint high quality, diverse directors to carry out the board's duties. A strong board, with a significant independent cohort, will promote diversity of thought and better decision-making, particularly when it encourages diversity of skills, experience and other attributes that enables the directors to counsel and oversee management more effectively.

##### 2. Executive remuneration

Executive remuneration can be an important tool in driving long-term sustainable returns to shareholders, delivery on strategy, and creating the desired culture and behaviour within organisations. We engage to strengthen the links between these three components while ensuring executive pay is not excessive, is reflective of the shareholders' experience, and seeks to minimise unintended consequences.

##### 3. Relationship with shareholders

Companies should engage in continuous dialogue with shareholders on material issues, including addressing any significant dissent before or after shareholder meetings. We encourage companies to do this all year round, and not just in the wake of their annual meetings. Particularly in the case of controlled companies, there should be an independent member of the board specifically responsible for addressing minority shareholders' concerns and who is available to meet with shareholders without management present.

##### 4. Purpose, strategy and capital allocation

We believe it is important that the board takes responsibility for oversight of a company's purpose and long-term strategy, and is effectively overseeing the material and salient risks that can affect long-term sustainable returns to shareholders. We encourage boards and management to deploy capital efficiently on behalf of shareholders, while also taking into account other stakeholders' expectations.

##### 5. Transparency, risk and reporting

Auditors are expected to provide robust, transparent and objective assessments of companies' financial health. We engage to discuss the company's relationship with the auditors and the quality of the audit, as well as review the fees paid, ensuring independence and impartiality is maintained and audit quality is improved, when necessary. We encourage companies to disclose their processes for identifying and managing risks. We also engage on the responsible payment and transparent disclosure of taxes, as well as lobbying activities and political donations. We expect companies to maintain effective internal audit functions and whistleblowing facilities that are independently overseen by the relevant board committee.





### How will we engage?

We have marked with a ♦ the priority corporate governance pillars for our engagement with large and medium companies<sup>45</sup>. Where appropriate, we have aligned our engagement expectations with regional best practice, legislation and relevant corporate governance codes. We also participate in a number of initiatives, collaborative projects and investor groups to encourage best practice.



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop an effective, accountable, inclusive, transparent and sufficiently independent boards	Board leadership on ethics and culture	<ul style="list-style-type: none"> <li>– Explain the role of the board in ensuring the highest ethical standards, including how management of ethics, culture and compliance is overseen by the board</li> <li>– Demonstrate oversight of the company’s purpose that takes account the most important issues affecting its stakeholders</li> </ul>
	Board leadership on strategy and risk	<ul style="list-style-type: none"> <li>– The board is responsible for overseeing the delivery of its strategy and capital allocation</li> <li>– The board is responsible for overseeing the risks arising from its purpose, strategy and how it is implemented, including cultural and reputational risks</li> <li>– The board provides meaningful disclosure about how it fulfils its ethical, strategic and risk oversight role, including an explanation of the sufficiency of its internal and external audit programmes</li> </ul>
	Board structure	<ul style="list-style-type: none"> <li>– Implement a strong CEO and executive succession planning process led by the board</li> <li>– Maintain a majority independent board at companies with a dispersed ownership structure. For controlled or family-owned companies, independence should be proportionate to the percentage of free float and a minimum of a third of the board should be independent. There should also be a lead independent director appointed to best represent the interests of minority shareholders</li> <li>– Disclose levels of independence on the board and how independence is assessed</li> <li>– Have a healthy mix of tenures, skills, experience and other attributes on the board</li> <li>– Seek to split combined chair and CEO roles and appoint an independent chair; in the interim, companies should appoint a strong lead independent director</li> <li>– Boards should promote diversity at board level and throughout the organisation in regard to gender, ethnicity and other attributes</li> </ul>

<sup>45</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired expectations. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.





**Desired long-term outcomes**

**Engagement topic**

**Desired short/mid-term actions**

**Boards and management (continued)**

Develop an effective, accountable, inclusive, transparent and sufficiently independent boards (continued)

Board effectiveness

- Regularly, formally and robustly assess board, committee and individual director performance in addition to continuous monitoring
- Disclose director biographies including descriptions of their diverse characteristics, skills and experience
- Constantly review board members' performance, external commitments and ability to fulfil their duties
- Ensure the board is refreshed regularly taking account of performance and the attributes, including diversity, skills, experience and independence, that the board needs for the future success of the company
- The independent directors should play a significant role in the continuous performance evaluate on and succession planning processes of the board





Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Executive remuneration</b>		
Fair and balanced executive compensation which drives long-term value creation and the desired corporate culture	Philosophy	<ul style="list-style-type: none"> <li>- Explain how remuneration policies and practices promote the desired culture at all levels of the organisation, including the executives, management and entire workforce</li> <li>- Conduct an annual vote on remuneration</li> <li>- Set clear and understandable pay structures</li> <li>- Develop remuneration schemes with a focus on long-term value creation</li> <li>- Maintain an ability to apply judgment or other tools to reduce payment to management when the metrics used to calculate remuneration produce payment that is not merited by overall performance.</li> <li>- Incorporate robust risk mitigation measures, such as significant shareholding requirements, use of downward discretion, clawback, malus and deferral</li> <li>- Demonstrate how the company relies on factors other than pay to incentivise management</li> </ul>
	Structure	<ul style="list-style-type: none"> <li>- Shift towards simpler remuneration structures</li> <li>- Focus on long-term strategic goals, with the remuneration committee, cognisant of total shareholder return and wider performance</li> <li>- Ensure, as with financial measures, that ESG metrics are reflective of the company's strategy, well-articulated, clearly measurable and rigorous</li> <li>- Ensure that the majority of awards are contingent on challenging financial performance hurdles</li> <li>- Ensure that strategic, personal objectives and sustainability targets are not too large a proportion of the executive remuneration and only earned for outstanding performance</li> <li>- Ensure pay packages are long-term and aligned with the shareholder experience</li> <li>- Disclose targets and pay outcomes, showing clear alignment between pay and performance</li> </ul>
	Quantum	<ul style="list-style-type: none"> <li>- Have in place significant and long-term shareholding requirements for executives and directors with prohibition of all share hedging and strong limits on pledging, in particular for non-founders</li> <li>- Set measures to monitor CEO pay so as to ensure pay is aligned to company performance</li> <li>- Do not use special retention awards</li> <li>- Develop and maintain severance pay arrangements which are reflective of the departing executive's performance with the option for discretion to be applied by the board to reduce pay-outs, if appropriate</li> <li>- Take account of shareholders', employees' and other stakeholders' experience when setting pay and assessing performance</li> </ul>



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Relationship with shareholders</b>		
Deliver long-term sustainable value creation for shareholders	Engagement	<ul style="list-style-type: none"> <li>- Conduct shareholder dialogue at the board level on various topics. Board directors should be accessible depending on topic (e.g. committee chair, lead director)</li> <li>- Maintain an open dialogue all year round, and not only in relation to the annual meeting</li> <li>- Consult shareholders on key decisions, such as new strategy, climate targets and succession planning</li> </ul>
	Shareholder rights	<ul style="list-style-type: none"> <li>- Set measures to have directors attend and participate in shareholder meetings</li> <li>- Set measures to have directors elected by a simple majority in annual elections</li> <li>- Encourage single class of share capital and 'one share, one vote'</li> <li>- Set measures such that significant change to the company's capital structure, material mergers and acquisitions (M&amp;A) etc. require shareholder approval</li> <li>- Effectively identify, manage and report on potential conflicts of interest, including related party transactions</li> <li>- Encourage a framework that respects and enables shareholders to file resolutions and does not unreasonably obstruct shareholders' rights to file shareholder proposals in any way</li> <li>- Ensure that shareholders, owning a reasonable proportion of shares, have the right to call a special meeting</li> <li>- Incorporate reasonable proxy access provisions</li> <li>- Provide sufficient and timely information about any voting proposal</li> </ul>
	Minority shareholder representation	<ul style="list-style-type: none"> <li>- Put measures in place, particularly where there is a controlling shareholder, in order to protect minority shareholder interests. These could include: independent chair or lead independent director, sufficient, good quality independent directors, engagement with shareholders and a single class share structure</li> <li>- Develop and execute agreed strategy that is capable of providing sustained returns to shareholders</li> <li>- Name an independent member of the board to be available to discuss minority shareholder concerns</li> </ul>
	Consideration of stakeholders	<ul style="list-style-type: none"> <li>- Consider the interests of stakeholders, including shareholders, in all board and executive team decision making</li> </ul>



**Desired long-term outcomes**

**Engagement topic**

**Desired short/mid-term actions**

**Purpose, strategy and capital allocation**

Long-term value creation through the effective use of capital in line with the company purpose

Purpose

- Publish the company's purpose, owned by the board, which is inclusive of all key stakeholders
- Take responsibility at the board level for ensuring management fulfils the stated purpose

Mergers and Acquisitions (M&A)

- Set measures such that M&A decisions can be voted on by both parties' shareholders. If necessary, an independent committee within the board should oversee any M&A, and any director with potential conflict of interest must recuse themselves

Efficient use of capital

- Put measures in place to not overly expose the balance sheet to risk when making capital allocation decisions
- Provide pre-emption rights for share issuance, in accordance with the guidelines set out by the UK Pre-Emption Group or regional best practice, subject to past performance of management and the board





Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<b>Transparency, risk and reporting</b>		
Develop effective, accountable, inclusive and transparent business practices	Disclosure	<ul style="list-style-type: none"> <li>- Provide useful and comprehensive disclosure on governance issues to enable all stakeholders to make informed judgements and decisions</li> <li>- Disclose all material risks, including emerging risks, of which the board has oversight and the process for identifying these risks</li> </ul>
	Audit	<ul style="list-style-type: none"> <li>- Maintain an independent auditor to examine and provide assurance on the company's financial position</li> <li>- Have the wholly independent audit committee oversee the audit process; the whole board should be responsible for financial statements. Designate that the audit committee chair be responsible for overseeing the internal audit function</li> <li>- Ensure that the board satisfies itself that whistleblowing arrangements are working as intended</li> <li>- Encourage the audit committee chair to engage with shareholders on audit related matters on request</li> <li>- Report clearly the company's material risks and how the company manages and mitigates them</li> <li>- Strive for high quality, independent and effective audits</li> <li>- Provide a clear breakdown and explanation of all fees paid to the external auditor during the year</li> <li>- Implement the regular tender and replacement of external auditors in line with local regulations and global best practice</li> <li>- The board must set the company's risk appetite and oversee the material and salient risks arising from its strategy</li> <li>- The board must ensure that the company demonstrates that it is managing risks, in line with its tolerances</li> </ul>
	Tax	<ul style="list-style-type: none"> <li>- Comply with all tax laws and the intentions behind them and disclose the full extent of taxes paid or collected in each country</li> <li>- Publish a global tax policy, explain how the company manages its tax affairs in a way that supports the spirit of applicable legislation and describe how it considers important stakeholder concerns</li> </ul>
	Lobbying and political contributions	<ul style="list-style-type: none"> <li>- Regularly disclose funds spent on direct lobbying activities (estimates) and in support of political candidates and organisations, and explain how these activities are aligned to the company's strategic goals</li> <li>- Disclose memberships of and fees paid to trade associations. Explain the governance around the company's approach to lobbying conducted by the trade association, in particular, if it disagrees with the policy position of the trade association</li> </ul>



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