Schroders

Schroder Investment Management (Europe) S.A.

LEI : 8AFAYMK90I2QVGLMLS34

Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors

30 June 2023

Summary

Schroder Investment Management (Europe) S.A. (8AFAYMK90I2QVGLMLS34) considers the principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Schroder Investment Management (Europe) S.A. This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022 (Q1 2022 – Q4 2022). For the avoidance of doubt, the data and analysis included in this statement excludes those financial products which do not consider principal adverse impacts on sustainability factors at the product level under Article 7 SFDR and any other assets under management which are not in-scope of the definition of 'financial product' under SFDR.

The table below sets out the principal adverse impact (PAI) indicators that we have considered, further details of which are provided in the section titled '*Description of the principal adverse impacts on sustainability factors'* below. Policies relating to these PAI indicators including those relating to engagement and details on adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting are also detailed in the sections below.

Summary of Principal Adverse Impact Indicators

Applicable to	Themes	PAI indicator	SFDR Annex Table	Number
Investee companies	Climate and other environment-related indicators	GHG emissions	1	1
		Carbon Footprint	1	2
		GHG intensity of investee company	1	3
		Exposure to companies active in the fossil fuel sector	1	4
		Share of non-renewable energy consumption and production	1	5
		Energy consumption intensity per high impact climate sector	1	6
		Activities negatively affecting biodiversity-sensitive areas	1	7
		Emissions to water	1	8
		Hazardous waste and radioactive waste ratio	1	9
		Investments in companies without carbon emission reduction initiatives	2	4
	Social and employee, respect for human rights, anti corruption and anti bribery matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	1	10

		Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	1	11
		Unadjusted gender pay gap	1	12
		Board gender diversify	1	13
		Exposed to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	1	14
		Lack of a supplier code of conduct	3	4
Sovereigns and supranationals	Environmental and social-related indicators	GHG Intensity	1	15
		Investee countries subject to social violations	1	16
Real estate assets	Fossil fuels and energy efficiency related indicators	Exposure to fossil fuels through real estate assets	1	17
		Exposure to energy-inefficient real estate assets	1	18

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies

Climate and other environment-related indicators

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Greenhouse Gas Emissions				
1. GHG Emissions	Scope 1 GHG emissions	**4,057,665.51** (metric tons)	Sum of portfolio companies' Carbon Emissions – Scope 1 (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash.	**General Approach** Schroders is a founding member of the Net Zero Asset Managers initiative, committing to achieve net zero emissions by 2050 or sooner. Our net zero commitment spans across both the investments we manage on behalf of our clients and our operations. We have committed to aligning all our managed, in scope, assets to 1.5C degree world by 2040, through the Science Based Targets Initiative (SBTi). At present, this includes all mandatory asset classes required by SBTi, listed equity (common and preferred stock exposure), corporate bond, real estate investment trust (REIT) and exchange-traded fund (ETF) exposure. Our mid and long-term targets, which have since been verified by SBTi in 2022, are to reduce the implied temperature of our clients' portfolios from a baseline of 2.9°C in 2019, to 1.5°C across Scope 1, 2 and 3 emissions in 2040, with an interim target of 2.2°C across Scope 1 and 2 emissions by 2030. Schroders further commits to include 100% of AUM, including private assets, within the SBTi target by 2040. **Active Ownership** Schroders recognises the importance of all companies assessing and understanding climate risk and the impact it may have on their business. In 2021, Schroders committed to transitioning the implied temperature rise of its in-scope managed portfolios toward a 1.5°C aligned pathway. At the point of validation in 2022, this includes all mandatory asset classes required by the Science Based Targets initiative (SBTi), which consist of our listed equity (our common and preferred stock exposure), corporate bond, real estate investment trust (REIT) and exchange-traded fund (ETF) exposure. We engage on four key themes: 1. Climate risk and oversight 2. Climate alignment 3. Climate adaptation 4. Carbon capture and removal Our proxy voting approach is to support resolutions that ask the company to align its financing activities with the goals of the Paris Agreement.
	Scope 2 GHG emissions	**1,378,126.56** (metric tons)	Sum of portfolio companies' Carbon Emissions – Scope 2 (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash.	
	Scope 3 GHG emissions	**35,781,662.73** (metric tons)	Sum of portfolio companies' Scope 3 – Total Emission Estimated (tCO2e) weighted by the portfolio's value of investment in a company and by the company's most recently available enterprise value including cash.	
	Total GHG emissions	**41,176,696.39** (metric tons)	The total annual Scope 1, Scope 2, and estimated Scope 3 GHG emissions associated with the market value of the portfolio. Companies' carbon emissions are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash).	
2. Carbon Footprint	Carbon Footprint	**374.77** (metric tons)	The total annual Scope 1, Scope 2, and estimated Scope 3 GHG emissions associated with 1 million EUR invested in the portfolio. Companies' carbon emissions are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash).	
3. GHG intensity of investee company	GHG Intensity of investee companies	**1014.03** (metric tons)	The portfolio's weighted average of its holding issuers' GHG Intensity (Scope 1, Scope 2 and estimated Scope 3 GHG emissions/EUR million revenue).	
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	**6.59%** (ratio %)	The percentage of the portfolio's market value exposed to issuers with fossil fuels related activities, including extraction, processing, storage and transportation of petroleum products, natural gas, and thermal and metallurgical coal.	
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	**80.99%** (ratio %)	The portfolio's weighted average of issuers' energy consumption and/or production from non-renewable sources as a percentage of total energy used and/or generated.	
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	**29.22** (GWh/EUR million)	Portfolio weighted average of company Energy consumption intensity (GWh / EUR million sales) (ENERGY_CONSUMP_INTEN_EUR) per high impact climate sector (NACE section code (NACE_SECTION_CODE) A, B, C, D, E, F, G, H, and L). Portfolio weights are normalized when Energy consumption intensity coverage is less than 100%.	

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Biodiversity				
7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas	**0.06%** (ratio %)	The percentage of the portfolio's market value exposed to issuers' that reported having operations in or near biodiversity sensitive areas and have been implicated in controversies with severe or very severe impacts on the environment.	**General approach** Schroders recognises the importance of all companies assessing and reporting on their exposure to natural capital and biodiversity risk. Schroders has committed to eliminate exposure to commodity-driven deforestation from our managed assets by 2025. This is codified in the statement on the Financial Sector Commitment on Eliminating Commodity-Driven Deforestation released during COP26. **Active Ownership** Our engagement is focused on improving disclosure across four key themes: 1. Natural-related risk and management 2. Circular economy, pollution and waste 3. Sustainable food and water 4. Deforestation Our proxy voting approach is to support resolutions that promote greater disclosure on how managers consider biodiversity.
Water				
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	**2.29** (metric tons/EUR million)	The total annual wastewater discharged (metric tons reported) into surface waters as a result of industrial or manufacturing activities associated with 1 million EUR invested in the portfolio . Companies' water emissions are apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash).	
Waste				
9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	**3.52** (metric tons/EUR million)	The total annual hazardous waste (metric tons reported) associated with 1 million EUR invested in the portfolio. Companies' hazardous waste is apportioned across all outstanding shares and bonds (based on the most recently available enterprise value including cash).	

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Social and employee matters				
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	**1.03%** (ratio %)	The percentage of the portfolio's market value exposed to issuers with very severe controversies related to the company's operations and/or products.	**General approach** Schroders became a signatory to the UNGC principles on 6 January 2020. Companies in violation of its principles are excluded from the portion of the portfolio allocated to sustainable investments, as Schroders considers violators to cause significant harm to one or more environmental or social sustainable investment objectives. The areas determining whether an issuer is an UNGC violator include issues that are covered by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, such as human rights, bribery and corruption, labour rights, child labour, discrimination, health and safety, and collective bargaining. **Active Ownership** Schroders engagement approach on human rights covers three core stakeholders across a company's business, including its value chain: 1. Workers 2. Communities 3. Customers and consumers
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	**48.15%** (ratio %)	The percentage of the portfolio's market value exposed to issuers that are not signatories in the UN Global Compact.	

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
				When companies join the UNGC violators list, our analysts and fund managers engage with the company to understand the risk to the business, the 'harm' to its stakeholders and the remedial action being taken. Our proxy voting approach is to support resolutions that ask the company to report on its human rights due diligence process.
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	**12.74%** (ratio %)	The portfolio holdings' weighted average of the difference between the average gross hourly earnings of male and female employees, as a percentage of male gross earnings.	**General approach** Schroders believes that companies should strive to create diverse, equitable and inclusive cultures in their organisations. Gender is one of our diversity lenses that is core to our engagement and voting principles. In this regard, we set clear expectations for companies. **Active Ownership** Schroders engagement approach on diversity and inclusion covers four key areas of a company's human capital: 1. The board 2. The executive management 3. The workforce 4. Its value chain Improving disclosure on Board Diversity and the gender pay gap are two of the priority objectives outlined in our Engagement Blueprint. We request that companies implement a policy that requires each board vacancy to consider at least one or more diverse candidates. In the UK, Europe and North America, we expect larger companies to have at least 33% female board directors and for smaller companies we expect at least 20% female board representation. We will vote against the governance and/or nominations committee chair where we have concerns about insufficient gender diversity on the board. In the UK and North America, we will also expect companies to have at least one non-white director.
13. Board gender diversify	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	**35.39%** (ratio %)	The portfolio holdings' weighted average of the ratio of female to male board members.	
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	**0%** (ratio %)	The percentage of the portfolio's market value exposed to issuers with an industry tie to landmines, cluster munitions, chemical weapons or biological weapons. Note: Industry ties includes ownership, manufacturing and investments. Ties to landmines do not include related safety products.	**General Approach** Schroders fully supports the following international conventions: • The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions • The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of antipersonnel landmines • The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons • Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons We will not knowingly hold any security in an issuer that is involved in the production, stockpiling, transfer and use of these weapons. On occasion there may be additional securities recognised by clients or local governments; these will be added to the Schroders group exclusion list for those relevant jurisdictions or specific mandates. The list of excluded companies is available here.

Indicators applicable to investments in sovereigns and supranationals

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental				
15. GHG Intensity	GHG intensity of investee countries	**362.68** (t/EUR million)	The portfolio's weighted average of sovereign issuers' GHG Emissions Intensity (Scope 1, 2 and 3 emissions/EUR M GDP).	**General approach:** In the context of climate change for our Fixed Income portfolios, where appropriate, Schroders approach includes reviewing whether a government has made a net zero pledge contained in an official policy document. **Active Ownership:** Where appropriate and applicable, our approach to active ownership with sovereigns is to engage with securities such as sovereign debt, where we can engage with a range of different Government stakeholders including the issuing Debt Management Offices, Central Banks and different Government departments. Our engagement with sovereigns spans across multiple dimensions to seek transparency on the ESG information which will inform our investment outlook, to share our insights on how they are managing sustainability risks and what this means for our view on the investment quality of their debt and the environment they are providing for investee companies to deliver value. Our work on climate change includes engaging on topics to gain a better understanding of how governments plan to finance the transition to a more sustainable economy, including assessing the objectives of sustainability issuances,
Social				
16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	**2** (Number of investee countries)	The portfolio's number of unique sovereign issuers with European External Action Service (EEAS) restrictive measures (sanctions) on imports and exports.	**General approach:** Schroders are developing an approach that involves setting a defined tolerance level, where possible, to assess harm. To inform our approach, we will rely on data from third-party data providers, and give our analysts and investment teams the opportunity to assess if harm may be caused and determine an appropriate action. On 6 January 2020, Schroders became a signatory to the United Nations Global Compact (UNGC) principles.

Indicators applicable to investments in real estate assets

Adverse Sustainability Indicator	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil Fuels				
17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	Not currently available	**General approach** Schroders is progressing its engagement framework to include our direct real estate investments. Our approach to active ownership in real estate is to integrate it across the investment lifecycle from acquisition due diligence, through active asset and property management, to refurbishment and developments. Our work on climate change includes engaging on topics such as implementing energy efficiency improvement measures and supporting the procurement of renewable energy.
Energy efficiency				
18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	N/A	Not currently available	

Other indicators for principal adverse impacts on sustainability factors

Additional climate and other environment-related indicators

Indicators applicable to investments in investee companies

Climate and other environment-related indicators Adverse Sustainability Impact - Emissions	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Adverse impact on sustainability factors (qualitative or quantitative)				
19. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	**41.40%** (ratio %)	The percentage of the portfolio's market value exposed to issuers without a carbon emissions reduction target aligned with the Paris Agreement.	**General Approach** Schroders is a founding member of the Net Zero Asset Managers initiative, committing to achieve net zero emissions by 2050 or sooner. Our net zero commitment spans across both the investments we manage on behalf of our clients and our operations. We have committed to aligning all our managed, in scope, assets to 1.5C degree world by 2040, through the Science Based Targets Initiative (SBTi). At present, this includes all mandatory asset classes required by SBTi, listed equity (common and preferred stock exposure), corporate bond, real estate investment trust (REIT) and exchange-traded fund (ETF) exposure. Our mid and long-term targets, which have since been verified by SBTi in 2022, are to reduce the implied temperature of our clients' portfolios from a baseline of 2.9°C in 2019, to 1.5°C across Scope 1, 2 and 3 emissions in 2040, with an interim target of 2.2°C across Scope 1 and 2 emissions by 2030. Schroders further commits to include 100% of AUM, including private assets, within the SBTi target by 2040. **Active Ownership** Schroders recognises the importance of all companies assessing and understanding climate risk and the impact it may have on their business. In 2021, Schroders committed to transitioning the implied temperature rise of its in-scope managed portfolios toward a 1.5°C aligned pathway. At the point of validation in 2022, this includes all mandatory asset classes required by the Science Based Targets initiative (SBTi), which consist of our listed equity (our common and preferred stock exposure), corporate bond, real estate investment trust (REIT) and exchange-traded fund (ETF) exposure. We engage on four key themes: 1. Climate risk and oversight 2. Climate alignment 3. Climate adaptation 4. Carbon capture and removal Our proxy voting approach is to support resolutions that ask the company to align its financing activities with the goals of the Paris Agreement.

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Indicators applicable to investments in investee companies

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse Sustainability Impact – Social and employee matters	Metric	Impact	Explanation	Actions taken, and actions planned and targets set for the next reference period
Adverse impact on sustainability factors (qualitative or quantitative)				
20. Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour)	N/A	Not currently available	**General approach** Schroders became a signatory to the UNGC principles on 6 January 2020. Companies in violation of its principles are excluded from the portion of the portfolio allocated to sustainable investments, as Schroders considers violators to cause significant harm to one or more environmental or social sustainable investment objectives. The areas determining whether an issuer is an UNGC violator include issues that are covered by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, such as human rights, bribery and corruption, labour rights, child labour, discrimination, health and safety, and collective bargaining. **Active Ownership** Schroders engagement approach on human rights covers three core stakeholders across a company's business, including its value chain: 1. Workers 2. Communities 3. Customers and consumers When companies join the UNGC violators list, our analysts and fund managers engage with the company to understand the risk to the business, the 'harm' to its stakeholders and the remedial action being taken. Our proxy voting approach is to support resolutions that ask the company to report on its human rights due diligence process.

Description of policies to identify and prioritize principal adverse impacts on sustainability factors

As a global asset manager, we believe that the Schroders group can play an important role in understanding the relationship between the social and environmental challenges the world faces and the potential impact that these could have on the investments that we make on behalf of our clients. Through the integration of Sustainability Risk Considerations, we apply an investment framework through which the risks and opportunities related to sustainability factors may be considered by our investment teams as a function of the investment process in each strategy context.

Our approach to considering principal adverse impacts (PAI) on sustainability factors involves classifying the indicators into three categories:

1. Set exclusionary thresholds: these involve very explicit thresholds for considering an investment to be a "sustainable investment". For example, PAI 10 on violations of UNGC principles.

2. Active ownership: these involve indicators on which we have a plan to engage with the underlying holding as set out in the Schroders Group document, accessed via https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf, outlining our approach to active ownership. For example, PAI 1, 2 and 3 covering GHG emissions and PAI 13 on board gender diversity.

Improve coverage: these involve indicators where we consider data coverage to be too sparse to properly consider them and our focus is primarily on engaging with the underlying holdings to increase reporting. For example, PAI 7 on biodiversity, PAI 9 on hazardous waste ratio and PAI 12 on the gender pay gap. Our approach is subject to ongoing review, particularly as the availability, and quality, of PAI data evolves.

Wherever the Investment Manager deems it appropriate, in the context of an incomplete and developing data landscape, the Investment Manager sets levels or principles representing its views of what would constitute significant harm in respect of the indicators for the principal adverse impacts. Investee companies deemed not to satisfy these levels or principles would not be eligible to be considered as a sustainable investment. This framework is subject to ongoing review, particularly as the availability, and quality, of the data evolves.

The integration of Sustainability Risk Considerations policy (approved in March 2021) in our investment processes is intended to provide a broader assessment of the market in which issuers operate, and their performance in managing different stakeholders' interests, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone. We recognise that companies do not operate in a vacuum: their long term competitiveness, profitability and value may be closely tied to their ability to adapt to, and take advantage of, structural social and environmental trends. Understanding and incorporating trends such as globalisation, changing political landscapes, ecosystem disruptions, urbanisation, resource depletion, demographics, climate change, shifting employee attitudes or evolving consumer tastes can be important factors in assessing issuers' potential long-term success.

The responsibility for the implementation of all sustainability strategies, including PAIs, is dependent on the operational activity. At entity level, the Sustainability Executive Committee (ExCo) is responsible for governing and driving the Group's sustainability strategy. The central Sustainable Investment team is responsible for advising on the most appropriate mechanism for the implementation of sustainability policies, both by the business for entity level activities, and at product level for investment products. And at product level, the investment teams are responsible for the consideration of PAIs in their investment decision-making process.

As noted above, exclusionary thresholds are established for PAIs on sustainability factors where a level, or 'threshold' of significant harm can be defined by the investment manager. An assessment of the severity of each PAI (including it's potentially irremediable character) is undertaken by the central Sustainable Investment team to determine where such thresholds for harm could be established, and these thresholds are agreed with the impacted investment teams and ratified by the Sustainability ExCo. For instance, companies deriving any revenue exposure to controversial weapons, as defined under PAI 14, are believed to cause harm and are excluded. Conversely, for PAIs 1, 2 and 3, we currently focus thresholds based on the sector of operations, with our Article 8 and 9 funds excluding companies that generate >10% of revenue from thermal coal mining, or >30% of revenue from thermal coal energy generation. This is because the production of GHG emissions as a bi-product of company operations is a certainty and so the severity of the exclusions cannot be treated in the same manner as exposure to controversial weapons. Accordingly, the probability of occurrence for each PAI is a factor that is used to determine whether:

A) Exposure to the PAI can constitute 'Harm,' and, if so;
B) The threshold for calculating 'harm.'

To take this further and, the Investment Manager is in the process of developing an internal materiality map to identify the materiality of PAI indicators across various sectors. This map will serve as a guide for our investment teams when analysing and reviewing PAIs and is being developed on a best effort basis. Materiality is determined by the level of risks and opportunities associated with each indicator, based on both quantitative and qualitative analysis.

Where the investment manager establishes a threshold for the exclusion of sustainability factors, an exceptions process exists for companies that breach the threshold by a small margin, accounting for the margin of error that may exist in the calculation of the PAIs.

The Investment Manager draws information on investee companies from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics. Third party research may be used, however our analysts form a proprietary view on each of the companies we analyse. The Investment Manager subscribes to external ESG research providers including; MSCI ESG research, Bloomberg, Refinitiv, Sustainalytics and Morningstar, which is subject to periodic review and change.

Whilst the third parties that deliver the vast majority of the data used have been chosen carefully, data errors may occur. To address this, a dedicated ESG Data Governance team pro-actively monitors for errors and resolves data queries. This involves close collaboration with the third-party data providers, and managing and tracking data corrections.

Limitations to the Investment Manager's methodology and data may arise from data availability, and specifically the lack of company reported data. Where data is not available, Schroders will engage with companies to encourage them to disclose the missing data points. Some of our proprietary tools infer missing values where applicable. Our models typically employ a range of techniques to estimate missing values where appropriate and reasonably robust. Where data for a metric is not sufficiently available to form robust conclusions, that metric is not included in the proprietary tools.

As offered in some of our UCITS and AIF sub-funds that are Article 8 or 9 funds under SFDR, and for certain client mandates, we use a range of proprietary tools to support the consideration of Sustainability Risks along with supplementary metrics from external data providers and our own due diligence. This analysis forms a view of the potential impact of Sustainability Risk Considerations on an overall investment portfolio and, alongside other risk considerations, the possible financial returns of the portfolio.

Proprietary Tools

CONTEXT and **SustainEx™** are among the main tools currently available for our investment teams that help them consider the potential sustainability impact of our investments and associated Sustainability Risks. Through these tools we aim to focus on the material issues facing the companies in which we invest.

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

SustainEx™ provides an estimate of the potential environmental or societal impact that an issuer may create. It does this by using certain metrics chosen by us, and quantifying the positive (for example by paying 'fair wages') and negative (for example the carbon an issuer emits) impacts of each of those metrics to produce an aggregate measure expressed as a notional percentage of sales of the relevant issuer. SustainEx™ utilises and is reliant on third party data as well as Schroders' own modelling assumptions, and the outcome differs from other sustainability tools and measures. Like any model, SustainEx™ will evolve and develop over time as we continue to assess, refine and add to the metrics and their relative contributions. The model enables our investment teams to integrate Sustainability Risk Considerations effectively by assessing issuers having regard to such measures, and the risks they face if the social and environmental "costs" they externalise were to be pushed into their own financial costs.

Schroders' proprietary sustainability tools including SustainEx™ may not cover all of a fund's holdings from time to time, in which case Schroders may use a range of alternative methods.

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

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

In relation to this, note data sources used including the limitations relating to data availability referenced above.

Engagement policies

We believe effective and responsible engagement is key to delivering long-term risk-adjusted returns for our clients. As such, engagement and voting are integral to our investment process. We publish our ESG Policy on our website; available here. Both our engagement and voting policies are contained within this document. In particular, we describe our approach to both engagement and voting and identify the principles we follow when we vote. In addition to our policy on engagement, we recently published our Engagement Blueprint which sets out the key topics we will engage with companies on and the expectations we have. The document is available here. We have aligned each of the PAIs to one of Schroders six core engagement themes. We summarise below the thresholds that apply and the engagement actions we have for each:

Climate Change:

PAIs 1, 2, 3, 4, 5, 6 and 19 (voluntary indicator no. 4 from Annex I Table 2) relate to the Engagement Blueprint theme of Climate Change. Details of our Engagement Blueprint can be found here: (Link https://mybrand.schroders.com/m/3222ea4ed44a1f2c/original/schroders-engagement-blueprint.pdf). We engage to understand how companies are responding to the challenges climate change may pose to their long-term financial position. Through our engagement activity we seek to understand different areas, such as the speed and scale of emission reduction targets and steps being taken to meet climate goals.

Biodiversity and Natural Capital:

PAIs 7, 8 and 9 relate to the Engagement Blueprint theme of Biodiversity and Natural Capital. We recognise the importance of all companies assessing and reporting on their exposure to natural capital and biodiversity risk. We focus our engagement on improving disclosure around a number of themes such as deforestation and sustainable food and water.

Human Rights:

PAIs 10 and 14 relate to the Engagement Blueprint theme of Human Rights. There is increasing pressure on the role that businesses can and should play to respect human rights. We understand the higher operational and financial risks, and the reputational risk that human rights controversies cause. Our engagement focuses on three core stakeholders: workers, communities and customers.

Human Capital Management:

PAIs 11, 12 and 13 relate to the Engagement Blueprint theme of Human Capital Management. We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage and that effective human capital management is essential to drive innovation and long-term value creation. We also recognise a number of links between high standards of human capital management and the achievement of the SDGs. Our engagement activities address themes such as health and safety, corporate culture and investment into the workforce.

Diversity and Inclusion:

PAIs 12 and 13 relate to the Engagement Blueprint theme of Diversity and Inclusion. Improving disclosure on board diversity and gender pay gap are two of the priority objectives outlined in our Engagement Blueprint. We request that companies implement a policy that requires each board vacancy to consider at least one or more diverse candidates. Our engagement approach also addresses diversity of the executive management, the workforce and in the value chain.

Corporate Governance:

PAIs 20 (voluntary indicator no. 4 from Annex I Table 3), 12 and 13 relate to the Engagement Blueprint theme of Corporate Governance. We engage with companies to seek to ensure businesses act in the best interest of shareholders and other key stakeholders. We also recognise that, in most cases, in order to see progress and performance on other material ESG issues, strong governance structures need to first be in place. We therefore engage on a number of corporate governance aspects such as executive remuneration, boards and management, and strategy.

Our Shareholder Rights Directive II (SRD II) (Article 3g of Directive 2007/36/EC) statement is published here.

Schroders firmly believes that companies that are well-governed and operate transparently, responsibly and sustainably are more likely to benefit from the long-term financial health and increase stakeholder value. Our engagement activities are undertaken by our portfolio managers and the Sustainable Investment team.

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

- **Knowledge**: We leverage the knowledge of our analysts and portfolio managers in order to understand which sustainability issues matter to a company's long-term performance
- **Relationships**: We have built strong, long-standing relationships with a significant proportion of the companies in which we invest and aim to record and track our engagement with them
- **Impact**: The insight gained through engagement can directly influence the investment case
- **Incentive**: We may reduce or sell out of a holding if engagement is unsuccessful, or avoid investing in the first place

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

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

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

Voting disclosures: In 2022 and before we disclosed voting decisions at resolution level on a monthly basis. From 2023, we have chosen to disclose our vote records one day post meeting date, a progressive move from monthly disclosure, our disclosure includes our rationale for any vote against the board recommendations and is available here.
Engagement disclosures: Each quarter and annually we publicly disclose details of our engagement activities this includes a list of companies engaged, their geographic location and who at Schroders undertook the engagement. Case studies of individual engagements are also included in our quarterly reports. These are available to download here: https://www.schroders.com/en/sustainability/active-ownership/sustainability-analysis-in-practice/.

References to international standards

In the below section we provide details of the internationally recognised standards to assist with our assessment of our principal adverse impacts:

Climate Change (PAI 1-6):

We are a founding member of the Net Zero Asset Managers initiative where we commit to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. Schroders was one of the initial 30 global asset managers to join the initiative. Schroders has also had its greenhouse gas emission reduction goals formally validated by the Science Based Targets initiative (SBTi). The SBTi has confirmed that Schroders' Scope 1 and 2 targets are in line with a 1.5°C trajectory. Our relevant assets under management1 are also targeted to be fully aligned with a 1.5C pathway by 2040. The initiative aims to encourage companies to align their business models with the objective, set out in the Paris Agreement, to limit global warming to 1.5°C compared to pre-industrial levels. To achieve this objective, Schroders aims to engage with up to 1,000 companies by 2030. This climate engagement programme involves an annual prioritisation process whereby, amongst other data points, Schroders forecasts the transition risk of its issuers to identify a focus list to engage with. Schroders subscribes to external ESG research providers to inform its climate research and proprietary climate tool; including MSCI, CDP, Refinitiv and FactSet.

Biodiversity and Human Capital (PAI 7-9):

We recognises the importance of all companies assessing and reporting on their exposure to natural capital and biodiversity risk. Schroders has committed to eliminate exposure to commodity-driven deforestation from our managed assets by 2025. This is codified in the statement on the Financial Sector Commitment on Eliminating Commodity-Driven Deforestation released during COP26.

UNGC violators (PAI 10, 11 and 20):

We became a signatory to the UN Global Compact (UNGC) principles on 6 January 2020. This excludes companies in violation of the UNGC principles, as Schroders considers violators cause significant harm to one or more environmental or social sustainable investment objectives. The areas determining whether an issuer is an UNGC violator include issues that are covered by the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, such as human rights, bribery and corruption, labour rights, child labour, discrimination, health and safety, and collective bargaining. The list of UNGC violators is provided by a third party and compliance with the list is monitored via our automated compliance controls. Exceptions may apply, if there is evidence to demonstrate that the company has addressed the violation and is not causing significant harm.

Human Right (PAI 10 and 14):

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

More information can be found in our Group Human Rights Statement and in our latest Slavery and Human Trafficking Statement.

Schroders fully supports the following international conventions:

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

We will not knowingly hold any security in an issuer that is involved in the production, stockpiling, transfer and use of these weapons. On occasion there may be additional securities recognised by clients or local governments; these will be added to the Schroders group exclusion list for those relevant jurisdictions or specific mandates. Schroders uses third party data providers, MSCI and Sustainalytics, to inform the list is and is reviewed annually. The list of excluded companies is available here.

Historical comparison

The earliest historical comparison will be provided in June 2024.

Important information