

Schroders



**Schroders Group
Nature and Biodiversity
Position Statement**

November 2022

Contents

- Introduction 3**
- Scope 3**
- Our commitment..... 4**
- How we act 5**
- How we govern our actions..... 8**
- The awareness and training we provide..... 8**
- Our advocacy..... 9**
- Our plan on deforestation 10**
- Our reporting and transparency 13**

Introduction

As an active investment manager, we make decisions every day on behalf of savers and investors around the world. We make these choices carefully and deliberately - because they affect the financial future of our clients and they impact the wider world. We are responsible for £773.4 billion¹ of assets for our clients who trust us to deliver sustainable returns.

Man-made pressures are undermining the biodiversity that supports life on land and below water. Ecosystem services delivered by nature, such as water purification, crop pollination, flood protection and carbon sequestration are vital to human wellbeing and effective, functioning societies. Protecting terrestrial and marine ecosystems is critical in our efforts to mitigate and adapt to climate change and fundamental to achieving food security, poverty reduction and more inclusive and equitable development.²

Globally, the value of ecosystem services has been estimated at as much as USD 125-140 trillion annually, more than 1.5x global GDP.² The costs of inaction on biodiversity loss are huge. With more than half of our global GDP dependent on the natural world³, the reality is stark: nature risk is fast becoming an integral factor to investment risk. That's why action on nature and biodiversity goes to the heart of our fiduciary duty to our clients.

Global collective action to halt and subsequently reverse biodiversity loss needs to be scaled up dramatically and urgently. As a global investment manager we have a responsibility to mitigate risks in the portfolios we manage for our clients. This also provides an opportunity to invest in solutions to restore and protect natural capital. We use our influence to encourage the companies in which we invest, to mitigate the damage to the natural environment, in order to promote and preserve their financial wellbeing.

That's why we are setting out our ambition on nature: we want to harness the power of investment to accelerate a nature positive future.

Scope

This policy statement sets out Schroders' ('Group' 'our' or 'we') position on nature and biodiversity. It covers the investments we manage and our own operations with regards to nature and biodiversity, in the context of our Group commitments to environmental management and climate change mitigation and adaptation.

Nature refers to all assets in the natural world, including everything from soil, forests, air, water, geology and all living organisms.

Biodiversity is an important element of nature and refers to the variety of living things in a given area.

Ecosystem services: Biodiversity is vital for the healthy functioning of ecosystems which in turn provide a multitude of goods and services that underpin our economies. These services, known as ecosystem services, include everything from direct goods such as food, energy, and medicinal resources, to regulating services provided by nature, such as water filtration, crop pollination, carbon sequestration, climate regulation, and flood protection, to name a few. These ecosystem services almost always go unpriced, resulting in their excess use. This has resulted in ecosystem decline and degradation as well as rising ecological scarcity.

Natural capital refers to the stock of renewable and non-renewable natural assets (for example, ecosystems), that yield a flow of benefits to people (for example, ecosystem services). We've written more about this [here](#).

¹ As at 30 June 2022.

² <https://www.oecd.org/environment/resources/biodiversity/Executive-Summary-and-Synthesis-Biodiversity-Finance-and-the-Economic-and-Business-Case-for-Action.pdf>

³ <https://www.weforum.org/agenda/2018/10/this-is-why-putting-a-price-on-the-value-of-nature-could-help-the-environment/#:~:text=How%20much%20is%20nature%20worth,this%20report%20%7C%20World%20Economic%20Forum>

Our commitment

As signatories to the Finance for Biodiversity Pledge we have committed to:

- **collaborate and knowledge share** across the industry on nature and biodiversity;
- **engage with companies** to encourage best practice in understanding and reducing their impacts on nature;
- **assess the impact** of our financing activities on nature using best available data;
- **set targets** to reduce our impacts on nature, including our commitments on decarbonisation and deforestation; and
- **report publicly** in line with emerging disclosure guidance to ensure transparency around all of our commitments relating to nature.

We will use our influence to limit the pace of biodiversity loss with urgency this decade. We will also seek out innovative ways to accelerate capital deployment into restoring and protecting nature directly in order to maximise risk-adjusted returns for our clients. We have committed to:

- **Eliminate exposure to commodity-driven deforestation in the companies held in the investment portfolios we manage by 2025.** This is codified in the Financial Sector Commitment on Eliminating Commodity-Driven Deforestation, through which over 30 institutions representing close to USD 9 trillion in assets committed to eliminate commodity-driven deforestation in a statement released during COP26.⁴
- **Transition our managed assets to net zero by 2050 or sooner.** Climate change is one of the key drivers of biodiversity loss. We were founding members of the Net Zero Asset Managers initiative, committing to transition the portfolios we manage to net zero by 2050 or sooner. We followed this with the publication of our [Climate Transition Action Plan](#) in 2021 and [Task Force on Climate-Related Financial Disclosures \(TCFD\) Report](#) in 2022, which sets out how we are going to achieve our net zero ambitions. In February 2022, our science-based targets were validated by the Science-Based Targets initiative, making us among the first 20 financial institutions to reach that milestone.
- **Develop investment strategies to support greater investment in natural capital protection and regeneration.** This is reflected in our membership of the Natural Capital Investment Alliance, which comprises 15 investment firms working to mobilise USD 10 billion investment in natural capital assets in 2022.⁵
- **Manage and reduce the impact on biodiversity through our own business operations.** Our direct impact is through our resource consumption and waste management. We will continue to reduce our environmental impact according to the mitigation hierarchy, and where possible, enhance the environments in which we operate.

⁴ <https://racetozero.unfccc.int/wp-content/uploads/2021/11/DFE-Commitment-Letter-.pdf>

⁵ <https://www.sustainable-markets.org/ncia/>

How we act

Our approach to tackling impacts, managing risks in a transitioning world and identifying opportunities in nature and biodiversity is based on four main pillars:

1. Insights: developing our understanding and analysis to identify the exposure to nature risk that companies and assets have

- We have developed proprietary models and frameworks to assess companies' exposure to key elements of biodiversity risk and impacts based on the most robust and appropriate data currently available, recognising that there are still myriad data challenges. A summary of this analysis can be found on our website.⁶
- In 2021, we announced an investment in the leading natural capital analytical firm natcap research, along with Oxford Sciences Innovation.⁷ This partnership has strengthened our analysis of nature-related impacts and exposures. We will continue to work with natcap research to deepen our knowledge and strengthen its application.

We have developed analysis to support investment teams in identifying companies exposed to commodity-driven deforestation risks, either directly or through their value chains, and where efforts to mitigate those risks appear weak. A summary of this can be found on our website.⁸ We have published several reports and articles describing our views on the importance of biodiversity preservation, for example examining the drivers of global commodity-driven deforestation.⁹

2. Influence: engaging with and influencing companies to reduce their exposure to nature risk and their impacts on nature

Biodiversity is a key pillar of our [Engagement Blueprint](#), which lays out our expectations of the companies in which we invest. We recognise that our greatest ability to affect change comes through the investments we manage for our clients. As active investors, we will support companies whose business models rely directly or indirectly on biodiversity loss to transition toward sustainable business models. We prioritise four key engagement sub-themes:

- Nature-related risks and management:** The degradation of nature, including the loss of biodiversity and depletion of renewable stocks, poses a risk for businesses. We encourage companies to develop strong governance on this issue and adopt emerging good practices on nature-related financial disclosures and target setting.
- Circular economy, pollution and waste:** Creating a circular economy that limits pollution and waste and promotes re-use and recycling is critical in reducing the intensity of natural resource consumption and alleviating environmental pressures. We encourage companies to minimise waste, pollution and to promote circularity.
- Sustainable food and water:** The world's food system must transform to meet population growth and address malnutrition and other health risks. The food and water system is both at risk from climate change and is a significant contributor to greenhouse gas (GHG) emissions and other environmental pressures including land use change, pollution, pesticides and water use. We engage to promote a food and water system that is more environmentally sustainable, healthy and better able to meet the needs of a growing population.
- Deforestation:** Forests are an important carbon sink. They also play a critical role in the planet's water cycle and in sustaining biodiversity. Deforestation is a major contributor to GHG emissions and biodiversity loss. We expect companies to eliminate exposure to commodity-driven deforestation and

⁶ https://prod.schroders.com/en/sysglobalassets/digital/insights/2021/11-november/how-can-investors-assess-impacts-on-nature/603269_sc_in-focus-natural-capital-v04.pdf

⁷ https://www.schroders.com/en/media-relations/newsroom/all_news_releases/natural-capital-research-accelerates-global-growth-strategy-with-investment-from-schroders-and-osi/

⁸ https://prod.schroders.com/en/sysglobalassets/digital/insights/2021/11-november/how-can-investors-assess-impacts-on-nature/603269_sc_in-focus-natural-capital-v04.pdf

⁹ <https://www.schroders.com/en/insights/economics/qa-why-tackle-harmful-deforestation--and-how/>

to promote the sustainable management of forestry assets. See our **plan on deforestation** on pages 10–12.

3. Innovation: offering investment solutions in public and private markets that channel capital to protect and restore nature and deliver long-term returns

We recognise that a growing number of institutional and retail investors are looking for innovative nature-based investments. As a result, we have focused on building out our capabilities to help our clients invest in nature-based solutions that seek to generate strong investment returns and accelerate positive change to protect and restore nature. To strengthen our natural capital capabilities, we have announced several partnerships and investments:

- In July 2022 we announced a partnership with Conservation International to establish Akaria Natural Capital, a Singapore-based asset manager dedicated to natural capital investment in South East Asia. The ambition of the partnership is to scale-up the deployment of capital towards nature-based solutions that are designed to deliver significant positive climate, biodiversity and social impacts while generating long term value for investors.
- Together with BlueOrchard, a subsidiary in the Schroders Group, we aim to contribute to positive environmental and social impact through forestry. These may include forest protection and conservation projects, reforestation and afforestation projects, as well as sustainable forestry management projects.
- We continue to explore solutions that bring together climate and biodiversity impact for clients wishing for more diversified exposure across developed and emerging markets.

Our **Plan for Nature** contains more details on some of the innovative solutions we are offering to clients to protect and restore nature and deliver long-term returns.

4. Inspire: leading by example in our own business operations

Our direct impact on nature and biodiversity is through our resource consumption and waste management in the operation of our offices around the world. We are committed to operating more sustainably as a business. Our strategy is primarily focused on reducing our environmental impact by cutting our GHG emissions across our operational footprint and engaging with our supply chain to do the same. We are also looking to enhance the environments in which we operate. We are also cognisant of the mitigation hierarchy¹⁰ to follow avoidance, minimisation, restoration and offsets in order to reduce impacts and control any negative effects on the environment.

- a. **Waste and water management:** We are taking steps to ensure we manage our waste effectively through waste avoidance, reduction and improving our recycling rates. Our commitment is highlighted through our ISO 14001 certification, for which we are audited annually to check that all waste operations (including waste electrical and electronic equipment (WEEE) and other hazardous wastes) are in line with best practice.

We will look to increase our water use monitoring across our global operations so that we can identify and implement initiatives to lower the amount of water used. Our London headquarters water consumption data shows that our water use per person is in line with the latest Real Estate Environmental Benchmark (REEB) typical practice water use.

- b. **Responsible sourcing of materials, food and drink:** In our London headquarters and Broadlands business campus our office paper is Forest Stewardship Council and Woodland Trust Carbon Capture certified. Additionally, we have limited our supply of single-use products such as paper cups and are looking to reduce our plastic use globally. We are also making efforts to improve the sustainability of our food and drink provision. For example, in our London headquarters we have committed to reducing our beef consumption by 15% by 2022 from 2021 levels. We also review our business-critical suppliers annually for attestation with our Supplier Code of Conduct, which encourages suppliers to have policies for effective environmental management.

¹⁰ <https://nationalzoo.si.edu/ccs/mitigation-hierarchy#:~:text=The%20mitigation%20hierarchy%20is%20a,no%20net%20loss%20of%20biodiversity>

- c. **Ongoing management of private assets (for example, physical assets in infrastructure, real estate, renewables):** Before and after making an investment we make sure that management systems are in place to appropriately manage the local environmental impacts of our physical assets. Nature and biodiversity are managed in accordance with planning and environmental obligations, including preservation of habitats and mitigation of any potential negative impacts. For example, tailored landscape and ecology management plans for assets can include tree planting, placement of bat and bird boxes, installation of beehives and/or peatland restoration.
- d. **Carbon offsetting:** Since 2019, we have operated our business on a climate neutral basis and will continue to do so. Although our primary focus is on reducing emissions, we also believe there is a role for carbon offsetting to accelerate the impact of those reduction efforts, as we go through our net zero transition process. Since 2021, this has included all Scope 1, 2 and 3 category emissions (except supplier and financed emissions where we are engaging with suppliers and the companies in which we invest to reduce emissions).

Our current global offsetting project portfolio includes six projects, five of which (69% by volume) are nature-based solutions projects focused on forest protection and reforestation. The projects we support are designed to protect and enhance biodiversity by avoiding and reducing emissions through nature conservation or removing emissions through nature restoration.

As the voluntary carbon market continues to grow and develop, we will seek to adopt the [Oxford Principles for Net Zero Aligned Carbon Offsetting](#) to help support the ongoing integrity of our approach. As well as adhering to current best practice in sustainable development integrity and transparency, over time we will increase our proportion of carbon removal projects over emissions reduction projects and support the longer-term development of the net zero offset market. 55% of our current project portfolio are removals projects, up from 10% in 2020.

All the carbon finance projects we support are independently validated and verified in line with recognised global standards. Three of the five nature-based solutions projects are also recognised under Verra's Climate, Community and Biodiversity (CCB) standard.

How we govern our actions

The Board of Schroders plc has collective responsibility for the management, direction and performance of the Group, and is accountable for our business strategy. We embed Environmental, Social and Governance (ESG) risks and opportunities into our strategy. In discharging their Directors' duties, the Board is therefore ultimately accountable for the oversight of ESG risks and opportunities that could impact our business.

The Group has a well-defined governance framework based on delegated authority. The Board has reserved certain matters to itself and has also delegated specific responsibilities to Board committees, notably the Nominations Committee, the Audit and Risk Committee and the Remuneration Committee and also to the Group Chief Executive. The Group Chief Executive is responsible for proposing the strategy for the Group and for its execution. Through this framework the Board receives regular briefings on sustainability matters, including ESG issues.

The Group Sustainability and Impact (GSI) Committee advises and assists the Group Chief Executive, who chairs the Committee, in discharging his responsibilities regarding sustainability which include ESG issues. The Committee considers, reviews and recommends the overall Group sustainability and impact strategy, including key initiatives, new commitments and policies to the Group Chief Executive for approval. The GSI Committee monitors progress towards our goals, including progress towards our climate targets.

The Sustainability Executive Committee brings together leaders from across the business to deliver our sustainability strategy for our investment, product and client engagement activities, including our nature-related commitments.

The awareness and training we provide

We run training sessions on nature, biodiversity and deforestation with our investment desks so they are better equipped to hold the companies in which we invest to account on these issues. We also engage with clients so that we can raise awareness in the wider industry on emerging trends and best practice.

Our advocacy

We seek to collaborate with policymakers and international standard setters in their efforts to address biodiversity loss. We support and actively engage with a range of initiatives focusing on advancing and strengthening the investment industry's biodiversity understanding, commitment and action.

We are members or signatories of several key industry initiatives and commitments, including:

- **The Finance for Biodiversity Pledge**, which calls on global leaders to agree on effective measures to reverse nature loss in this decade to ensure ecosystem resilience. This also underlines our commitment to engage with companies, assess the impact of our investments, set targets and report publicly.¹¹
- **The Natural Capital Investment Alliance (NCIA)**, which aims to accelerate the development of Natural Capital as a mainstream investment theme. NCIA was created by His Royal Highness, King Charles III (then Prince of Wales), as part of his Sustainable Markets Initiative (SMI) launched at Davos in 2020. Its members have plans to launch, or have launched, investment products aligned to Natural Capital themes to mobilise USD 10 billion investment in natural capital assets in 2022.¹²
- **The WWF and Emerging Market Investor Alliance Pilot on Deforestation**, through which we have invited six companies to pilot WWF's new toolkit on commodity-driven deforestation risk assessments for financial institutions. We are involved in reviewing the output and suggesting improvements to the WWF toolkit.
- **The Farm Animal Investment Risk & Return (FAIRR) Initiative**, which seeks to raise awareness of the ESG risks surrounding intensive livestock production. Through the initiative we support collaborative engagement on sustainable proteins to encourage diversification, recognising that alternative proteins offer an important part of the solution to the challenge of feeding a growing population sustainably.

¹¹ <https://www.financeforbiodiversity.org/>

¹² <https://www.sustainable-markets.org/ncia/>

Our plan on deforestation

Our commitment to eliminate forest-risk agricultural commodity-driven deforestation in the companies held in the investment portfolios by 2025 covers all new and existing financing activities, of all company and deal sizes. It also seeks to address human rights abuses associated with commodity-driven deforestation.

Commodities covered include palm oil, soy, cattle products, and timber. The commitment covers both illegal and legal commodity-driven deforestation given the prevalence of inadequate legal protection for forests in numerous countries and the challenges associated with distinguishing between legal and illegal deforestation. Our focus is on high-risk geographies and unsustainable practices.

We recognise that deforestation, conversion and associated human rights abuses pose potentially significant risks to the value of the investments we manage on behalf of our clients, as companies face increased threat of value chain disruption, physical risks and regulatory and consumer scrutiny. As responsible investors and guardians of our clients' assets, we seek to actively influence behaviour so that the companies in which we invest are managed in a sustainable way.

We also recognise that with disclosures and analytical frameworks in this area still relatively immature and nascent, companies exposed to these activities cannot be identified perfectly and that judgement and insight will be necessary.

Delivering on our commitment

Our strategy to deliver on this commitment consists of four key elements:



1. How we identify, prioritise and monitor companies

We assess our exposure to commodity-driven deforestation risk across our portfolios using a proprietary deforestation scorecard that assesses commodity exposure, geographic exposure and human rights risks as well as company management of these risks. This scorecard enables us to identify companies that are failing to meet our standards on commodity-driven deforestation to the best of our ability and to monitor progress over time. We have published details of this scorecard [here](#).

2. Our engagement and escalation strategy

We will engage all companies that we have identified as having material risk of non-compliance and have embarked on an initial engagement programme with our 20 largest exposures, on which we are expanding with a more comprehensive engagement across the companies in which we invest. A tiered approach to engagement is necessary to enable us to cover sufficient scale and depth, and to ensure we build on experiences from initial engagements:

1. **Mass engagement** – we plan to communicate our expectations with all companies that we have identified as having material exposure to commodity-driven deforestation
2. **Priority engagement** – we will establish detailed engagement plans for our highest risk holdings

Our clear engagement escalation framework sets out the steps we will take where companies fall short of our expectations to address deforestation risk. This can result in divestment in some cases. Our methods of escalation are set out in full in our [Engagement Blueprint](#) and include the following actions:

Methods of escalation



Our expectations of the companies in which we invest

We recognise that expectations will be unique to a specific company depending on its current practices, determination of its most material issues and broader considerations such as company size, geography and sector. We focus on achieving positive outcomes for a company's most material issues.

Below we outline some examples of best practice that we encourage companies to follow where material and appropriate for their business models. This applies across palm oil, soy, cattle products, and timber. **We have made these bold where these are key actions that we expect most companies to be able to demonstrate, recognising that there may be regional, sector and company-specific circumstances.**

Dimension	Desired short- and mid-term actions
Strategy and ambition	<ul style="list-style-type: none"> – Set timebound commitments to end commodity-driven deforestation in their operations and supply chains and to disclose progress towards these targets annually – Target no commodity-driven deforestation by 2025 at the latest, and to report yearly on their progress towards achieving this
Governance and oversight	<ul style="list-style-type: none"> – Comply, as a minimum, with all local, national and international laws and regulations with regards to forest-risk commodities in their operations and supply chain – Demonstrate board-level and management accountability for forest-related risks – Incorporate progress towards their deforestation targets within executive compensation in the most exposed sectors
Risk management and traceability	<ul style="list-style-type: none"> – Conduct commodity specific commodity-driven deforestation risk-assessments for their operations and/or supply chains – Develop adequate traceability systems – including mechanisms to monitor compliance with their commitments – as well as targets to improve traceability where necessary – Disclose the locations of the production sites, processing facilities and/or suppliers – Demonstrate compliance with a credible certification scheme and set targets to improve certification levels where relevant

	<ul style="list-style-type: none"> – Conduct High Conservation Value and High Carbon Stock assessments for new developments and acquisitions where relevant
Metrics & targets	<ul style="list-style-type: none"> – Disclose the metrics used to assess commodity-driven deforestation risks and opportunities and progress to mitigating them across the entire supply chain – Disclose quantifiable progress towards their deforestation commitments, across the entire supply chain – Disclose in line with emerging best practice, including the Taskforce for Nature-related Financial Disclosures (TNFD) draft guidelines
Human rights and social impacts	<ul style="list-style-type: none"> – Establish and implement a human rights policy in line with the UN Guiding Principles, IFC, ILO and other international frameworks which commits to respect human rights, including labour rights, indigenous rights and rights to equality and inclusion. The policy should cover direct operations and supply chain – 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 place in line with the human rights policy, including: <ul style="list-style-type: none"> ○ Identifying and assessing actual or potential adverse human rights impacts, including through meaningful engagement with rights holders and other relevant stakeholders, such as NGOs ○ Integrating findings in processes and taking appropriate action ○ Tracking effectiveness of the measures, including through broad access to thorough and transparent grievance mechanisms ○ Communicating how impacts are being addressed – Apply the principle of Free Prior and Informed Consent (FPIC) before a project begins and on an ongoing basis, and wherever possible ensure communities and local businesses are able to participate in the benefits of company activities, including receiving fair compensation. Where FPIC is not obtained, activities should be halted – Provide for, or cooperate in, remediation where the company identifies that they have caused or contributed to adverse impacts, including committing to address grievances and disputes constructively and proactively with local communities and indigenous groups

We report our engagement activities, including on deforestation, in our [Annual Sustainable Investment Reports](#). We also plan to provide regular updates and disclosures on our progress towards our 2025 commitment, to be published in on our website.

Our reporting and transparency

We are strong advocates for transparency and accountability across the companies in which we invest and seek to hold ourselves to the same standards. We integrate information on biodiversity and nature-based solutions into our climate reporting, including our [Climate Transition Action Plan](#), [TCFD](#) and [annual CDP questionnaire](#). Our 2022 CDP submission (for year end 2021) includes sections on biodiversity, forests and water. We achieved a leadership level score of A- for our most recent (2021) CDP response (for year end 2020).

We have been actively involved in supporting the TNFD, which is developing a risk management and disclosure framework for organisations to report and act on nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.¹³ We have provided feedback on the draft disclosure guidance. We participate in ongoing collaboration with industry peers on natural capital and biodiversity issues. For example, we were actively involved with the **TNFD and Global Canopy Pilot on Palm Oil** in Singapore through participation in workshops, reviewing proposals and sharing lessons learnt.

We will continue to evolve our reporting on this issue in line with emerging guidance.

Please see below for further detail on our climate transition action plan, engagement blueprint for biodiversity as well as published research on this topic:

External reports and documents

- [Task Force on Climate-related Financial Disclosures Report 2021](#)
- [Climate Transition Action Plan 2021](#)
- [Group Climate Change Position Statement](#)
- [Environmental, Social and Governance Policy for Listed Assets](#)
- [Engagement Blueprint](#)
- [Group Human Rights Position Statement](#)
- [Modern Slavery Statement 2021](#)

Key insights articles

- [Podcast: What is natural capital and why is it important for investment decisions?](#)
- [How can investors assess impact on nature](#)
- [Assessing our impact on nature – Deforestation](#)
- [Q&A: why tackle harmful deforestation – and how?](#)
- [Investing in Natural Capital: benefits and barriers](#)

Internal policies

- Equal Opportunities, Bullying, Harassment, Respect and Dignity at Work (internal access only)
- Financial Crime (summary available on request)
- Inclusion and Diversity Policy (internal access only)
- Group Whistleblowing Policy (available on request)

¹³ <https://tnfd.global/>

This Group Nature and Biodiversity Position Statement is reviewed on an annual basis and communicated to all internal and external stakeholders and interested parties.

Peter Harrison

Group Chief Executive

18th November 2022