Stewardship Code

Reporting on our stewardship activities and outcomes in 2020

Schroders

Contents

Our commitment to stewardship

Our purpose is to provide excellent investment performance to our clients through active management and responsible stewardship. Channelling capital into sustainable businesses creates value for our clients and helps accelerate positive change.

In 2020, we achieved integration of environmental, social and governance considerations across our investment teams. This was just a step on the journey. The way we invest is changing, driven by a fundamental shift in how companies are being viewed and valued. Where once we considered only risk and return, we now assess a third dimension – impact. Our tools empower our portfolio managers to assess the potential impact of each company; to understand their 'impact-adjusted profits'.

Active ownership is a core part of our investment responsibilities and processes. We actively engage with the companies we invest in to encourage them to transition towards more sustainable business models – which are more resilient and can support long-term future growth and resilience.

In 2020, there was much focus on the E in ESG and particularly on climate change. We've taken three major steps on this front that show how we're taking decisive action.

The first is that we've joined the Net Zero Asset Manager initiative, the goal of which is to attain net zero greenhouse gas emissions by 2050 or sooner. It is part of a shared aim to limit global warming to 1.5 degrees above pre-industrial levels.

Secondly, we have pledged to set robust emissions reduction targets under the Science-Based Targets initiative. The initiative provides companies with criteria to set a clearly-defined path to reduce their emissions. We were one of the first asset managers to join and expect others to follow.

The third is our appeal to the largest UK listed companies to publish detailed plans describing how they intend to transition, beyond simply showing long-term ambition. We have written to FTSE 350 companies, but expect the same progress to be made elsewhere. We would like all medium and large companies, regardless of where they are listed or operate, to publicly disclose their plans for the decades ahead.

Ultimately, we want to go beyond reported profits. In time, we aim to examine 'impact-adjusted profits'. Profit, after all, is only half the story. It's essential that how that profit is generated is part of the evaluation equation.

Peter Harrison
Group Chief Executive
26 March 2021

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our business

Schroders is a leading global investment manager headquartered in London, but operating from 37 locations across Europe, the Americas, Asia, the Middle East and Africa. We are responsible for managing £574.4bn (as at 31 December 2020) of assets for our clients who trust us to deliver sustainable returns. We actively and responsibly manage investments on behalf of a wide range of institutions and individual investors to help them meet their changing financial goals.

Our business is organised around five key areas that align to our strategic priorities:

- Mutual Funds: Offered through intermediary networks providing both institutional and retail clients with access to our investment capabilities through collective investment schemes.
- Institutional: Investment strategies made available directly to institutions, such as insurance companies and pension funds, and to banks and other asset managers through sub-advisory mandates.
- Wealth Management: Wealth Management and financial planning services for ultra high-net-worth, high-net-worth and affluent individuals and charity clients as well as family offices and financial adviser networks, such as IFAs.
- Solutions: Provides investment solutions to and forms partnerships with financial institutions and pension funds, including liability offsets and risk mitigation.
- Private Assets & Alternatives: Comprises opportunities available in private markets, such as real estate, private equity and infrastructure, as well as alternatives.

We have over 60 investment teams offering a wide range of investment strategies across multiple asset classes (including equities, fixed income, multi assets and private assets), sectors and geographies to a diverse set of clients around the world.

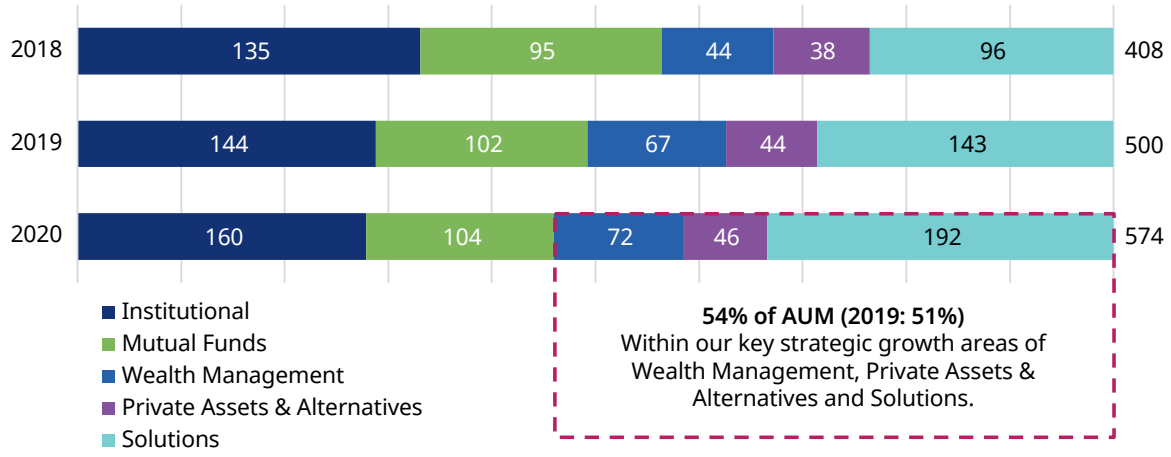
Exercising stewardship is part of how we manage investments for our clients. Where possible in this report, we show how we have integrated the Stewardship Code principles across our business. Particularly in relation to Principles 9 to 12, we focus on our core investment management business and how the approach differs across asset classes and geographies within that.

Although we consider client preferences in both designing our product range and in our investment solutions offered to institutions, our approach to stewardship does not differ fundamentally between products. We are responsible stewards of our clients' assets regardless of the type of holding or the investment strategy in which it is held and behave accordingly.

Our purpose

Our purpose is to provide excellent investment performance and solutions to our clients through active management.

Assets under management (AUM) by business area, £bn



Source: Schroders Annual Report and Accounts 2020. Information as at 31 December 2020.

We achieve this by understanding our clients' needs, anticipating how these will evolve in the future, and focusing on building wealth for them in the long term.

Delivering long-term value demands investment capabilities, powerful tools as well as deep insights. We tailor our investment strategies and solutions to clients' objectives and preferences, and we focus on protecting and growing our clients' wealth.

We regard channeling capital into sustainable and forward-thinking businesses and using our influence as an investor to support sustainable practices as key to delivering these aims. By doing this over time we aim to benefit society and accelerate positive change.

Our investment beliefs

We believe in active investment management and consider it the most effective way to deliver excellent risk-adjusted investment performance to our clients over the long term. At the core of our investment activities is the active selection of companies with sustainable and durable business models; those that are evolving their business practices to survive and thrive in the decades ahead.

Our stewardship activities are central to this philosophy. We believe that by engaging directly with companies we can reach a more complete opinion on their fundamental strengths and identify instances where a company's long-term opportunities and risks are not fully reflected in its market valuation. Where we have taken the decision to invest in a company, we believe we can protect and enhance the value of that investment by engagement.

When we analyse each investment's potential to create, sustain and protect value for our clients, we look at a wide selection of risks and opportunities. We believe that there will continue to be a fundamental shift in how companies are viewed and valued with issues such as environmental, social and governance (ESG) factors becoming increasingly important drivers of financial performance and investment returns.

As a result, in November 2019, we committed to achieving full ESG integration across our investment strategies and this process was completed in 2020[1]. This means that our fund managers and analysts now consider ESG factors alongside or within traditional financial analysis. This leads to a broader assessment of the environment in which companies operate, giving a fuller understanding of future opportunities and risks.

Charles Prideaux

Global Head of Investment

Sustainability is deeply embedded into the investment process at Schroders. It is about identifying sustainable businesses that can spot trends, risks and opportunities and adapt in an ever-changing environment. It is equally about finding companies that may not be there yet but where our support as investors can help them in their transition.

Our investment teams have different tools at their disposal in order to assess which businesses operate sustainably and which have the potential to do so.

Stewardship, that is, our ability to engage with companies and actively influence corporate behaviours, is crucial in ensuring that the companies in which we invest are sustainable and resilient. This is how we can create long-term value for our clients.

In order for an investment desk to be accredited as having integrated ESG, they must complete an ESG 'explainer sheet' outlining exactly how ESG is integrated into their investment philosophy and practice. This is a living document, that is refreshed annually and case studies on how ESG has impacted investment decisions and stewardship activity are key. The same approach is used across asset classes.

We believe that our ESG analysis, combined with our investment teams' insights on how companies manage those ESG risks and opportunities, is vital to our ability to make investment decisions in the best interests of our clients.

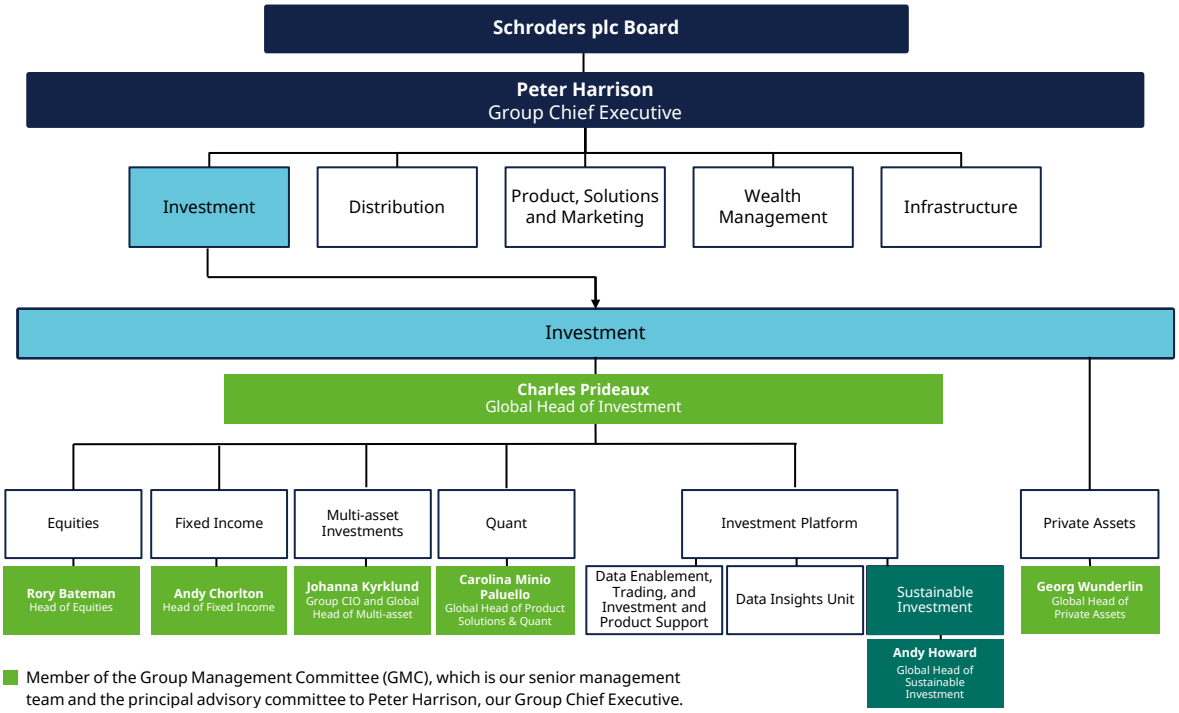
[1] For certain businesses acquired during the course of 2020 we have not yet integrated ESG factors into investment decision-making. There are also a small number of strategies for which ESG integration is not practicable or now possible, for example passive index tracking or legacy businesses or investments in the process of or soon to be liquidated, and certain joint venture businesses are excluded. At the end of 2020, 98% of our assets were in scope for integration.

This is why our Sustainable Investment capability sits within our Investment function. Andrew Howard, our Global Head of Sustainable Investment, runs the Sustainable Investment team and reports to Charles Prideaux, Global Head of Investment and member of the Group Management Committee (GMC). So when it comes to stewardship within Schroders, there is a straight line of accountability to Peter Harrison, our Group Chief Executive, and to the Board of Schroders plc.

That said, the Sustainable Investment team is structurally independent from each of our investment teams who are managed by the relevant asset class head (equities, fixed income etc.). This helps ensure that there is adequate oversight, particularly when it comes to areas such as our integration accreditation process that we outline under Principle 7.

Moreover, although our stewardship activities are centrally coordinated by experts within the Sustainable Investment team, stewardship itself and all the functions that support effective stewardship are not strictly confined within this team. They expand across Schroders reflecting the fact that stewardship needs firm-wide commitment and resource to be effective.

Principle 2 explains in more detail how our sustainability related activities are coordinated across our business and presents our Sustainable Investment team.



Source: Schroders as at 31 December 2020.

Our strategy

Our business strategy is carefully designed to benefit our clients, as we continue to diversify our business model and offer a broader range of strategies and solutions. It is based on three strategic areas of focus:

- **Growing our Asset Management offering.** We focus on offering products and solutions that are distinctive and relevant to clients. Product innovation and geographically expanding our reach are key to this. Our continued product innovation programme helps us to maintain our strong position in sustainability – a key ambition along with being a strong solutions provider for our clients globally.
- **Building closer relationships with end clients.** End investors benefit from the breadth of our expanding investment capabilities. We have the opportunity to leverage our global investment expertise to build a leading Wealth Management franchise. Schroders' long history of family ownership, our international institutional investment expertise, our Private Assets and sustainability capabilities are key strengths in building a leading Wealth Management business.
- **Expanding Private Assets & Alternatives.** We focus on responding to the surging client demand for new alternative sources of return. Our Private Assets business is built to provide investors with a range of portfolio building blocks and customised private asset strategies. Our teams have over two decades of experience in delivering risk-adjusted returns in private asset classes, covering private equity, real estate, private debt and infrastructure. We offer access to alternative investments via our GAIA (Global Alternative Investor Access) platform, which offers Schroders and third-party funds. The continued expansion of our Private Assets & Alternatives business is a strategic focus for the Group.

Our strategy in all three areas can only succeed if we fulfil our purpose to deliver excellent investment performance to our clients and we believe that embedding stewardship into our investment approach is key to this.

Our culture and values

Our values underpin our culture:

- **We strive for excellence.** Being good at what we do is a powerful way to create value for all our stakeholders and secure a long-term future for our business. This has ensured that 81% of assets we manage for our clients have outperformed their respective benchmarks over 5 years[2].
- **We promote innovation and teamwork.** We challenge how things are done, anticipate future opportunities and understand that to deliver value takes collaboration and a healthy respect for individual skills. This has enabled us to weather the unprecedented events of 2020 and respond effectively to the systemic risks generated by the Covid-19 pandemic.
- **We have passion and integrity.** We are realistic about what we can achieve, but are ambitious too, approaching everything we do with energy and drive. This year, we made the bold commitment to our stakeholders to transition towards net zero emissions across our own operations and wider value chain by 2050 or sooner and to set measurable science-based targets in 2021. This commitment includes working with our clients on decarbonisation goals and implementing a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner.

Our retention of highly-rated employees is one of the key indicators we use to measure our performance. High retention levels represent a committed and engaged workforce, which is aligned with Schroders' values and sustainability goals. In 2020, our retention rate for highly-rated employees was 94%. Maintaining high levels of retention helps us nurture a long-term culture that cares about people and outcomes. This complements our stewardship activities by ensuring that our employees have a long-term view in mind when managing assets on behalf of our clients; something that is also supported by our incentives structure, which we discuss under Principle 2.

[2] See Schroders Annual Report and Accounts 2020.

Our culture of supporting best practice

Part of our culture is a strong conviction in the value of helping identify best practice and raising the bar across the market. To achieve this, Schroders is a member, participant or signatory to a number of industry organisations in which we share know-how and collaborate on various industry initiatives. Examples include:

- UN Principles for Responsible Investment (PRI)
- CDP (previously "Carbon Disclosure Project")
- Climate Action 100+
- United Nations Global Compact (UNGC)
- Coalition for Climate Resilient Investment
- Asian Corporate Governance Association (ACGA)
- Asia Investor Group on Climate Change
- Responsible Investment Association of Australasia (RIAA)
- Investor Forum
- European Sustainable Investment Forum (EuroSIF)
- Institute of Business Ethics (IBE)
- International Corporate Governance Network (ICGN)
- Investment Association Sustainability and Responsible Investment Committee
- Pensions and Lifetime Savings Association
- SWESIF
- Eumedion
- Green Bond Principles (GBP)
- Better Buildings Partnership
- Global Real Estate Sustainability Benchmark (GRESB)
- Net Zero Asset Managers Initiative

A full list is available on our website and Principle 4 has more details on our industry involvement and the nature of our contribution.

Our approach to diversity and inclusion

Our commitment to creating a truly inclusive culture at Schroders is at the centre of our people strategy, and is led by our Group Chief Executive, along with executive sponsorship from our GMC members.

We do not believe it is possible to meet the high standards set by our global client base without the breadth of thought and experience that comes from having a diverse workforce and leadership team. We expect our investee companies and their boards to be able to demonstrate that they comprise a diverse selection of individuals across gender, ethnicity and sexuality, and we aim to do the same in our own business.

Carolina Minio Paluello

Global Head of Product, Solutions, Marketing & Quant and an Executive Sponsor of the Gender Equality Network (GEN).

At Schroders, we know how important diversity is to our business, but as an active asset manager, we also have a key role to play in those companies that we invest in. Through engaging with senior leadership and boards on key topics such as diversity, we are able to drive even greater change beyond our own business.

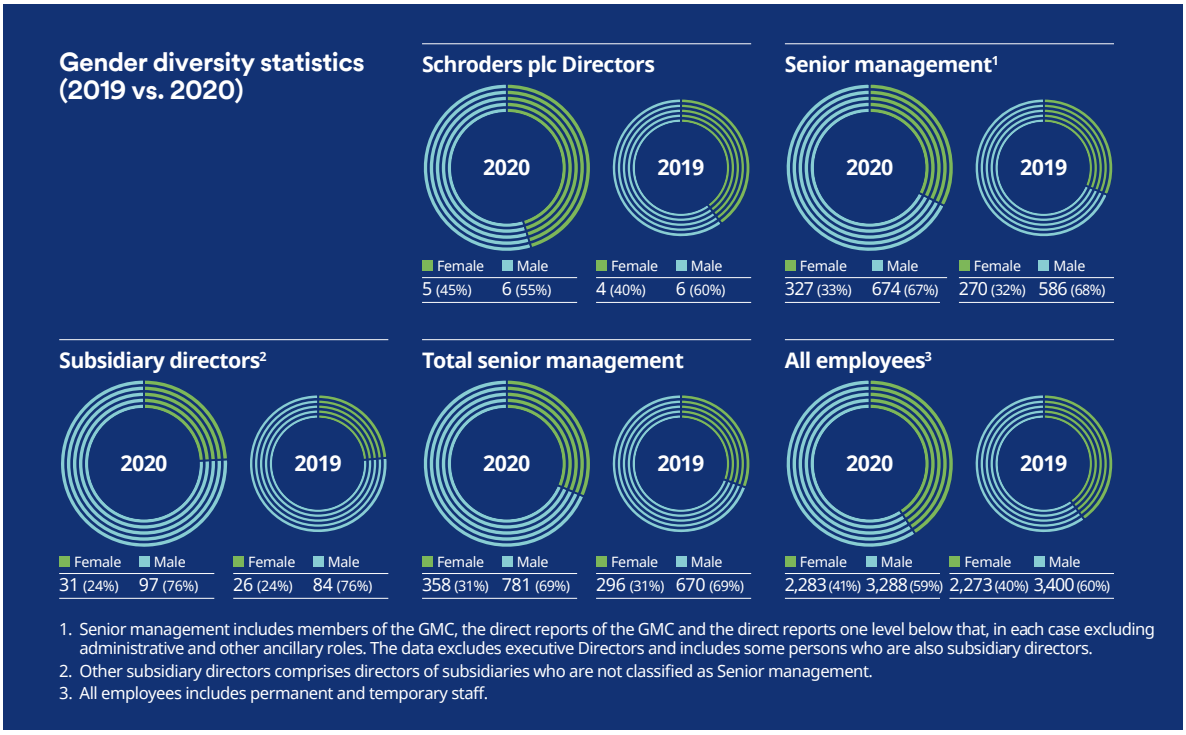
We are committed to providing equal employment opportunities and combating all forms of discrimination. In keeping with our equal opportunities policy, we give fair consideration to all employment applications, including from disabled people, considering particular aptitudes and abilities. If employees become disabled, employment continues wherever possible, with retraining if necessary.

For the purposes of training, career development and progression, all employees are treated equally as part of our commitment to making Schroders an inclusive place to work. Where possible, we monitor the ethnicity, age, disability and gender composition of our workforce and those applying for jobs. Our strategy and decisions are informed by the data we collect from our employees and the benchmarking initiatives we are involved in.

We firmly believe that the need to address representation in the workforce is a challenge affecting our whole industry and is not just an organisational one. As such, we endeavour to participate in initiatives focused on driving change as well as benchmarking our efforts as a company. As part of our commitment to the UN Global Compact, we participated in the Women's Empowerment Principles benchmark for the first time. We also engaged with over 180 companies during 2020 on employee and board diversity issues.

We have achieved our latest Women in Finance Charter target of 33% female representation in senior management, up from 25% at the end of 2015. We continue to push for progress but there remains much more to do. We are aware that as we address the pipeline issues and bring more female talent into the industry at entry level, we increase the challenge in the short term. We have linked female representation in senior management to pay outcomes for senior management for several years and continue to do so.

Gender diversity statistics (2019 vs. 2020)



Source: Schroders Annual Report and Accounts 2020. Information as at 31 December 2020.

In 2020, we purposefully broadened our pledges to reflect our wider commitment to ethnicity and disability as well as being a more gender balanced organisation. This has included becoming a signatory to the Race at Work Charter, the Valuable500, and Change the Race Ratio as well as supporting the #FlexUK campaign and continuing to meet the Board diversity targets set by the Parker Review. As part of our being Disability Confident Level 1 (committed) we are able to respond and make adjustments to those who flag a disability during the interview process.

We are also increasingly focusing on social mobility. We were listed in the top 75 employers in the Social Mobility Foundation's benchmark and participated in new research around social mobility, sponsored by the Diversity Project. We have worked closely with the Diversity Project and the Investment Association on initiatives to position investment management as an attractive industry for diverse talent. This includes programmes like Investment20/20 and a recent research report on socio-economic barriers to entry to the financial services industry.

Going forward, we know that we can do more to promote diversity in our workforce and leadership team. To achieve this, we will be introducing new targets for ethnicity in 2021 and linking them to the remuneration of our senior management team – an approach that has succeeded in generating year-on-year improvements on gender diversity. We will continue to push for progress on gender diversity and have now set a new target of 35% across senior management by the end of 2023. Alongside setting higher senior management targets, we also plan to:

- Further embed flexible working practices across the business
- Make further improvements to our family leave provisions to ensure that they are compelling and competitive
- Conduct a 'deep dive' into career progression at Schroders to ensure it is fair and transparent
- Continue to challenge our recruitment practices to provide more granular analysis to ensure our candidate lists are gender diverse, including rolling out updated training in interview skills with a focus on inclusion and mitigating bias
- Roll out an all-manager initiative with a focus on inclusive teams

Serving our clients

The events of 2020 were exceptional. Our response mirrored our approach to crises before. We held firm and took decisions that best served the interests of our clients, our people, our shareholders and other stakeholders.

Our core belief that investments should be actively managed was rewarded. Fund managers who were free to take deliberate decisions in the interest of clients, performed well during last year's market volatility. The conscious and considered decisions of our fund managers have driven positive outcomes for clients, with 72% of client assets outperforming their respective benchmarks over 3 years and 81% of client assets outperforming their respective benchmarks over 5 years[3].

This demonstrates the value that we have delivered for our clients. But it is also important to us to understand client views and priorities when it comes to investing. This is why we carry out on an annual basis our two flagship investor surveys, the Global Investor Study and the Institutional Investor Study, canvassing the views of retail and institutional investors respectively.

These help us identify investment priorities and sentiment as well as more specific views and preferences in regard to focal areas such as sustainable investment and stewardship. We use the results to inform our priorities and to provide a better service to our clients.

We provide more detail on these studies and how we take client responses into account for our stewardship activities under Principle 6.

[3] Ibid.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Our ownership structure

Schroders plc is a listed company and a constituent of the FTSE 100 Index.

Although Schroders plc is listed, we have a long history of family ownership stretching back over 200 years and the founding Schroder family maintains a very substantial stake in the business. This ownership structure enables us to take a longer-term view in relation to our business and our clients' interests than many of our competitors, consistent with our role as a long-term steward of clients' capital.

We uphold the same standards in running our own business that we expect and ask of other companies in our capacity as an investor. We have found that in many cases our experience as a listed company helps inform and shape our expectations as an investor. We believe that this dual perspective improves our ability to exercise stewardship over our investee companies.

To encourage this, we ensure that our sustainability experts maintain an ongoing dialogue with those responsible for Schroders' own governance arrangements, including our corporate secretariat team. For example, representatives from both teams participate in our Corporate Responsibility Committee which, as we outline in the next section, is part of the governance framework surrounding sustainability and stewardship within Schroders.

Our corporate structure may give rise to conflicts of interest; for example, when it comes to exercising our voting rights over any shares in Schroders plc. Principle 3 has further details around our approach to conflicts of interest and how we manage them.

Our governance framework

We have designed our governance framework so that stewardship is effectively embedded and overseen across our business.

Our Board is ultimately responsible for the management of our business, including setting our strategic direction and delivering on our objectives. To support the implementation of our corporate strategy, we have a number of executive committees that are responsible for managing the business on a day-to-day basis.

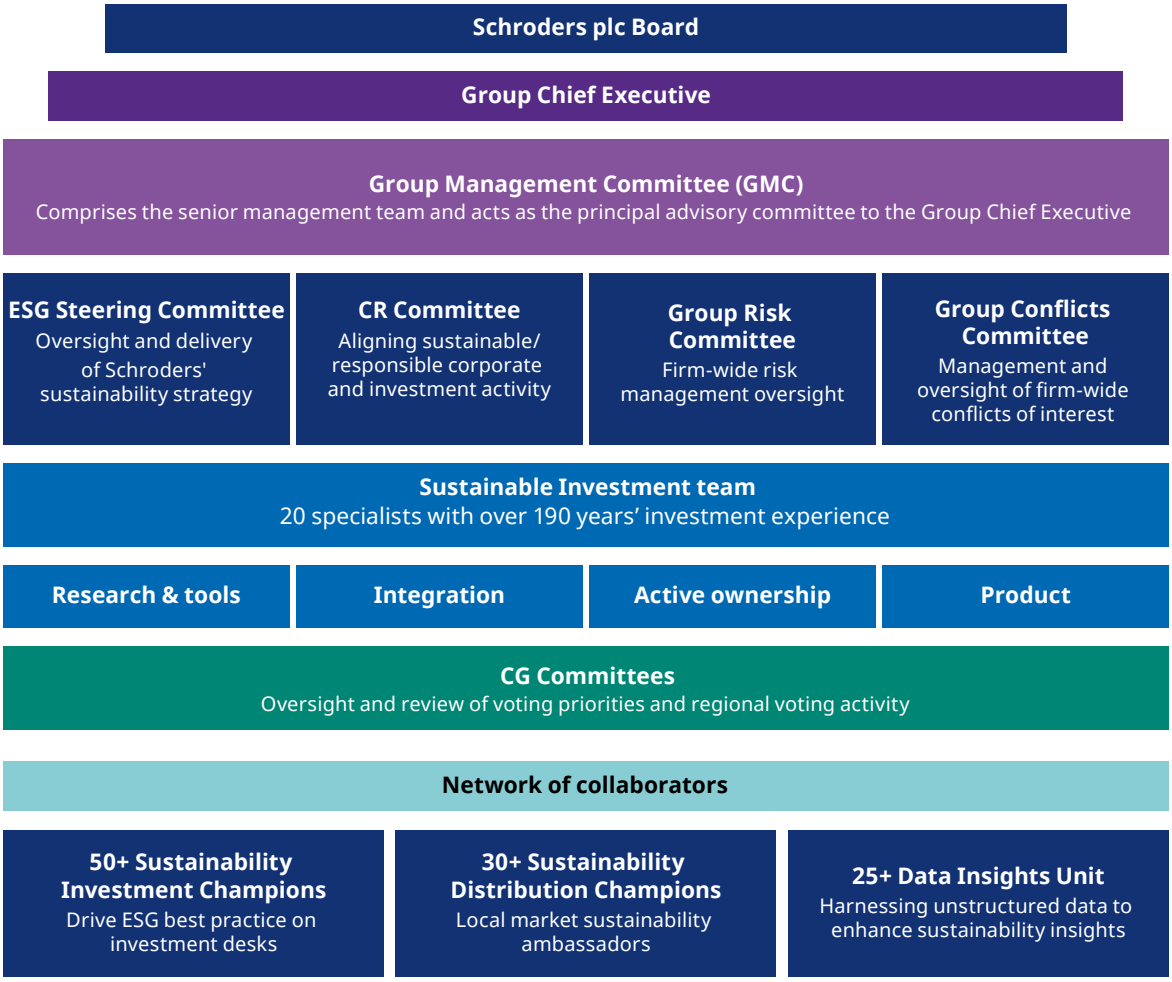
The topmost executive committee is the Group Management Committee (GMC), which comprises the firm's senior management team and acts as the principal advisory committee to the Group Chief Executive.

The other executive committees most relevant to delivering and overseeing our sustainability programme (including stewardship) are:

- **ESG Steering Committee (SteerCo).** The ESG SteerCo is responsible for overseeing Schroders' overall firm-wide ESG and stewardship programme priorities. It also tracks regulatory developments affecting sustainable investing and stewardship practices globally. The committee is chaired by our Global Head of Investment and comprises a wide range of members of the firm's senior management teams, including several members of the GMC.
- **Corporate Responsibility (CR) Committee.** The CR Committee is responsible for assessing and managing our corporate responsibility strategy, including key initiatives, new commitments and policies which includes our approach to climate-related issues as a corporate. It is chaired by our Group Chief Executive and includes management representatives from across the business.
- **Group Risk Committee.** The Group Risk Committee is responsible for reviewing and monitoring the adequacy and effectiveness of our processes around the identification, assessment, mitigation, monitoring and management of all risks faced by the Group in achieving its business objectives. This includes investment risk and related sustainability risks. This Committee is not dedicated solely to stewardship and sustainability but has rather implemented these into its overall governance. For example, in 2021 the Committee will review a paper on ESG Risk Oversight for 2020 along with the key ESG risk topics on the horizon. The Group Risk Committee also receives a monthly Management Information pack from the Second Line Investment Risk function which reports on key risk issues identified over the month, including ESG risks. We describe our Investment Risk Framework in more detail under Principle 5 and cover our broader risk management framework under Principle 4.

- **Group Conflicts Committee.** The Group Conflicts Committee is chaired by the Global Head of Investment and comprises senior management from many of the firm's functions responsible for the management and resolution of potential conflicts, including Risk, Compliance, Legal, Human Resources and Internal Audit. The Committee oversees the implementation of the firm's conflicts framework across all regions, and supports our business teams in identifying and mitigating potential conflicts. See Principle 3 for further details on our conflicts of interest framework.
- **Corporate Governance (CG) Committees.** Our stewardship activities are supported by four CG Committees, whose remit is to provide oversight over our voting activities. Each CG Committee covers a different region and is chaired by the corporate governance expert within the Sustainable Investment team covering that region. More detail on these Committees can be found under Principle 12.

Overview of the sustainability governance structure



Source: Schroders as at 31 December 2020.

An important recent change is the establishment of the ESG Steering Committee, which is a decision we took in 2020. The rationale was that we observed a growing complexity and scale in the firm's sustainability efforts. This was largely a result of the increasing range of our sustainable fund offering, the momentum behind our ESG integration efforts over the last two years, and incoming new regulations, particularly in the European Union. This meant that the previous governance structure needed to be extended to include more teams across the business and support a coordinated approach and messaging.

Schroders has invested in resources across the firm to ensure we can meet our sustainability ambitions and understand the growing complexities associated with being stewards of our clients' capital.

We have invested in our Product functions, including Product Strategy, Product Development and Product Governance, to help deliver new sustainability products and provide governance over both new and existing products. We have also invested in our Distribution and Solutions functions that are central to our efforts to ensure a consistent channel for client preferences and priorities in sustainability. And we have invested in our Compliance, Legal and Public Policy functions to provide the oversight of the sustainability capability, help identify new regulation and ensure its successful implementation.

This governance structure sets the parameters of our sustainability programme, which, in turn, serves as the backdrop to our stewardship agenda. Specifically, we see stewardship, that is, using our role as active owners to effect change in companies, as an essential tool in ensuring they are sustainable. This then helps us deliver our sustainability ambitions as a firm and sustainable investment for our clients.

For example, by bringing different functions together we aim to ensure that there is a firm-wide approach to stewardship which is consistent across our product offering and execution and that stewardship activities are informed by client preferences and priorities. We also aim to have a common overview of how ESG factors are integrated across our Investment teams and communicate this effectively both within the firm and to our existing and prospective clients.

Our resources

Our Sustainable Investment team

To support our investment teams, Schroders has an experienced and well-resourced central Sustainable Investment team, which has been embedded as part of our overall investment processes for some time. As at December 2020, the team comprises 20 dedicated ESG professionals with over 190 years' combined investment experience. As mentioned above, the team is led by Andrew Howard, Global Head of Sustainable Investment.

The Sustainable Investment team serves as a central resource for expertise on sustainability issues. The team does not decide whether a company is "good" or "bad" in ESG terms. It rather provides the necessary resources, information, strategy and guidance for fund managers and analysts to draw their own conclusions on the sustainability profile of a company and act appropriately. As noted under Principle 1, the team is structurally independent from the investment desks (that are run by the corresponding asset class head) so as to be able to provide oversight.

Given the wide range of investment strategies we run, we believe that this organisational structure is the best way to set a consistently high standard on ESG integration. It recognises that different asset classes and investment universes require different lenses to most effectively strengthen decision-making.

The Sustainable Investment team's work is organised into four key areas:

- **Integration:** Working with our investment teams to integrate our proprietary ESG tools and research insights into their investment processes. This includes organising ESG training for investment teams on latest sustainability trends, research and insights as well as sharing best practice and reviewing and approving investment desks' sustainability accreditation each year (we outline this process under Principle 7).
- **Research and Tools:** Collaborating with our analysts and portfolio managers to identify and assess ESG risk and opportunities, and incorporate consideration of these factors into their analysis. It also includes producing thematic research on emerging ESG trends and presenting the findings to our analysts and investors to generate further discussion and debate. The team is also responsible for identifying and progressing enhancements to ESG tools, including developing new proprietary tools, as well as for improving our use of sustainability data.

- **Active Ownership:** Co-ordinating our engagement and voting activities in line with our ESG policy as well as monitoring progress on our engagements. Our corporate governance experts, who run our voting and oversee all voting-related issues, are within this area.
- **Product:** Working with our investment teams, the wider Product division and clients to develop new products. The team also produces regular ESG reporting as well as other material to support investor education on sustainable investing.

Within the Sustainable Investment team, we employ individuals with expertise across a broad range of disciplines. This includes individuals with backgrounds in investment research, portfolio management, distribution, technology, as well as sectoral and product specialists and people with corporate governance backgrounds. We believe that this can help give a more rounded view to our stewardship activities; one that recognises the idiosyncrasies of each region, sector, and company and ensures high stewardship standards.

The majority of the Sustainable Investment team members are based in London. We have also appointed Heads of Sustainability in North America and Europe and we are looking to appoint a Head of Sustainability in Asia. We are also expanding our resource across regional integration and product specialists. The team is majority female and encompasses multiple ethnicities. We discuss our broader, firm-wide diversity initiatives under Principle 1 alongside culture and values.

The team is supported by a network of collaborators driving sustainability best practice across our business. We have an 80+ strong 'sustainability champion' network covering both Investment and Distribution.

Our sustainability 'champions' provide a bridge between their immediate teams and the Sustainable Investment team and act as sustainability subject matter experts supporting Investment and Distribution colleagues.

The aim of Investment champions is to ensure investment desks use all the resource available to them and apply appropriate rigour in how sustainability is integrated into their investment process.

Distribution champions support their client-facing colleagues and their clients in keeping abreast of the developments within the Schroders sustainability capability. They also aim to ensure that client interests and concerns are communicated back to the Sustainable Investment team.

How we organise stewardship between the Sustainable Investment team and analysts/fund managers

We believe that the process for integrating ESG into our investment strategies should be owned by our investment teams. In our view, ESG risks and opportunities sit alongside the more traditional financial and market analysis that are necessary to form a complete and accurate valuation of a company.

As discussed above, the Sustainable Investment team provides our analysts/fund managers with the necessary tools and information to allow them to analyse sustainability factors with respect to their holdings and to identify issues for engagement as part of our stewardship activities. This research and engagement is generally coordinated by each investment desk, for example European equities, global equities, emerging markets and credit. Individual desks establish their respective priorities both in terms of topics and companies with which to engage.

Once these priorities are agreed, our analysts/fund managers determine the objectives, timeframes and the appropriate process of engagement and they execute it, often with support from the Sustainable Investment team. We regard this approach as "bottom-up", starting with research with respect to individual companies. The engagements that are led directly by our Sustainable Investment team are often more "top-down", whereby the team determines key trends and risks, often supported by thematic research, and then engages with companies and sectors most exposed to those risks. Our reporting under Principle 9 outlines how much of our engagement activity is led by which team.

Having said that, these activities do not operate in silos. There is ongoing communication between our sustainability experts and our analysts/fund managers to ensure a consistent information flow and a shared ownership of our stewardship activities. This communication happens not only on an ad hoc basis, as and when issues arise, but there are also regular monthly meetings between the Sustainable Investment team and key investment desks.

Depending on the investment focus of each desk, the ensuing engagement may have a different regional footprint. For example, European Equity will concentrate on European companies. Generally, we do not think of our stewardship activities differentiated by regions but rather by investment desks, many of which have a specific regional focus. Our analysts provide the regional context for each firm. Where the starting point of our stewardship (across both equities and credit) are the companies themselves, this regional context is important in order to understand the different pressures companies face. This, in turn, shapes our stewardship priorities. For example, we would not expect the same climate change transition plan from a company based in a Nordic country in Europe as from a company based in Central Asia.

Sustainable Investment team

Andrew Howard
Global Head of Sustainable Investment
Joined Schroders in 2016
23 years experience
MBA, BSc Economics

Integration

Stephanie Chang
Head of Integration
Joined Schroders in 2018
16 years experience
MA Philosophy, Politics and Economics; CFA

Integration Manager
TBC

Dan Chi Wong
Sustainable Investment Analyst, Asia
Joined Schroders in 2020
10 years experience
Masters in Environmental Economics; Bachelor of Accountancy; CFA Level 2

Cheryl Nam
Student Trainee, Asia
Joined Schroders in 2020
<1 year experience

Research & tools

Seema Suchak
Head of Sector Research
Joined Schroders in 2012
18 years experience
MSc International Business; BSc Social Science

Carol Storey
Sustainable Investment Analyst
Joined Schroders in 2020
9 years experience
MSc Actuarial Finance; MA Human Sciences; FIA, CERA

Holly Turner
Sustainable Investment Analyst
Joined Schroders in 2019
2 years experience
MSc Climate Change, Management and Finance; BSc Geography

Dominic Tonge
Data Analyst
Joined Schroders in 2019
5 years experience
MSc Statistics; BSc Physics

Catherine Macaulay
Sustainable Investment Analyst
Joined Schroders in 2020
3 years experience
MSC International Development; BA Politics; CFA Level 3 candidate

Sustainable Investment Analyst
TBC

Ella Thomas
Graduate Trainee
Joined Schroders in 2019
1 year experience
BSC Mathematics; IMC

Active ownership

Elly Irving
Head of Engagement
Joined Schroders in 2014
13 years experience
Degree Business with Accounting and Finance, IMC, CFA Level 1

Daniel Veazey
Head of Corporate Governance
Joined Schroders in 2004
19 years experience

Active Ownership Manager
TBC

Pippa O'Riley
Corporate Governance Analyst
Joined Schroders in 2015
5 years experience
IMC

Siobhan Weatherall-Brown
20/20 Trainee
Joined Schroders in 2020
<1 year experience

Yousif Ebeed
Corporate Governance Analyst
Joined Schroders in 2020
4 years experience
Bachelor of Law

Product

Hannah Simons
Head of Sustainability Strategy
Joined Schroders in 2015
21 years experience
BSc Actuarial Science

Sarah Bratton
Head of Sustainability North America
Joined Schroders in 2011
13 years experience
BA Economics; BSc Business Management

Claire Herbert
Associate Investment Director
Joined Schroders in 2016
4 years experience
BSC Economics.; IMC, IOC; CFA Level 1

Belinda Gan
Investment Director
Joined Schroders in 2010
16 years experience
Bachelor of Commerce; Bachelor of Business Systems; CFA

Megan Theobald
Product Executive
Joined Schroders in 2018
2 years experience
IMC

50+ Sustainability Investment Champions **20+ Data Insights Unit** **30+ Sustainability Distribution Champions**

Source: Schroders as at 31 December 2020.

Tools, data and technology supporting our stewardship

While people are our main asset, we've invested significantly in technology resource and data. The Sustainable Investment team works in partnership with Schroders' Data Insights Unit, using analytics and data science techniques to uncover investment insights linked to sustainability trends. This partnership has resulted in the development of our own proprietary sustainable investment research tools that have been key to our integration success in 2020.

Proprietary tools

We have developed proprietary tools to help our investment teams better research and understand ESG issues and the impact they might have financially on a company as well as more broadly on people and the environment. We outline our key tools, CONTEXT and SustainEx, below. These tools are a key part of how we integrate ESG considerations in our investment decisions and are highly relevant for Principle 7 as well.

CONTEXT

This tool provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model, allowing us to identify market wide trends and insights. It comprises over 500 metrics across approximately 13,000 companies and is available to our analysts and fund managers across different investment desks, enabling knowledge sharing and supporting our investors through structured and wide-ranging data.

CONTEXT is interactive and highly customisable, enabling each analyst to select the most material ESG factors for each sector, weight their importance and apply relevant metrics. Analysts are then able to compare companies based on the metrics selected and their own company assessment scores or adjusted rankings, with the flexibility to make company specific adjustments to reflect their detailed knowledge of companies, sectors and regions.

The tool is integrated within Schroders' global research platform, which is readily accessible across investment desks and geographies.

Specifically for stewardship, it enables us to track companies' ESG performance on chosen metrics such as employee fatality rates, board independence, and carbon intensity, as well as the direction of travel over time. It also helps us to identify areas of weakness for engagement and to encourage companies to improve the sustainability of their business models by adopting industry best practice.

Country CONTEXT

Country CONTEXT aims to provide a structured lens through which investors can analyse the sustainability of sovereign GDP growth. By assessing the ESG risks and opportunities that have historically driven growth, as well as those that may be influential in the future, it aims to provide investors with a long-term view of countries' GDP growth as well as their ability to repay debt.

SustainEx™

SustainEx™ provides an estimate of the potential societal and environmental impact that may be created by the companies in which we invest, allowing our investors to assess ESG factors that might impact our clients' investments. Whereas CONTEXT focuses on evaluating companies' performance in key areas, SustainEx provides a measure of those impacts expressed as a notional percentage of revenues (positive or negative) of the relevant company. For example, a SustainEx score of +2% would mean that a company contributed US$2 of relative notional positive impact (that is, benefits to society) per US$100 of revenues.

We do this by using certain chosen metrics with respect to a company and quantifying the positive and negative impacts of each of those metrics in economic terms to produce an aggregate measure.

To ensure comparability between companies, the metrics we select are quantifiable, attributable to companies, disclosed widely enough to enable comparisons, and transparent. Nonetheless, generating such scores involves an element of judgment and subjectivity, and we use third party data and estimates to provide a more complete picture to our investors.

Many of the metrics used within the SustainEx model are relevant issues to engage companies on. However, deciding how best to engage requires thoughtfulness and careful analysis to understand each of the 'externalities' calculated by the model.

For example, the social costs of alcohol are estimated and assigned to companies using the model based on their sales of alcohol. These notional costs will dominate the SustainEx scores for most alcohol producers. Therefore, engagement with an alcohol company to improve its score may not make sense in isolation as it would effectively mean asking them to sell less alcohol, but we may engage with that company if we consider diversification into other areas beneficial.

On the other hand, some costs like carbon emissions are calculated on a bottom-up basis and based on company reported (or estimated) emissions. In this case, it would make sense to engage with companies to reduce their own carbon footprint and we have sought to do so in many cases.

We are now expanding our model to cover sovereigns. The extension of our analysis to the country-level will help us quantify the positive and negative impacts countries have on the rest of the world.

Climate tools

As we explore under Principle 4, we have invested in developing specific resources and tools to help our analysts and fund managers better understand the threat climate change poses to portfolios.

Our Climate Progress Dashboard allows us to monitor progress towards tackling climate change using indicators chosen by Schroders. It does not compel our investment teams to buy or sell different companies but it does provide an indication of how urgently they should be looking at climate change as a current investment risk and how that risk changes over time.

Carbon Value at Risk and Physical Risk are our models that are more focused on our process for integrating climate change risks into our investment decision making.

Reliance on certain third-party data sources and services

While we don't outsource any of our stewardship activities to third parties, we do employ some ESG data providers to help collate information, including Refinitiv, MSCI and Sustainalytics, as well as ISS to help us assess and execute our voting decisions.

Tool	Features	High level findings	Uses
Climate Progress Dashboard	Updated quarterly, it tracks indicators across policy, technology, finance and incumbent Energy Agency (IEA) scenarios to assess what degree of temperature rises we can expect given current trajectories.	Temperatures are set to rise by 3.8oC by the end of the century if no progress is made from where we are today.	The dashboard indicates areas of particular weaknesses and industries that might be subject to more disruptive policy action if the status quo remains. For example, carbon capture and storage still has significant progress to make before it offers a viable solution.
Carbon Value at Risk	This measures the extent to which company profits and investor returns could be at risk from higher carbon prices as we transition to a lower carbon economy. Our model examines carbon emissions from companies direct and indict operations, and elasticity of demand for their products.	Almost half of listed global companies would face a rise or fall of more than 20% in earnings if carbon prices rose to $100 a tonne.	By estimating supply chain emissions and identifying which companies will suffer the largest potential earning drop, we have been able to do more in-depth analysis than is possible through conventional carbon footprinting. The tool is also useful for identifying winners and losers within sectors.
Physical Risk	This estimates what it would cost companies as a percentage of their total value to protect their assets against more extreme climate-related weather events based on the location of their assets until 2030.	While the impact on global values is small at around 1%, these costs are certain to be incurred. We find that asset-heavy industries such as mining in locations around the Pacific are particularly impacted.	As well as showing company and portfolio-level physical risk, this has been a useful engagement tool, so we can contact those companies most exposed to better understand how they are tackling the challenge.

The key third party service providers that support our stewardship activities

Service provider	Brief description of purpose
MSCI ESG	– ESG data, research and ratings as an input into proprietary ESG analysis – Screening
Sustainalytics	– ESG data, research and ratings as an input into proprietary ESG analysis
Refinitiv	– ESG data as an input into proprietary ESG analysis
Bloomberg	– ESG data as an input into proprietary ESG analysis
Thomson Reuters ASSET4	– ESG data as an input into proprietary ESG analysis
ProxyInsight	– To analyse proxy voting trends both over time and comparisons to peers – Provides vote results of meetings to determine cases of significant dissent where escalation may be needed
ISS	– Proxy voting – Proxy voting research
Boardex	– Company director data to help assess board composition and the experience/external commitments of individuals
Xtract Research	– Analysis of bond indentures and covenants

Private Assets and Alternatives

Our Private Assets and Alternatives businesses are for the most part organised and managed through separate legal entities that have their own approach to sustainability and stewardship.

For example, BlueOrchard is a leading global impact investment manager based in Zurich. It has particular expertise in innovative blended finance products that aim to generate lasting positive impact for communities in emerging and frontier markets. Schroders' Real Estate business is based in London and is one of Europe's largest managers of real estate centred on investing in strong fundamentals and actively managing real estate portfolios. Schroder Adveq, also based in Zurich, offers private equity strategies that are typically structured around buy-out, venture, growth and turnaround strategies, while Schroder AIDA is based in Paris and manages infrastructure debt and equity strategies with a focus on European infrastructure assets.

Although organised as separate entities and faced with different practical implementation considerations, the principles we apply are common across our organisation and there is ongoing collaboration and communication across the Group.

The stewardship activities of these businesses can be supported by the Sustainable Investment team resource in London, particularly with research and tools, but the activities are often different in nature reflecting the different underlying asset classes.

For example, within real estate, Schroder Real Estate will often own an entire real estate asset, such as an office development or retail park, within a fund or client mandate and can address how that asset performs from a range of perspectives, such as ESG, directly. Within private equity, where Schroder Adveq invests directly in an unlisted business it is able to take a more 'hands-on' approach to determining how the business is run along with its fellow shareholders. Schroder Adveq also invests in third-party private equity funds, so engages with the managers of these funds with respect to their own stewardship activities in relation to the underlying companies. Stewardship in these cases is very different to engaging as a minority owner in a publicly listed company, as is the case generally for our mutual funds, institutional and solutions businesses.

There is regular communication and collaboration between our Private Assets businesses and our core Asset Management platforms. Our Global Head of Private Assets is a member of the ESG SteerCo and has been attending meetings in 2020 as a representative of all our private assets capabilities, including Schroder Adveq and BlueOrchard, along with colleagues from across the Private Asset teams.

Going forward, we intend to continue to align the different parts of our Private Assets business. We believe this will help coordinate sustainability policy and strategy across all our Private Assets businesses and lead to greater collaboration with respect to stewardship in the future.

Wealth Management

Cazenove is the principal UK Wealth Management business of the Schroders Group. It makes investment decisions on behalf of clients and helps them plan for a successful financial future. Such clients include business owners, corporate executives, stewards of family wealth, and individuals who have built their wealth in many different fields.

Sustainability is central to the investment decisions it takes on behalf of its clients. Sustainability risks form part of its view of investment risk and, therefore, its portfolio managers assess these risks across their entire client base and not just for clients invested in their sustainable product range. In many cases, Cazenove invests its clients' wealth in third-party funds, hence its sustainability risk assessment applies to both the manager with whom they invest and the strategy or fund in which they are invested.

Being one step removed from asset or security selection as an investor in a third-party managed fund means that engagement with the underlying manager is a very important part of the business' sustainability 'inform and influence' framework. This framework is overseen by the Wealth Management Sustainable Investment Committee, which includes representatives of the senior management team who also sit on the wider Schroders ESG SteerCo as well as the Wealth Management Investment Committee.

For those clients wishing to look beyond sustainability risks and be actively invested in strategies helping to promote or solve sustainability issues, Cazenove construct client portfolios which embed environmental and social themes at their core. The Wealth Management Sustainable Fund Selection Group undertakes fund research and selection for sustainability products across asset classes including listed equity thematic funds, impact bond funds linked to the Sustainable Development Goals (SDGs), and real assets such as battery storage or renewable energy sites.

Finally, to ensure clients are kept up-to-date with the latest sustainability issues and Cazenove's efforts in tackling them, a network of 30 portfolio managers within the Wealth Management business have sustainability communications KPIs as part of their roles and act as 'Sustainability Champions'.

Our incentives structure

Members of the GMC have specific objectives relating to sustainability, with a proportion of their variable remuneration dependent on progress against these objectives. The annual performance objectives for the Group Chief Executive include goals relating to the incorporation of sustainability and ESG factors in our investment processes, as well as goals related to the sustainability of Schroders' own business policies and practices. For example, as mentioned under Principle 1, we have linked progress in female representation across our senior management to pay outcomes for senior management for several years and will continue to do so. The Remuneration Committee also considers corporate performance on ESG issues when setting remuneration of the Executive Directors.

A significant proportion of higher-earning employees' variable remuneration is granted as fund awards, which are notional investments in funds managed by the Group, thereby aligning the interests of employees and clients. This includes the Executive Directors, other members of the GMC and other key employees such as senior fund managers.

Our central Human Resources function created a performance goal based around increasing ESG understanding and integrating it into the investment process in 2020. All investment employees were asked to add this goal to their objectives across our entire business.

Moreover, the performance reviews of Schroders employees are required to take into account the training they have undertaken, including ESG training for members of relevant teams. In collaboration with other teams, our Sustainable Investment team has developed several training modules on ESG topics such as:

- Our proprietary tools, what they are and how to use them
- Introduction to sustainable investment terminology
- Third-party ESG ratings: different types, uses and limitations
- How our Economics team has incorporated climate change into their 30-year asset class returns forecasts

These are available to all employees, but those in the Investment and Distribution functions are particularly encouraged to complete them. Although doing this training is not a prerequisite for a favourable review, it will contribute towards one, particularly for the Investment and Distribution teams.

One area where we expect to continue to have to focus more of our attention in resource in 2021 is sustainability related regulation worldwide. We consider global regulation to be one of the key emerging requirements in the coming years in terms of how we organise our sustainability activities and disclose them to clients.

Looking to the future

One enhancement we made to our ESG framework in 2020 was the introduction of the ESG SteerCo in our governance, as outlined above, to foster better coordination across the various ESG and stewardship initiatives our firm is engaged in. We believe this new arrangement has been successful in supporting this, in addition to driving a common narrative on ESG integration across our business. Nevertheless, we intend to continue to keep the governance for supporting our ESG and stewardship activities under ongoing review.

Another enhancement that continued its implementation in 2020 has been the integration of ESG factors into our investment analysis and decision-making. Now our investment teams have been through our internal accreditation process at least once (for more details see Principle 7), we believe that this leaves us in a much stronger position to generate risk-adjusted returns for our clients.

We believe that the governance arrangements and resources we have made available to support stewardship are market leading. However, stewardship is an ever-evolving area and we are conscious of our responsibility to always reflect on whether there are ways in which we can improve in the best interests of our clients.

We have to keep evolving as client and regulatory expectations keep raising the bar. Our focus now will increasingly turn to understanding, measuring and reporting on the impact of our investments on the environment and society and the associated risks and opportunities.

As described above, we have been developing impactIQ, a set of tools combining a range of proprietary technologies driven by traditional and non-traditional data. Additional tools to be deployed and which are under development (ThemEx and Climate Alignment – see below) aim to enrich our research processes and enable our fund managers and analysts to ask questions of how a company is managing its business, the impact this might have on society and stakeholders or how they may be contributing to sustainable themes.

Our impactIQ tools

Measuring social impact *Measured using...*		**Contributing to key themes** *Aligning to sustainability preferences using...*	
SustainEx	Measuring impacts on the environment and society	**Under development**	
Carbon VaR	Calculating the impact of rising carbon prices on profits	**ThemEx**	Measuring companies' contribution to the SDGs
Physical risk	Evaluating the costs of damage caused by climate change	**Climate alignment**	Measuring alignment to the temperature commitments of the Paris Agreement

Source: Schroders. Climate-focused tools are highlighted in green.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts framework

Schroders accepts that conflicts of interest may arise in the normal course of our business. Our ability to manage these conflicts effectively is essential to achieving good outcomes for our clients. Our approach is to seek to identify all potential and actual conflicts and manage them in the best interests of our clients and in line with regulatory expectations.

We have a documented Group-wide conflicts of interest policy (available here) that covers the identification, prevention and management of conflicts. All employees globally are subject to the policy, and all employees have received training on our conflicts framework. There are also supplementary local policies, where necessary, to comply with local regulatory requirements. Under our conflicts framework, potential and actual conflicts are prevented, eliminated, mitigated, or appropriately managed through effective measures and governance and oversight arrangements, such as:

- Policies and procedures
- Processes and controls
- Modifications to or limitations imposed on business processes or personal activity
- Client disclosure
- Business decision to cease or stop an activity

All potential conflicts that are identified by theme are recorded in our Conflicts of Interest Register, along with associated controls and mitigating actions. This is reviewed regularly by the Schroders Group Conflicts Committee – a sub-committee of the Group Risk Committee.

The Group Conflicts Committee is chaired by the Global Head of Investment, with participation by the Global Control Function Heads, Business Chief Operating Officers or Chief Administrative Officers, and meets monthly or more frequently should specific matters arise. On a rolling basis, the Chief Administrative Officers of the Regions (EMEA, Asia Pacific and Americas) also present to the Committee an overview of the conflicts of interest management practices in their respective businesses and regions. Here they highlight any situational conflicts resolved in-country during the past year and any standing conflicts that have been identified in their region and added to the Conflicts of Interest Register. The Group Conflicts Committee also maintains a log of actual conflicts escalated to the committee, and their resolution.

From time to time, the Group Conflicts Committee is asked to adjudicate on instances of material conflicts that cannot otherwise be eliminated or have not been resolved locally or through a standing process (for example, trade order allocation processes), in order to reach a consensus on the outcomes in the best interests of clients. Conflicts that cannot be resolved by the Group Conflicts Committee, or matters which could impact the risk profile of the firm, are escalated to the Group Risk Committee (for more details see Principle 4) and to relevant legal entity boards. The Group Conflicts Committee also provides a report of material matters to the Group Risk Committee on a regular basis, and Compliance reports regularly on conflicts to relevant legal entity boards. Where agreement cannot be reached on a particular issue, or the conflict is deemed to involve a significant reputational impact, the matter may also be escalated to the Group Chief Executive for a final resolution.

The conflicts framework is supported by our Compliance team who maintain the conflicts of interests records (Group Register and Group Conflicts Log). They also provide guidance to the business on whether different scenarios present a conflict and whether the associated controls or mitigating actions are adequate.

Our conflicts of interest policy is subject to an annual review. The Compliance team also carries out second line monitoring and review of conflicts management to determine if material conflicts have been identified. The Group Internal Audit provides a third line review of our conflicts framework.

Conflicts of interest

Business conflicts

Conflicts that can arise in the course of our business include the following, non-exhaustive, issues:

- **Our Group structure.** As outlined above, we have a successful and significant Wealth Management business in our Group. We separate the processes and management of our main Asset Management businesses and our Wealth Management division to help ensure that our wider business and the individuals who run it do not inappropriately influence decisions made for our Wealth Management clients; for example, by investing their capital in a Schroders product that may be less suitable than a third-party fund. There may also be competing interests

within the Asset Management division, for example between our retail funds business and our institutional business. In this case, we have separate legal entity boards responsible to oversee the management of these businesses. Where executive directors serve on these boards, we have sought to align their corporate roles to the interests of the ultimate end-clients of the entities insofar as possible (for example, the Chair of our primary investment management entity in the UK is our Global Head of Investment). And we have appropriate conflicts of interest management as part of board governance, overseen by our Corporate Secretariat team.

- **Overlapping mandates.** It is inevitable given the size and diversity of the Schroders Group that different client mandates result in portfolios that invest in the same issuers. This can result in competing orders to deal in the same instrument for different clients or, particularly in less liquid markets, transactions taking place between clients (in line with regulatory requirements and restrictions applicable to such transactions). Certain multi-asset or fund of funds strategies may also be able to invest in other Schroders managed products. To manage these situations, we maintain policies on allocation and valuation to ensure that client orders are allocated fairly and that any transactions between clients are priced at an independently determined market price. We also maintain a robust investment oversight process (including reviews by Asset Class Risk and Performance Committees chaired by senior Investment professionals with engagement by Group Investment Risk), and information barriers to ensure that our multi-asset and fund of funds products make investments that are in the best interests of our clients. In cases where that is in another Schroders product, our in-house teams do not have informational advantages over other fund investors.
- **Remuneration.** Any performance-based remuneration structures should not incentivise employees to engage in misconduct or otherwise act in ways that are not in clients' best interests. We have a holistic remuneration framework in place, designed to promote sound and effective risk management and to ensure that our remuneration practices do not create undue conduct risk. This framework is subject to the oversight of the Remuneration Committee of the Group Board of Directors.
- **Market abuse.** We have a proportionate framework in place to prevent market abuse, such as mis-using material non-public information received in the normal course of business. Our framework includes information barriers where appropriate, trade surveillance tools, stop and watch lists, and restrictions on employees trading in their personal accounts.
- **Outside directorships or business activities.** Individuals may seek to hold directorships or other roles which either conflict with firm or client interests by limiting the time available to their primary role, or where they sit on boards of clients companies or of funds. Individuals may also sit on multiple boards with potentially conflicting interests. At Schroders, all outside directorships and business activities must be approved in advance. We have a policy on outside business interests that governs this process and sets out the criteria that we will apply to determine whether an outside business activity is permissible.

Stewardship conflicts

There are potential conflicts that specifically relate to our stewardship activities, which we resolve with the interests of our clients and our fiduciary responsibilities as our guiding principles. These are:

- **Engagement with our clients.** Many of our institutional clients are themselves listed companies in which Schroders may invest. The conflict that may arise is a reluctance to raise issues of material concern during our engagement or vote against management for fear of losing revenues in our Asset Management business. In these cases, we follow a voting policy, which is set out below.
- **Outside business interests.** Conflicts may arise where a Schroders employee responsible for making a voting decision is a director or shareholder of the company in respect of which the resolution is proposed or has a position of influence at this company. We have an outside business interest policy (as mentioned above) and we monitor the personal investment activities of our employees to try to prevent these conflicts from arising.
- **Different interests in engagement outcomes.** Some of our funds or mandates may have a different preferred outcome in a particular engagement issue with an investee company. This can happen as a result of clients being invested in different parts of a company's capital structure, particularly in distressed situations, merger and acquisition (M&A) activity, or because of other aspects of the investment strategy. We have a centralised engagement team that can take in views from multiple investment teams and attempt to reach a consensus position. Where this is not possible, we do not promote outcomes that would favour the interests of one group of clients at the expense of another. Where possible, votes may be split in such circumstances.

- **Schroders plc.** As a general rule, Schroders does not allow trading in Schroders plc shares across our funds or discretionary portfolios. There may be specific circumstances in which we may hold Schroders shares, for example where assets are transferred to us that already comprise Schroders shares or where a client of our Wealth Management business already has such shares in their portfolio. In these circumstances we have controls around trading the shares. When it comes to voting, we follow our voting conflicts of interest policy outlined below.

Voting conflicts

Schroders' corporate governance specialists are responsible for monitoring and identifying situations that could give rise to a conflict of interest when voting in company meetings. We include our arrangements on voting conflicts in our ESG policy.

Where Schroders has a potential conflict of interest with respect to a fund or client on whose behalf we are voting, or the company being voted on, we will follow the voting recommendations of a third party (which will be the supplier of our proxy voting processing and research service). Examples of voting conflicts of interest include (but are not limited to):

- Where the company being voted on is a significant client of Schroders
- Where the Schroders employee making the voting decision is a director of, significant shareholder of, or has a position of influence at the company being voted on
- Where Schroders plc or an affiliate is a shareholder of the company being voted on
- Where there is a conflict of interest between one client and another
- Where we vote on Schroders plc resolutions

Voting conflicts in 2020

In 2020, we recorded a total of 120 conflicts of interest in connection with voting. We followed our policy to vote according to the recommendation of our proxy voting service provider in all cases but one.

That case involved voting where the company was a significant UK client of Schroders and we voted in favour of two resolutions on a new remuneration policy and long-term incentives plan where the proxy adviser's recommendation was to vote against.

We felt that on this specific occasion the proxy adviser's recommendation was not taking into consideration other mitigating factors such as reductions in other parts of the benefits package or the simplification of the incentive plan. Following our policy to obtain approval, this was escalated to our Global Head of Equities.

If we believe that we should override the recommendations of the third party in the best interests of our clients by voting in a way that may be perceived to benefit our own interests, then Schroders will obtain the approval of the decision from the Schroders' Global Head of Equities (or other relevant asset class) with the rationale of such a vote being recorded in writing. If the third-party recommendation is unavailable, we will vote in the interests of the fund, irrespective of whether this puts Schroders at a disadvantage.

In the case of mergers, acquisitions or similar corporate actions where a fund or client holds investments in both the target and the acquirer, Schroders will always act in what it regards as the best interests of its clients. There may be other instances where different funds or clients, managed by the same or different Schroders fund managers, hold stocks on either side of a transaction. In these cases, the fund managers will vote the shares they control in the best interests of their respective clients, in their specific funds and we support the independence of those decisions to avoid inappropriate influence being exerted.

Case study: Voting against resolutions proposed by a large client

A large Swiss client called an extraordinary general meeting in 2020 to approve an allocation to dividends and two resolutions to approve additional voting instructions.

We supported the dividend resolution but the second proposal would have allowed for additional voting items to be added to the agenda on the day of the general meeting. Since we vote in advance of the meeting, we would be unable to determine the content of these resolutions at the time of voting and could not pre-approve them. This would warrant a vote against.

We raised our concerns about the lack of disclosure of the remaining two resolutions with the portfolio manager explaining the conflict and the process to follow third party recommendation. Our proxy adviser's analysis mirrored our initial vote recommendation to vote against company management, which we followed and recorded.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We see three aspects in our work towards promoting a well-functioning financial system.

The first one is how we identify and manage market-wide and systemic risks. This is addressed by our firm-wide risk management framework, which in 2020 was tested by the Covid-19 pandemic and the long-term risk of climate change.

The second one is how we support industry initiatives aiming to set best practice and raise sustainability standards across the market.

The third one is how we contribute to the policy and regulatory debate globally by providing constructive feedback to various consultations that set the regulatory framework within which we operate.

We cover each aspect in detail below.

Our risk management framework

Effective risk management is a core competence and we actively monitor the potential impact of current and emerging risks on our business. This was particularly important in 2020 given the market turbulence caused by Covid-19. We place significant focus on the integrity and good conduct of employees and doing the right thing for our stakeholders. Our risk management framework is underpinned by a strong control culture with clear oversight responsibilities.

The Schroders Board of Directors is accountable to shareholders and other stakeholders for the maintenance of a sound system of internal control and risk management. It assesses the most significant risks facing Schroders, including market-wide systemic risks. Climate change, in particular, is recognised as a key risk within our risk management framework. Non-Executive Director oversight of the risk management process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee.

At an executive level, the Chief Financial Officer is responsible for the risk and control framework of the Group. The Chief Financial Officer chairs the Group Risk Committee which normally meets ten times a year and supports the Chief Financial Officer and the GMC in discharging their risk management responsibilities. The Chief Financial Officer delegates the development of the Risk Management Framework and the provision of appropriate oversight and challenge of the Group's risks to the Chief Risk Officer, who heads up the Group Risk function. The Group Risk function provides analysis and reporting of significant risk exposures, including market-wide systemic risks, to the Group Risk Committee, GMC and the Board as appropriate.

Schroders' approach to managing investment risk is governed by the Schroders Investment Risk Management Policy. Under the policy, separate risk and performance committees for every asset class oversee the investment risk management process for each portfolio. These committees meet at least quarterly and are chaired by either the head of the asset class or a senior member of their management team (somebody that is not a fund manager). The committees include representatives from Investment, Group Risk and (where appropriate) Product Management functions.

Our research capability plays an important role in identifying risks. We have a number of research teams specialising in different asset classes and sectors whose focus is understanding how macroeconomic conditions, geopolitical events and other market-wide issues will impact our portfolios.

Stress testing and scenario analysis are also key tools we use to understand the impact of market-wide systemic risks. We select a range of stress scenarios that reflect severe but plausible events and model their impact on our business, including on the products we manage. Some of the scenarios we assess may be highly specific to Schroders, such as disruption in the vicinity of our offices. Others are focused on market-wide systemic risks, such as market disruption arising from financial crises or the materialisation of physical and transition risks related to climate change.

Generally, we consider systemic or market risks as part of the stress testing that we perform:

- As background for the viability statement that needs to be submitted to and signed off by the Schroders Board, and which can be found in our Annual Report and Accounts 2020
- As part of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)

Two of the most material market-wide risks that we focused on during 2020 were the Covid-19 pandemic and climate change. We discuss our response to each in detail below.

Covid-19

Not all systemic risks can be predicted, and the 2020 global pandemic is an example of this.

Our response to the pandemic demonstrated our common sense of purpose and the resilience of our employees and the strength of the infrastructure supporting our business processes. Our people worked extremely hard to meet our clients' needs and our systems coped well. There was no significant impact on business operations despite a significant number of employees working remotely at various times over the year.

Prior to 2020, we had already evolved our Business Continuity Strategy primarily to a work from home model, with an initial focus on our London office. As changes to our infrastructure had already been made to support flexible working, we were very well positioned to switch to working from home with minimal disruption.

This has allowed us to remain fully operational and continue serving our clients. As a response to in-person meeting constraints, we increased our digital engagement with clients to ensure regular communication on what was happening to the markets and client portfolios.

For example, to help our clients navigate the rapidly changing market conditions at the beginning of the pandemic, we launched SchrodersTV, a live weekly broadcast featuring our Portfolio Managers, Economists and Senior Executives for clients to hear the latest insights and ask their questions directly to our experts. As a global investment manager, we hosted two live broadcasts on each transmission date to reach our international audience. Once the initial market volatility had subsided, we moved to a monthly format, allowing for more tailored communications to take place on a weekly basis. The latter were virtual events and online conferences whereby clients could hear from Portfolio Managers on strategies and funds they may hold.

Many of our clients are also businesses that may have been experiencing challenges relating to their own operations and, being mindful of the demands on their time, our multimedia updates remained online for clients to access at a time appropriate to them. At the same time, our client teams have remained in dialogue with their clients to respond to their requests during this challenging period.

The shift towards remote working has brought with it a broad range of new challenges for our people. We were able to recognise this and quickly respond to requests for additional training and toolkits in areas such as virtual communication skills, mental wellbeing and managing remote and hybrid teams. We ran virtual sessions for around 700 employees to help them adjust to this adapted way of working.

The safety and wellbeing of our employees and their families has been at the forefront of our decision-making process throughout the pandemic. We held a number of global wellbeing events and have offered the Covid-19 antibody and antigen testing to employees in many locations. Wherever possible, we have continued to give employees access to professional support during lockdown, using secure digital communications tools to deliver services remotely. In Hong Kong and London, we launched a virtual doctor service to provide support during their local lockdowns. We have promoted alternative ways to travel, such as cycling or walking, for those who have wanted to attend the office where and when it was safe to do so without using public transport.

Moreover, we have actively supported our suppliers, people and wider society. We were particularly mindful of the impact lower employee presence in our offices would have on our facilities team and service providers. We maintained all salaries, paying everyone in full throughout the year. We did not furlough any employees or make any redundancies as a result of the pandemic. Nor did we seek or accept any government support.

As for the companies in which we invest, as a long-term investor we were prepared to offer support to companies with sustainable business models to help them ride out the short-term crisis. We engaged directly with issuers in order to identify the most pressing challenges they faced and understand how we could best support them. For example, our Chief Executive published an open letter to our investee companies setting out this approach and stressing that our support was conditional on investee companies honouring their own social contracts with their employees, suppliers and customers. We encouraged companies to carefully think about the actions they took in response to the crisis.

We also increased our wider support for charities and our total contribution to charities during the year was £4.9 million. A key element of this was the Group's contributions to our #CollectiveAction campaign, assisting those most impacted by Covid-19.

Key highlights

Our response was governed by the Crisis Management Team (CMT) which met regularly from January to May. A key focus of the CMT was protecting the welfare of our employees and ensuring we could continue to deliver the standard of service our clients expect. The central co-ordination of the response by the CMT, combined with the response of regional Incident Management Teams and a level of office autonomy, meant we were able to flex our approach at a regional and office level dependent on government guidance and level of infection.

Our systems performed well and our IT environment remained stable throughout the pandemic. In order to further support colleagues who were working from home, we increased our internet capacity from 2GB to 10GB. We also enhanced our remote working capabilities through upgrading our virtual conferencing capabilities and rolling out a collaboration platform.

Our Risk and Control Assessments, already a core part of our operational risk framework, were key in enabling us to quickly assess the extent to which business processes and controls were impacted by the need to work from home, and therefore required additional or amended controls.

Elevated liquidity risks, particularly during March 2020, highlighted the importance of our robust fund liquidity risk management framework. We were able to promptly identify, report and escalate areas where liquidity risk was heightened. We operated a cross-functional Liquidity Management Oversight meeting for information sharing, escalation of concerns and resolution of issues.

We strengthened our communications to employees to help them feel supported and engaged. Our internal communications and employee interactions remained a key focus throughout 2020. We supported our employees by sending approximately 900 laptops, monitors and other hardware to their homes, allowing them to maintain productivity.

The delivery of the annual business continuity programme is reliant on a framework of business continuity co-ordinators and plan owners across the business. They played a key role in our response by ensuring effective co-ordination of activities across the business, which included capturing any additional technology requirements for home working and delivering our minimum viable presence approach (ensuring those staff who performed critical activities which could not be undertaken from home were in the office).

We quickly identified key suppliers who, if impacted by Covid-19, could potentially have the most significant impact upon our own operations. For a six-week period, we implemented daily reporting from key suppliers. Once it was established that service performance was being maintained and any potential significant risks had been mitigated, the reporting moved to weekly and then monthly.

We engaged with our investee companies at the outset of the crisis in order to understand how they were responding to the pandemic and their financial resilience. We also used this opportunity to make clear the support that companies could expect from us as investors to ride through this crisis.

In consideration of the heightened market volatility we moved to more frequent monitoring of certain investment risk metrics and held more regular oversight meetings to review the risk and performance of portfolios. In addition, our Group Pricing Committee met regularly to consider pricing and valuation issues caused by the volatility.

Our global offices were reconfigured to meet local government guidelines thereby allowing staff to safely return when and where this was permitted and appropriate.

A proactive response to Covid-19

January

For clients

Rolled out our SustainEx™ tool as a forward-looking measure of the impact of our investments

February

For our people

Our offices across Asia moved to remote working in response to the Covid-19 pandemic, with many other offices following suit

March

For our people

Launched weekly podcast to keep our people connected to the firm and informed about the latest developments

For clients

Increased our digital engagement with clients in response to Covid-19 measures

April

For society

Directors donated 25% of salary / fees for three months and waived 2020 LTIP award to Covid-19 relief efforts

Collaborated with other investors to engage with FTSE 100 companies on employee mental health during Covid-19

May

For society

Our CEO signed an open letter to UK businesses urging pragmatism and offering support in response to Covid-19

June

For society

Participated in the Diversity Project's 'Talk About Black' campaign and joined other businesses in making a diversity pledge

August

For our people

Launched our flexible working charter for all employees globally, offering them the opportunity to work in the way most effective for them

November

For clients

BlueOrchard launched a Covid-19 support fund, with funding from Schroders among others, to support the microfinance market through the pandemic

December

For society

Became a founding member of the Net Zero Asset Manager initiative

For clients

Launched the British Opportunities Trust, investing in British businesses through the pandemic and beyond

Launched the Schroder BSC Social Impact Trust, which invests with a focus on delivering a positive social impact in the UK

Climate change

We recognise that environmental issues, such as climate change and biodiversity loss, present some of the most significant challenges facing the world. We anticipate that these challenges will be a defining driver of the global economy and financial markets over the coming years, as well as having a significant impact for wider society.

Substantial and disruptive changes are needed to decarbonise the global economy quickly enough to achieve targets set by world leaders in Paris in 2015. By early 2021, countries representing around two-thirds of global GDP had committed to carbon neutrality, with a growing list of policy initiatives to underpin those goals. The entire global economy and every industry and company that forms part of it will be affected to some extent. As an active investment manager and a responsible business, we have an important role to play in managing the impact that our business and wider value chain has on the world around us.

Our ambition is to lead the transition to a low carbon economy through our investment activities and the action that we take within our own operations. In 2020 we became a founding member of the Net Zero Asset Managers initiative, signalling our intention to achieve net zero emissions in our managed assets by 2050, with interim targets set along the way. As part of this, we have committed to setting a science-based target in 2021, which will be in line with a 1.5°C emissions reduction pathway and reaching net zero across our value chain by 2050, or sooner. We will be publishing our climate action plan in 2021 to outline how we intend to transition towards net zero emissions across our own operations and wider value chain by 2050 or sooner, as well as highlighting interim targets in this area.

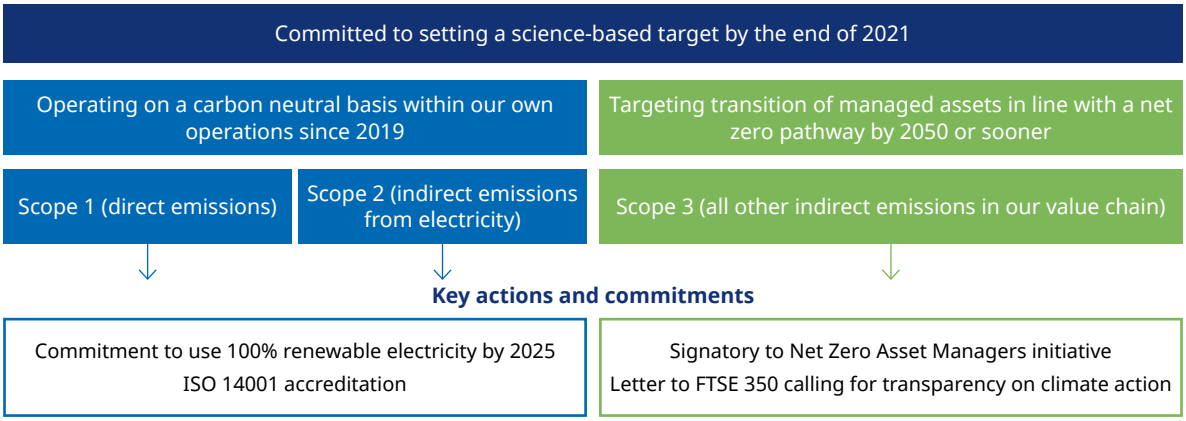
As an active asset manager, investing across public and private markets, we have a fundamental role to play in encouraging the companies that we invest in to recognise their environmental and social responsibilities. This includes encouraging them to address the climate impact of their businesses. We set out further detail on how we do this under Principle 9. We intend to migrate our assets under management to align with a net zero pathway, mindful of the fiduciary duty that we have to our clients. We firmly believe that companies that demonstrate good governance and sustainability practices will be more likely to deliver returns to investors. Therefore, incorporating climate risk into our investment management process is essential to fulfilling our purpose of delivering excellent investment performance to our clients.

It is equally important that we lead by example, and we are committed to planning for, and executing on, the transition towards net zero emissions within our own operations. We continue to target significant reductions in our greenhouse gas emissions, and in 2020 our CO2e emissions per employee reduced by 73% to 1.21 tonnes (2019: 4.49 tonnes). Notwithstanding the reductions that arose as a result of Covid-19, particularly from less travel, we made good progress in line with our plans. We remain committed to our carbon offsetting programme and have chosen to retire the same amount of verified carbon credits for 2020 as we did in 2019.

In November 2020, the Group Chief Executive presented to the Board on climate-related risks and opportunities. This discussion helped guide our ambition in this area and focus on climate-related issues. Members of the GMC have specific objectives relating to sustainability and the management of climate-related issues, with a proportion of their variable remuneration dependent on progress against these objectives.

As we progress on our journey towards net zero, our strong, public commitments to transition our business and our market leading proprietary tools allowing us to integrate climate risk into our investment process, give us confidence that our response to climate change has been effective so far.

Our path to net zero



Source: Schroders as at 31 December 2020.

ESG in practice – integrating climate risk

The management of climate-related risks and opportunities in our investments is the responsibility of the Global Head of Investment, who is a member of our GMC and is supported by a number of committees, including the ESG Steering Committee. Our fund managers work closely with the Global Head of Investment to ensure they are effectively identifying climate-related risks in their portfolios. Our own business operations are managed as part of our physical infrastructure and supply chain management functions, reporting to the Chief Financial Officer.

Scenario analysis is a vital element of our ability to assess the implications of different climate pathways for our business and those businesses that we invest in, and helps us prepare for the potential impacts. We have reviewed many of the emissions scenarios published by various organisations. However, we have primarily focused on those produced by the International Energy Agency (IEA), which are widely used by policy makers and other stakeholders. In particular, we have focused on the Sustainable Development Scenario (SDS) analysis in our assessment of a more rapid climate transition.

The SDS analysis plots the trajectory of emissions over the coming decades, globally and in specific economic sectors, needed to limit long term temperature rises to 1.6-1.8°C above pre-industrial levels. Rather than aiming to restate or refine that analysis, we focus on building an understanding of the implications of that transition for the value drivers that will impact our business, both through their effects on our own operations and the investments we manage. In particular, we have focused on five dimensions of impact:

- The effects of the higher carbon prices that will be needed to incentivise a transition away from carbon intensive activities
- Stranded assets, leaving identified fossil reserves undeveloped
- The impact on growth and value of the capital reallocation needed to reshape economies and industries
- The credit risks posed to financial institutions
- The impacts of rising risks to companies' physical assets

In each case, we assess the changes required to cut emissions sufficiently to meet that scenario pathway. We have developed models to assess the impacts of those changes on the investments we manage and on our own operations, where material. To date, the analysis of our investments has focused predominantly on public equity and credit markets, and sovereign bonds. Our model implies that there would not be a material impact on our profitability as a result of carbon prices rising to US$ 100/t, or as a consequence of other physical risks.

All of our analysis suggests that risks are significant for markets more broadly, which is why climate change has been a major strand of our engagement with investee companies and our clients. We continue to increase and evolve this engagement, participating in initiatives such as CDP's non-disclosure campaign and sharing research on the subject on our website.

From an investment perspective, we need to ensure that our fund managers are able to identify and assess climate-related risks and opportunities. Research teams include physical and transition risks and opportunities as part of the company analysis that fund managers use.

Our proprietary tools help standardise and streamline this research process. This facilitates sharing of information between teams and allows us to identify market-wide trends and insights.

A climate lens on the impact of our investments

Climate Progress Dashboard

An objective, transparent and comprehensive view of the pace and scale of global climate action. Tracks the pace of change across a range of measures required to meet long-term emissions reduction targets.

Physical Risk

Estimates the cost of protecting assets against extreme weather events as a percentage of a company's total value. Incorporates data on location of assets to drive engagement with most exposed companies.

Carbon VaR

Measures the extent to which higher carbon prices could put profits and returns at risk as we transition to a lower-carbon economy.

SustainEx™

Quantifies the environmental and social benefits and impacts created by companies. Uses academic research to analyse more than 9,000 companies.

Promoting a well-functioning financial system

Sharing our research and supporting industry initiatives

We believe we have a particular role to play in sharing our expertise on climate risk and the potential impact on financial markets. We have a long-standing commitment to support and collaborate with several industry groups, organisations and initiatives to promote resilient and well-functioning financial markets. Our key stakeholders include exchanges, regulators and international and regional trade associations. For example, our Group Chief Executive has been a member of the UK Treasury's Asset Management Taskforce since 2019, and Schroders is member of trade bodies such as the Investment Association in the UK, the European Fund and Asset Management Association (EFAMA), the Asia Securities Industry and Financial Markets Association in Hong Kong and the Securities Industry and Financial Markets Association in the US.

In our view, our participation in industry initiatives has been effective. We have used our insights as a market participant to support the development of policy recommendations, share best practice and build coalitions of like-minded market participants to advocate for better functioning markets. We highlight some key examples below. Additional information about our industry involvement and collaborative engagement can be found under Principle 10 and examples of our public policy contribution are listed in the next section.

- **Net Zero Asset Managers Initiative:** In December 2020, we joined 29 other global asset managers representing more than $9tn of assets in launching the Net Zero Asset Managers Initiative. As part of the initiative we have committed to: work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management; set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner; and review our interim target at least every five years, with a goal of ratcheting up the proportion of assets covered until 100% are included, as efforts to structurally decarbonise economies play out.
- **Climate Financial Risk Forum (CFRF):** Schroders actively contributes to the disclosure and innovation technical working groups of the CFRF. The CFRF, co-chaired by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), builds capacity and shares best practice across financial regulators and industry to advance our sector's responses to the financial risks from climate change. In 2020, the CFRF published a guide to climate-related financial risk management. The guide aims to help financial firms understand the risks and opportunities that arise from climate change, and provides support for how to integrate them into their risk, strategy and decision-making processes.
- **Committee on Climate Change:** As part of the Committee on Climate Change low carbon finance advisory group, Schroders contributed to the development of a set of policy recommendations. The recommendations can be used by UK government to ensure the flow of capital and to align financial markets and the UK climate goals to decarbonise the economy by 2050.
- **Linklaters Non Executive Masterclass:** Schroders spoke at a dedicated ESG session as part of a series of roundtables for non-executive directors (NEDs) run by Linklaters. The audience hosted a wide range of NEDs from financial institutions and corporates. We discussed recent developments in UK and EU climate policy and the potential impacts on companies, shared our perspectives on current and future ESG best practice, and explained how institutional investors can help a company move towards best practice, encouraging further dialogue and engagement between companies and investors.
- **Sustainability Accounting Standards Board (SASB):** Established in 2011, SASB is an independent, private-sector standards setting organisation based in San Francisco, California. In 2019 Schroders was invited to become a member of the exclusive SASB Investor Advisory Group (IAG). SASB established the IAG in 2016 to provide investor feedback and guidance for the organization, and to demonstrate investor support for a market standard for investor-focused sustainability disclosure. In 2020, we spoke at the annual SASB IAG on the importance of ESG data and disclosure in financial analysis.
- **FrenchSIF:** Schroders became a member of FrenchSIF in 2019. In 2020 we participated in a working group aiming to assess the existing references in impact measurement, define the rules, expectations and principles for a robust impact measure and its ultimate objective, to propose a common definition of an impact measure.
- **Hong Kong Green Finance Association (HKGFA):** HKGFA's provides greater access and opportunities for Hong Kong's financial institutions to participate in green financing transactions locally, in Mainland China and in markets along the Belt & Road. This is in line with the global trend of implementing the UN SDGs and the Paris Agreement. Schroders actively participates in two working groups: ESG Disclosure and Integration, and Green Bonds and Product Innovation.
- **Focusing capital on the long term (FCLT):** FCLT is an NGO dedicated to encouraging long-term behaviours in business and investment decision-making. Schroders is a member of the group advising on long-term incentive plans and potential changes to industry views. Schroders has also collaborated with FCLT on its work to illustrate how external expectations can shape and alter investors' responsibilities. This has resulted in a jointly authored article on the topic of engagement impasses where Schroders outlined its escalation process and reflected on its escalation with Amazon during 2020 on the company's employment policies and practices. The article can be accessed here and we provide more details on this particular case study under Principle 11.

- **Center for Audit Quality:** We participated with other institutional investors on an ESG research project coordinated by the Center for Audit Quality in the United States. Public companies, investors, regulators, and policymakers are all showing increased interest in developing uniform and reliable standards for ESG reporting. The Center for Audit Quality (CAQ), a non-profit advocacy organization dedicated to enhancing investor confidence and public trust in the global capital markets, assembled a panel of 16 senior institutional investors to gauge their opinions of ESG reporting. Respondents were recruited specifically for their knowledge of the subject. Participants included investors from institutions representing US asset owners (both equity and credit), US pension fund asset owners, and labour union asset owners. Respondents included CEOs, CFOs, and ESG researchers, analysts, and portfolio managers at investment institutions.
- **FinDatEx:** FinDatEx (Financial Data Exchange Templates) was established by representatives of the European financial services sector industry with the view to coordinate, organise and carry out standardisation work to facilitate the exchange of data between stakeholders in application of European Financial markets legislation, such as the Markets in Financial Instruments Directive (MiFID) II. Schroders is a member of the working group tasked with designing the technical templates needed to facilitate the exchange of data between stakeholders in application of European Financial markets legislation.
- **UN Global Compact:** In January 2020 we became signatories to the UN Global Compact. As a signatory we will disclose annually our communication on progress, including a statement signed by the chief executive expressing continued support for the UN Global Compact and renewing our ongoing commitment to the initiative and its principles alongside a description of practical actions that the company has taken and the outcomes. We have engaged collaboratively on a number of issues promoted by the global compact during 2020. A selection of collaborative engagements on labour rights and environment are discussed under Principle 10.
- **Singapore Green Finance Centre:** In October 2020, Schroders became officially a Founding Partner of the Singapore Green Finance Centre, a collaboration between Imperial College London and Singapore Management University, and supported by the Monetary Authority of Singapore and nine financial institutions (including Schroders). The centre aims to equip institutions and professionals with the information and skills needed to develop the scope of activities and priorities of green finance in Asia. The centre also aims to develop a strong pipeline of green finance talent, and its multi-disciplinary research and training will help enable the transition of capital markets in Asia towards a low carbon future.

Contribution to public policy and regulatory agenda

Schroders is actively engaged in public policy and we seek to provide input to the policy and regulatory debate both directly and through contributing to responses submitted by industry bodies such as the Investment Association and EFAMA. We view this contribution as key towards promoting high standards and supporting the functioning of capital markets.

Examples of public policy contributions in 2020 include the following:

- European Commission
  - Comprehensive consultation on the review of the Non-Financial Reporting Directive – view Schroders' response here.
  - Draft delegated acts on the integration of sustainability factors under MiFID (product governance) – view Schroders' response here.
  - Draft delegated acts on the integration of sustainability factors under MiFID (organisational and operational requirements) – view Schroders' response here.
  - Commission Delegated Regulation on a climate change mitigation and adaptation taxonomy – view EFAMA's response here.
  - Renewed sustainable finance strategy – view Schroders' response here.
- European Securities and Markets Authority Consultation on draft regulatory technical standards on ESG disclosures regulation – view Schroders' response here.
- IFRS Foundation consultation on sustainability reporting. Our response supported the need for an internationally recognised reporting standard, however we encouraged collaboration between the IFRS Foundation and existing standard setting initiatives such as TCFD and SASB to achieve that. View Schroders' response here.
- Monetary Authority of Singapore Environment Risk Management Guidelines (MAS EnRM Guidelines) Working Group: these guidelines set out MAS' expectations on environmental risk management for all fund management companies and real estate investment trust managers. Schroders was part of a select group of fund managers that worked closely with MAS to debate, draft and review the guidelines.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The starting points for ensuring our stewardship activities and processes remain effective are:

- The review of our ESG Policy; and
- The ongoing maintenance of our engagement database.

The process behind both is aligned with our firm-wide policies and processes for internal and external assurance. We describe each, in turn, below.

Policy reviews

Our ESG Policy outlines our principles and processes in terms of integration and stewardship. It sets the main parameters of our engagement and voting. For example, it explains our process of engagement (as described under Principle 9), our general stance on corporate governance issues (as described under Principle 12), and our approach to environmental and social issues, such as climate, water use and taxation.

We regularly review our ESG Policy with the aim of ensuring that we are following local and international best practice and that we accurately describe our activities. As part of this, we assess industry codes and best practices in different regions, consider emerging best practice through consultants and assess areas of weakness highlighted by our own experiences. We discuss policy and code statements at internal committee meetings. These meetings are, where appropriate, administered by our active ownership experts within the Sustainable Investment team and attended by global analysts and investors to formulate ideas to drive positive change. Significant changes are signed off by our GMC.

In 2020, we made the following changes to our published ESG Policy:

- 'Defining ESG' section: we added a definition to explain what impact investing is.
- Integration framework: we added new wording to better explain our accreditation process and how it ties into integration as well as new summary text to outline the features of our flagship tools CONTEXT and SustainEx.
- Engagement section: we defined the four key attributes that we see as critical to the success of our engagement approach (in line with information on our website); knowledge, relationships, impact and incentive.
- Voting section: we added a section to cover conflicts of interest which, in compliance with the previous version of the FRC's Stewardship Code, used to be a separate statement published on a separate website. That text is now embedded within the ESG Policy document for ease of access.

Maintaining the quality of our engagement data

To help maintain the quality of our engagement data, engagements are recorded by analysts and fund managers in our internal engagement database. Before being added to the database, draft engagement entries are reviewed by members of the Sustainable Investment team to make sure the engagement has been recorded appropriately. This review involves:

- Making sure that an objective was set for the engagement and that it is specific and measurable
- Confirming that the meeting summary is succinct and that there is sufficient information so that other users of this database can understand what the engagement was about

Once reviewed the engagement record is either approved and added to the database or updated to address any necessary changes or gaps.

This process helps us ensure that the data behind our stewardship reporting, such as the summary statistics provided under Principles 9, 10 and 12, is robust and that the reporting itself is rigorous, fair and understandable.

Assurance and oversight

Three lines of defence

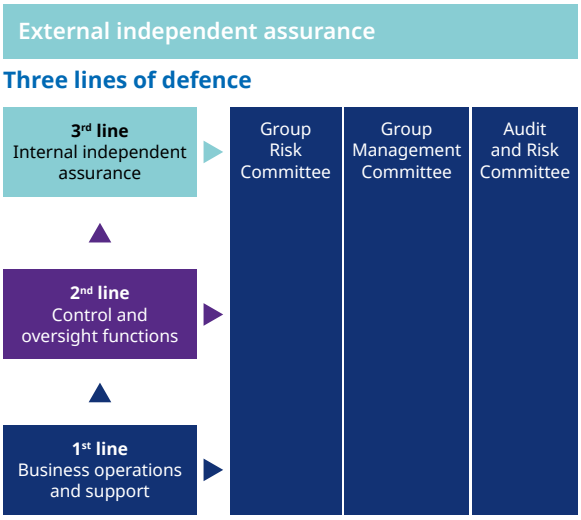
We operate a three lines of defence model to ensure our policies and processes, including those related to our stewardship activities, are complied with and are fit for purpose. This is a widely used risk management model. It provides clear ownership over key policies and processes as well as independent oversight, which helps us to identify potential shortcomings and improvements in our processes.

The first line of defence are the business functions themselves and their managers across the Group. Heads of each business area take the lead role with respect to identifying potential risks in their area and implementing and maintaining appropriate controls to manage these risks, including through our Risk and Control Assessment process.

Line management is supplemented by oversight functions, including Group Risk, Compliance, Legal, Governance, Finance, Tax and Human Resources, which constitute the second line of defence. Our compliance assurance programme reviews the effective operation of relevant key processes against regulatory requirements.

Our Internal Audit function provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The function is independent and reports to the firm's Board Audit and Risk Committee (BARC). It conducts reviews of the Schroders Group's global operations. The Internal Audit team plans its work through a systematic assessment of the Group's exposure to risks that could have a significant impact on Schroders' business. The outcomes of these risk assessments provide the basis for the prioritisation of audit work and the level of resources allocated. In addition to reviewing the specific processes and controls of the team being audited, internal audits may also include a review of the risk and governance culture within the team, their IT systems and supporting technology, and adherence to applicable team procedures and Group policies. Formal reporting takes place at the end of each audit, with matters arising being recorded and tracked to completion. The results and status of these matters are overseen by the BARC. The team's work is supplemented by external assurance from the Group's auditors.

Lines of defence overview



Source: Schroders as at 31 December 2020.

Within the first line of defence, investment desks are responsible for managing the sustainability risks associated with the funds they manage and for ensuring that any sustainability features of our mandates as well as our ESG policy are complied with. The Sustainable Investment team, which sits within our Investment function in the first line of defence, also screens desk portfolios against third-party ESG ratings from specialist ESG research providers on a quarterly basis and these ratings are distributed to investment desks. We do not believe that third-party ESG research and ratings provide the definitive and final view of a company's ESG performance but they may serve as a catalyst for further research and discussions.

The Sustainable Investment team also carries out an annual integration accreditation process as part of the Schroders Sustainability Accreditation framework. This process involves close collaboration between the Sustainable Investment team and each investment desk, culminating in the submission and approval of individual desks' accreditation documents. Desks are required to describe their approach to ESG integration, how it is embedded within their investment philosophy and processes, and provide examples and case studies. Desks must also support the firm's proxy voting and engagement processes. We outline our integration process in more detail under Principle 7.

Our second line functions, particularly Risk and Compliance, provide oversight to ensure that our first line functions are in compliance with our policies and procedures. Compliance with Schroders policies and procedures is regularly checked as part of our compliance monitoring programme, which includes periodic testing of policies in relation to conflicts of interest, proxy voting, ESG integration and engagement. Our Group Risk Committee receives management information designed to monitor the degree of ESG risk in the portfolios we manage as well as to identify whether products that have been marketed as sustainable do in fact follow a stricter ESG standard than the broader market. An outcome of this process during 2020 was the launch of an internal ESG risk dashboard, which is now part of our Investment Risk oversight framework, as described below.

In 2020, our Internal Audit team carried out a review of the Sustainable Investment team, as well as reviews of certain individual investment teams. The primary objective of the audit was to determine whether the team's internal controls were operating effectively to mitigate the key risks associated with the activities reviewed.

In addition to reviewing the specific processes and controls of the particular team being audited, all audits include a review and assessment of the risk and governance culture within the team, their IT systems and supporting technology and adherence to applicable team procedures and Group policies. For investment team audits, Internal Audit works with investment teams and second line control functions to review the process and controls over the allocation, management and oversight of investments, taking into account any material environmental, social and governance, and climate change risks that could impact the effective stewardship by the team. Formal reporting takes place at the start and end of each audit, with matters arising being recorded and actively tracked to completion. The results and status of these matters are reported to the BARC.

Areas of focus in 2020 included operational resilience, conflicts of interest, management of key third parties and various technology audits encompassing vulnerability management and patching, front office technology teams, and cloud services.

The audit of the Sustainable Investment team, in particular, identified opportunities for the team to further enhance their processes and controls. Management responded positively to the audit, and action plans were put in place to address the audit findings.

Investment Risk oversight framework

Part of our governance and oversight involves incorporating ESG into our portfolio risk management. For this we have the Investment Risk oversight framework. Its purpose regarding ESG risk is to:

- Support transparency over risk-taking in portfolios that we manage for clients, and help avoid unconscious or unintended ESG risks
- Ensure that portfolios are being managed in accordance with the ESG credentials that have been marketed to and are demanded by our clients
- Ensure ESG models are robust and implemented as intended

In 2020, the process of reviewing and challenging of ESG risks was embedded into the existing governance structure provided by the Asset Class Risk and Performance Committees (ACRPCs). Every portfolio is mapped to an ACRPC. These committees meet quarterly and are attended by senior employees from both the First and the Second lines of defence (Head of Investment, Asset Class Heads) supported by members of their direct management team, Product Governance and Second Line Group Risk and Compliance.

The ACRPCs serve as a formal venue for review and challenge and they complement day-to-day oversight processes. In this context, ESG risk is treated as a core risk lens in the same way as other core risk measures such as liquidity, exposure concentration, active risk and performance. ESG discussions cover both helicopter views at the portfolio level, along with review and challenge on individual holdings.

A key tool used to support ESG risk analysis (both at the ACRPC level and on a day-to-day basis) is the ESG Risk Dashboard. This provides transparency on the ESG risk profile of a portfolio and highlights where a portfolio may have exposure to positions with heightened ESG risks. It incorporates both internal measures based on our proprietary tools as well as raw (published) company data and external measures such as MSCI ESG scores. Ultimately, it allows users to immediately identify the individual positions that drive the portfolio-level ESG scores. The Dashboard is used by our investment teams as well as the Group Risk function to consider the sustainability characteristics of the underlying portfolio compared to its benchmark. It was made available to all investment teams in the second quarter of 2020.

External assurance

Over and above our three lines of defence, an additional level of assurance on our control framework is provided via our external auditors and we periodically engage third party advisers to help us design and implement specific new frameworks or review our existing practices and recommend changes where we think that is appropriate. This helps us understand where our practices sit in relation to rest of the market and to identify best practices used by other investment managers that we can adopt or adapt for our own purposes.

We place great importance on the quality, effectiveness and independence of the external audit process. The BARC oversees the relationship with our external auditor, EY, including safeguarding independence, approving non-audit fees and recommending their appointment at the Annual General Meeting of Schroders plc.

In March 2020, ahead of the consideration of the 2019 Annual Report and Accounts, the Committee received initial feedback on the conduct of the 2019 audit, which identified no significant areas of concern. A full assessment of the external auditor was carried out by way of a questionnaire prepared in accordance with the FRC's guidance and completed by key stakeholders. Interviews with senior managers and Group Finance were also held. The findings of the questionnaire were presented to the BARC in May 2020. EY generally scored highly in the auditor effectiveness questionnaire and were assessed to have improved in the second year of their audit. Areas of improvement were identified and discussed with EY in advance of the 2020 audit.

EY perform an independent external review of our internal control procedures in line with the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/06 (AAF 01/06), issued by the Institute of Chartered Accountants in England and Wales (ICAEW), and the control objectives for investment management, Information Technology, and Real Estate Fund Management set out in AAF 01/06. The review in 2020 did not identify any areas of concern.

Our annual internal controls report demonstrates operation of key controls within our UK and US businesses and includes an independent opinion on our UK engagement and voting processes.

In addition, Schroder Real Estate operates an Environmental Management System (EMS), externally certified to ISO14001[4], which provides the framework for managing its environmental responsibilities in the asset management of direct real estate in the UK and Europe. Independent oversight of sustainability risks is also provided by the Schroders Group Investment Risk function.

[4] ISO 14001 is an internationally agreed standard that sets out the requirements for an environmental management system. Schroder Real Estate received the ISO 14001 certification for the process in 2020 in January 2021.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our client base and assets under management

As at end of 2020, we manage £574.4 billion on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of active strategies across equities, fixed income, multi-asset, alternatives and real estate.

Our assets under management are split out across five business areas, as described under Principle 1:

- Mutual Funds: Offered through intermediary networks providing retail clients with access to our investment capabilities
- Solutions: Provides complete solutions and partnerships, including liability offsets and risk mitigation
- Institutional: Investment components made available directly to institutions and through sub-advisory mandates
- Wealth Management: Wealth management and financial planning for ultra high-net-worth, high-net-worth and affluent individuals and charity clients as well as family offices and advisers
- Private Assets & Alternatives: Comprises opportunities available in private markets, such as real estate, private equity and infrastructure, as well as alternatives

Across our business, approximately two thirds of our assets are managed on behalf of institutional clients and one third on behalf of retail clients, including Wealth clients (see overleaf). The regions with a relatively larger retail investor base are Europe (ex UK) and the UK (where all our Wealth assets are managed). By contrast, in the Americas and in the Middle East and Africa, most of our assets (between 80% and 85%) are managed for institutional clients.

Assets under management

£574.4bn

By asset class

Equities	33%
Multi-asset	29%
Fixed Income	17%
Private Assets & Alternatives	8%
Wealth Management	13%

By region

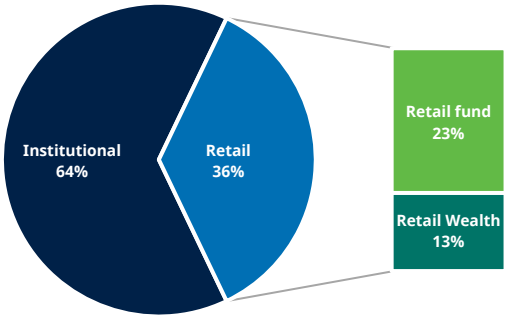
UK	48%
Asia Pacific	18%
Europe, Middle East and Africa	19%
Americas	15%

By business area

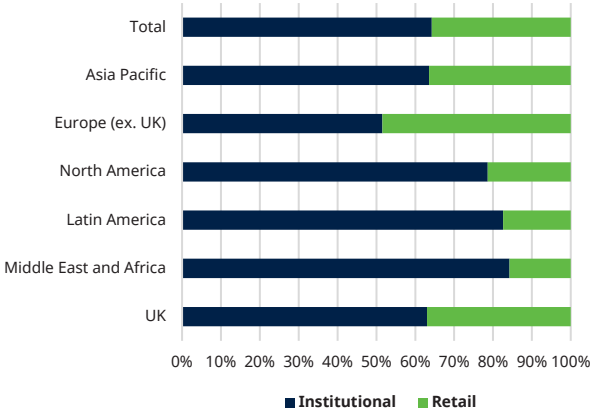
Private Assets & Alternatives	8%
Solutions	33%
Mutual Funds	18%
Institutional	28%
Wealth Management	13%

Source: Schroders Annual Report and Accounts 2020. Information as at 31 December 2020.

Assets under management by client type



Assets under management by client type and region



Source: Schroders as at 31 December 2020.

Most Schroders' investments, across all regions and client types, are managed with a long-term perspective to reflect our culture and principles.

We believe that the best way to deliver excellent investment performance over the long term is to invest in companies with fundamentally sound and sustainable business models that have strong long-term growth prospects.

However, we do offer a small number of products to meet our clients' needs that are based around shorter term trading strategies.

The investment horizon over which we aim to deliver for our clients generally varies across products. Broadly, most of our fixed income and equity funds have 3–5 year minimum performance periods, whereas for multi-asset funds this tends to be either 5–7 years or 7–10 years.

We define the minimum performance period as the shortest time frame over which we anticipate delivery of the performance objective. These time periods are set with reference to the length of a 'typical' market cycle for the respective asset classes. Certain bespoke products have more customised time periods for assessment and cannot be meaningfully summarised into a single figure.

Understanding our clients' needs

Clients are the central focus of our business. The Group's resilience and ongoing success are built upon our ability to understand clients' needs and respond to them. We work to anticipate how client needs may evolve and to construct products that can meet their investment needs and build future prosperity.

Every year we conduct three surveys that reflect our diverse client base and feed into our thinking:

- Global Investor Study to canvass retail investors' views
- Institutional Investor Study focussing on institutional clients and their priorities
- The UK Adviser Survey to examine views, concerns and priorities of financial advisers in the UK and their clients

Moreover, Cazenove carried out a survey across charity clients in 2020, which was an update to a similar exercise in 2015. We take these results into account too.

We explore each and their findings in turn.

Global Investor Study

The Global Investor Study focuses on retail investors around the world and their views on issues around three broad themes: investing, sustainability and retirement. Within the sustainability theme we explore their attitudes towards sustainable investing altogether, what may motivate them to invest, and what they are looking for in a sustainable fund.

In 2020, we surveyed over 23,000 retail investors from 32 locations around the world. The detailed survey results can be found here.

In terms of sustainability, the results indicated that retail investors:

- Consider that national governments, intergovernmental organisations like the UN and companies should be responsible for mitigating climate change
- Have concerns around greenwashing and an external or internal certification that a fund is sustainable would make them more confident in their investment
- Would, in most cases, not invest against their personal values even if this were on the promise of high returns
- May consider a sustainable fund attractive mainly because of the expected wider environmental impact
- Expect the companies they are invested in to focus on their social responsibility, pay attention to environmental issues, and look after their employees

Hannah Simons

Head of Sustainability Strategy

At Schroders we believe we have an important responsibility as investors and as guardians of our clients' assets. Understanding the priorities of our clients is a key input into our way of thinking.

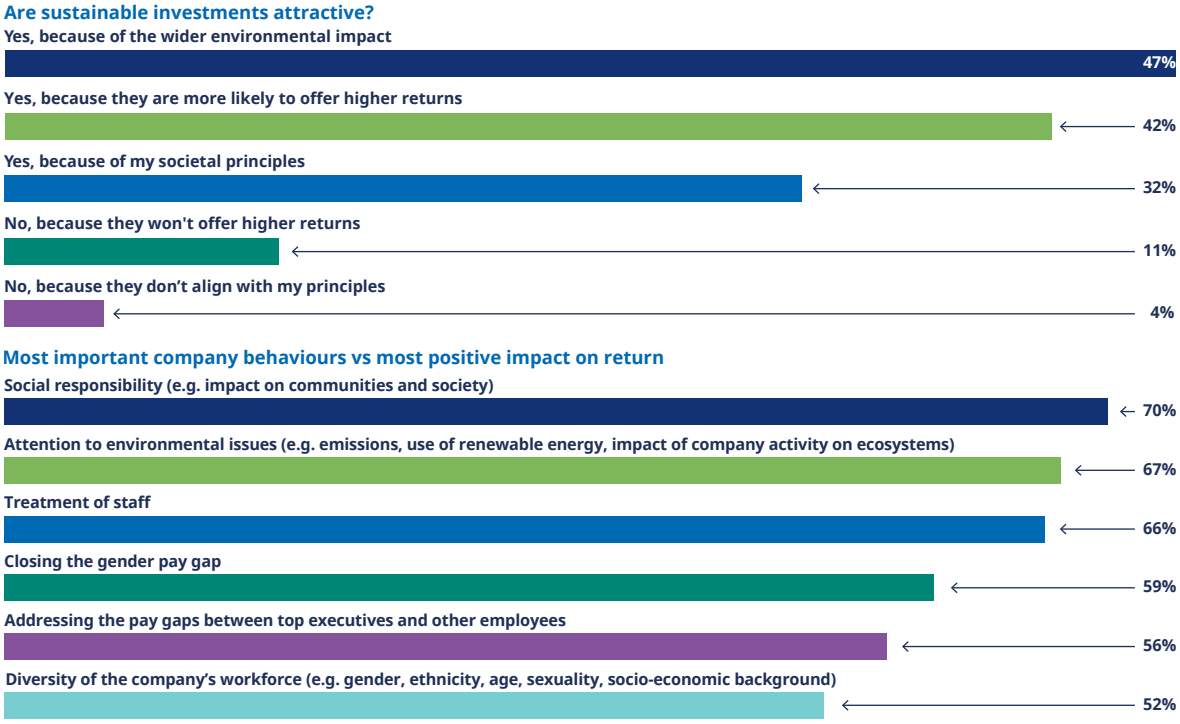
Every year, we undertake a survey of retail and institutional investors globally to learn more about their attitudes to sustainable investing.

This year retail investors told us that their values increasingly drive their investment decisions and that social responsibility is the most important area for companies to focus on.

Institutional investors told us that ESG integration is their favoured investment approach when implementing sustainability and highlighted greenwashing as the main challenge to investing sustainably.

The need for more clarity and data around sustainable investing has featured consistently across several studies. That is why we have invested in developing our own proprietary tools to measure the sustainability risk of our investments and quantify their impact for our clients.

Global Investor Study 2020 results



Source: Schroders Global Investor Study 2020.

Our interpretation of these results is that monitoring and engaging with companies on environmental issues and having an environmental impact is important to our retail clients and we should take this into account when setting our engagement priorities. Moreover, we should be seeking in our stewardship to raise the bar in terms of companies' social behaviour, the way they treat their employees and their gender pay gap.

Institutional Investor Study

Schroders' Institutional Investor Study analyses the investment perspectives of the world's largest investors' key areas of focus and concern. The respondent pool includes pension funds, insurance companies, sovereign wealth funds, endowments and foundations.

Similar to the Global Investor Study, we cover three broad themes: investment outlook, sustainability and private assets. Within the sustainability theme, we gather evidence on institutional investors' attitudes towards sustainable investing such as plans for future allocation, their preferred approach to sustainability, and the challenges they face.

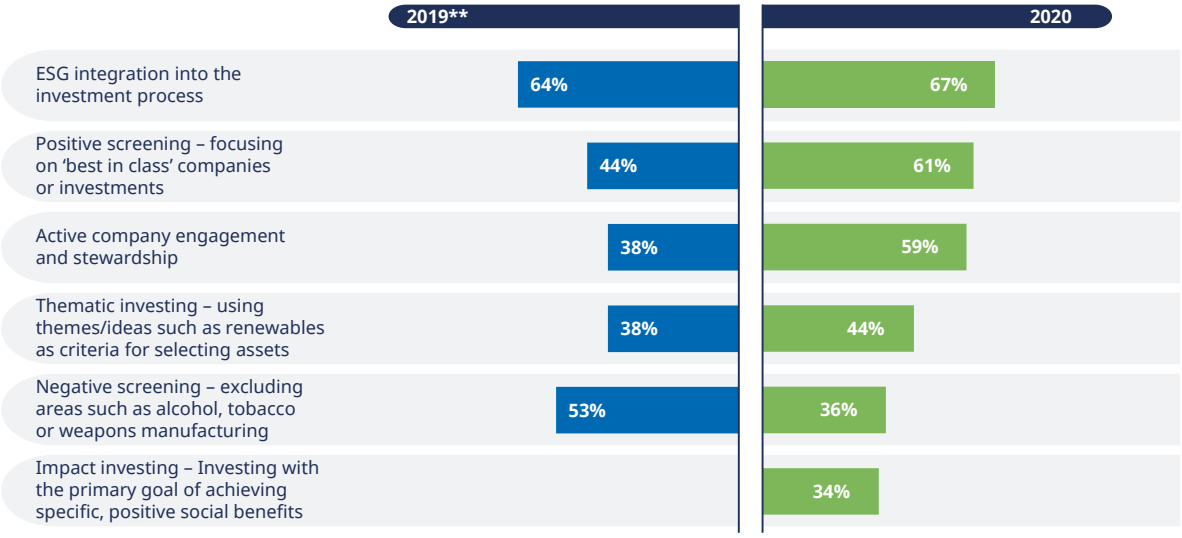
In 2020, we surveyed 650 institutional investors from 26 locations across the world, collectively responsible for $25.9tn in assets. The detailed survey results can be found here.

Key findings from the sustainability theme of this year's report included:

- The majority of investors believe that the role of sustainable investing will increase over the next five years
- Alignment to own values as well as pressure from regulators and peers are significant drivers of sustainability focus
- ESG integration is the most preferred approach to sustainable investing but there was a significant acceleration of expectations around stewardship while negative screening is losing its appeal
- Environmental issues and corporate strategy are priorities in engagement
- Concerns around greenwashing and lack of data remain a significant challenge in increasing sustainable investments

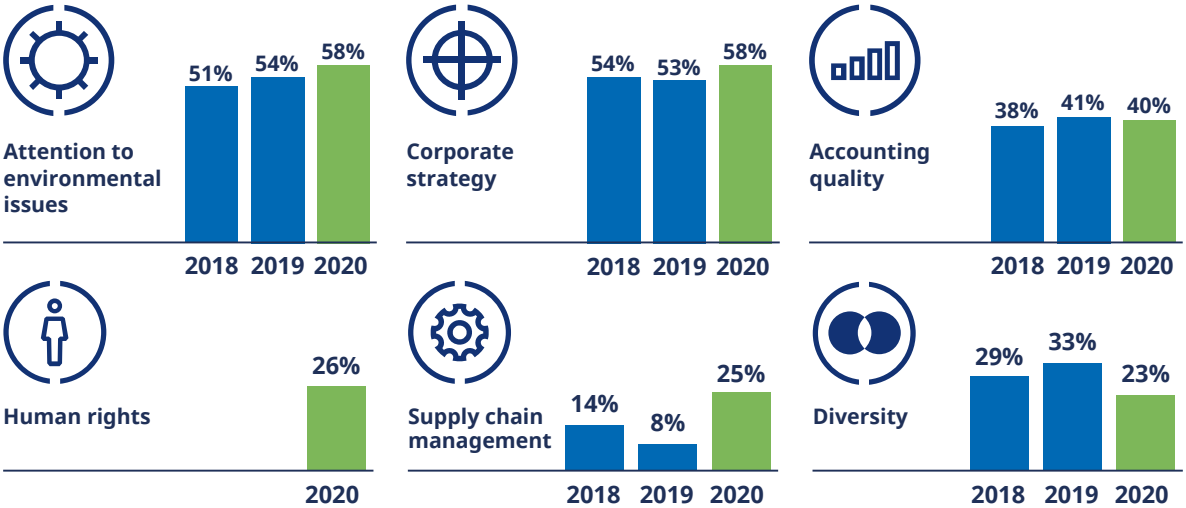
Institutional Investors Study 2020 results

Preferences shift from exclusive to inclusive approaches with strong focus on active ownership

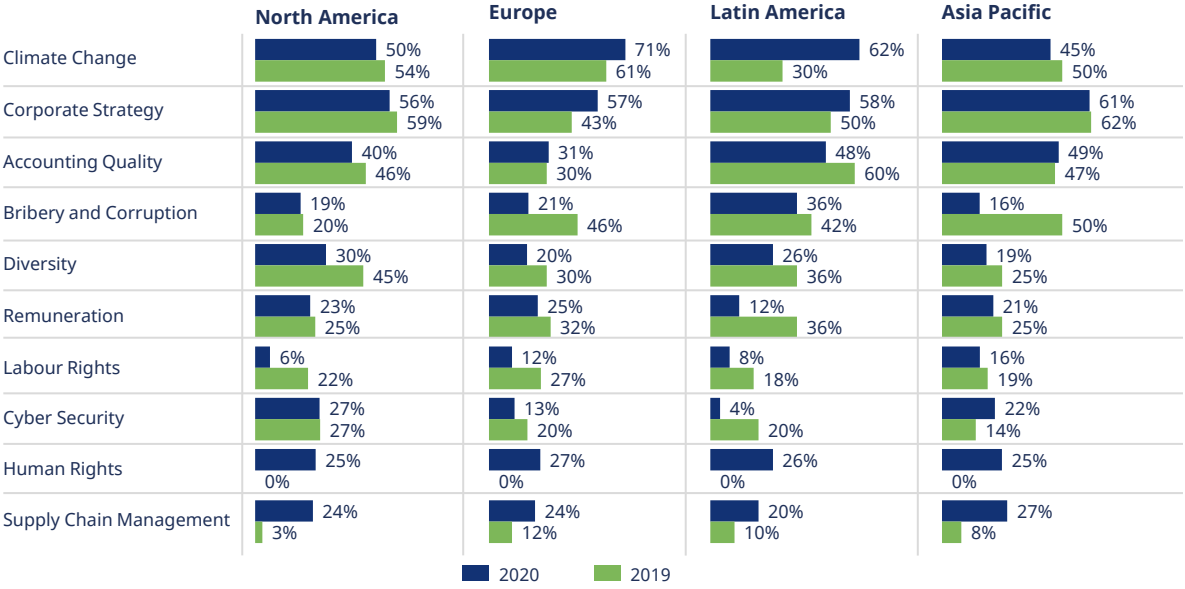


Climate change tops global engagement agenda for second year running

Please rank in order of importance the areas that you believe it is important for investment managers and asset owners to engage on



There are no substantial differences in priorities across regions



Source: Schroders Institutional Investor Study 2020.

These findings would indicate that for institutional clients, integration and engagement are key approaches in sustainable investing; much more so than excluding companies from a portfolio altogether. They also point to environmental issues as an engagement priority. Importantly, the concerns around greenwashing imply that we still need to improve the way we communicate with clients about the sustainability features of different products.

UK Financial Adviser Survey

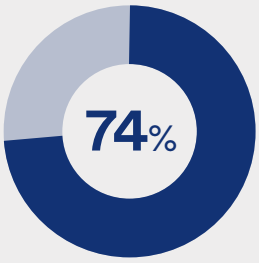
The UK Financial Adviser survey invites advisers in the UK to share their views on a wide variety of topics, including their outlook for the economy and market, information about end investors and the most helpful methods to communicate with them. Since the distribution of our retail fund products is intermediated, this survey gives us valuable insights into this community and their clients, who are our ultimate investors.

The 2020 Survey received feedback from 125 advisers in the UK on a wide variety of topics including sustainable investing. The detailed survey results can be found here.

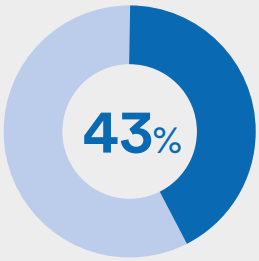
Among the key findings in 2020 were:

- There has been a marked increase since 2019 in the number of advisers integrating ESG into their advisory process

% of respondents who stated that they explicitly consider sustainability and ESG factors in their fund selection process



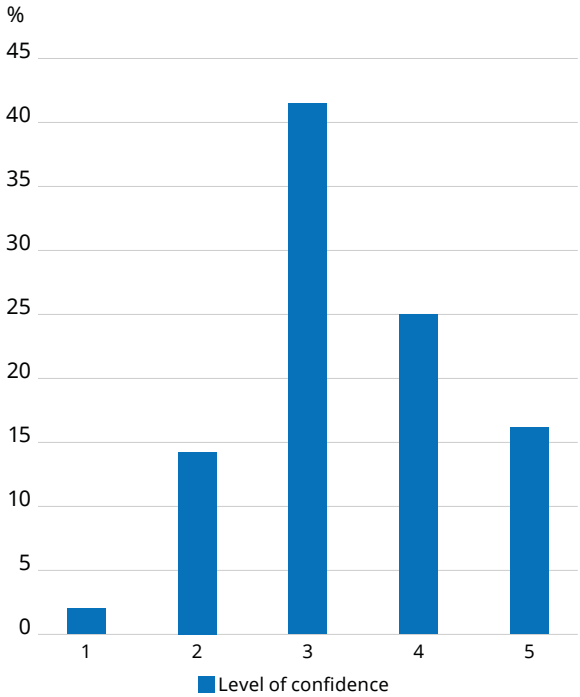
of respondents in the Nov 2020 Survey



of respondents in the Nov 2019 Survey

Source: Schroders UK Financial Adviser Survey 2020.

Rate your level of confidence about talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing on a scale of 1 (very low) to 5 (very high)



Source: Schroders UK Financial Adviser Survey 2020.

- The majority of advisers plan to increase the attention they pay to ESG risks as a result of the Covid-19 crisis
- There are relatively low levels of confidence when speaking with clients on sustainability

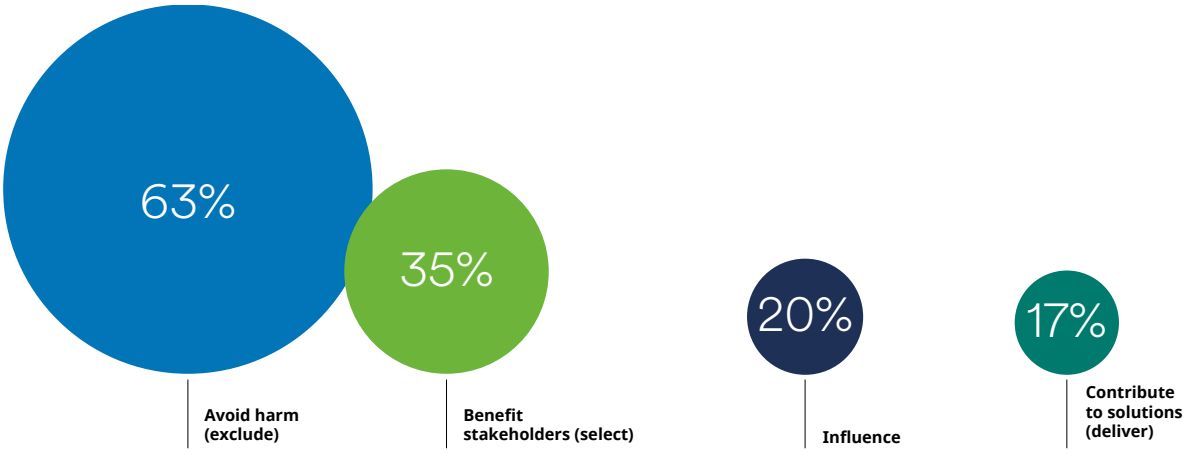
Our takeaway from these results is that sustainable investing remains a complex area for advisers. This is at a time where the number of discussions on how we approach sustainability and exercise our stewardship responsibilities will only increase as a result of the pandemic. In our view, this highlights the need for more transparent reporting in this area.

Cazenove UK charities survey

In 2015, Cazenove worked with the Association of Charitable Foundations (ACF) and Richard Jenkins to publish Intentional Investing which examined how trustees aligned their mission and aims to their investment strategy. This research informed both policy – with the Charity Commission using it in their 2020 consultation on responsible investment – and further research, such as the recently published Stronger Foundations Investment report from ACF.

In 2020, Cazenove surveyed 295 long-term charity investors in order to update this research, highlighting key trends and developments in practice and attitudes among UK charity investors over the last 5 years.

Respondents' current responsible investment practice



Source: Cazenove UK Charities Survey 2020.

The detailed survey results can be found here. The key findings included:

- 77% of charity investors have decided to adopt a policy to link their mission to their investments, compared to 59% in the 2015 report
- Fewer charity investors think that responsible investment reduces financial returns, with more expecting an increased return
- A significant increase in exclusionary policies for fossil fuels – 33% of policies exclude fossil fuels from portfolios, up from just 4% in 2015 report
- Most policies seek primarily to avoid harm, although there has been an increase in those charities striving to have a positive impact with their investment

Our main takeaway from these results is that for purpose-led investors like charities, exclusions rather than active ownership remain a preferred approach to sustainable investment. This is something that we will continue to monitor closely, particularly in light of the Schroders Institutional Investor Study results indicating that negative screening is coming down clients' priorities list.

Incorporating client feedback

The combination of these surveys reflects our diverse client base and helps us to develop products to meet investors' evolving needs. Moreover, these surveys help us calibrate our stewardship activity to ensure that we take into account the issues that our clients consider important.

We have conducted these surveys over a number of years. They have proved quite effective in both identifying investor needs in a given year and in tracking long-term changes in investor attitudes and preferences.

We remain mindful of the fact that annual surveys may be driven by topical issues that can change from one year to the next, whilst we view stewardship as an ongoing process that may span several years.

Moreover, while surveys are a valuable method for canvassing investor views at scale and allow comparability, we also gain insight through our day-to-day interactions with clients. We cross-check the results of our surveys with other industry surveys, and the ongoing feedback we receive from clients. Insights from these interactions are fed back to our Sustainable Investment team through regular discussions and scheduled meetings with client-facing teams. We also track the level of ESG content in client due diligence questionnaires and tender documents to understand growing interests in sustainability and expectations on transparency.

Therefore, instead of providing strict guidelines in terms of how we should approach stewardship, the purpose of these surveys and the regular communication with clients is to inform our opinions when managing their assets on their behalf.

For example, we see a number of commonalities across the results:

- Investors are concerned about greenwashing
- Sustainable investing remains a complex area and there is a need to improve understanding
- There is a great need for more transparency
- Data quality needs to improve
- Reporting needs to be clearer

As explained under Principle 5, we launched an ESG risk dashboard in 2020, which aims specifically to help Investment and Risk teams monitor greenwashing risk. Additionally, we have a comprehensive reporting framework, which we describe below.

When it comes to more targeted requirements from individual clients, that is, where we provide segregated accounts or bespoke investment solutions to institutional clients, we may tailor the investment strategy to incorporate their ESG policies and preferences at their request. This typically involves screening out sectors that are not in line with the client's values.

Where clients wish to retain control over their voting rights, we make arrangements to facilitate this. Although our voting policy is grounded in our assessment of clients' long-term interests, where clients want to apply their own policies or instructions, we recommend the use of an external voting service.

Schroders applying clients' own policies is administratively burdensome, but more importantly, we believe our in-house team of corporate governance experts, working alongside our investment teams, are best placed to make voting decisions that protect and enhance the long-term value of our investee companies in our clients' best interests. This is part of our offering as an active investment manager. Separating voting from engagement may diminish our ability to influence companies. It could also reduce our credibility when, for example, a voting decision does not reflect the dialogue that has taken place with the company and any progress that may have been made. Furthermore, we believe the impact of our engagement and voting power is maximised if we can present a single voice to companies.

Communicating activities and outcomes

The investment we have made in the development of proprietary tools and internal processes serves exactly the purpose of providing more transparency. As we discuss under Principle 2, impactIQ, once fully developed, will not only enrich our research process but it will also enable us to quantify the impact an investment has on society and the environment. This should help raise the bar not only on transparency but also understanding.

We are also very transparent with regard to our stewardship activities. We disclose these on both a quarterly and annual basis in our Sustainable Investment Reports. Past reports can be accessed here.

The reports include information such as:

- A list of companies engaged with, and which stakeholder group the engagement related to
- Breakdown of engagement by tier to distinguish between who and how an engagement was conducted
- Overall statistics on the progress of historic engagement by year
- Case studies of regional engagement and proxy voting activity
- Summary statistics on our voting activity globally
- Summaries of thematic research

These reports are complemented by the monthly publication of our voting activities (past records are available here), where we provide details of how votes were cast globally. This includes information on our votes against and abstentions, along with the rationale for these decisions.

In addition to our public disclosures, we provide more tailored reporting to institutional clients with segregated mandates. These reports include the voting activity for each mandate and detailed information on the progress of company engagements that are ongoing. Going forward, we will be looking to develop fund-level reporting of our stewardship activities.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Our approach to ESG integration

At Schroders, we have a framework that sets out our overarching approach to ESG integration. Namely, our central Sustainable Investment team is responsible for working with investment teams across our business to integrate ESG into their investment processes by providing them with tools, research and knowledge of best practice from across the industry.

We understand that different asset classes may require different methods to integrate ESG into their investment processes effectively. While different investment desks necessarily have different approaches, our accreditation of their integration effectiveness applies consistent principles and is based on a common accreditation template.

We summarise this framework below and provide further detail on how ESG is integrated into different strategies by way of examples.

As a global firm offering a full range of investment strategies in public and private markets across the world to our clients, the approach we take to sustainable investing must be multi-faceted, thorough and applicable across our business. The Sustainable Investment team acts as a central resource for our investment teams to support and advance our sustainability agenda through research, ideas, collaboration, product development, proprietary tools and reporting. Our integration approach spans the breadth of the investment process, from identifying trends, analysing securities, constructing portfolios, through to engagement, voting and reporting.

Our fund managers and analysts are responsible for integrating ESG into their day-to-day research, investment decisions and ongoing monitoring processes. Our proprietary tools and research capabilities help our fund managers and analysts to translate ESG issues into financial risks and opportunities, make better-informed investment decisions and ultimately deliver improved long-term risk-adjusted returns for our clients.

Stephanie Chang

Head of Integration

Our long-term approach leads us to the belief that generating returns for our clients will be intrinsically linked to our ability to identify, measure and engage on the environmental, social and governance risks and impacts of the companies in which we invest.

ESG integration means that our fund managers and analysts systematically and explicitly consider ESG factors alongside or within traditional financial analysis. It means a broader assessment of the world in which we operate: one which captures sustainability risks and opportunities in our investment decision-making.

We have invested heavily in our infrastructure, training and communication to ensure sustainability is embedded into our culture and investment processes.

The way in which our fund managers, analysts and the Sustainable Investment team work to integrate ESG into each team's investment processes can be summarised as follows:

- The Sustainable Investment team works directly with each investment team so that we are comfortable with the basis upon which ESG integration is implemented within any given investment process. It then provides ongoing advisory services to ensure that ESG continues to be integrated in a relevant way for the asset class, investment strategy and market, taking

into account evolving best practices. Accountability remains with each investment team to ensure ESG is integrated in its research, analysis and decision-making processes, with central oversight of those desk level processes.

- The Sustainable Investment team produces regular research to ensure our investment teams keep abreast of relevant ESG related considerations, and how they can impact valuation and risk.
- Our ESG analysts – like our investment analysts – have a sector focus. This enables them to gain a deeper understanding of sector specific ESG issues and work in tandem with our investment analysts and portfolio managers to identify and assess ESG risks and opportunities. Regular sector updates are distributed to analysts to ensure that they are kept appraised of the latest developments.
- As we describe under Principle 2, our Sustainable Investment team has developed a number of proprietary ESG tools to help our fund managers and analysts identify, understand and manage ESG risks and opportunities. CONTEXT and SustainEx are our flagship tools currently available for equity and corporate credit. In addition, we have developed a number of more focused, asset class specific tools that enable particular investment teams to integrate ESG into their investment process. We describe some of these under the asset class headings in the following section.

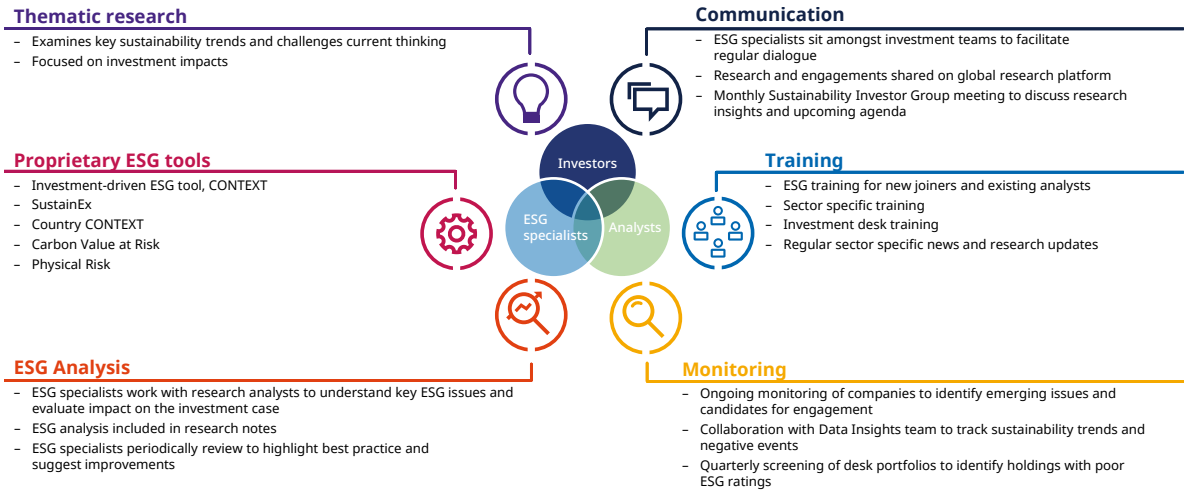
The main reason for developing our own proprietary tools is that we consider relying solely on third-party sustainability ratings and research provides a limited view of ESG factors, as the underlying filters, analysis and methodologies are opaque.

- The Sustainable Investment team also provides ongoing training to analysts and fund managers and this training is included in the latter's personal objectives.

Our investment teams have a variety of ways that they use to prioritise different ESG considerations across their portfolios. The most prominent factor that applies across all investment strategies, including those not explicitly marketed as sustainable investment strategies, is financial materiality.

All teams consider ESG events and conditions that could affect the financial value of our investee companies or their credit-worthiness. Sustainable investment strategies may additionally consider the adverse impacts that investee companies may have on the environment and society, even where these are not deemed to be financially material.

An overview of Schroders ESG intergration into investment



Source: Schroders as at 31 December 2020.

Integration across different asset classes

The Schroders' Sustainability Accreditation is our approach to formally recognising investment teams which have successfully integrated ESG into investment decisions. The accreditation process starts with a collaborative effort between the Sustainable Investment team and the investment team to map out the end-to-end investment process from idea generation to portfolio construction and ensure ESG is integrated systematically and meaningfully into the relevant steps.

Our approach is holistic – we want to integrate ESG into established investment processes rather than create separate processes, which run the risk of becoming an after-thought or a box ticking exercise. As alluded to under Principle 1, our Sustainable Investment team checks that the different investment desks can articulate and demonstrate how relevant issues are identified, investments are examined, portfolio decisions are influenced and how they monitor and manage emerging ESG risks. Documentation, produced by investment desks, is reviewed by the Sustainable Investment team and recorded to ensure robust oversight of that integration. We always require case studies to demonstrate integration in practice. The accreditation is refreshed on an annual basis and investment teams are expected to deepen levels of ESG integration over time.

The way ESG is integrated into our investment strategies can differ across different asset classes and we explain this in more detail below. However, it is important to note that the accreditation process outlined above is common across investment desks.

Company analysis

We approach fundamental company analysis within both our equity and our credit strategies through a lens of 'stakeholder capitalism' in order to assess both financial and non-financial factors and their potential impact on returns. We pay particular attention to how a company manages its relationships with its key stakeholders such as its customers, employees, suppliers, and regulators as well as its impact on the environment and social communities.

Specifically, we believe that sustainable companies are those whose management establishes strong relationships with all its stakeholders. We analyse this mainly with CONTEXT, which helps us understand two key things. First, how a company ranks against its peers on specific ESG issues, which we do by attributing a quartile ranking to each company. Second, how a company's ESG performance is evolving, that is if it is improving, declining or remains stable.

Schroders' stakeholder model

Employees
How do your employees perform? How motivated is your team?

Communities
What support do you offer your local community? Have you committed to protect human rights?

Suppliers
How exposed is your supply chain to disruption risks? How strong are your supplier relationships?

Customers
How is your brand perceived? What's in your produce pipeline?

Environment
Have you put in place an energy transition plan? Are you managing operating impacts?

Regulators
How competitive is your market? Are you paying a fair rate of tax?

Source: Schroders as at 31 December 2020.

These two things are part of our thinking independently of company size and, by extension, whether a fund invests mainly in large or small companies. We will take size into consideration when identifying peers and we will account for the resources a company of a given size has when assessing how ESG performance is evolving. But these considerations will be the same independently of whether this company is large or small so that there won't be differences in the integration approach, for example, between a large capitalisation equities fund and a small capitalisation equities fund or between investment grade credit and high yield credit. The thing that matters in scoring a company is how it is doing against its peers and whether its ESG performance is improving or not.

Case study: ESG integration in Australian fixed income

All the major banks in Australia have been under pressure due to the revelations of poor banking practices that were exposed in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

More recently Westpac Banking Corporate was the subject of legal action by Austrac, the financial transactions regulator, over non-reporting of 23 million suspect client transactions.

In response to these issues we increased our forecast cost-to-income ratio to factor in increased compliance costs and IT costs to improve systems. We had also factored in a one-off fine for the failure to report suspect transactions to Austrac. These issues were offset somewhat by other measures the bank had taken over the past few years regarding increased capital and improved liquidity along with the simplification of their business. This meant there was no change in our internal rating meaning the spread widening in Westpac bonds compared to the other major banks represented a buying opportunity.

Low scoring companies that equity and credit analysts are interested in will undergo a deeper dive with analysts looking in more detail at the ESG performance. This is usually where we will start our engagement with a company. This engagement is sometimes done by equity and credit teams together. Depending on the company's response, we may escalate our engagement as we set out under Principle 11.

Case study: ESG integration in US mid- and small-cap equities

We focus on identifying companies that build wealth over time rather than managing to short-term metrics. We assess the long-term sustainability of a company's business model by considering regulatory threats, environmental issues, and secular trends for the next years. We use CONTEXT and SustainEx, to evaluate and identify relevant ESG metrics when weighing the themes and structural issues impacting an industry or company as well as the potential opportunities.

Environmental and social issues are assessed on a company by company basis, with a focus on materiality for both the industry in which a company operates as well as the long-term sustainability of a company's model. Materiality is assessed by understanding the degree to which these factors could influence the returns that a franchise (or industry) has been able to historically achieve.

Our desk will typically not invest in a company without first speaking to its management. Key topics for us include the rights of minority shareholders, access and quality of management, compensation schemes and the company capital allocation priorities.

We use data-driven scores to assess potential future (ESG and other) risks. Analysts also provide ESG commentary flagging areas of strength and areas for future engagement. ESG is part of the equation: the company must have a sustainable business model and be an attractive investment opportunity.

We have been engaging with a US company that has struggled with cultural challenges including employee satisfaction and turnover for several years. We believed there was opportunity for improvement and broached this topic many times during engagements with management. The company has been actively working to address this issue through leadership and incentive changes and has also made significant strides during Covid-19 by pivoting their resources in several ways, such as to produce respirator and medical masks, scrubs and isolation gowns. We believe this pivot and the improved treatment of employees and the community will be rewarded over time.

This stakeholder focus aligns with our position as both debt and equity investors on behalf of our clients. We believe that our awareness and analysis of sustainability risks enhances our fundamental understanding of a company's value and its ability to deliver attractive long-term returns whether through its share price or dividends paid, or in its ability to service and repay its debt.

While ESG analysis focuses on companies and their exposure to, and management of, key ESG trends, we recognise that the type of analysis applied, and its implications for investment decisions vary across different parts of the company's capital structure. As a result, while our equity and credit teams apply similar analysis and draw on common frameworks, tools, perspectives and data to examine companies, the areas on which they focus and how they apply those conclusions can differ.

For example, although both equity and credit analysts will look at the direction and outlook for changes in a company's performance, credit analysts will typically focus more on factors which could lead to downside risks or losses, whereas our equity analysts will put more weight on areas linked to future opportunities.

We have designed our approach to ESG integration as well as the supporting tools and infrastructure in a way that allows our equity and credit teams to share perspectives and insights while retaining the capacity to tailor the conclusions to their respective investment strategies.

Our quantitative investment teams have their own individual investment approaches. However, they take a similar approach by identifying sustainability risks or 'signals' that have been empirically shown to improve the expected risk or return profiles of our clients' portfolios. These factors are used in some cases to arrive at a composite ESG score per company and are also used in portfolio construction to determine position sizing.

For privately held companies, a similar approach is undertaken by our private equity and debt investors. However, we are limited by the lack of publicly available data as private companies typically disclose less sustainability risk information. There are also constraints in our ability to transact given the lower liquidity and higher transaction costs common in private markets.

Case study: Global Emerging Market Equities selling Norilsk Nickel on ESG concerns

In the Emerging Market Equities team, we use a combination of top-down country and bottom-up stock analysis in our investment process. ESG considerations are integrated at all stages.

In their bottom-up research, analysts complete a mandatory written ESG review for each company they cover. Reviews may result in adjustments to the cost of capital, provisions or cash flows. Where an explicit adjustment is not possible, ESG concerns will be reflected in a discount/premium applied to the initial fair value estimate. Significant ESG concerns will also affect the analyst's conviction in their recommendation.

Schroders' Data Insights Unit (DIU) supports the emerging market equities team with ESG analysis on a project basis. For instance, geospatial and meteorological analysis by the DIU helped the investment team gain a better understanding of Russian assets in the Arctic circle and their vulnerability to climate change.

In May 2020, an ageing fuel tank at one of Norilsk Nickel's power plants in the Arctic circle collapsed, leaking 21,000 tons of diesel fuel into two Siberian rivers. The government declared a state of emergency and ordered an investigation.

In early July, the national environmental watchdog imposed a record $2.1 billion fine on the company. The analyst had previously applied an additional 2% cost of equity to his valuation model to account for the elevated environmental and governance risks at the company. He now included the additional cost of the $2.1 billion fine in the valuation, and has raised the cost of equity premium to 2.5%.

We held a small position in Norilsk in our core emerging market portfolios, which we sold in early June on learning of the diesel spill. The fund manager decided to sell the stock given the increased ESG concerns.

Case study: ESG integration in credit research

The Schroders credit research and investment process seeks to identify themes (trends and scenarios) that will likely have a material impact on supply and demand across the value chain. These themes will include macroeconomics, technology, regulation, social /demographic issues, consumer behaviour, environmental issues etc.

Potential credit themes are generated by portfolio managers in regular brainstorming sessions with the credit research team. The sessions are also used to identify progress on previously-investigated themes.

Examples of theme topics examined recently are:

- Macroeconomic trends, for example, currency trends, central bank liquidity etc.
- Legislation that encourages reallocation of capital, such as renewable energy, electric vehicles etc.
- Social and demographic trends, such as inequality, ageing population, urbanisation, and migration
- Technology, such as changes in e-commerce, automation, digitalisation, and cyber-security.

Typically, this means that carrying out due diligence upfront, that is, at the deal origination stage, is more important. We carry out extensive due diligence on private companies and their management teams prior to investment on a wide range of issues, including material ESG issues. This often involves the use of third-party vendors who provide us with detailed reports on the ESG risks associated with prospective investee companies.

On-going company engagement is also particularly important in light of the absence of data. For our direct private equity investments, we will typically be in regular communication with the management team and seek a board seat for one of our investment team members. However, this may not be possible where we have taken a minority stake.

Sovereign debt

The social and environmental backdrop facing countries and their governments is changing quickly. As these pressures become more acute, the financial importance of effectively managing social and environmental change for sovereign issuers is rising. We believe that identifying and understanding relevant sustainability risk issues and assessing how challenges are being met, help with our long-term analysis of sovereign risk.

We approach sovereign analysis by identifying the building blocks of a country's economic growth (such as capital, labour or productivity) and then we identify sustainability risks that impact those building blocks. For example, we look at health and education metrics

Case study: ESG integration US Municipal Bonds

Municipal bonds are debt securities issued by local authorities, most commonly found in the US. Funds raised from the bonds are used to fund projects, like building schools, updating water and sewer systems, expanding hospitals, and maintaining roads. Different municipalities across the diverse US are facing very different threats, are responding in different ways and are in different positions as a result. Understanding those positions is vital to gauge the long-term financial health of those borrowers.

In response, we created our proprietary Municipal US Sustainability Explorer (MUSE) in collaboration with Schroders' DIU and the Sustainable Investment team. The tool gives analysts access to dozens of data points spanning ESG factors and allows them to assign an overall sustainability score to over 3,000 counties in the US. Analysts assign a two-part ESG score to the municipalities they cover, including a current quality score and a directional score.

With growing evidence of the importance of ESG factors to credit stability MUSE works to mitigate potential threats and generate alpha for investors.

California's 2020 wildfire season was another record setter, with 9,639 fires burning almost 4.4 million acres – an astounding 4% of the state's land. Using MUSE, we can determine the potential future risk of drought or wildfire in a particular area. Where MUSE identified higher wildfire risk in our California holdings, we found a low probability of a single event causing significant risk as they had large and diverse enough tax bases. The ability to weave environmental factors into our analysis helps us determine if we are being appropriately compensated for taking on any additional risk to the portfolio. When assessing future potential investments in California, we are vigilant of the size and diversity of their tax base.

as indicators of the capability (and potential) of a country's labour force. We also consider the risks to economic growth in the form of a country's ability and willingness to repay its debt, such as, the strength of a country's institutions and the rule of law.

Structured credit analysis

We believe an in-depth understanding of collateral cash flow and the impact of the securitised loan's structure is the foundation of generating returns in a market where size and complexity leads to exploitable inefficiency. The consideration of sustainability risks provides a more holistic assessment of the quality of the collateral and the sustainability of the cash flows. We have developed a sustainability assessment framework based on five principal pillars – lawfulness, fairness, purposeful, contractual and sustainability. Fundamentally embedded within our research is a review of governance, fair lending or predatory lending, climate-related risk, and the health of the loan for the consumer. Counterparty considerations are a part of the asset consideration and governance. Additionally, we have developed proprietary analytics consisting of asset specific models, surveillance and forecast/trend analysis to assist in assessing the sustainability of investment ideas.

Convertible bonds analysis

Convertible bonds are hybrid securities that entitle the investor to convert a bond into a certain number of associated shares. They combine the protection of a fixed income investment with the potential return of a stock. The blend of individual elements that make up a convertible bond – bond, equity and right of conversion – produces an asset class that has unique risk-return characteristics.

A principal element of capital protection is delivered through the "bond floor" which is influenced by the stability and quality of the issuer. Sustainability risks are one of the key factors which affect an issuer's creditworthiness and in particular, sudden shocks are more costly than gradual credit declines. From a sustainability risk perspective, this means that we are more concerned with sharp moves driven by new information, particularly around controversies. We, therefore, explicitly incorporate a number of governance-focused metrics in our modelling which drive credit spreads and, ultimately, valuation. Sustainability risks also feature in portfolio construction whereby we use ESG inputs based on internal research systems in a scorecard approach.

Multi-Asset

Our Multi-Asset team integrates sustainability risk considerations directly into their investment processes, including asset class research, asset allocation, and portfolio construction. Sustainability risk considerations are incorporated into the research process using the firm's proprietary tools, such as SustainEx or CONTEXT, to understand potential implications for risk premiums across asset classes.

Case study: ESG integration in European Multi-Asset

As multi-asset investors, we have a different investment process to most fundamental equity and debt investors as we do not typically select securities. Our global research platform is the foundation for multi-asset investments. We have a Sustainability cross-asset group which sits across the seven risk premia research groups.

We integrate ESG considerations into risk premia research by leveraging Schroders' proprietary ESG tools. For example, we used SustainEx as an additional lens through which to assess regional and sectoral stock market returns. This helped us identify that some markets were more exposed to unpriced social externalities than others and therefore to increasing regulatory risk which may impact returns.

A key part of our investment process is our Global Asset Allocation Committee where we propose, debate and agree on specific trades. Where appropriate, ESG considerations are flagged for further discussion.

As part of portfolio construction, we have access to portfolio optimisation tools that incorporate ESG, for example through the use of economic return forecasts which incorporate the impacts of climate change.

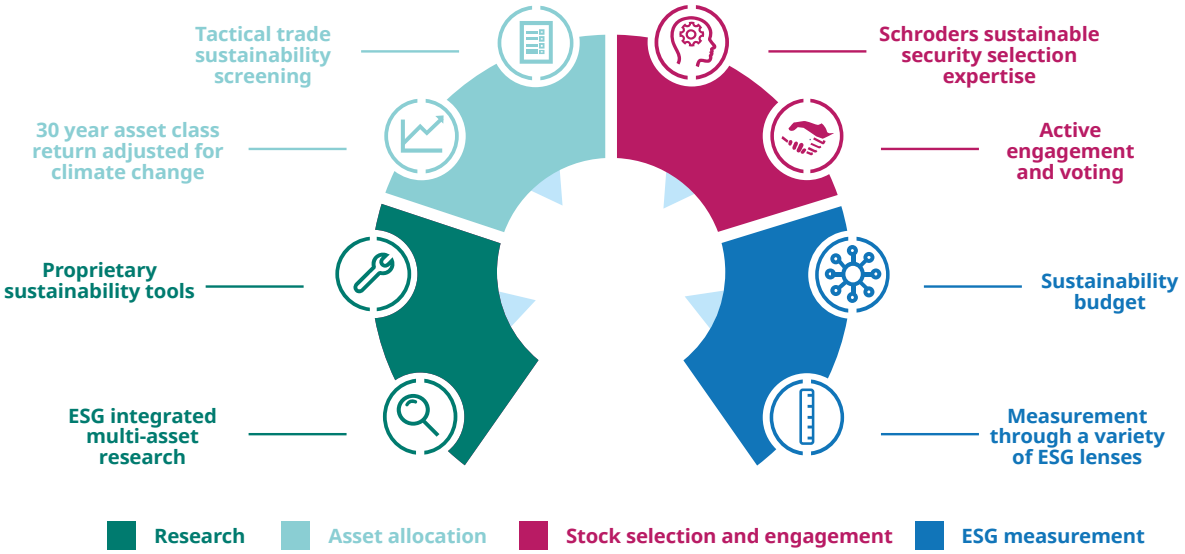
We have developed the concept of a sustainability budget, measuring the percentage of the capital allocation in the portfolio which integrates ESG factors or is managed with a sustainable approach.

The trade-offs involved in establishing a sustainability budget revolve around removing or reducing asset classes and company components that are not deemed sustainable from the universe available for investment. It provides the investment team with a flexible tool to monitor and measure the sustainability of the portfolio, while permitting other assets that are useful for diversification, tactical asset allocation and risk reduction.

During portfolio construction, strategies are selected by our Multi-Asset team to meet objectives from a range of Schroders' strategies or externally managed strategies. Schroders' strategies will have been through the Sustainability Accreditation framework as summarised above. Where external active strategies are used, these will have been through the approach described under the fund of funds section below.

Our teams also seek to incorporate the potential implications of climate change on long-term asset class return and risk forecasts.

Integration is multi-asset: ESG is embedded from both a top-down and bottom-up perspective throughout our investment process



Source: Schroders. For illustrative purposes only.

Fund of funds

To integrate sustainability risk considerations into our manager selection process, the majority of teams across Schroders and our Wealth business have adopted a common approach. This was originally developed by Cazenove. We set out the approach in the box below.

Engagement with companies is typically most relevant for investors who are involved with fundamental company research. Manager selection teams at Schroders are an additional step away from asset or security selection. Our stewardship approach therefore is focused on engaging with our external managers to increase the robustness of their own sustainability risk integration and their active ownership practices.

Going forward, we expect to combine efforts with Cazenove to adopt a single firm-wide approach to ESG assessments.

Case study: ESG integration in Cazenove Capital

To integrate sustainability risk considerations into their manager selection process, Cazenove adopt an 'inform and influence' approach. First, they examine the investment manager at the firm-level, where they aim to understand if the consideration of sustainability risks is a central part of the firm's ethos, and investment and corporate culture. This is done by sending out an annual 50-question ESG survey covering 5 pillars:

Through the questionnaire, Cazenove aim to understand how long and to what extent a firm has been implementing ESG; how it is aiming to improve its own ESG performance (such as carbon footprint or board diversity); how much resource it has dedicated to ESG and how robust as a consequence its policies are; and finally, how strongly it has embraced active ownership through engagement and voting.

Next, they examine the manager at the strategy-level, where they assess the extent to which the investment manager integrates ESG considerations when analysing the underlying investments. To do this, Cazenove ask investment managers to evidence how they integrate ESG within their own investment analysis and selection across the full spectrum of their investment process – the questions span 7 different topics:

Both levels of assessment contribute to Cazenove's research and analysis on the suitability of the external fund manager for inclusion in their portfolios.

As is the case for manager selection teams at Schroders, Cazenove are an additional step away from asset or security selection. Hence, their stewardship approach is focused on engaging with the external managers to improve their active ownership practices.

Derivatives

Our commodities teams invest in both commodity futures and commodity producers (equities). The latter is covered under the company analysis section above. Sustainability risks can influence commodity prices and, therefore, we integrate these considerations into our forecasts for commodity market returns. We use our proprietary tools, such as CONTEXT, as well as our own understanding of specific commodity markets, to identify key sustainability risks that may impact either the supply or demand of the commodities in which we trade. For example, we have identified that unsustainable sourcing of nickel supply from Indonesia presents sustainability risks and yet nickel is an important input into electric vehicles, which are integral to the energy transition.

Where financial derivatives are used to achieve client-specified return and risk objectives, for example, within our Portfolio Solutions business, our primary exposure is to the counterparties of our trades rather than to the underlying asset on which the derivative contract is based. As such, during our on-boarding and annual review of counterparties, we focus on sustainability risks, which are primarily financial implications and, thus, a potential source of risk.

Infrastructure finance

The long-term nature of this asset class makes understanding and managing sustainability risk issues particularly critical. As investors on behalf of our clients who generally look to hold to maturity, sustainability risk analysis is fundamental to the investment decisions we make. These considerations are both drivers of infrastructure growth and potential sources of risk. For example, the shift to low carbon transport is a driver of infrastructure growth. Poor governance, on the other hand, can lead to mismanagement of infrastructure assets with real human costs as well as financial implications, and thus is a potential source of risk.

Our infrastructure 'test' must confirm that the asset is essential to the community, capital intensive, has a long economic life, is often a natural or regulated monopoly and has low obsolescence/technology risk.

Our mission statement is 'essential infrastructure, sustainable performance'. We are currently focused on three key trends that contribute to a sustainable future:

- Accelerating the ecological and energy transition
- Developing the digital economy through the deployment of new equipment and technology
- Investing in mobility solutions to prepare the city of tomorrow

Sustainability risk considerations form a core part of our investment scorecard which is applied to all transactions we analyse. We use CONTEXT, one of the firm's proprietary tools for sustainability risk analysis, as the framework for understanding and assessing the major ESG themes which apply to infrastructure investments in different sectors. We have also developed an on-desk proprietary tool that assesses the sustainability risk and impact of an investment and its contribution to the UN SDGs: AIDA.

AIDA was developed with an external consultant and gives each prospective investment an ESG ranking based on the ESG risk of the investment. The tool considers the asset's contribution to the SDGs and to the three key trends described above.

Final investment recommendations to the Investment Committee are accompanied by detailed research notes, which include a mandatory section on sustainability, which includes an environmental analysis, a social analysis and a governance analysis. Our environmental analysis looks at the likelihood and impact of sustainability risks (such as climate related risks). Social analysis focuses on factors such as the company's health and safety policy, and the social climate of the company, namely, how its operations may impact civil and local community regulations and whether there is support for the activities of the company. Our governance analysis includes the assessment of factors such as: presence and efficiency of risk, audit, and HR committees; political instability; consensus on regulation. We also regularly monitor the ESG performance of our investments, tracking them against indicators bespoke to each project.

Insurance linked securities

Insurance linked securities (ILS) are primarily linked to the (re-)insurance of natural catastrophe, mortality and pandemic risks, and extreme events that can cause severe disruption to people's lives and the communities they live in. Our approach to integrating sustainability risk considerations focuses on the covered risks, sponsors of and structures used for such transactions.

By nature, certain types of ILS products, such as catastrophe bonds, are in themselves already exposed to social and environmental trends such as climate change. We follow and examine social and environmental trends we believe will emerge over the investment horizon and consider their potential impact on returns. For example, we adjust natural catastrophe models to reflect our own views on the frequency and severity of extreme weather events. In non-weather related ILS we seek to avoid investing in risks that may contain ethical or social concerns, for example, where investment returns are dependent on the outcome of insurance lottery jackpots or life settlements.

Depending on the type of sponsor, we consider different sustainability risks to help us assess the quality of the sponsor and to ensure that stakeholders' interests are aligned.

Real estate

Real estate investing on behalf of our clients carries the responsibility to understand and manage environmental, social, and economic impacts, positive and negative, to deliver resilient investment returns for the long term and manage exposure to material risks. We believe that understanding these issues and their impacts is integral to our investment process and applies to all aspects of real estate investment across the lifecycle stages of acquisition and ownership, asset management, property management and operation (which may be provided by third parties), renovation and construction. Understanding and improving the impacts of real estate investment sits alongside our priority to maximise returns for our clients in a manner consistent with our funds' risk profiles.

Our investment process includes consideration of sustainability credentials and risks throughout the investment lifecycle. We conduct pre-acquisition ESG due diligence to understand the sustainability credentials and risks and reflect in our investment decisions. After the acquisition, sustainability objectives are established for each asset. Implementation follows throughout the asset hold period and reviews are regularly conducted, for example typically twice a year at portfolio level. The environmental factors of most importance to us include energy, carbon and water use and efficiency, as well as waste management and disposal, pollution, and physical risks. From a social perspective, we are interested in optimising the tenant experience, fostering community relationships, and contributing to local prosperity. We also focus on good governance of our assets and portfolios including, for example, compliance with building regulations, oversight of third-party property managers where they may be responsible for the daily support to a building and ensuring product level reporting meets regulation and industry best practice.

Case study: Schroder Real Estate Investment Trust

The Schroder Real Estate Investment Trust invests in direct real estate and has defined its stakeholders to include shareholders, service providers, lenders, occupiers, local communities and the environment. Schroder Real Estate actively manages the portfolio and regular and ongoing engagement with stakeholders is key in understanding stakeholders' needs and supporting long-term sustainable returns. Examples of this engagement include the following:

Occupiers

Schroder Real Estate seek to include green lease clauses in leases which can support landlord and tenant opportunities, for example in relation to data sharing, collaboration, energy performance and cost-recovery clauses. Green leases can also support implementation of onsite renewables, for example, through clauses relating to roof access and maintenance for rooftop solar photovoltaics. Technological interventions such as smart metering, data management software systems and real time sustainability performance dashboards also support the potential for improved sharing of data and landlord and tenant engagement. Schroders Real Estate also has a number of guides to support tenants including a Sustainability Guide for Occupiers and a Sustainability Guide for Tenant Fit Out.

Schroder Real Estate plans to commission a customer satisfaction survey in 2021, using a specialist customer service provider, to give occupiers a voice and better understand their needs. The results will be used to create action plans seeking to improve the occupier experience.

Service providers

Schroder Real Estate's Sustainability Requirements for Property Managers policy specifies the service levels required from property managers to support the management of assets in line with the policy and its objectives including energy and greenhouse gas targets and the use of renewables. Specific aspects include: monitoring, measurement and reporting for example of utility data and improvement initiatives; controls including compliance; proposing and supporting improvements; supply chain management and stakeholder engagement. Key performance indicators are attached to each requirement.

Schroder Real Estate have also established a Sustainability Guide for Development and Refurbishment to support the management of projects from concept and ambition, through delivery and into operation and occupation. This guide is essentially a toolkit to be used by project teams which includes a broad range of third party consultants for example architects, technical consultants – structural, mechanical and electrical, wind, thermal – and development managers. The guide helps Schroder Real Estate deliver projects to appropriate standards across a range of environmental and social considerations including climate change, health and wellbeing, carbon, materials, biodiversity, social impact, water and waste.

Communities

Schroder Real Estate works to ensure good engagement with communities in relation to its asset strategies. In relation to climate change this includes ensuring that planning requirements and building regulations are met, or exceeded where appropriate, and applying Schroders Real Estate's Development Guide to set project ambitions. Together this supports asset resilience for the benefit of communities, councils, occupiers, and shareholders.

Shareholders

As part of effective communication and reporting to shareholders, the Investment Trust issues an annual sustainability report, which sets out Schroders' principles and progress across ESG aspects, a TCFD statement and environmental performance. This report is made publicly available here.

Environment

Schroder Real Estate applies a range of environmental principles in its investment management approach for the Fund and which are set out to shareholders and made publicly available here. There are several examples of these principles. For example, energy efficiency and reducing energy consumption will benefit tenants' occupational costs and may support tenant retention and attraction, in addition to mitigating environmental impacts and helping to future-proof the portfolio against future legislation. Therefore, where the landlord retains operational control responsibilities, Schroder Real Estate monitors the energy usage and efficiency on a quarterly basis and has an energy and greenhouse gas emissions performance reduction target to achieve 18% reduction in landlord-controlled energy consumption by 2020/21 (2015/16 baseline) across all UK-managed assets. Another example is effective waste management, which decreases pollution and resource consumption, as well as improving operational efficiency and associated costs. To this end, waste should be minimised and disposal should be as sustainable as possible. Schroder Real Estate has, therefore, set an objective to send zero waste direct to landfill and to achieve optimal recycling.

Differences across geographies

As we outline under Principle 2, our stewardship activities, including integration, rely on the input of analysts who can provide the regional context for each case and help us understand the different pressures companies face. The process of the integration does not vary across different geographies. What differs is the materiality of ESG factors, the thresholds before we engage, and the length of time before we can reasonably expect a change when we engage.

For example, physical risk by climate change is more relevant in regions exposed to extreme weather events. Similarly, we will normally place a stronger emphasis on corporate governance issues when we invest in emerging markets and other jurisdictions where standards are still evolving and companies' performances in that area can be highly variable. Companies in developed markets usually have more rigorous listing standards, so investor expectations are higher, for example around auditor and remuneration disclosure or board composition, diversity and independence. Emerging markets are subject to more constraints, which sometimes reflect cultural issues, and in some markets our priorities focus more on achieving a minimum level of disclosure.

More generally, regional differences play a role in determining the context in which a company operates, that is, to identify its peers, consider regional regulation, and compare to the regional best practice. They will not change the integration process itself.

Our use of third-party service providers

We list the third-party service providers under Principle 2, where we discuss the different components that make up our stewardship resource.

The most important external service providers we use in our ESG integration process are ESG data providers. We generally consume raw ESG data from a range of sources. These feed into our proprietary tools but both our Sustainable Investment team and our analysts/fund managers also use them to help them identify any potential red flags, particularly where issues are highlighted by our own tools as well.

In our experience, ESG dataset quality lags that of other financial datasets as ESG data is not subject to the same rigour as financial data. We, therefore, transform and cleanse the data ourselves before using it.

Where we receive bespoke services in connection with how we integrate ESG into our investment portfolios, we will typically only appoint a supplier after we run a competitive tendering process. As part of this, we will meet a number of service providers and discuss our expectations for the services.

We discuss our oversight of external service providers including third party managers under Principle 8.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Oversight of external service providers

We have an established global network of external service partners to supplement our own infrastructure, benefiting from the expertise and specialised skills our partners provide. Our dedicated Procurement team oversees our suppliers and the procurement of outsourced relationships.

Outsourcing and supplier oversight is essential to effectively manage relationships and mitigate the risks with suppliers providing goods and services to the Group. Schroders' Group Outsource and Supplier Oversight policy (along with the Supplier Criticality Assessment policy) outlines the framework and minimum standards to be applied to the management of Schroders suppliers to:

- Ensure outsourced activities are subject to a consistent standard of control and effective oversight
- Ensure goods and services are delivered to agreed and expected quality and performance standards
- Understand and mitigate any potential risk exposure related to our suppliers
- Ensure added value from suppliers by maximising return on management effort

Our Procurement team ensures practices are compliant with our policies.

Depending on the types of relationship, activities and the related level of risk assessed by Schroders, the management measures to be employed may differ. In all cases, we carry out an initial due diligence assessment and ongoing monitoring to ensure that the services supplied are of an acceptable quality and that our supplier code of conduct has been adhered to. Our Supplier Code of Conduct (available here) sets out the high standards and behaviours we expect from them, covering human rights, ethical sourcing, bribery and corruption, living wages, diversity and inclusion, health and safety and the environment.

We engage proactively with our external service providers through regular communication from employees and have an established framework that governs our approach to selection, on-boarding, management, oversight and reporting across our supply chain.

The Schroders plc Audit and Risk Committee reviews the Group's material outsource providers annually to ensure that the strategy for their use remains consistent with our strategy to use service partners as a way to add value to our infrastructure.

The work carried out in 2020 as part of the Procurement team's oversight, mostly evolved around the detail required under our Supplier Code of Conduct. Namely, we focused on getting a standardised approach to categorising supplier data, understanding high risk supply markets and implementing our global finance platform, whilst establishing the Procurement Operations Desk. We expect these to act as an enabler for the projects Schroders plan to undertake in 2021, in line with our Corporate Sustainability strategy.

These will involve seeking to understand and review our supply chain emissions with a view to committing to a science based target. By understanding our suppliers' existing sustainability commitments, we can support them in setting a science based target. In addition, we will explore ways in which we can embed science based targets into our supplier onboarding process as well as across the entire supply chain risk and oversight landscape.

Proxy advisers

Every three years Investment and Procurement lead the tender for proxy advisors. The last one took place over the course of 2019/20. The Corporate Governance experts within our Sustainable Investment team and the procurement team put together a request for proposals (RFP). Answers were evaluated and a shortlist of providers was engaged with by both teams to reach a decision.

Among other things, the RFP process evaluates the resources, governance, and systems of the possible providers. A thorough assessment is made on the quality of the research and the ability of a firm to execute on the complex needs of our institution. Of particular focus to us in the last review was the global coverage on both a research and an operational level as well as the quality of the platform itself. We also looked for clarity and capacity to implement changes after the recent US Securities and Exchange Commission's guidance on proxy voting.

During the year, the corporate governance experts feed back to our proxy advisers through regular formal monthly meetings and daily calls. The team also attends industry events held by proxy advisers to directly influence policy and give investor views.

The accurate and timely delivery of proxy votes to our investee companies through technology ensures we exercise our ownership responsibilities without having to attend multiple shareholder meetings. We are reliant on our voting agent to inform and deliver our ballots and this process is scrutinised during the regular RFP process. We also carry out multiple ad-hoc checks to ensure accuracy. Our corporate governance experts track and confirm material votes with the relevant custodians and company, especially after direct engagement. They also circulate the previous month's vote history during monthly internal committee meetings, so that analysts/fund managers can confirm vote input.

We provide more details on how we use proxy advisers in our voting process under Principle 12.

ESG data vendors

Our preference is for raw ESG data, which we consume from a range of sources including Refinitiv, MSCI, Bloomberg, ProxyInsight, BoardEx and Sustainalytics. We outline how we use the data of each vendor under Principle 2. Also as mentioned under Principle 7, in our experience, ESG data quality lags compared to that of other financial datasets and, hence, we conduct a degree of our own cleaning of the data before using it.

Manager selection

Some of our strategies and our Wealth business invest in products managed by third party managers. We conduct extensive due diligence on third party managers and carry out regular monitoring of both the portfolios that they are responsible for managing as well as the systems and controls that third party managers have in place.

To integrate sustainability factors into our manager selection process, we first examine the manager at the firm-level, where we aim to understand if sustainability factors are a central part of the firm's ethos and culture.

We do this by using ESG questionnaires which have the same overarching objective of seeking to understand external managers' sustainability approach better. Each questionnaire may have slightly different questions depending on the asset class in question. Secondly, at the strategy level, we assess the extent to which the investment manager integrates sustainability risk considerations in their own investment processes.

Both levels of assessment contribute to our research and analysis on the suitability of the external fund manager for inclusion in our portfolios.

Case study: Schroders Manager Selection

During due diligence on one fund manager, we were concerned about some product claims of an investee skincare company that could be considered incomplete or misleading.

We successfully engaged with the fund manager and the portfolio company; the company amended its claims on products and in marketing material.

We subsequently invested with the request that a dedicated ESG section be included in the quarterly report. The fund manager also became a signatory of the UN PRI, achieving the highest possible ranking for its private equity module.

The manager selection teams at Schroders are an additional step away from asset or security selection. Our active ownership approach is, therefore, focused on engaging with our external managers to increase the robustness of their own integration and their active ownership practices. The manager selection teams will review external managers regularly as part of their existing processes. The review will consider whether the external manager continues to meet the team's ESG criteria for inclusion in portfolios and approved lists.

Cazenove's approach to manager selection

Engagement is the second step in Cazenove's "inform and influence" framework and is key to their investment process. As a significant investor in third-party funds, Cazenove have the ability to push for change within the wider investment industry. By putting pressure on their managers, Cazenove believe that they will in turn ask more of their underlying companies such as disclosing better ESG metrics and implementing strategies which aim to tackle ESG issues.

One key conclusion from the 2020 questionnaire results was that many of Cazenove's managers do well on the 'Credentials' and 'Capabilities' pillars, for example by having joined the UN Principles for Responsible Investment (UNPRI, and having built out resource and implemented robust ESG policies. However, many fell short on 'Culture' and 'Stewardship'. Over 50% of managers had no incentives for senior management linked to ESG targets; 57% had boards with less than a third of seats held by women; and disappointingly only 40% of managers had a climate action or carbon emissions policy in place. This suggests that despite three-quarters of Cazenove's managers being signatories to the UNPRI, and having significant ESG resources, the extent to which ESG influences company culture is still limited.

Thematic engagements is a key area of focus for Cazenove in the coming year – last year they carried out their first thematic engagement on making a net zero commitment.

Net zero engagement

As part of Cazenove's ongoing engagements with managers and their net zero commitment, in December 2020 they contacted all 140 of our managers to ask if they have, or intended to make, a net zero commitment. Over 50% have now responded – of those, 14% have made a commitment, 10% intend to make one before COP26, and 62% are considering one, whilst only 14% have not considered one yet. These initial findings are encouraging and we will continue to use our influence to push for change.

Cazenove also engage with managers that are deemed 'laggards' at the firm-level. They relay back the areas they scored worst on in the firm-level questionnaire and provide insight into what is 'best-in-class' within the wider industry. One such engagement was with the largest asset manager in India.

Manager-specific engagement in emerging markets

Cazenove have engaged with several managers on either investments they have made or to formulate ESG policies. For example, in emerging markets where ESG is less well developed, Cazenove are engaging with one of India's largest asset managers to support them in formulating their firm-wide ESG framework. Their aim this year will be to engage with fund houses to raise standards across the board, and they hope to show positive progress as they use their influence to push for change. This scoring is also providing an insightful proprietary database to track such change.

Cazenove have received very pleasing responses to their engagements and have already seen changes in some houses. Going forward, they will assess improvement in managers' firm-level scores with the 2021 annual questionnaire. Although change and engagement at a company level will take some time, lack of improvements in strategies where ESG factors are material or believe the ESG risks are too much of a headwind to the investment, will reduce Cazenove's conviction in those strategies and they can downgrade and sell funds.

Downgrading an infrastructure fund on ESG concerns

Cazenove have removed a manager from their core buy list over concerns linked to climate risk. The fund in question was an energy infrastructure fund that had exposure to midstream infrastructure – for example, pipelines to transport oil and gas. The fund primarily owned oil pipelines which are much harder and costlier to convert to transport hydrogen than gas pipelines are – natural gas is also expected to be a transition fuel for a time. As a result, Cazenove felt the risk of stranded assets within the fund was too high and in January 2020 removed the fund from their buy list.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Andrew Howard

Global Head of Sustainable Investment

Our commitment to active ownership is integral to our investment principles. The pressure we can apply to the companies we own is as important a driver of sustainable investment returns as the companies we choose to invest in.

We recorded our first engagement in 2000. Since then, the industry backdrop and our approach to active ownership have changed markedly. What started as a separate team with a focus on corporate governance issues across UK listed companies, in 2020 involved multiple investment desks, and spanned environmental, social and governance issues across companies in 58 countries.

As we look forward, we continue to work with investment teams across Schroders, including those in non-traditional asset classes, to build on their existing engagement work and strengthen our active ownership strategy across all asset classes.

Our approach to engagement

Effective and responsible active ownership has long been part of Schroders' approach. It is essential to question and challenge companies about issues that we perceive may affect their value. As such, engagement and voting are integral to our investment process. Companies should act in the best interests of their owners, and must also have due regard for other stakeholders including lenders, employees, communities, customers, suppliers, regulators, and the environment to have sustainable business models.

We have been tracking all engagement activity in our internal engagement database where we input the details of all individual engagements such as the company involved, the region, the engagement objective, the method of engagement, the contact person within a company etc. All this data would then be aggregated to produce our summary engagement statistics.

However, as we made progress towards integrating ESG factors across different investment desks, we felt that these aggregate numbers were not doing full justice to the different ways in which we can influence companies and that, to achieve that, we needed a more structured approach to how we track engagements.

We have done this by introducing a tiered structure to our stewardship framework in 2020. As illustrated below, this structure distinguishes between different types of engagements, starting from the very specific targeted engagements our Sustainable Investment team has with a small number of companies and going all the way down to our influence through our industry and policy involvement that, ultimately, can affect all companies.

The full spectrum of active ownership

Our tiered approach to engagement

NARROW SCOPE

1

TIER 1: 233 ENGAGEMENTS IN 2020

Led by the Sustainable Investment team. Our 5+ year engagement and strategy with Amazon is a good example of how we may escalate in circumstances of unsatisfactory progress. Further details on this case study can be found under Principle 11. For some engagements we are supported by fund managers and analysts across the business. Our case study on thawing permafrost, outlined further below under Principle 9, explores how the expertise of our Data Insights Unit and emerging market equities team play a key role in contributing to the success of this research and resulting engagement.

2

TIER 2: 388 ENGAGEMENTS IN 2020

Led by investment teams across Schroders, that is, our fund managers and analysts, who record and monitor their engagements in the same level of detail as the Sustainable Investment team. For example, climate risk is material in the China property sector, but the quality and quantity of ESG disclosures are poor. In 2020, our Asian credit team developed quantitative questions focused on the most material topics – safety, green buildings, energy consumption, water consumption and alignment to China's net zero target by 2060. The results will provide a standardised dataset that will be updated regularly.

3

TIER 3: 1,535 ENGAGEMENTS IN 2020

Broader in scope, this involves communicating our expectations of companies at scale and collaborating with industry peers, recognising that there is strength in numbers. For example, as highlighted by our CEO's open letter to companies published in the Financial Times at the start of the pandemic, we encouraged companies to protect their stakeholders and provide flexibility to their employees, customers and suppliers. We closely monitored how companies were treating employees at a time of national lockdowns, remote working and disruption to daily lives.

Recognising that in the right circumstances, there may be a greater opportunity for change, we regularly engage collaboratively. In the first half of 2020, we participated in a project led by Churches, Charities and Local Authorities (CCLA) engaging FTSE 100 companies on mental health. As a member of the FTSE 100, Schroders was both a participant and a recipient of the engagement request. As a company it gave us confidence that we had strong practices in place, whilst benchmarking against peers gave us insight and an opportunity to learn from emerging best practice around how companies were managing labour practices and protecting employees' mental health during the pandemic.

4

TIER 4: 15,300 ENGAGEMENTS IN 2020

Tier 4 captures our global voting activity and company meetings recorded by investment teams. These conversations typically focus on dialogue – how prepared a company is for the changing world – rather than requesting specific, measurable changes. Sustainability issues may not always be the main focus of these conversations but this dialogue is critical in understanding how our investments are adapting to emerging risks and opportunities.

5

TIER 5: >25,000 ENGAGEMENTS IN 2020

Promoting sustainability at a market level through industry involvement and public policy contribution offers the widest global scope of influence. Of course, with such wide scope comes limitations in the accuracy of quantifying this influence, but by no means diminishes its importance. For example, we were part of the CDP's non-disclosure engagement campaign at the beginning of 2020. The campaign resulted in a 20% response rate, the highest in the campaign's history.

BROAD SCOPE

Source: Schroders as at 31 December 2020. Number of engagements conducted 1 January 2020–31 December 2020.

We expect this tiering to be a dynamic process; our experience shows that achieving long-term change typically takes at least two years of engagement activity. To reflect the evolution of our dialogue, specific company engagements may advance to higher tiers over time.

This structure also feeds through to how we report on our engagement activity, whether it is led by our dedicated Sustainable Investment team or independently by an individual investment desk. We hope this new format will help our clients and other stakeholders better understand the range of discussions we have with companies.

Strengths of engaging as an active manager

When engaging, our purpose is to seek additional understanding, share our expectations or, where necessary, to seek change that we believe will protect and enhance the value of investments for which we are responsible. The following four attributes are critical to the success of our engagement approach:

- **Knowledge**: We leverage the knowledge of our analysts and portfolio managers to understand which sustainability issues matter to a company's long-term performance. The investment tools we have developed, such as CONTEXT, help us to identify the most important issues facing individual companies and areas of weakness in their management of those key issues.
- **Relationships**: We have built strong, long-standing relationships with the companies in which we invest, with our engagement history dating back to the year 2000, and have embedded a culture of active ownership and regular dialogue across investment teams.
- **Impact**: The insight gained through engagement can directly influence the investment case.
- **Incentive**: We have the power to reduce or even sell out of a holding if engagement is unsuccessful, or we have the option to avoid investing at all.

As an active investment manager, we are generally reluctant to be in receipt of price sensitive information from companies or their advisers. Receiving such information places us 'inside' and, therefore, puts us in a position where we are unable to trade shares in the stock(s) concerned. We make companies aware of our position to ensure we do not inadvertently receive sensitive information without our prior agreement. We may agree to be made an insider, typically for only a short period of time.

Identifying and prioritising engagements and objectives

We prioritise our engagement activities based on several factors:

- The materiality of the issue, particularly its financial materiality, considering the size of our exposure to the individual company
- Our ability to influence the company, indicated by the percentage of its shares Schroders holds
- Whether there have been controversies or if we know about poor stakeholder relationships, primarily through our in-house analysis

Our equity research, fixed income research, ESG and data teams frequently work together to identify areas that warrant discussion with companies. Engagement can be proactive or reactive.

Issues we engage on may include, but are not limited to: business strategy, performance, financing and capital allocation, management, acquisitions and disposals, operations, internal controls, risk management, the membership and composition of governing bodies/boards and committees, sustainability, governance, remuneration, climate change, environmental and social responsibility.

These issues may be identified through our thematic research, company level investment research, stakeholder scores within our proprietary tools or controversies stemming from underlying weaknesses in company practices.

We welcome companies contacting us about relevant issues. We recognise that many value dialogue concerning resolutions likely to be tabled at their AGM. Because of the concentration of AGMs, we seek early engagement where possible, especially when issues are likely to be contentious, or involve a significant amount of change or new practice.

Company engagement by topic in 2020

Environmental	Social	Governance
Biodiversity	Customers	Accounting practices
Climate change	Data security	Auditors
Environmental capex	**Diversity**	**Board committees**
Environmental policy/strategy	Health and safety	Board structure
Environmental products and services	**Human capital management**	Business integrity
Environmental supply chain	**Human rights**	**Corporate strategy**
Forests	Labour standards	ESG governance and sustainability strategy
Green bond issuance	Product safety	Financial policy
Pollution	Social policy/ strategy	**Governance oversight**
SDG bond	Social products	Related party transactions
Transparency and disclosure	Supply chain management	**Remuneration**
Waste management	Transparency and disclosure	Shareholder rights
Water management		Succession planning
		Transparency and disclosure
		Voting

Source: Schroders as at 31 December 2020. Top 10 topics are highlighted in blue.

We generally engage with one of two objectives in mind:

- Change facilitation: To seek improvement in performance and processes in order to enhance and protect the value of our investments
- Fact finding: To enhance our analysis of a company's risks and opportunities or to monitor developments in ESG practices, business strategy and financial performance within a company

We consider a number of factors when we seek an improvement in company performance or process. This includes our view on leading practice, the specific actions the company needs to take to reach our desired outcome, any country or regional considerations and the appropriate timescale for the company to make the changes. We usually aim to set objectives that can be achieved over a 12 to 24 month period, but some issues may require more urgent action than others, for example, where there is risk of regulatory action. Where possible, we seek to identify objective, measurable metrics or indicators that can be used to assess company performance on this issue.

Intervention will generally begin with a process of enhancing our understanding of the company and helping the company to understand our position. The extent to which we would expect to effect change will depend on the specific situation, the amount that we own and where we sit in the capital structure.

Broadly, fact finding is the purpose of around 20-30% of our engagements across all regions. The notable exception in 2020 was the UK, where it is was the objective of almost half of our engagements. This was partly driven by a survey we conducted across the FTSE 350 on board ethnic diversity. We wrote to all FTSE 350 constituents that were identified in the Parker Review update report published in February 2020 as having not yet met the Parker Review's recommendation that each FTSE 100 Board should have at least one director of colour by 2021, or 2024 in the case of FTSE 250 Boards. Companies were asked to complete a short survey to help us identify those that have not made any progress with a view to engaging further on this topic in 2021.

Process and engagement methods

Our engagement priorities combine the perspectives of our portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces.

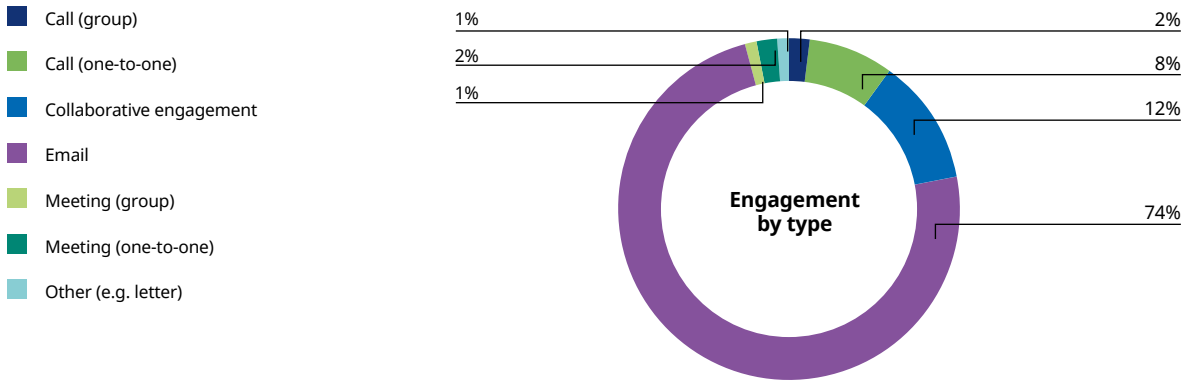
Recognising the influence we have as a global asset manager, we aim to be co-ordinated on our engagement activity. Engagements may be led centrally by the Sustainable Investment team, consulting and collaborating with fund managers as appropriate. Increasingly, fund managers and analysts across the business are identifying and leading the execution of ESG-focused engagements. Our central database plays an important role in capturing our activity and ensuring consistency and effectiveness of our engagement requests.

A company engagement generally begins with a process of enhancing our understanding of the company and helping the company to understand our position on a topic. We track engagement progress over time to ensure we can systematically monitor outcomes. Where we have engaged repeatedly and seen no meaningful progress, then we will escalate. We discuss this further under Principle 11.

We rarely attend company general meetings in person as we believe there are usually more efficient and effective means of communicating with companies. Moreover, general meetings take place at specific times during the year whereas engagement is something that we do on an ongoing basis throughout the year. Most of our communication with companies is via email, but we also speak to companies directly via calls and meetings. We track our method of communication and the subject matter discussed. We have set out this information below.

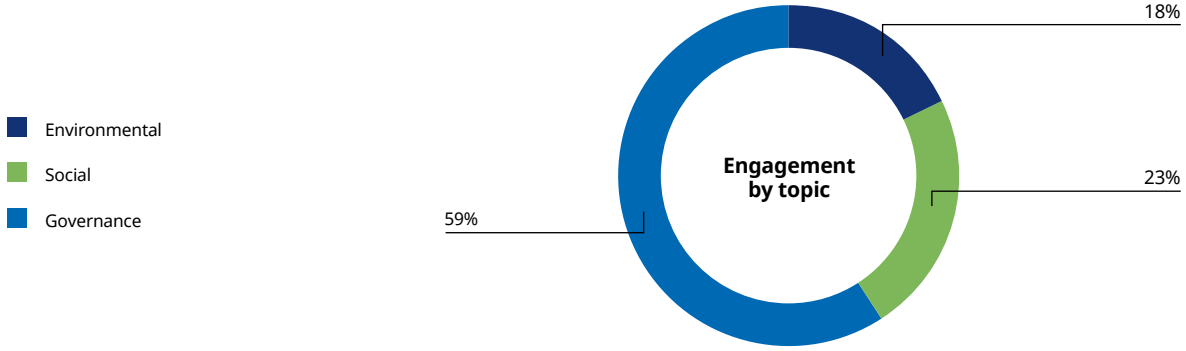
While the pandemic significantly reduced the ability to meet companies face to face, the use of video conference calls allowed us to continue our engagement through 2020. Across Tiers 1-3, about three quarters of our engagement communications were conducted via email or letter, 12% were collaborative, 8% were one-on-one meetings, and 2% were group meetings with other investors.

Company engagement by type in 2020



Source: Schroders as at 31 December 2020.

Company engagement by topic in 2020



Source: Schroders as at 31 December 2020.

How engagement differs for funds, assets and geographies

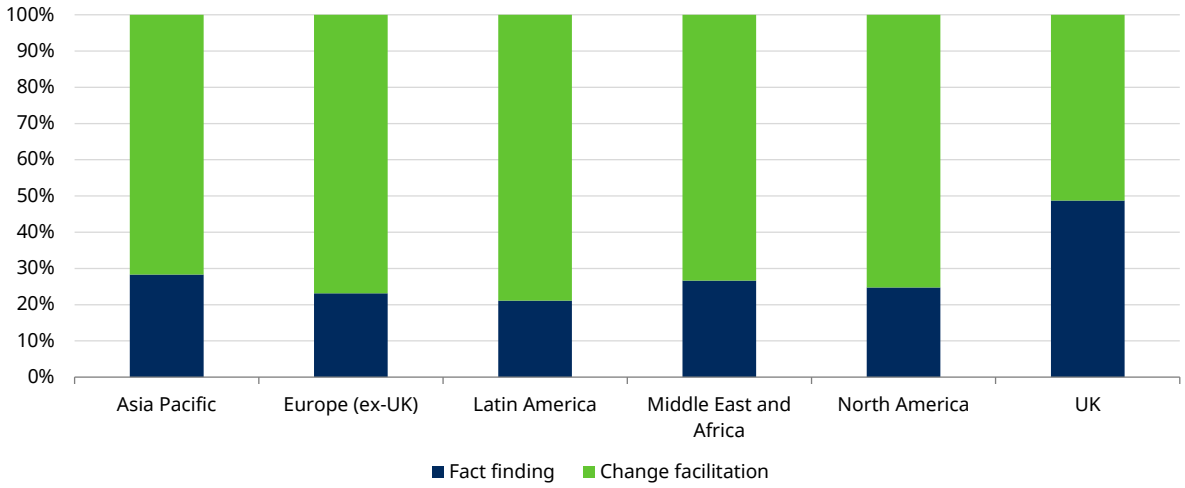
We approach stewardship as a firm-level rather than a fund-by-fund activity. We find that, in stewardship, there is strength in numbers. Aggregating our holdings of the same company across funds gives us greater clout and increases the chances that that company listens and reacts to our engagement. Generally, having a consistent voice in engagement magnifies our impact.

This is why much of our engagement activity is coordinated centrally by the Sustainable Investment team and, as a result, we are able to take a common approach across asset classes. This is particularly helpful in connection with fixed income strategies and other asset classes that do not attract voting rights. In the case of private assets, we often have majority control of the investments and a seat on the board and, as a result, we are much better able to exercise influence.

The differences do not arise by fund but rather by asset class and region of the holding. And even there, our process of engagement is broadly similar across geographies. The difference arises when we have to consider country and regional context when engaging with companies.

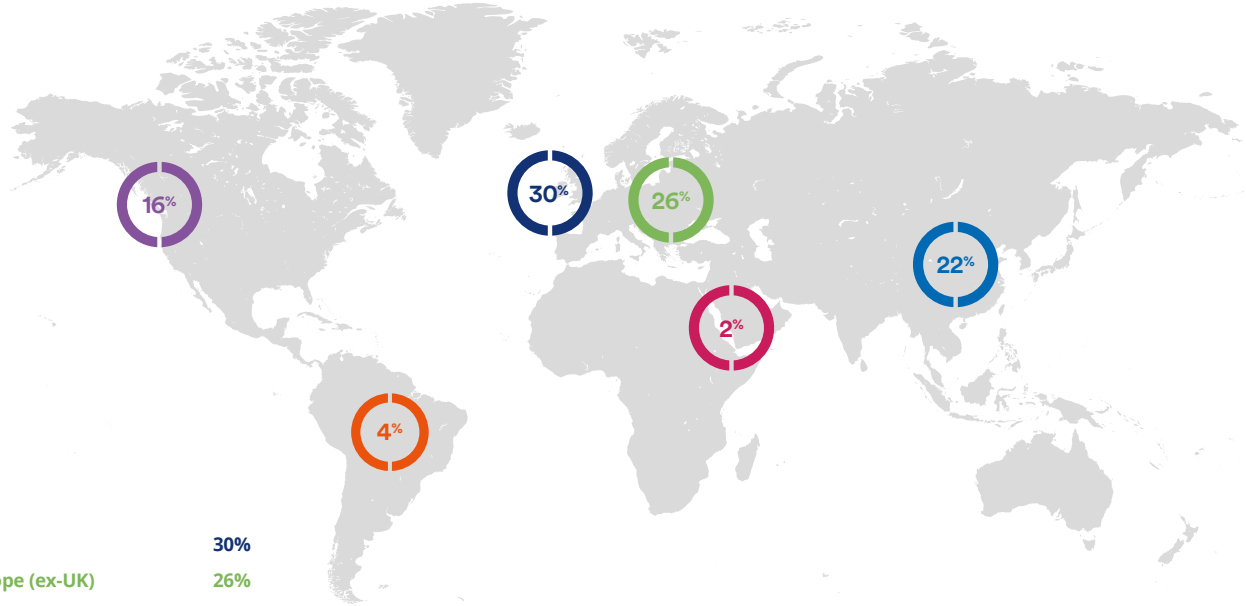
In general, we have higher expectations of companies in developed markets than of companies in emerging markets. That is because we recognise that companies in those blocs face different local contexts. We will typically give more time to companies in emerging markets to affect change. We recognise that it may take longer for companies operating in some countries to achieve some sustainability goals – either because of limited progress to date, or because of factors specific to the country or region (for example, socio-cultural factors, regulatory maturity etc.). These considerations also have an impact on our decision when to escalate an existing engagement.

Purpose of Tier 1–3 engagements by region 2020



Source: Schroders as at 31 December 2020.

Company engagement by region



UK	30%
Europe (ex-UK)	26%
Asia Pacific	22%
North America	16%
Latin America	4%
Middle East and Africa	2%

Source: Schroders as at 31 December 2020.

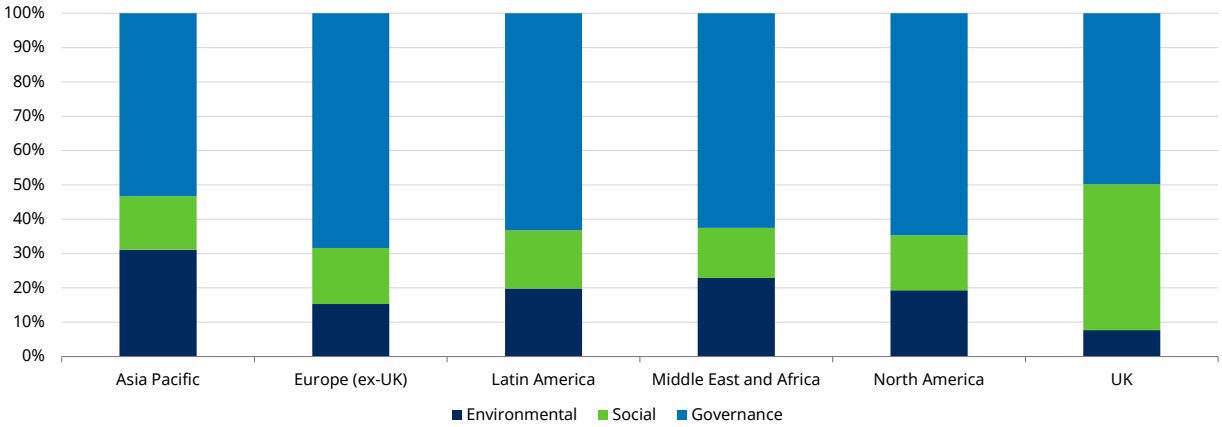
When we set engagement objectives, we consider both leading practice in the region and what could realistically be achieved by the company in the next few years. We also recognise companies' responsiveness to our engagement objectives will vary across countries, and where possible, we will reference country or regional initiatives, regulations and leading practice from peers in our dialogue with companies.

Our data shows that we engage on broadly similar topics across regions. However, in 2020, there was a tilt towards engagement on environmental issues in the Asia-Pacific market owing to a thematic engagement led by our Quantitative Equity Products team. The team surveyed over 80 companies within their broad investment universe with material exposure to thermal coal. The objective of the engagement was to understand how those companies are adapting strategy to the prospect of a global energy transition. Our 20-question survey was aligned with the TCFD framework covering business model, transition strategy, governance and oversight and targets.

Our engagement in the UK was skewed towards social issues mainly owing to our engagement on the Parker review described above.

Our methods of engagement are broadly similar across each region too. In 2020, variances in the proportion of engagements carried out through physical meetings was largely driven by regional differences in policy and attitudes to the Covid-19 pandemic.

Engagement by region 2020

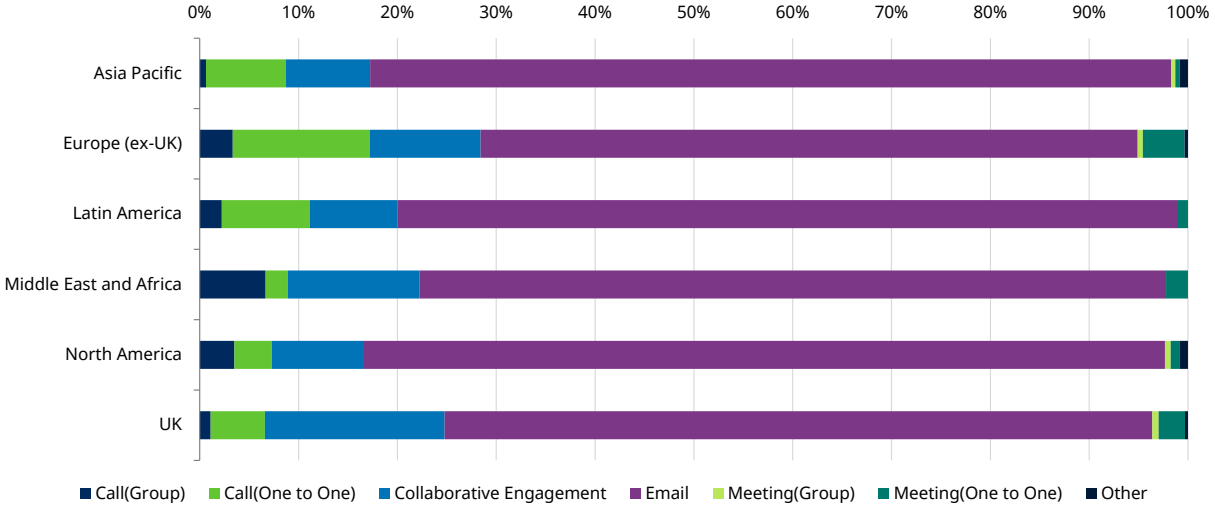


Source: Schroders as at 31 December 2020.

A higher proportion of our engagements in the UK are collaborative engagements – more so than in other regions. The main reason for this is that the UK is a very mature market in terms of stewardship practices. While many investors are concerned about competition law and market abuse in the context of collaborative engagement, in the UK there tends to be greater understanding of how collaborative engagement can take place within the bounds of the local legal regime thanks to clarifications from the regulators (for example, the FCA in FS19/7) along with an infrastructure to support 'safe' collaborative engagement through initiatives such as the Investor Forum and Climate Action 100. We discuss collaborative engagement in more detail under Principle 10.

Going forward, we will look to pilot different ways of communicating our expectations to companies globally, for example, by translating letters into different languages.

Type of Tier 1–3 engagements by region 2020



Source: Schroders as at 31 December 2020.

Tracking our engagement outcomes and progress

Our Sustainable Investment team has tracked engagement progress since 2000 to ensure we can systematically monitor outcomes. As mentioned at the beginning of this section, in 2020, we enhanced our digital infrastructure to enable our portfolio managers and financial analysts to capture their sustainability-focused engagements and systematically monitor progress in the same database as our Sustainable Investment team. This engagement database is embedded within our global research platform. We began reporting this additional engagement data in 2020.

We record all of our stewardship activities in our proprietary research database to facilitate the monitoring of companies in which we are invested. Fund managers, analysts and ESG specialists record engagements through this database, the details of which are available to everyone in the Investment division through our research platform. To ensure effective monitoring, we define expected timeframes for milestones and goals, track progress against these, and revise them as necessary. We review the company's progress against all engagement requests a year after they have been made, and subsequently on an ongoing basis, recognising that material changes will take time to be implemented into a company's business process.

We categorise progress in five ways:

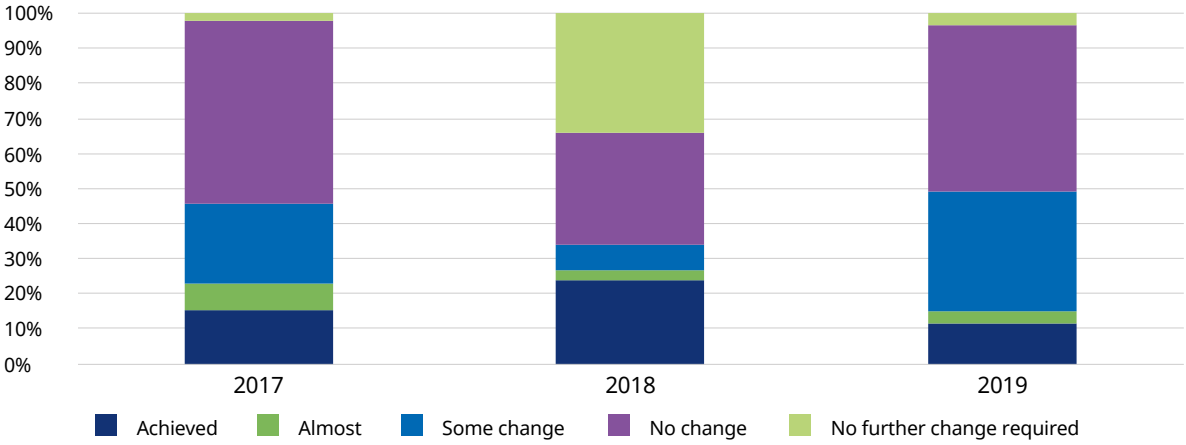
1. Achieved
2. Almost
3. Some change
4. No change
5. No further change required (for example, if a company has divested the business in question, or if the company has a valid reason for not implementing the change requested)

We recognise that success may be subjective and that Schroders' influence may not have been the sole driving force for change. However, we believe it is important to track companies' progress and measure the outcomes of our engagement.

Our experience has shown that companies are complex and the nature of the issues can evolve rapidly, sometimes changing what is considered best practice. Achieving change takes more than a year. Indeed, the time taken to achieve success can vary greatly across engagements and companies.

Moreover, effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate, which we discuss further under Principle 11. We report on our engagement experiences in our annual Sustainable Investment reports – see below for more details. Case studies from 2020 are at the end of this section.

Engagement outcomes over three years



Source: Schroders as at 31 December 2020.

Reporting

As we outlined under Principle 6, each quarter we produce a public Sustainable Investment report which highlights our engagement and voting activities over the period. The engagement section includes detailed case studies as well as the total number of engagements, the companies engaged with broken down by region, type and sector, and progress achieved. The tiered approach we took in 2020 to organising and reporting engagements helps us distinguish between the different levels of influence we have through our active ownership activities, as illustrated above.

Our annual Sustainable Investment report provides further detail on how we prioritise and conduct our engagements, our methods and approach, how we set objectives and monitor progress and define outcomes. The report includes a broad range of statistics evidencing our engagement activities over the year and how our engagement approach has evolved over the past years.

These reports are complemented by the monthly publication of our voting activities, where we provide details how votes were cast globally. This includes information on our votes against and abstentions, along with the rationale for these decisions, which we view as 'significant votes'. We explain this in more detail under Principle 12.

We believe transparency is an important feature of effective stewardship. We are cognisant, however, that some disclosures may be counterproductive. This is particularly the case while an engagement is ongoing and when making specific details public may harm our long-term relationship building with companies which we view as essential for effective stewardship. Hence, we report on engagements or name companies after the engagement has come to a close or if there has been substantial progress.

Case studies

Case study: Engaging with an electrical power generation company

Team: UK Equity team, Sustainable Investment team

Region: UK

We believe that companies that assist and enable the energy transition hold potential investment opportunities. We regularly engage with companies to understand how they are preparing for and supporting the transition to a low carbon economy, and encourage them to move towards sustainable business practices.

Drax, a British electrical power generation company, has an ambition to become carbon negative by 2050, meaning it will not only be emitting zero carbon, but also aims to reduce the amount of carbon in the atmosphere. Over the past seven years, Drax has transitioned almost all of its power away from coal towards biomass. In March 2019, the company stated it was the largest renewable power generator in the UK, generating 12% of the country's renewable electricity, stating a carbon saving of more than 80% compared to coal (including emissions from its supply chain).

Drax has become one of the most extensive users of biomass as a fuel source. Biomass is considered contentious in terms of carbon neutrality, largely due to the level of CO2 emissions released upon burning the biomass and, more loosely, the transportation emissions bringing the raw material to the power plants. We engaged with Drax to understand the functionality of the biomass process and how the company is visibly changing with this transition.

In a collaborative engagement effort, members of the UK Equity and Sustainable Investment teams visited Drax's power plant in Yorkshire in February 2020. A tour of the site revealed the new infrastructure needed to transport and store the biomass fuel whilst also highlighting how parts of the plant can remain operational, despite the change in fuel source. We were also able to see, and better understand, the range of different CCS (carbon capture and storage) technologies the company has invested in and how its strict supply chain procedure works in terms of forest management and controlling transport emissions.

Our engagements with the company provided multiple opportunities to hold invaluably in-depth conversations on specific components of the business. This provided us with more confidence around the company's sustainability practices and helped us to better understand the extensive efforts the company is undertaking to become a negative carbon emitter by 2050. We will continue to engage with Drax throughout their low carbon transition to ensure the company evolves with ESG best practice and to understand their continued contribution to the UK's clean power market.

Case study: Engaging on climate risk in the Chinese real estate sector

Team: Asia Credit team, Sustainable Investment team

Region: Asia Pacific

Chinese property is by far the most important sector for the Asian Credit team and we consider that both the quality and the quantity of ESG disclosures are rather poor.

We have developed a streamlined set of questions for the Chinese property sector, focused on the most material topics: safety, green buildings, energy consumption, water consumption and alignment to China's net zero target by 2060. Most of the questions are quantitative which we believe will help prevent greenwashing.

The desired outcome of this questionnaire is to provide us with a standardised dataset. We intend to conduct this survey once or twice a year. For this first round, we requested responses by 5 February 2021.

These responses will be reflected within our proprietary research tool CONTEXT. The first round of surveys is intended to form a baseline to consider how best to incorporate it into our investment analysis.

Case study: Engaging on improving operations and governance in fixed income

Team: European Credit team

Region: Europe

We were uncomfortable with the high leverage and fast pace of M&A activity we observed in Heimstaden, a Scandinavian property company. We also desired to see a stronger skill set on the company's board.

We engaged with the company management with the argument that they were losing substantial optionality and would not be able to act if a strategic opportunity came along or to withstand any negative diversion from the base business plan.

Following our engagement, the company proceeded to slow down M&A activity, reduce leverage and strengthen the skill-set on its board.

Case study: Engaging on thawing permafrost risks

Team: Global emerging market equities team, Sustainable Investment team

Region: Asia Pacific

Thawing permafrost represents a significant physical climate risk to companies operating in permafrost areas, such as Russian commodity producers. As soils shift as a result of thawing, infrastructure is threatened and floods become more likely. It also releases gases such as carbon dioxide and methane, which contribute to climate change and accelerate global warming.

Rapidly thawing Arctic permafrost is a prime example of how climate change is impacting natural ecosystems and, in turn, business operations. We're engaging with companies that need to assess, prepare and actively respond to this risk.

Schroders is committed to modelling investment risks from physical climate change. We are aiming to deduce future permafrost risk in Siberia in a collaborative effort between Schroders' DIU, the Sustainable Investment team and our emerging markets equities team. This involves studying the surface temperatures in the locations where the main companies operate and identifying which are operating in at-risk areas. Schroders' DIU created a permafrost dashboard so we can analyse weather and geographic trends in oil and gas production across Russia. It allows us to track rates of permafrost thawing in different locations.

In December 2020, Schroders' global emerging market equities and sustainable investment teams engaged with seven companies identified as operating in at-risk areas in Russia. This included efforts to identify which of a company's locations are most at risk from climate change disruption through permafrost destabilisation via a questionnaire. The answers will enable us to understand how each company views physical climate risk from permafrost.

Ultimately we want to ensure companies are adequately assessing and managing the risks associated with thawing permafrost. We will collate feedback and rank the firms based on our analysis. The information gathered from company responses will not only allow us to better assess companies' management of these risks, but also to further develop our proprietary tool and monitor how these risks evolve in the coming years. Where companies are not sufficiently managing current risks, or are not sufficiently prepared for future risks, we will engage further to influence them towards more sustainable business practices.

Case study: Engaging with Housing Associations

Team: Sustainable Investment team, European credit team

Region: UK

Housing associations have a clear social purpose and impact, yet sustainability reporting is not widespread across the sector. This means they are potentially missing out on opportunities to demonstrate strong environmental and social performance to investors. We engaged with 17 associations in the UK to better understand their environmental and social credentials and to encourage them to report against the Sustainability Reporting Standards for Social Housing.

Prior to 2020, there wasn't a common reporting standard that could be used across the industry to demonstrate how housing providers were performing from an environmental and social perspective. This made it difficult for lenders and investors to properly evaluate a housing association's risks and opportunities around these factors. Last year, a working group composed of housing associations, investors, and a number of other organizations published the Sustainability Reporting Standard (SRS) for Social Housing, following a public consultation.

The SRS is a voluntary reporting framework, covering 48 criteria across a wide range of environmental and social considerations. It enables housing providers to report on their environmental and social performance in a standardized way, allowing lenders and investors to meaningfully evaluate them. Schroders was an early adopter of the initiative and has committed to using the standard in its investment processes.

Today, close to 100 organizations have either adopted or endorsed the SRS, according to the ESG Social Housing Working Group.

In September 2020, we wrote to all 17 housing associations within our investment universe to ask them to adopt the SRS. Organizations were unwilling to start using the criteria until the next reporting cycle – something we had anticipated. So we asked housing associations to provide information on a subset of environmental and social metrics that would help us understand how they are currently performing on key issues. These were aligned with the criteria set out in the SRS.

Fourteen housing associations responded. Two had already adopted the SRS and were able to promptly provide the information we required from their public reporting. Twelve organizations provided information via our survey. Of these, eight said they intended to adopt the new SRS, three were still deciding and one was in the process of developing its own ESG framework and so had decided not to adopt the new standard.

We will continue to encourage housing associations to improve ESG transparency, and monitor uptake of the SRS.

The information gathered through this engagement has strengthened our understanding of the opportunities and risks associated with investing in these organizations. It has been incorporated into the credit team's investment process and helps us accurately assess the environmental and social merits of the businesses, as well as help us differentiate between leaders and laggards. In particular, the responses to our questionnaire generated a deeper understanding of their energy efficiency and carbon intensity.

Case study: Engaging with banks on their fossil fuel financing

Team: Credit team, Equities team

Region: Asia Pacific, Europe, North America

In December 2020, we engaged with a number of banks in order to understand their exposure to the fossil fuel industry.

Although 'net zero' is gaining momentum across the world, overall levels of commitment remain low in the banking sector. At the time of our initial analysis in the middle of 2020, less than 20% of the global banks included in our universe had committed to aligning their financing activities with the goals of the Paris Agreement or a national net zero ambition, or committed to set a science-based target.

For banks, fossil fuel financing far outweighs sustainable financing. Banks that are highly exposed to the fossil fuel industry face significant financial, regulatory and reputational risks as a result of the transition to a low-carbon economy.

As Schroders holds many bonds in the banking sector, we are keen to identify potential winners and losers in the global transition towards net zero.

As part of our thematic research on this issue, our credit and sustainable investment teams developed a scorecard to help fund managers understand how a bank is performing against a number of factors relating to fossil fuel financing. Using both conventional and unconventional sources of data, banks are assessed on the scale of their fossil fuel financing activities, strength of long-term climate strategy and vision, sustainable financing capabilities, maturity of climate governance and risk management, and quality of climate reporting.

The scorecard is used to prioritise companies for deeper analysis and engagement. It currently covers more than 100 of the world's largest banks plus a group of selected smaller banks to make sure we have sufficient coverage of the credit team's banking exposure.

Our credit team, along with a number of equity teams, selected around 50 banks across Europe, North America and Asia for deeper analysis and engagement. Their focus was on top financers to the fossil fuel industry as well as banks that may be highly exposed to the fossil fuel industry through their balance sheets. Following each engagement, we highlight three to four objectives we'd like the bank to work on over the next 12 months.

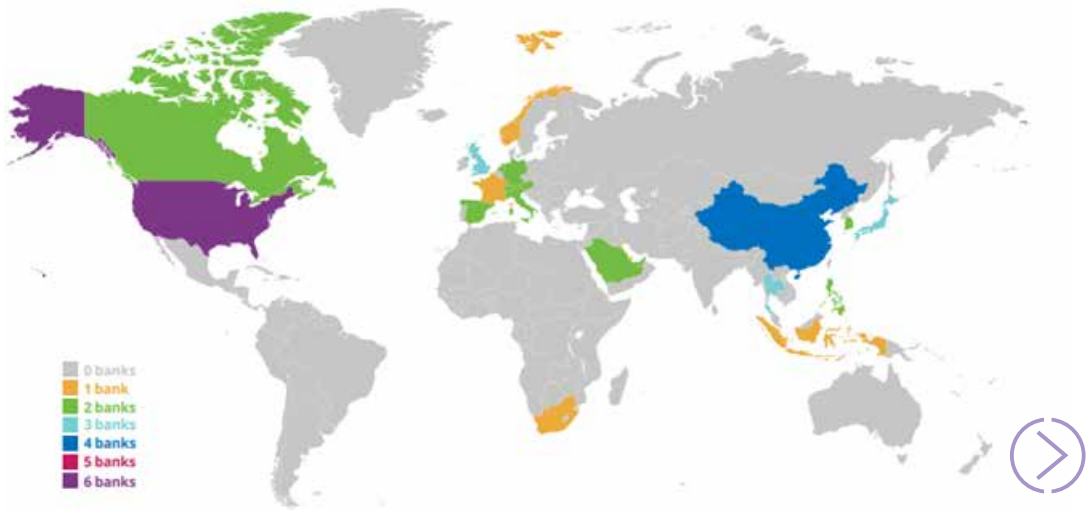
Examples include:

- Development of a commitment to align the bank's financing activities with the goals of the Paris Agreement, plus related milestones and targets;
- Reviewing and strengthening the bank's fossil fuel policies in line with latest science and/or good practice;
- Development of TCFD climate risk reporting, including disclosure of additional climate metrics.

For banks that have already made progress in these areas, our discussions have focused on the robustness and evolution of their measurement and target-setting methodologies in relation to the bank's commitment to align its financing activities with the Paris Agreement.

We plan for these discussions to continue in 2021 and will look to report on the outcomes of this engagement next year. Once we've completed our first round of engagements, we plan to engage additional banks and extend our scorecard to include other types of financial companies such as insurers.

Number of banks we have engaged with per country



Integration into our investment process

Credit ESG individual company assessments: We plan to use the insights from our engagement to identify potential risks to a company's cashflow and increase the quality of both our internal ESG and credit assessments.

Credit ESG sector review: The information from our fossil fuel financing research and engagement will be incorporated into credit analyst ESG sector reviews. During these reviews, analysts discuss with portfolio managers the ESG factors and ordinal rankings of their companies' exposures to ESG risks and opportunities that could impact the ability of companies to service their debt comfortably.

Schroders' proprietary tools: The development of our fossil fuel financing scorecard is helping us identify new environmental metrics for our proprietary sustainability tools such as CONTEXT, which is used by both credit and equity investors within Schroders.

Voting approach: If the results of our research and engagement warrant it, we will refine our expectations of banks relating to fossil fuel financing and climate change more broadly. This will be part of our annual review of our voting policy.

Case study: Engaging on political lobbying

Team: Sustainable Investment team

Region: North America

In 2020, we wrote to 68 companies in the US asking them to disclose political lobbying activities both direct and indirect (trade associations). We also asked them to include information on the recipient, the amount spent, and how that activity aligns with the company's strategy. The trigger for that action was thematic research carried out by the Sustainable Investment team on the subject.

We prioritised companies in two ways. The first was on total lobbying spend, based on the amount of reported lobbying spend in the US. The second was based on selected sectors where lobbying spend was the highest and then ranking companies based on their market capitalisation.

The purpose of the letter was to outline our expectations in this space. Some companies followed up with questions in the context of more general ESG meetings with investors while others wrote back to us to share their current disclosures. We will check progress in 2021 as part of our review process.

Case study: Engaging to promote gender diversity

Team: Sustainable Investment team

Region: Global

We believe diversity is important for a company's long-term strategy and success; allowing for more constructive debate of competing views and opinions, and better representation of wider stakeholders. We expect companies and boards to be able to demonstrate that they are comprised of a diverse selection of individuals across gender, ethnicity, sexuality and thought. We regularly take voting action and engage when performance does not meet our expectations.

Since 2015, we have engaged with over 180 companies on diversity-related issues globally. Although there is still substantial ground to be made up, bright spots of progress suggest that shifts are underway. Of these companies, 21% have fully implemented changes sought.

US board gender diversity

While the issue of gender balance on boards is a global concern and one that we are addressing worldwide, slow progress in the US has been a focus for our Corporate Governance team since 2018. The percentage of female directors added to boards has risen by just 3.2% since 2012.

In 2018, as several quotas were being rolled out or planned at the state level in the US, we wrote to 40 of our US holdings with all male boards to accelerate progress on director change and renewal. We communicated our intentions to vote against the chair of the Nominating Committee if there was insufficient improvement.

We highlighted the benefits that diversity of thought could bring and recommended various strategies to tackle bottlenecks to progress, including but not limited to:

- Requiring a diverse slate of candidates;
- Setting voluntary diversity targets;
- Expanding board size to include more women;
- Adopting term or age limits to address low turnover; and
- Conducting board performance evaluations.

Following our 2020 review, over 75% of these companies have since added women to their boards. Furthermore, we have amended our group policy since 2018 to expect at minimum 25% representation.

Gender diversity in technology

Our commitment to promote a more diverse and inclusive spectrum of gender representation transcends the board level; it should also be a priority at the employee and manager levels.

Since 2019 we have engaged with more than 60 companies in the technology sector across Europe, the US and Asia that exhibit a poor ratio of women across their employee base and management layers. We have benchmarked companies against the following five 'best-in-class' characteristics:

1. Talent acquisition strategies based on collaboration with technology universities and colleges;
2. Robust employee engagement;
3. A strong culture espousing inclusivity;
4. Specific initiatives targeting equal opportunities; and
5. Formal policies and commitments to facilitate career development

Our interactions have highlighted salient geographical nuances, as the figure below highlights. For example, Asian companies appear strong on partnerships with universities, but are weak on senior management focus. Or US companies are very strong on partnerships with universities, but weak on diversity survey analysis.

We plan to follow up with poor performers to encourage alignment with best practice. Already we have made traction with Recruit Holdings, a Japan-based technology company, which has introduced diversity targets as a result of our engagement with the company.

Average scores to questions across regions

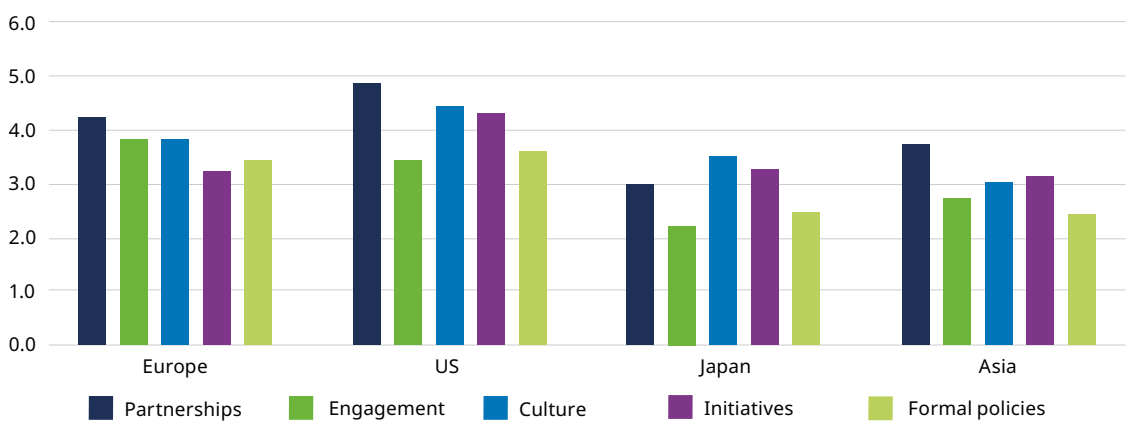
Looking ahead we will continue to scale up our efforts to promote diversity and inclusion in its various forms through our voting and engagement activity. We are also committed to furthering diversity in terms of race and ethnicity and plan to contact companies across a number of different markets to better understand their approach to such issues.

Recruit Holdings

Between 2018 and 2020, members of Schroders' Global Equity and Sustainable Investment teams engaged with Recruit Holdings, a Japan-based technology company specialising in the provision of human resources-related services, to encourage the company to add female members and external independent directors from other regions to its board. We believe that having diversity in perspectives, backgrounds, business experiences and professional expertise is imperative to ensure that the company is properly equipped to manoeuvre around its international and increasingly volatile business environment.

Our various interactions with Recruit have helped us to better understand the extensive efforts that the company is undertaking to encourage inclusiveness, providing reassurance that it has a robust process to build a diverse pipeline of board candidates, including the appointment of more women. Indeed, subsequent to our conversations Recruit has set formal targets to add a woman to their six person board by June 2021 and build upon this progress by appointing another one the following year. They also added their first foreigner to the board at this year's AGM.

These improvements in Recruit's corporate governance structure added conviction to our view around governance and management quality. We believe the company could be a leader in the Japanese market, and remain cautiously optimistic of its progress on ESG. We will continue to monitor progress.



Source: Schroders.

Case study: Engaging on forced labour issues

Team: Sustainable Investment team

Region: Asia Pacific

Measures to stem the spread of Covid-19 have drawn international attention to migrant workers' living conditions in dormitories in Singapore. In response, in June the Singapore government indicated that new standards for migrant workers would be established. Schroders' sustainable investment team contacted employers of migrant workers in Singapore following the announcement. We asked how the new standards would impact how they operate, about their approach to workers' rights and also how they planned to absorb any cost increases.

Three of the five companies gave comprehensive responses. The engagements covered the range of measures taken and the attention paid to migrant workers' wellbeing – both living conditions and safety. The firms appeared to have strong relationships with regulators and so were able to respond quickly to the new rules. Another company responded only briefly. The final company did not respond.

The responses suggested that increased costs are to be expected, but these will be partly met by support from the government.

Following our initial communication with these five companies, we contacted two of the leading companies on the topic of debt bondage – a term for when someone is forced to work to pay off a debt. We wanted to better understand the situation on the ground and share our expectations. Contractors may consider themselves to be compliant with local regulation while exploitative practices may be more likely to take place in the migrant workers' place of origin. The conversations were useful to understand the challenge for developers with a rotating schedule of migrant workers. This is compared to manufacturing firms, which have a more consistent workforce to manage.

Recognising that this is a new topic for many contractors, our initial focus will be on raising awareness of how debt bondage is in fact forced labour. We asked the companies to educate their main contractors on the topic, using existing platforms of communication. The two companies we spoke to seemed responsive and indicated they will consider it. As leading corporates, we believe that their actions will have a positive trickle-down effect and we will continue to encourage efforts in this area.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Our approach to collaborative engagement

There may be occasions when it is more effective to work with other institutional shareholders to influence company management and effect positive change. Schroders works with other institutional investors, either bilaterally or through various industry forums. Our collective engagement may involve meeting companies jointly with other shareholders, via membership organisations or other more informal groupings.

We review potential collaborative engagements on a case-by-case basis to ensure that the objectives of such engagements are aligned with our ESG policy. We will typically consider initiating a collaborative engagement where our discussions with management have failed to achieve the desired outcome or where we own a very small percentage of the company. We will join collaborative engagements initiated by others where we believe they will promote an outcome that protects or enhances the long-term value of the target companies.

As a result of the potential for collaborative engagement to breach competition law and the market abuse regime, it is subject to additional controls. A sub-committee of our internal Corporate Responsibility Committee must sign-off any collaborative engagements. All of the collaborative engagements are subject to our recording and monitoring processes and are tracked in our internal engagement database. We often conduct collaborative engagements through industry bodies or formal investor networks that have established procedures for conducting collaborative engagements in way that complies with our legal and regulatory obligations.

The majority of our collaborative engagements aim to make clear our expectations of companies and promote increased transparency. However, where we have clear, measurable requests we monitor progress through our engagement database. We acknowledge that there is more work to be done to assess the effectiveness of our collaborative efforts and we will continue to strengthen this in the future.

Industry involvement

We support, and collaborate with, several industry groups, organisations and initiatives that are focused on facilitating collaborative engagement. These forums are an important part of the responsible investment ecosystem.

Some of the key organisations that we work through to achieve collaborative engagements are:

- **Investor Forum:** The Investor Forum facilitates collective engagement between institutional investors and UK-listed companies. We are a member of the Forum and we actively participate in its work. In 2020, we participated in a workshop on working practices in the construction sector at which two corporates, Marshalls and Land Securities, presented their approach to monitoring labour standards. A collaborative investor initiative led by CCLA called "Find It, Fix It, Prevent It" was also discussed, which we then went on to participate in. We also participated in a collaborative engagement with Pearson on Board succession and corporate strategy that was facilitated by the Investor Forum. We describe these examples in detail below.
- **Climate Action 100+:** Climate Action 100+ is an investor led initiative that facilitates collaborative engagements with companies aimed at improving climate change governance, cutting emissions and strengthening climate-related financial disclosures. As an investor participant, we are both signatories to the initiative as well as being responsible for direct engagements with companies. We describe our collaborative engagement with Anhui Cement as lead investor below.
- **Farm Animal Investment Risk and Return (FAIRR):** FAIRR is an investor network focusing on ESG risks in the food and agriculture sector. It facilitates collaborative engagement, to encourage companies to improve their management practices and address selected environmental, social and governance issues. We are a member of the FAIRR network and have actively participated in their collaborative engagements on building sustainable protein supply chains, which we describe below.
- **Investor Stewardship Group (ISG):** In March 2018, we became endorsers of The Investor Stewardship Group, a collective of some of the largest US based institutional investors and global asset managers. The ISG was formed to bring all types of investors together to establish a framework of basic standards of investment stewardship and corporate governance for US institutional investor and boardroom conduct. The result is the framework for US Stewardship and Governance comprising of a set of stewardship principles for institutional investors and corporate governance principles for US listed companies.
  In 2020, we joined the ISG ESG working group. We collaborated with the working group on ESG standards in the market.

Further details about our industry involvement and public policy activity can be found under Principle 4.

Collaborative engagement activity in 2020

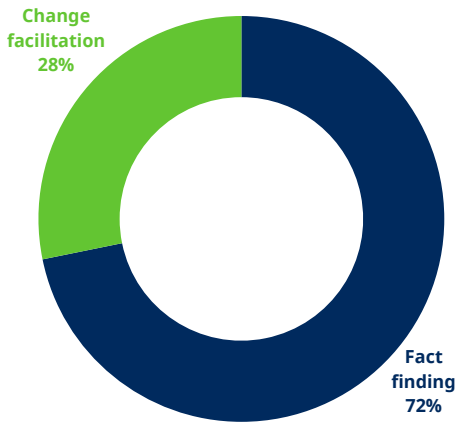
In 2020, the majority of our collaborative engagements were focused on fact finding and social issues.

The focus on social issues in 2020 was driven by the collaborative engagement we had with UK-listed companies, where the purpose was to ensure they put measures in place to help support employees' mental health during the Covid-19 pandemic. This collaborative engagement is covered in more detail below.

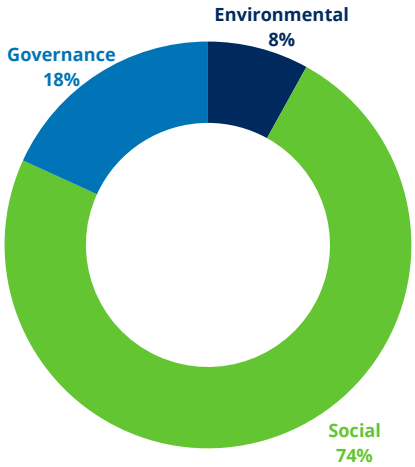
Most of our collaborative engagements were concentrated in the UK. This was not specific to 2020. As we discuss under Principle 9, this partly reflects the relative maturity of stewardship practices in the UK and the existence of several platforms, like the Investor Forum, whose purpose is to facilitate collective engagement.

Collaborative engagement (% of total collaborative engagements) 2020

By type



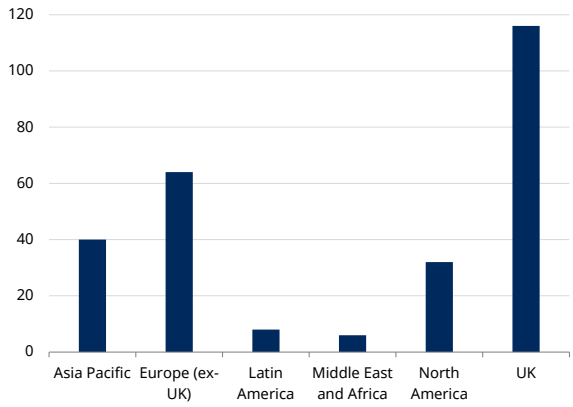
By ESG objective



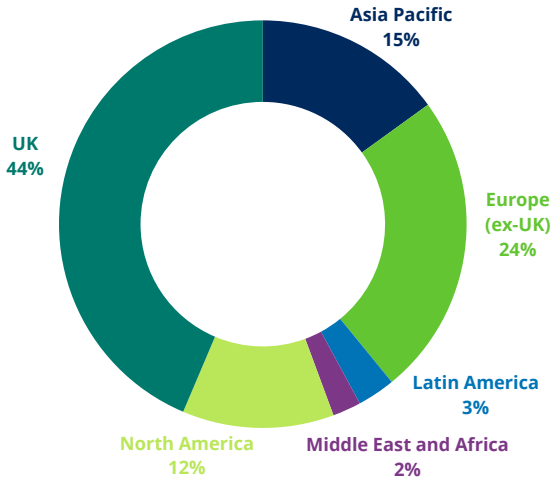
Source: Schroders as at 31 December 2020.

Collaborative engagement by region 2020

Number of collaborative engagements



Regional split of collaborative engagements



Source: Schroders as at 31 December 2020.

Examples of the key collaborative initiatives we have been involved in throughout 2020 include the following:

Investor Forum – Board succession and corporate strategy

As part of the Investor Forum, we led on an initial engagement with Pearson, reiterating to the chairman investors' desire to move faster in finding a new external chief executive (CEO) as investors felt that the succession timetable was too slow. After several letters were sent in collaboration with the Forum, the company announced a new CEO in August 2020.

We also engaged collaboratively through the Forum with Aviva in connection with concerns around their strategic direction and governance oversight. The original objectives of the engagement were to challenge the company to refresh their corporate strategy and to ensure an acceleration of board and chair succession. With the change of CEO following rapidly on the heels of the appointment of the new chair in 2020, we felt it was clear that the company had fully understood the messages from investors regarding the need for change. The company statement quotes the new CEO saying: "We will look at all our strategic opportunities, and at pace".

Find It, Fix It, Prevent It – Compliance with UK Modern Slavery Act reporting standards

We supported the "Find It, Fix It, Prevent It" modern slavery initiative that targeted FTSE 350 companies that failed to comply with the UK Modern Slavery Act. The objective of the engagement was to encourage companies to make the required changes to their Modern Slavery statements. We were actively involved in refining the target list and the letter. As at 31 December 2020, the majority of companies contacted are now compliant with the Modern Slavery Act. We will continue to monitor changes and review progress against those still failing.

CCLA and industry peers – Employee mental health during Covid-19

Together with a number of other investors we contacted FTSE 100 companies to encourage them to put measures in place to help support employees' mental health during the Covid-19 pandemic. In particular, we asked companies to consider training for line managers, increased flexibility in both working patterns and performance appraisals, and providing support systems. We will continue to support this initiative and push companies across all sectors and industries to put the mental resilience and wellbeing of their workers at the top of their agenda.

Industry peers – risks in the protein supply chain

The burgeoning plant-based foods market is predicted to capture between 10% to 60% of the total meat market over the next 10–20 years. As investors in the food sector, we believe that it is crucial for companies to adopt a comprehensive, global, evidence-based approach to diversifying their protein offerings in order to mitigate supply chain risks and to capitalise on changing consumer preferences.

As part of our ongoing collaborative initiative with FAIRR on sustainable proteins, we reached out to 18 global food retailers and manufacturers to seek an update on their strategic approach to transitioning their product portfolio towards more sustainable sources that include plant-based and alternative proteins as well as their methods for tracking and measuring exposure to animal and plant-based proteins. The majority of the companies that were contacted responded in detail to the letter and met with FAIRR and investors. We will continue to collaborate on this topic to ensure progress.

Church of England Pensions Board and industry peers – Indigenous community rights in the mining sector

We joined an initiative to write to leading mining companies about their indigenous communities practices, led by the Church of England Pensions Board. The letter requested further information on actions companies have undertaken to manage risks in light of destruction of Juukan caves in Australia.

Specifically, the letter requested transparency on:

1. Approach to relationships with indigenous stakeholders including standards adhered to, policies and implementation;
2. Governance, oversight and KPIs;
3. Specific actions taken to manage risks across business (such as reviewing existing agreements);
4. Disclosure; and
5. Where relevant, the company's position regarding legislative changes in Australia on the protection of indigenous communities.

Responses are being gathered from companies with the intention to initiate further dialogue that will include input from community representatives as well as the companies.

Industry peers – German supervisory board term lengths

As part of a group of asset managers, representing $8.3 trillion of assets under management, we contacted issuers within the DAX 30 whose board members were proposed for term lengths of five years. We recognise the importance of board accountability to strong corporate governance and believe annual director elections improve board quality. German companies lag their European peers on this issue, so the purpose of the engagement was to encourage German issuers to voluntarily adopt shorter election cycles, ideally of three years or less, for shareholder-elected supervisory board members.

We have amended our forward looking voting policy for 2021 to vote against any director elections/re-elections where the board term length remained at five years.

Climate Action 100+ – lead investor for Anhui Conch Cement

As part of the Climate Action 100+ investor-led initiative we have led engagements since 2018 with Anhui Conch Cement. We have explained to the company why investors are interested in greenhouse gas emissions (potential costs, carbon trading schemes, meeting Paris commitments and rising demand for greener building materials), and sought to understand the actions the company had taken to date and future targets. We have asked that the company set climate targets to 2025 and beyond, and provide climate-related financial disclosures, for example in line with the recommendations of the TCFD.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Our approach to escalation

When we engage with companies (as discussed under Principle 9), we ordinarily hope to address our concerns through the regular meetings our analysts, investors and ESG specialists hold with company management. However, there may be instances in our engagement where we do not see enough progress towards achieving our engagement objective. This may be for various reasons, such as:

- A company does not respond constructively;
- Our concerns on which we have engaged have not been sufficiently addressed; or
- We do not feel confident that the company concerned intends to address these concerns.

Under these circumstances, we may decide to extend our engagement activity and/or escalate specific areas of concern in order to affect the change we are seeking.

Escalation for us is means extending or otherwise stepping up our engagement. We describe this in more detail below but, broadly, it involves more frequent discussions, involving multiple stakeholders within a company, and can extend to voting against company management or selling our holding.

We prioritise issues for escalation based on the materiality of each issue, its urgency, the size of our holdings, the severity of our concern and whether the company has demonstrated progress based on previous engagements. Typically, the issues that are escalated will be ones on which we have engaged with an issuer already. However, new issues that could merit escalation on account of their severity may be identified by our research analysts and portfolio managers as part of their ongoing risk management and research responsibilities.

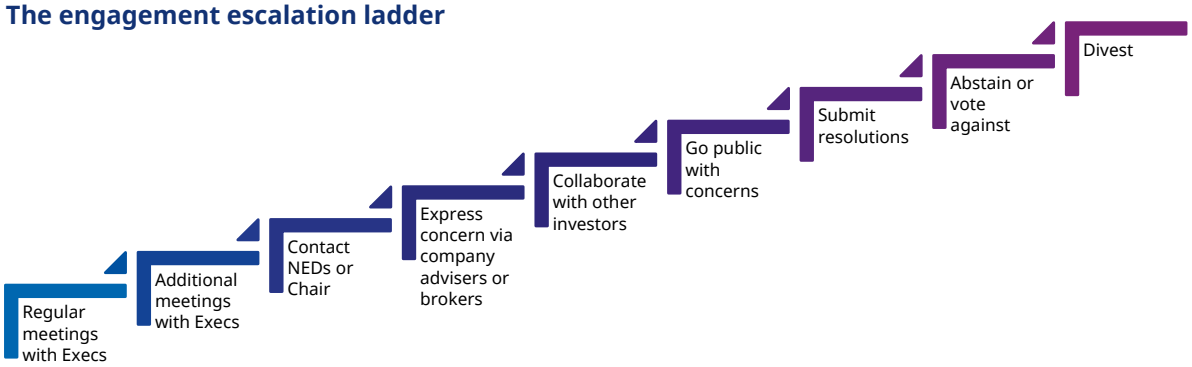
We aim to implement a consistent escalation process across our investment teams by ensuring our engagement activity remains co-ordinated and well-communicated internally. However, expectations of companies and the thresholds for escalation may vary depending on factors affecting the investee companies, including regional and sectoral norms. For example, the threshold for escalation on board independence may be higher in Japan compared to the UK where standards are stricter. Namely, in the UK, the FRC's Corporate Governance Code separates the Chair from the Chief Executive and independent non-executive directors usually chair the Nomination, Audit and Remuneration Committees.

Our escalation process

Intervention will generally begin with a process of holding additional meetings with company management to enhance our understanding of their stance and help the company to understand our position. Should this initial step fail, we may consider further escalation methods including:

- Meeting or otherwise communicating with 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 management
- Submitting resolutions at general meetings
- Requisitioning extraordinary general meetings
- Divesting, which may mean a full or partial exit

The engagement escalation ladder



Source: Schroders as at 31 December 2020.

Different escalation steps may be taken at a different order for different cases.

We prefer to engage confidentially with company management to discuss issues and concerns, as we believe this is the most constructive and effective approach. However, if we feel that we are not being heard, we may express these concerns publicly. This happens rarely and there was no such prominent case in 2020.

Where we plan to vote against the management of a company we have been in dialogue with, we will ensure management is made aware of our concerns and our voting intention prior to casting our vote, as well as the reason behind it. We will also invite future dialogue. This helps the company management team to better understand the nature and strength of our view and provides them with another opportunity to address our concerns. We provide further detail on our approach when voting against management under Principle 12.

Where our escalation process has proven unsuccessful in delivering the changes requested, we may pursue the option to sell our position in a company. Issues that have been subject to our escalation process are often financially material in nature. As a result, where issues remain unresolved, our portfolio managers may take the view that investors' interests are best served through divestment.

Divestment is more likely in the case of fixed income investments where we will typically have more limited rights to enforce, particularly if we are not also invested in the company's equity. That said, we will divest from equity holdings too if we consider the risks for our clients to be too high.

In the case of private assets, early divestment is more difficult and rarely in the interests of investors. However, in this asset class, we are more likely to be able to exert our influence through majority control, a position on the board or a closer relationship with the management team.

Case study: Television Francaise 1 – remuneration

We have communicated concerns around remuneration at Television Francaise 1 (TF1) for a number of years owing to a lack of disclosure around bonus targets. The disclosure of this data on a retrospective basis is market practice, and without this transparency we are unable to determine pay for performance alignment. This was particularly important as the payout level had been high in both 2016 and 2017.

We have consistently voted against the remuneration resolutions since the 2017 AGM. In 2018 we held a one to one engagement with the company to discuss our rationale in more detail, but have failed to see an improvement since, despite engaging on our vote each year.

We therefore escalated these concerns to the individuals on the board responsible for creating and implementing the remuneration policies. Our objective is to bring the company's remuneration disclosures into line with market practice.

2020 was our first opportunity to vote against a member of the remuneration committee. We will continue to do this as and when these individuals are on the ballot for re-election, until we see an improvement in practices.

Case study: Our escalation with Amazon

Amazon's success has been coupled with a phenomenal increase in the size of its workforce. When we first starting engaging with Amazon on employee practices in 2015 the firm had 230,800 employees. Now it employs 973,000.

It is the 11th largest employer in the world. It is the fourth largest publicly-listed employer after the multinational retailer Walmart, McDonald's fast food company and oil and gas giant CNOOC.

Within a period of five years, Amazon has acquired the supermarket chain Whole Foods Market, increased the number of fulfilment centres and seen unprecedented demand, especially during the pandemic.

Since 2015, we've engaged with Amazon 16 times. Our interactions with the online shopping giant have included:

- Collective engagements (jointly with other fund managers) focused on climate issues, particularly within Amazon's food business
- Representing shareholders in group investor calls covering sustainability
- Calls, in collaboration with our Global Climate Change fund team, about the use of electric vehicles across its distribution network
- Email dialogue over head office culture

But our biggest concern has been that transparency of the company's workforce structure and employment practices have not kept pace with the sheer size of its workforce.

Since the onset of Covid-19, Amazon's employment practices have come under greater scrutiny, and justifiably so.

The vast majority of our engagements with the company have been on the topic of labour standards within its warehouses. We had a call with Amazon in March, and again in May, ahead of the company's annual general meeting that month.

While some improvements on sustainability issues had been made overall, such as increased transparency and an ambitious climate pledge, we did not think our labour and business ethics concerns had been addressed.

How we voted at the 2020 AGM

At the AGM in May, we supported six calls for increased disclosure on employment issues. These were resolutions, or recommendations, from other shareholders which we voted in favour of. For the first time when voting at the company's AGM, we voted against the management solely on social, rather than governance concerns.

We communicated our intentions to the firm. We were escalating our concerns because not enough progress had been made on its workforce disclosure to evidence that employee conditions are adequate and worker safety a priority.

We voted against the re-election of the lead independent director, the most senior individual after the CEO/Chairman, Jeff Bezos.

We explained to the company that our vote against marks the start of a 12-month window for improvement, and that further escalation will be considered if no progress has been made by the 2021 AGM.

Principle 12

Signatories actively exercise their rights and responsibilities.

Voting processes

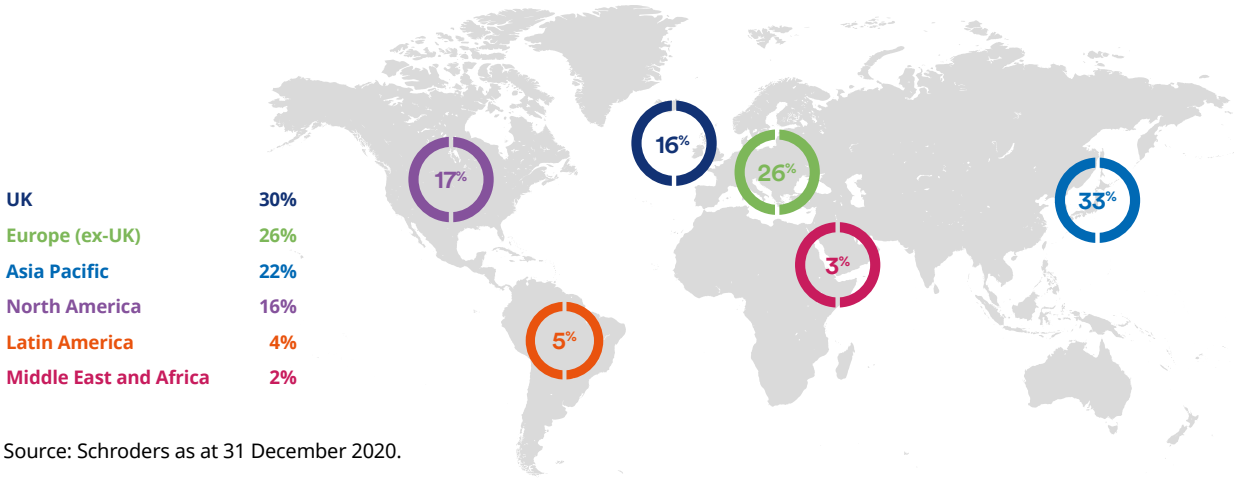
The votes we cast on behalf of clients are critical to our ability to push for positive changes that create value. How we use our influence over the companies in which we invest is a vital component of our role as active managers. Although voting occurs only once a year, our analysis and dialogue with companies takes place all year round. Our corporate governance analysts within the Sustainable Investment team centrally co-ordinate our voting activity to ensure consistency of approach across geographies and funds. In exceptional circumstances we may submit split voting decisions if consensus cannot be achieved across funds.

Whilst we set global best practice expectations, our corporate governance team split responsibility for voting regionally. This is to ensure that local governance codes are incorporated into our policies and to effectively build and maintain relationships with the relevant investment desks

As active investors, we recognise our responsibility to make considered use of voting rights. It is, therefore, our policy to vote all shares at all meetings globally, except where there are onerous restrictions, for example, share blocking. In 2020, we voted on behalf of 99% of our votable shares. In a small number of cases, we may abstain where mitigating circumstances apply, for example, where a company has taken substantive steps to address issues. Abstentions count for less than 1% of our total voting instructions and our preference is to support or oppose management and abstain sparingly.

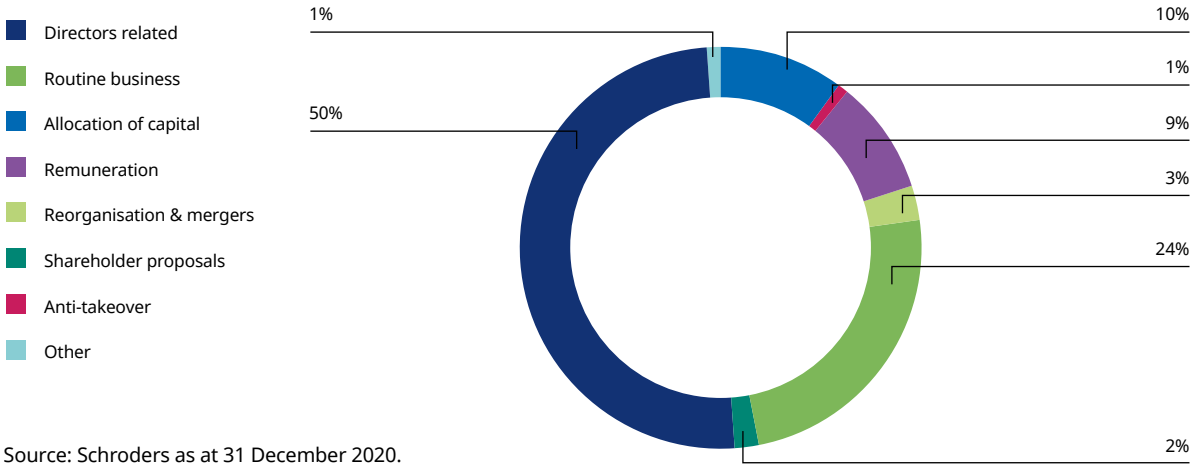
Schroders voting activity in 2020

The global footprint of our voting in 2020



Source: Schroders as at 31 December 2020.

2020 breakdown of resolutions voted on by category



Source: Schroders as at 31 December 2020.
Note: These statistics include voting activity by Schroder Real Estate.

We follow strict auditable procedures to ensure the correct set up of accounts where we have been given voting authority. A check is completed upon set up to ensure voting ballots are feeding through to our Institutional Shareholder Services (ISS) platform from the relevant custodians and that these match our expected votable holdings at a company. We also complete a Master Account List check twice a year.

We use the services of the proxy voting agency ISS to advise and deliver our proxy votes to the companies in which we invest. All proxy vote instructions in all markets are submitted using the ISS global voting platform. ISS carry out the individual processing of vote instructions with the custodians and/or company/company agents. For certain holdings of less than 0.25% of share capital we have implemented a custom policy that reflects our ESG policy and is administered by our proxy voting provider. This policy is updated at least annually to reflect regional specific governance trends and is signed off by our regional committee members. We vote on both shareholder and management resolutions. We may attend annual or extraordinary general meetings to submit our votes in person.

As we explained under Principle 6, given our focus as an active manager on ESG integration and stewardship, we believe it is appropriate for clients to give voting discretion to Schroders as we consider our in-house team of experts, working alongside our investment teams, are best placed to make voting decisions. This also helps us give one voice to companies across both our voting and engagement, which magnifies our impact. We welcome a dialogue with our clients on voting policy and its application.

Case study of vote abstained: Topdanmark

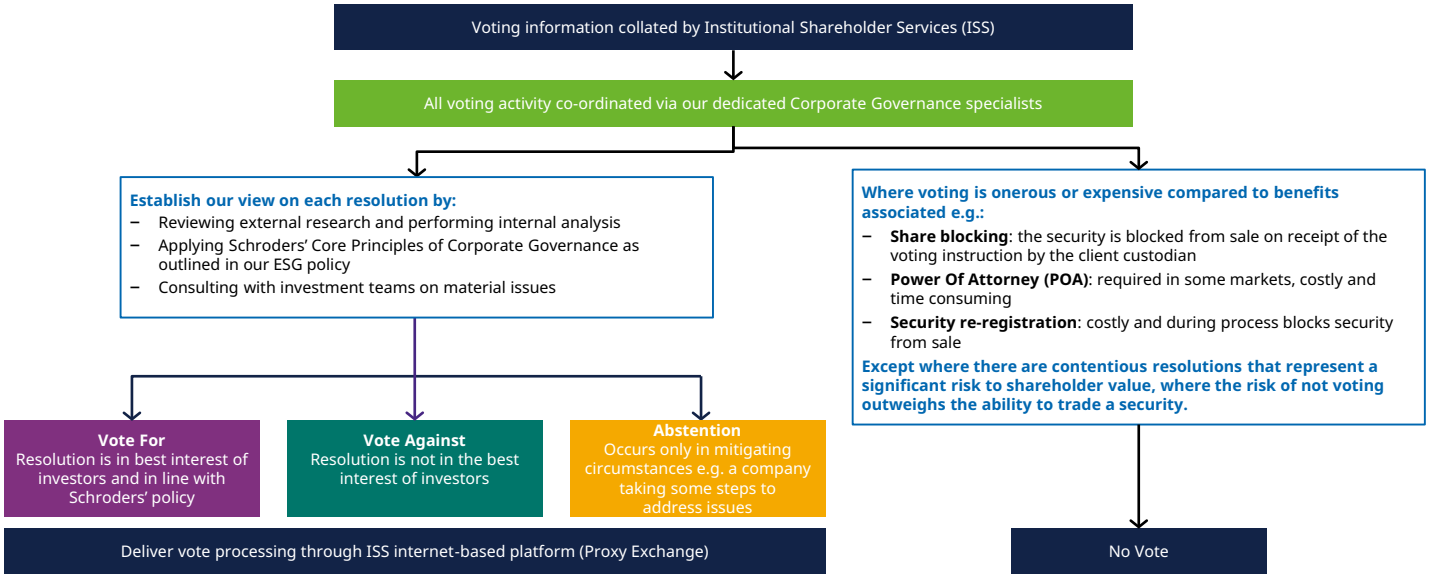
Ricard Wennerklint was proposed for re-election to the board at the company's 2020 AGM. Given Ricard is a representative from Sampo Oyj which controls 46.7% of the company, Ricard's position of Chairman on the board is warranted but he is not classified as an independent director. The company have appointed an independent director as Vice Chair of the Board which we would see as best practice. However, Ricard also sits as Chair of the Audit Committee – a position which should always be held by an independent individual.

We, therefore, did not feel comfortable to support his re-election, but we did not oppose it entirely due to Ricard's presence on the board as a significant shareholder representative. We concluded that an abstain was warranted and followed this up with an engagement with the company to explain the rationale behind our vote and urged Topdanmark to consider appointing a new, independent, Chair of the Audit Committee. We will look to escalate our vote to a vote against if our feedback is not incorporated next year.

Where clients wish to retain all or some discretion in relation to voting, engagement and/or corporate governance issues, we recommend they use an external voting service.

We do not lend stock.

Global voting process at Schroders



Source: Schroders as at 31 December 2020.

Voting policy

The overriding principle governing our approach to voting is to act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we will vote against resolutions. We will always disclose a rationale for our decisions in these instances and, as mentioned under Principles 6 and 9, these are reported publicly on our website on a monthly basis.

Our corporate governance analysts assess each proposal, applying our voting policy as outlined in our ESG Policy to each agenda item. Our policy sets out our global best practice expectations on a variety of topics, including shareholder resolutions. However, all are subject to the overriding principle that we will vote to enhance returns for clients and act in the best interests of clients.

Any company worldwide which, in our opinion, meets the level of standard set by the UK Corporate Governance Code should, in general and in the absence of other factors, expect to be supported on corporate governance issues covered by the Code. Where a company does not comply with these requirements, we will assess whether they meet the spirit of the Code and consider the company's explanation and circumstances, and then react accordingly in the manner we deem most appropriate. If the company provides a robust justification and/or the issue is not material to the value of its shares, we would ordinarily expect to support the company. Where we are not satisfied with the explanation and we view the departure from the Code as material, we will engage further with the company and may vote against management.

The full voting policy can be found in our ESG policy document. Examples of our voting policy are set out below.

- Strategy, performance, transparency and integrity: Companies must produce adequate returns for shareholders over the long term. Companies must also have due regard for other stakeholders including lenders, employees, communities, customers, suppliers, regulators and the environment in order to have viable business models that create long-term value. Companies must communicate clearly with investors.
- Boards and management: The boards of the companies in which our clients' monies are invested should consider and review, amongst other things, the strategic direction, the quality of leadership and management, risk management, relationships with stakeholders, the internal controls, the operating performance and viability of those companies. Above all, they should be focused on the long-term sustainable generation of value. Board members must be competent and have relevant expertise, and boards should consider the diversity and balance of the board. The process for selecting, refreshing and retaining board members should be transparent, robust and rigorous. Board evaluations should be conducted regularly to ensure the board is structured and working effectively.
- Capital: Companies should have efficient balance sheets that minimise the cost of capital, with an appropriate level of gearing which recognises the significant risks attached to debt across the cycle. Where companies cannot or will not use capital efficiently, they should consider returning the capital to shareholders: the capital may then be allocated to investments earning an appropriate return. We would expect companies to limit their issuances without pre-emptive rights to a maximum of 10%. Companies should provide strong arguments to justify the introduction of equity shares with special voting rights, golden shares or other split capital structures.
- Executive remuneration: In considering the pay arrangements of senior executives at companies, we are concerned with the structure of total compensation and to ensure that potential rewards are aligned with shareholder interests. We recognise the value of high-calibre executives and note that in order to hire the best individuals, it is necessary for companies to pay at levels which allow them to compete in the market to recruit successful executives. However, the existence of this effect does not justify unwarranted transfers of value to executives. It follows that where individuals have failed, their continuation in the role should be reviewed and, if necessary, they should be removed. We consider each pay package on a case by case basis by looking at a number of factors. These include, but are not limited to: executive share ownership, pay for performance alignment, excessive dilution for shareholders, fixed to variable pay ratio, termination awards and an appropriate choice and stretch to performance metrics.
- Environmental and social performance and resolutions: We examine E&S performance and resolutions on a case by case basis with reference to the following factors:
  - Materiality
  - Transparency
  - Asymmetric knowledge
  - Alignment with evolving ESG best practice
  - Evidence of policy implementation and progress
  - Responsible conduct
- Climate: We use our influence as investors through engagement and voting to push companies to prepare and demonstrate the efforts they take to address key climate risks. We will generally vote against directors at companies where we feel that climate change is a major risk and the boards cannot demonstrate publicly that they are preparing sufficiently for it.

– UN Global Compact (UNGC) violations: As UNGC signatories we are committed to ensuring companies align their operations and strategies to the UNGC's ten universally accepted principles. Our holistic approach goes beyond the ten principles and incorporate a broader range of issues. That analysis also informs our engagement with companies. Where we consider companies' business practices may be unsustainable, we regularly engage management teams to better understand their plans, and to promote more responsible behaviour, and if we believe the action taken is not appropriate, we will vote against individual directors.

We have detailed internal guidance that outlines how these principles should be applied on a country-by-country basis, which has been developed with our fund managers. For example, in the US we will vote against the company if the auditor tenure is over 20 years and there is no commitment to tendering. This is not needed in the European Union where regulation requires companies to tender at least every 10 years and change auditor after 20 years of tenure.

In applying the policy, we consider a range of factors, including the circumstances of each company, the progress of any engagements, local regulatory requirements and corporate governance codes. We continue to review our voting practices and policies to ensure that we are raising the bar on good governance practice.

In order to maintain the necessary flexibility to meet client needs, local offices of Schroders may determine a voting policy regarding the securities for which they are responsible, subject to agreement with clients as appropriate, and/or addressing local market issues. Both our local offices in Japan and Australia have such policies.

Use of proxy research

We receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings. However, this is only one component that feeds into our voting decisions. In addition to relying on our policies, we are informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers. Research conducted by our own financial and ESG analysts is also integral to arriving at a final voting decision.

In 2020, we voted against our proxy adviser's recommendation for 6.3% of votes (4279 out of 68086 resolutions).

As we outline under Principle 3, the only circumstances in which we will follow the proxy adviser's recommendation as a matter of course are ones in which we have a conflict of interest in the outcome of a vote. In these situations, we will consider whether we should override the recommendations of the third party in the interests of the fund/client. However, this requires the approval of the Schroders' Global Head of Equities with the rationale of such vote being recorded in writing. As explained under Principle 3, there was only one such occasion in 2020.

Case study: Julius Baer Group, Switzerland

Although ISS had not flagged any concerns with the remuneration of the executive committee and had recommended voting in favour, we voted against in light of variable compensation going up at a time when earnings-per-share and return-on-equity had decreased.

Case study: Ryohin Keikaku Co, Japan

We have a stricter policy on gender diversity than ISS and therefore voted against director Masaaki Kanai at the 2020 AGM as there was no female representation on the board. ISS had recommended a vote for.

Why do we vote against company management?

We will oppose management if we believe that doing so is in the best interests of shareholders and our clients. For example, if we believe a proposal diminishes shareholder rights, or if remuneration incentives are not aligned with the company's long-term performance and creation of shareholder value.

Such votes against will typically follow an engagement and be part of our escalation process. We inform companies of our intention to vote against before the meeting, along with our rationale.

Where there have been ongoing and significant areas of concern with a company's performance we may vote against individuals on the board. Where we do this, we classify the vote as significant and will disclose the reason behind this to the company and the public.

A vote against management is likely to be considered if these three criteria are met:

1. We have repeatedly engaged with the company on the same topic over a period of five years or more.
2. We have concluded from our own assessment that it is a "material" issue we are engaging on (that is, it is one of the issues that matters most for stakeholders)
3. We have not seen progress.

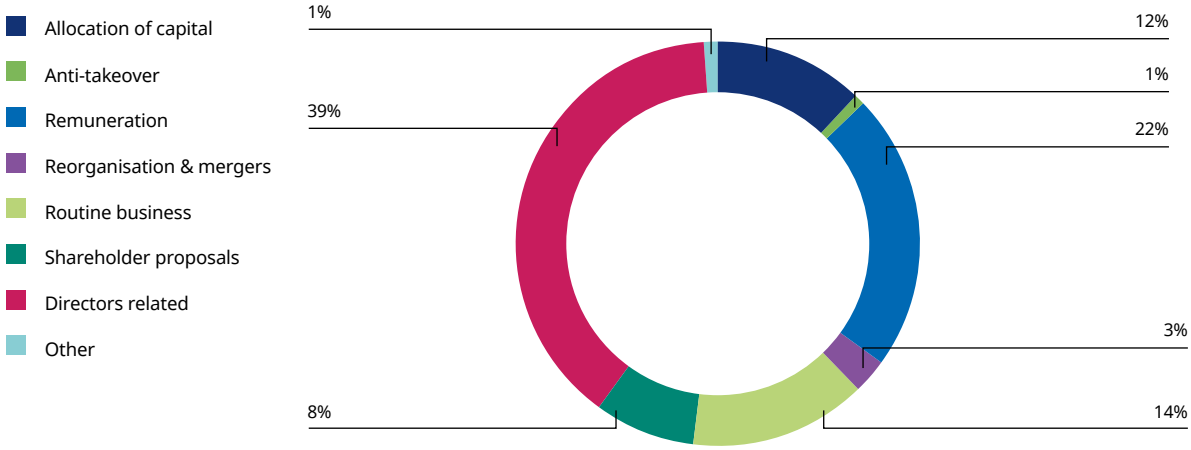
In 2020, we voted against management on 13% of resolutions across a variety of topics. The chart below shows this split.

Voting activity 2016–2020

Year	Meetings	Resolutions	% of resolutions voted with management	% of resolutions + abstentions against management
2020	6,518	68,992	87%	13%
2019	5,879	61,156	87%	13%
2018	5,227	56,510	86%	14%
2017	5,378	62,058	82%	18%
2016	5,168	61,114	84%	16%

Source: Schroders, as at 31 December 2020.

2020 breakdown of resolutions voted against management by category



Source: Schroders as at 31 December 2020.

Case study: challenging Tesco on executive pay

We have been questioning Tesco on remuneration issues since 2015. We had historically supported Tesco's executives being predominantly incentivised to increase total shareholder returns, and approved its remuneration package in 2017. But in 2018 Tesco shifted its remuneration policy to focus on earnings per share instead. We felt this was less aligned with the interests of shareholders and we voted against its pay policy.

Executive pay at Tesco is influenced by Tesco's share performance relative to a custom list of rivals. In 2020, Tesco removed Ocado from that custom list, with effect from May 2018. By doing so, Tesco's relative share performance notably improved, leading to a handsome benefit for company executives.

The company explained that because Ocado was a technology provider rather than a company in the food and retail index it should no longer be considered a direct competitor. Whilst we would agree that Ocado has shifted away from being a retail-focused business, this technology strategy was actually announced prior to 2017 when the peer group was set. Executive remuneration performance criteria are approved by shareholders at the company's AGM, so we consider any retrospective changes a red flag.

We voted against the remuneration report and the reappointment of the chair of the remuneration committee at the 2020 AGM. Ultimately, 67% of Tesco's shareholders voted against the then CEO's £6.4 million pay package, so it's something that we were not alone in condemning. However, the vote to approve the remuneration report was advisory rather than binding, meaning Dave Lewis was still eligible for the boosted pay package.

We will keep engaging with the business ahead of the 2021 annual general meeting. The alteration to its executive pay has not gone unnoticed by commentators so we expect pressure to build.

Case study: Barclays' climate shareholder resolution

Barclays came under pressure on its approach to climate change early in 2020 when the bank received its first ever climate-related shareholder resolution, filed by charity campaign group ShareAction. The resolution sought to put pressure on banks and their financing of fossil fuel companies.

We engaged directly with Barclays ahead of the AGM on our climate-related concerns as this was our preferred option. We embarked on a series of discussions with senior leadership, bilaterally and through supporting collaborative efforts. Barclays maintained a constructive conversation, acknowledged weakness on its side and was open to challenge. Out of this, Barclays committed to the following by filing its own resolution: "that to promote the long-term success of the Company, given the risks and opportunities associated with climate change, the Company and the Directors be authorised and directed by the shareholders to:

1. Set an ambition to be a net zero bank in Scopes 1, 2 and 3 by 2050, in line with the objectives of the Paris Agreement.
2. Set, disclose and implement a strategy, with targets, to transition its provision of financial services across all sectors (starting with, but not limited to, the energy and power sectors) to align with the goals and timelines of the Paris Agreement.
3. Report annually on progress under that strategy, starting from 2021, including a summary of the framework, methodology, timescales and core assumptions used, omitting commercially confidential or competitively sensitive information, and at reasonable cost."

Our conversations with the company have involved portfolio managers, financial and sustainable investment analysts from our side. This enabled the bank to receive a joined-up message on the need for action but for us to have realistic conversations about the business implications and roadblocks. From the discussions that we have had with Barclays, the company is confident it will be able to manage the profit impacts of decarbonising along the lines of its proposed resolution.

In establishing an ambition to be net zero by 2050 Barclays is setting a new precedent for a major bank. Furthermore, the net zero ambition will cover all of its portfolio, not just lending. While the timeline is a long one, our conversations have indicated that Barclays understands the necessity of providing clear detail and timelines, hence the commitment to report annually on this. The second ambition is to align all of its lending with the goals and timelines of the Paris Agreement. Our analysis has demonstrated that some of the most significant challenges for decarbonisation occur in sectors such as transport and building materials. Encouraging all of its borrowers to transition has the potential to have a real positive benefit.

Importantly, Barclays will be tightening its policy on coal considerably and outlining the progress that it intends to make on oil sands. Through the engagement it is clear that Barclays is already acting on this, opening up a number of very difficult conversations with senior stakeholders on issues like oil sands.

While our preference is for dialogue, we did give consideration to the ShareAction resolution. Overall we feel that Barclays' resolution, which uses terminology around "transitioning", is more pertinent than ShareAction's around "phasing out". It is a more accurate reflection of the challenges that many businesses will face in delivering on the goals set out in the Paris Agreement. The challenge is for existing business models to reinvent themselves for a low carbon future, and banks can play a vital role in enabling this to happen.

Our view was that the ShareAction resolution had a couple of unintended consequences. By taking a sector approach Barclays would have been limited in advising companies who wanted to transition on issues like divestment or making acquisitions in renewable eras. In addition their sector categorisation was a blunt one, and could mean some carbon intensive companies slip through the net.

Recognising the pivotal role that ShareAction played, but keen to support a management team that had come along way in a short space of time, we opted to abstain from ShareActions's resolution and support Barclays'. At the annual general meeting in May 2020, Barclays' resolution received over 99% support versus 24% for ShareAction's.

We continue to engage with a number of businesses on their long-term plans around climate change, amongst other ESG issues, and welcome companies to start a conversation with us.

Shareholder resolutions

Although shareholder resolutions represent a small share of the votes we cast every year (two per cent in 2020), they have been increasingly attracting attention. They can be used to ask management to act on ESG issues – areas not typically captured by standard management resolutions. For example, a very common theme in 2020 has been demands for more transparency around corporate lobbying activities.

Investors are increasingly voting in support of shareholder resolutions. Globally, the average percentage of support for ESG resolutions went from just over 30% in 2012 to almost 60% in 2020, according to Proxy Insight.

Shareholder resolutions come in many shapes and sizes. They can reflect specific campaign goals or political priorities that may contradict fiduciary responsibilities or a company's strategic goals. As a result, the best course of action is often not clear-cut. Sometimes, shareholder resolutions require management teams to take concrete steps. The recent Barclays AGM, outlined as a case study on the previous page, is such an example.

For Schroders, the decision on how to vote on any type of resolution will depend on the materiality of the issue and what we consider is in our clients' best interests. With this principle in mind, we assess whether a shareholder resolution is realistic, measurable and meaningful. Generally, we will vote in favour of a shareholder resolution (and thus against management) if it has been a repeated request and we see no signs of improvement or if there is evidence of controversies that have not been adequately addressed. We will vote against a shareholder resolution (and thus with management) if we consider that the resolution is too prescriptive and requests a change in an unrealistically short timeframe or where the company is making sufficient progress toward the goals we have identified or following good practice.

Although we did not submit a shareholder resolution in 2020, we supported 38% of resolutions submitted by other shareholders. Our detailed voting statistics for 2020, including how we have voted in regards to shareholder resolutions, are provided at the end of this section.

Client reporting

It is our policy to disclose our voting activity publicly. On a monthly basis, we produce our voting report which details how votes were cast, including votes against management and abstentions. As mentioned above, we classify the latter as being significant so also publish the rationale behind these decisions. The reports are available on our website here.

Institutional clients with segregated accounts also receive a tailored report which includes their personal voting activity and detailed information on the progress of company engagements that are ongoing.

Review of company meetings

We monitor the results of company meetings through our subscription with ProxyInsight on a regular basis. In particular we focus on resolutions that received more than a 20% vote against, or where a large proportion of the free-float flagged concerns. Whilst we recognise that the vote instruction does not always reflect all investor concerns and conversations had with a company, these significant votes are evidence to us of widespread issues and will often trigger further engagement or escalation.

Every quarter, a regional specific Corporate Governance Committee meeting is held which is attended by both the corporate governance experts from the Sustainable Investment team and members of our investment teams. The purpose of these meetings is to reflect on significant votes across the quarter and create escalation plans where relevant, discuss regional trends and confirm agreement across desks for any mass engagement topics.

There are four separate committees split by regional focus: UK, Europe, US and Asia including all other regions. This split reflects the regional focus of our governance experts and each committee is chaired by the corresponding expert.

Every committee meeting starts with a review of the voting activity in each quarter, highlighting any companies which received significant dissent and discussing ongoing or upcoming engagements. But beyond that, the content of the discussion varies slightly.

In the first quarter, the focus is usually on policy setting and outlining expected trends for the year. The second quarter meeting is a mid-AGM season review and the discussions are mainly focused on individual companies. The meeting in the third quarter is often a reflection of the proxy season trends and making plans for follow-up engagements. This is rounded by the meeting in the fourth quarter that focuses on the engagements.

In addition, each year we conduct a post-AGM season review, reflecting on global governance trends, which helps us to identify engagement priorities ahead of the next year. We publish the findings in our sustainability reports.

How we monitor AGMs to inform our own voting and engagement strategy

Lagardere: At the 2020 AGM, Amber Capital attempted to overhaul the Board, following years of governance concerns. We were supportive of wholesale change to the board and supported Amber's proposals and voted against incumbent board member Martine Chene. Some of Amber Capital's proposals received up to 40% support and Martine's re-election failed, signalling clear shareholder dissatisfaction to Lagardere. We expect to see improvements to the board composition in the near future and will continue to actively engage and vote against management in the meantime.

Amazon: We are used to seeing a number of shareholder proposals on the agenda at Amazon's AGM but one in particular caught our attention in 2020. The call for the company to report on the findings of its human rights risk assessment received 31.1% support from shareholders, including Schroders, which in the remit of sustainability related shareholder resolutions, was a significant outcry. We hope that this will spark Amazon to better evidence the effectiveness of these policies and provide greater transparency to shareholders.

Our proxy votes on corporate governance around the world

UK: bonus forfeits and votes against "over-boarders"

Dividend cancellations, executive pay freezes or cuts and bonus forfeits were among subjects raised during engagements in the period from July to September. Management taking pay cuts for three months was a recurring theme.

In an undeniably tough environment we were looking to support companies, but we also have a duty to ensure long-term sustainability of firms is not compromised. There have been discussions on "over-boarded" directors.

In some cases this led to us voting against individuals we deemed too stretched, especially where they also chaired audit committees.

Asia: a more lenient approach to cash hoarders due to the pandemic

Japanese companies have long been criticised for their hoarding of cash dividends.

We typically vote against the allocation of income proposals when the dividend pay-out ratio is less than satisfactory.

Following the impact of the coronavirus crisis, we have introduced a more lenient approach. As a result, there have been fewer votes against management for allocation of income proposals – down from 13% in 2019 to 8% in 2020.

However, we are still prepared to vote against companies with sizable sums of idle cash.

North America: increased votes against boards lacking diversity and auditor risks

This season has seen a slight increase in votes against management from 2019.

We have opposed director elections due to insufficient boardroom gender diversity. On the back of our new policy to vote against the nomination committee chair (NMC) of companies with less than 20% representation of women on the board, so far in 2020 we have voted against the NMC 71 times.

We have increased votes against the ratification of auditors this season due to the duration of their tenure. This has been underpinned by our new policy to vote against the re-election of auditors where tenure exceeds 20 years and there is no commitment to put the audit out to tender in the near term.

Europe: new requirements see remunerations policies in transition

Remuneration policy and reporting requirements were updated and extended in the Shareholder Rights Directive II of June 2019. The update means shareholders have the right to more information and voting power on remuneration.

We have seen 2020 as a transitional year and will expect more of companies next year.

Both Belgium and Germany missed the June 2019 transposition deadline, for example.

We voted against remuneration policy resolutions at 32 Swedish businesses due to lack of disclosure – more than 50% of the total remuneration policies voted on.

It will take the smaller regions some time to adjust and catch up with the likes of France and Spain.

Fixed income

Unlike investments in the equity of companies, fixed income investments do not generally come with voting rights. As a result, our primary opportunity to influence the terms on which our clients will invest in these types of instrument is before they are issued by the company. We aim to maintain good connections with many bond issuers as well as a wide range of intermediaries so that we have access to the information we need, including prospectuses, trust deeds and other relevant documents, to make the best decisions for our clients.

This network, along with the standing of our Fixed Income franchise, allows us an opportunity to influence the terms on which bonds are issued in many cases, including not only pricing but also discussions around terms and conditions including green and social aspects in the case of green, social, or sustainable bonds. Corporate actions during the life of a bond may also offer us an opportunity to exercise oversight as bondholders.

Using our influence

It is generally rare for an individual bondholder to be able to successfully alter the terms of bonds post-issuance. This is because a bondholder would need to not only convince the issuing company of the value of a change but also convince other bondholders to agree. Having said that, we are active in engaging with companies where they attempt to undertake a change in bond documentation. For example, where a bond-issuing company sets out a possible amendment because the business has deviated from the company's investment plan, the company may offer a payment to bondholders. In this case, Schroders is active in pushing to achieve the right balance between providing the company with room to breathe and ensuring the company keeps the financial policy commitments it made to us and upon which we determined the bond was correct for our clients.

Examples in 2020:

- Manchester Airport Group: The issuer made a request to waive and amend an interest coverage ratio and leverage covenants. A comfort package was provided which included dividend restrictions. Moreover, shareholders injected equity which is considered a more equitable approach. Schroders' European Credit portfolio managers voted in favour.
- Meadowhall: The issuer made a request to waive an interest rate coverage covenant. A comfort package was provided including cash set aside to top up rent and fund the operate expense and capital expense requirements. Schroders engaged with the company bilaterally and voted in favour as we were encouraged by the presence of strong shareholders and the high likelihood that they would provide further support if required.

Protecting the value of our clients' bond investments

In our investment grade bond franchise, we make great efforts to line up protection in the event of a downgrade of a bond's rating. For example, in the instance of a downgrade to high yield status we endeavour to obtain an automatic increase in coupon, or we might seek the ability to put the bond back to the company at par if the company is taken over by a private equity sponsor.

We are prepared to engage with other bondholders to reshape the capital structure when we believe that a company may no longer be able to function as a going concern and consequently might be at risk of a predatory bid by private equity which could hurt stakeholders such as lenders, employees, and suppliers.

Examples in 2020:

- Selecta: The company's bonds were trading at distressed levels having suffered a major impact from the Covid pandemic. We worked with other bondholders in a committee, being active in choosing and working with legal and financial advisers and, as a result, we managed to keep the company operating while also protecting the capital structure our clients had invested in.
- Olympic Entertainment: Fears of a downgrade were raised after a transfer of assets to a related party and a cash dividend being paid out in the spring 2020, at the peak of Covid-19 crisis. We joined a group representing a majority of the holders of a €200 million secured note issue, and since then the shareholders have made an equity injection of €10 million, which has effectively funded the coupon to bondholders. This show of support has stayed any further action by bondholders.

Seeking clarity over information provided to bondholders

Bond documentation in the green bond space has achieved greater standardisation in recent years. We believe that the main terms in bond documentation have been converging to a common standard. We welcome this as this convergence is beneficial for the market and can encourage greater investor participation.

Nonetheless, green bond language still requires engagement with the bond issuing company to clarify specific points of nomenclature, for example, where sustainability terms or terms like Scope 3 emissions are mentioned, which do not have a hard legal or equivalent accounting standards definition.

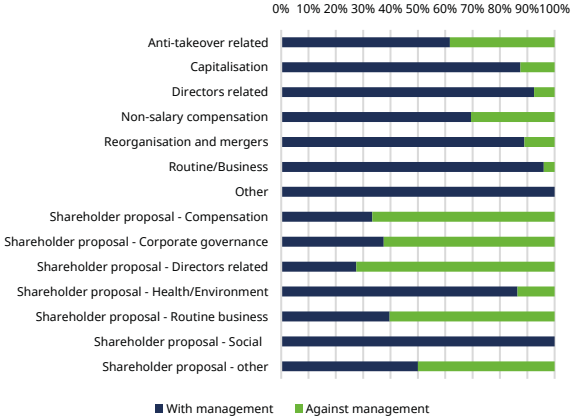
Example in 2020:

- BBVA: As BBVA was marketing its green bond in July 2020, we requested greater disclosure from the issuer on environmental exclusions and climate alignment ambitions. The bank responded to our request and we decided to participate in its green bond issuance. Subsequently, BBVA announced in early March 2021 its commitment to phase out coal.

Granular voting statistics

Asia Pacific resolutions 2020

Balance between votes for or against management



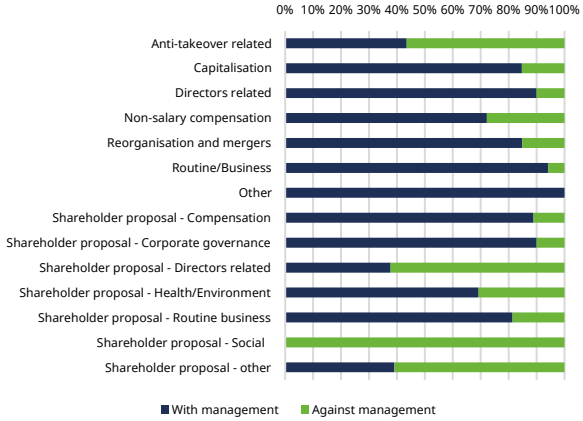
Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	47
Capitalisation	1	95	2533
Directors related	10	45	11776
Non-salary compensation	5	25	1601
Reorganisation and mergers	1	88	1567
Routine/Business	6	23	4633
Other	0	0	105
Shareholder proposal – Compensation	0	0	15
Shareholder proposal – Corporate governance	0	0	40
Shareholder proposal – Directors related	0	5	369
Shareholder proposal – Health/Environment	0	0	59
Shareholder proposal – Routine business	0	2	123
Shareholder proposal – Social	0	0	11
Shareholder proposal – other	0	0	2

Source: Schroders as at 31 December 2020.

Europe ex UK resolutions 2020

Balance between votes for or against management



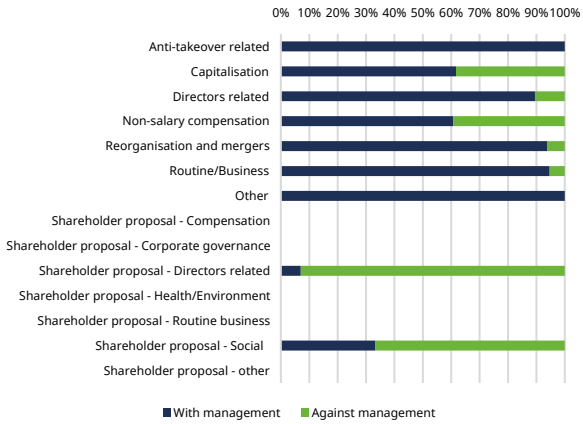
Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	46
Capitalisation	0	42	1448
Directors related	3	232	6404
Non-salary compensation	2	60	2000
Reorganisation and mergers	0	2	160
Routine/Business	1	222	5599
Other	0	0	17
Shareholder proposal – Compensation	0	1	10
Shareholder proposal – Corporate governance	2	0	22
Shareholder proposal – Directors related	13	2	243
Shareholder proposal – Health/Environment	0	4	17
Shareholder proposal – Routine business	0	1	44
Shareholder proposal – Social	0	0	8
Shareholder proposal – other	0	1	24

Source: Schroders as at 31 December 2020.

Latin America resolutions 2020

Balance between votes for or against management



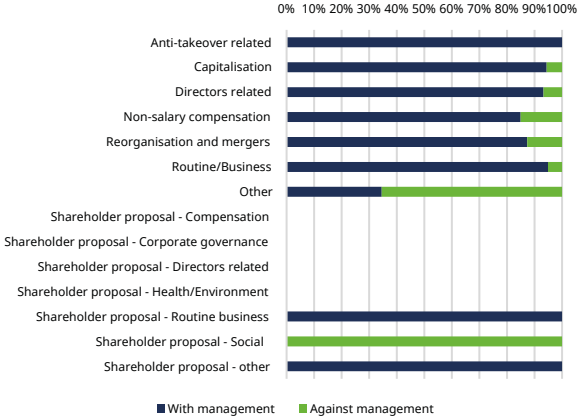
Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	2
Capitalisation	0	0	227
Directors related	32	10	1480
Non-salary compensation	0	0	122
Reorganisation and mergers	0	0	82
Routine/Business	1	0	975
Other	0	0	2
Shareholder proposal – Compensation	0	0	0
Shareholder proposal – Corporate governance	0	0	0
Shareholder proposal – Directors related	10	0	53
Shareholder proposal – Health/Environment	0	0	0
Shareholder proposal – Routine business	0	0	0
Shareholder proposal – Social	0	0	3
Shareholder proposal – other	0	0	0

Source: Schroders as at 31 December 2020.

Middle East and Africa resolutions 2020

Balance between votes for or against management



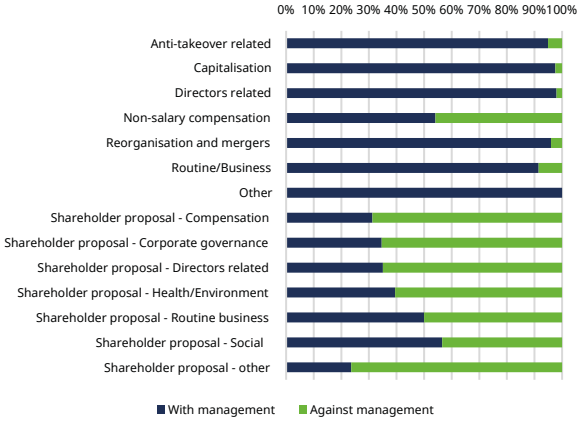
Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	1
Capitalisation	0	3	182
Directors related	31	41	755
Non-salary compensation	0	1	167
Reorganisation and mergers	0	11	161
Routine/Business	0	101	688
Other	0	0	55
Shareholder proposal – Compensation	0	0	0
Shareholder proposal – Corporate governance	0	0	0
Shareholder proposal – Directors related	0	0	0
Shareholder proposal – Health/Environment	0	0	0
Shareholder proposal – Routine business	0	0	1
Shareholder proposal – Social	0	0	1
Shareholder proposal – other	0	0	1

Source: Schroders as at 31 December 2020.

North America resolutions 2020

Balance between votes for or against management



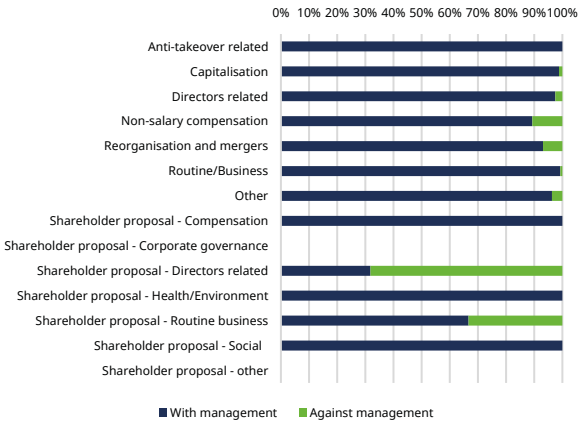
Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	118
Capitalisation	0	0	41
Directors related	1	0	8905
Non-salary compensation	0	0	1362
Reorganisation and mergers	0	0	50
Routine/Business	0	0	1110
Other	0	0	11
Shareholder proposal – Compensation	0	0	32
Shareholder proposal – Corporate governance	0	0	26
Shareholder proposal – Directors related	0	1	155
Shareholder proposal – Health/Environment	0	0	38
Shareholder proposal – Routine business	0	0	44
Shareholder proposal – Social	0	0	23
Shareholder proposal – other	0	0	106

Source: Schroders as at 31 December 2020.

UK resolutions 2020

Balance between votes for or against management



Number of abstain, no votes, and total votes

	Abstain	No vote	Total votes
Anti-takeover related	0	0	321
Capitalisation	1	0	1993
Directors related	6	0	3694
Non-salary compensation	2	0	931
Reorganisation and mergers	0	0	87
Routine/Business	35	0	2151
Other	0	0	27
Shareholder proposal – Compensation	0	0	1
Shareholder proposal – Corporate governance	0	0	0
Shareholder proposal – Directors related	0	0	22
Shareholder proposal – Health/Environment	0	0	1
Shareholder proposal – Routine business	0	0	3
Shareholder proposal – Social	0	0	2
Shareholder proposal – other	1	0	1

Source: Schroders as at 31 December 2020.

Appendix

List of acronyms

ACF	Association of Charitable Foundations
ACGA	Asian Corporate Governance Association
ACRPC	Asset Class Risk and Performance Committee
AGM	Annual General Meeting
BARC	Board Audit and Risk Committee
CAQ	Center for Audit Quality
CDP	Carbon Disclosure Project
CFRF	Climate Financial Risk Forum
CG	Corporate Governance
CMT	Crisis Management Team
CR	Corporate Responsibility
CVAR	Carbon Value at Risk
DIU	Data Insights Unit
EFAMA	European Fund and Asset Management Association
EMEA	Europe, Middle East and Africa
EMS	Environmental Management System
ESG	Environmental, Social, Governance
EuroSIF	European Sustainable Investment Forum
FCA	Financial Conduct Authority
FCLT	Focusing Capital on the Long-Term
FinDatEx	Financial Data Exchange Templates
FRC	Financial Reporting Council
GAIA	Global Alternative Investor Access
GBP	Green Bond Principles
GDP	Gross Domestic Product
GEN	Gender Equality Network
GMC	Group Management Committee
GP	General Partner
GRESB	Global Real Estate Sustainability Benchmark
HKGFA	Hong Kong Green Finance Association
IAG	Investor Advisory Group
IBE	Institute of Business Ethics
ICAAP	Internal Capital Adequacy Assessment Process
ICAEW	Institute of Chartered Accountants in England and Wales
ICGN	International Corporate Governance Network
IEA	International Energy Agency
IFA	Independent Financial Adviser
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Insurance Linked Securities

ISAE	International Standard on Assurance Engagements
ISS	Institutional Shareholder Services
IVIS	Institutional Voting Information Services
LTIP	Long-Term Incentive Plan
MiFID	Markets in Financial Instruments Directive
MUSE	Municipal US Sustainability Explorer
NEDs	Non-executive directors
NGO	Non-governmental organisation
PLSA	Pensions and Lifetime Savings Association
PRA	Prudential Regulation Authority
RFP	Request for proposal
RIAA	Responsible Investment Association of Australasia
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SDS	Sustainable Development Scenario
SteerCo	Steering Committee
SWESIF	Sweden's Sustainable Investment Forum
TCFD	Task Force on Climate-Related Disclosures
TPI	Transition Pathway Initiative
UN PRI	United Nations Principles for Responsible Investment
UNGC	United Nations Global Compact

EST. 1804

Schroder Investment Management Limited
1 London Wall Place, London EC2Y 5AU, United Kingdom
T +44 (0) 20 7658 6000

schroders.com
@schroders