



Schroders

***FUNDING
THE FUTURE***
INVESTING IN CLIMATE ACTION

TCFD Report 2021

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ACCELERATING POSITIVE CHANGE

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

By serving clients, we serve wider society. Channelling capital into sustainable and durable businesses accelerates positive change in the world.

Funding the future is a privilege; we use it wisely and responsibly.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT 2021

The purpose of this report is to give our shareholders, clients and other stakeholders a better understanding of our business' and clients' investments exposure to climate-related risks, our strategic resilience to these risks and the climate-related opportunities we are pursuing.

This report is our response to, and is consistent with, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It sets out how Schroders plc and its subsidiaries (the Group) incorporate climate-related risks and opportunities into governance, strategy, risk management and metrics and targets, and how we are responding to the expectations of our stakeholders. This report supplements the summary disclosures in our 2021 Annual Report

and Accounts. A summary response against the core recommendations can also be found in Appendix 1.

We have comprehensive governance and risk management frameworks across the Group, which together with our proprietary tools and analysis capabilities, enable us to better understand and manage climate risks and opportunities. We will continue to evolve our climate strategy and report on our progress.

Pillars of the recommended climate-related financial disclosures



Governance

The organisation's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Risk management

The processes used by the organisation to identify, assess and manage climate-related risks

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Each section considers:

The investments we manage

As allocators of capital, the role investment managers play in the climate transition is increasingly clear to policymakers, investors and society. Understanding the impact of climate exposure on earnings and the extent to which that is reflected in valuations will become increasingly important. The key challenge is to engage and encourage the companies in which we invest to establish net zero targets and robust plans for delivery. We are also expanding the options for our clients to invest in climate solutions, so that they can benefit from the growth underway in those markets.

Our own operations

We believe in leading by example by managing and reducing the climate impact we have as a business. We have set an ambitious strategy to manage and improve our own environmental performance and in the process engage our people and suppliers to support our climate goals.

***"We must rapidly
rewire the global
economy into a
low-carbon version
of itself"***

The need for climate action is clear. Scientists and Non-Governmental Organisations are rightly ratcheting up the pressure. So too are individual investors.

Each year, we gather the views of thousands of people across dozens of countries in our Global Investor Study. I've watched as the importance of tackling climate change has grown in investors' minds. Our most recent study showed a fresh surge of concern. Of the 23,000 people involved, 55% of people said that environmental issues had become more important than before the pandemic.¹

With this in mind, I'm reassured by our robust climate change strategy. It is down to me to deliver on that strategy and to report on its success, and any shortcomings, to the Board.

There is a very small window in which to act; a period where we must rapidly rewire the global economy into a low-carbon version of itself. Delay and we lose all hope of global temperature rises being limited to 1.5°C.

For us and our industry, the disruption is creating new risks and new opportunities. Understanding the data on both is key. As an asset manager, we rely on information from the companies and assets we invest in to measure exposure and manage that transition. The quality of the data has been mixed but is improving. As it does, our own reporting will evolve and improve.

The accuracy of that data is crucial to success, as is the reporting of that information to stakeholders. We were an early supporter of the Task Force on Climate-related Financial Disclosures and have been committed to transparency. We are also focused on the need for action, not just disclosure. We have developed our strategy around this aim. As a result, our toolkit of actions grows stronger and stronger. We will, of course, continue to report our progress.

The shape of our Group – and capabilities – are also of utmost importance. We ended 2021 with the announcement that we would take a majority shareholding in Greencoat Capital, a leading European renewable infrastructure manager.

We aspire to become one of the world's leading investment companies with sustainability at our core because many of our clients want help with their own climate change mitigation efforts. We will continue to respond across everything we do.

Peter Harrison
Group Chief Executive

2 March 2022

1. <https://www.schroders.com/en/insights/global-investor-study/2021-findings/sustainability-report/#sc-art-5>

FACING THE CLIMATE CHALLENGE AND OUR ROLE IN TACKLING IT

The threats and consequences of climate change are defining our era. Addressing them requires huge structural shifts in societies and economies, which is a source of both value creation and destruction across industries, companies and investment portfolios.

We recognise that we have a responsibility to make sure that we are on the journey to net zero and that we are delivering investment performance for our clients over the longer term by contributing to a sustainable future.

The scale of the challenge

Since the industrial revolution, greenhouse gas (GHG) emissions have risen in lockstep with the growth of the global economy and there is widespread scientific and political consensus that if unchecked, the impact on our climate will be severe. Meeting the goals of the Paris Agreement on climate change, to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels, will demand a reversal of the centuries-long carbonising of the global economy in under a generation. The most recent United Nations Climate Change Conference (COP26) in Glasgow in 2021 received a mixed reaction but it remains clear that investment managers can be a catalyst for change.

Our own analysis of the implications of a climate transition for potential economic growth in major economies and financial markets shows that long-run returns will be materially different with climate impact taken into account.¹ We believe that every economy, industry and company will need to plot a net zero path to remain competitive.

Our role in the transition to net zero

We believe that as a company committed to sustainability, we should reduce our operational footprint and lead by example through ambitious targets and actions. However, our biggest environmental impact is through our financed emissions (the emissions we finance through our investments), which are more than 6,000 times greater² than our operational emissions. This is

why we focus on engaging our investee companies. Our role as an active investment manager gives us the ability to drive significant change across multiple industries in our pursuit of superior risk-adjusted returns.

We have a responsibility to manage the capital our clients entrust to us and protect it from the risks that climate change poses, supporting investment performance for the longer term. We seek value in the potential opportunities created and aim to develop investment strategies that will help our clients to meet their own investment and climate goals. By doing so, we deliver value for all our stakeholders and play a critical role in influencing and accelerating decarbonisation in the real economy.

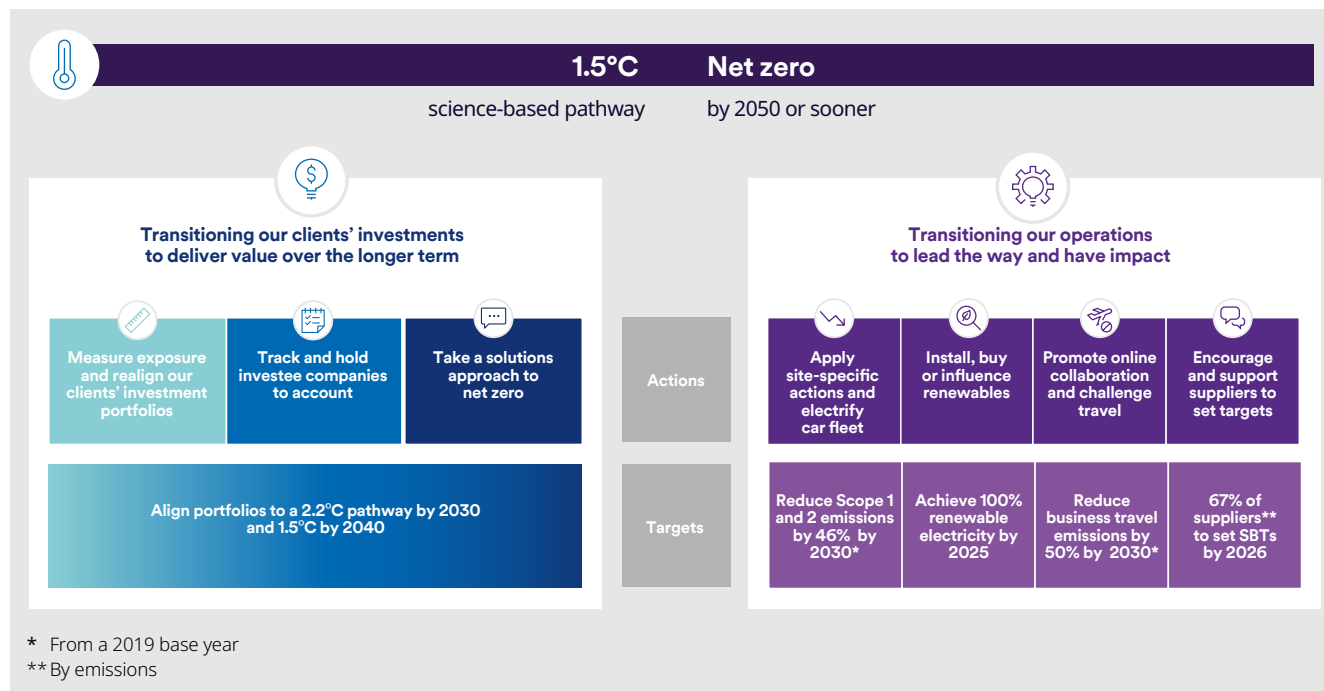
Our commitment to action

We have built on years of climate research, risk analysis, proprietary tool development and action to understand and manage the risks and opportunities posed by climate change. We have made a number of commitments to accelerate our progress on managing

climate risk and achieving net zero by 2050 or sooner, spanning both our operations and the investments we manage. In December 2021, we published our Climate Transition Action Plan: Our path to net zero, which outlines how we will:

- measure exposure and realign our clients' investment portfolios;
- track and hold investee companies to account;
- take a solutions approach to net zero;
- transition our own operations to net zero by setting ambitious science-based targets.

In February 2022, the Science Based Targets initiative (SBTi), formally validated our GHG emissions reduction goals. It confirmed that our Scope 1 and 2 targets are in line with a 1.5°C trajectory and that our relevant assets under management³ (AUM) are also targeted to be fully aligned with a 1.5°C pathway by 2040. We were among the first 20 financial institutions and, at the time, the largest investment manager by AUM, to have its goals formally validated by the initiative.



1. <https://www.schroders.com/en/uk/tp/economics2/economics/how-climate-change-could-impact-investment-returns-over-the-next-30-years/>

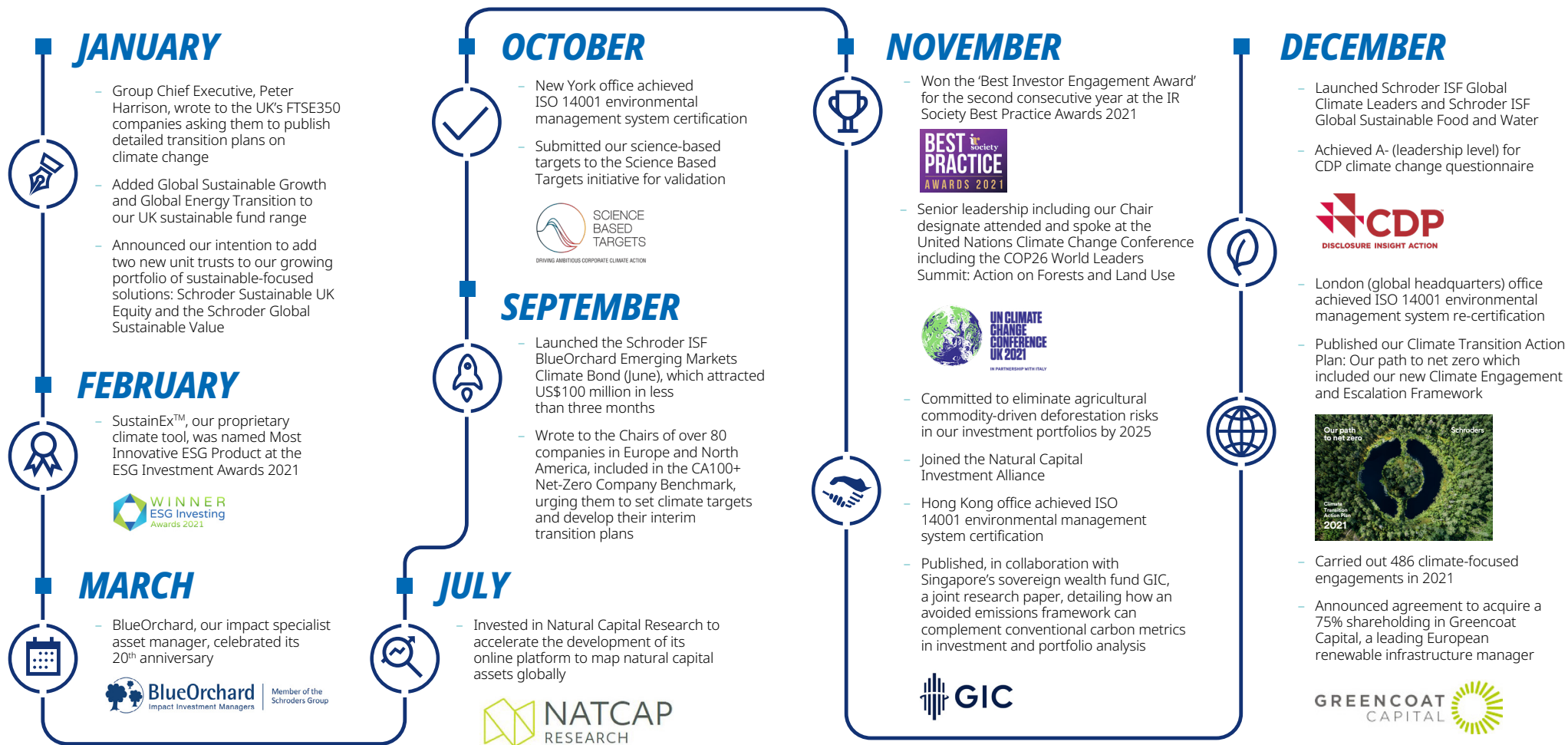
2. Based on 2021 Scope 1 and 2 emissions of investee companies (mandatory in-scope asset classes for SBTi) compared to Schroders' own Scope 1 and 2 emissions.

3. Current in-scope asset classes for SBTi, which represent more than 60% of our AUM, encompass listed equities (common and preferred stock), corporate bonds, Real Estate Investment Trusts (REITs) and Exchange Traded Funds (ETFs).

PROGRESS

Our commitment to climate action goes back many years. In 2021, we saw significant developments to help shift the financial system towards a just, net zero and nature-positive economy. We have made real progress but recognise the scale of disruption our industry faces and are prepared to meet it head on.

2021 highlights and achievements





GOVERNANCE

We have clear and effective governance structures in place for decision-making and oversight of our strategy.

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

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

Our Corporate Responsibility Committee advises and assists the Group Chief Executive, who chairs the Committee, in discharging his responsibilities regarding corporate responsibility which includes climate-related issues. Our climate targets are managed in this forum with progress reported to the Board.

For a number of years, our executive Directors have had sustainability-related measures included within their annual bonus scorecard. The measures are reviewed each year by the Remuneration Committee to align with our key priorities.

The Board's oversight and activities

The Board is responsible for approving the Group's strategy and this includes our strategy for sustainability and climate-related risks and opportunities. The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive, who then has the authority to delegate further whilst retaining overall responsibility for the delivery of our strategy. In discharging its responsibilities, the Board takes appropriate account of the interests of our wider stakeholders, including clients and wider society. Our governance framework enables the Board to have oversight of the climate-related risks and opportunities impacting our business.

The Chair is responsible for setting the Board agenda which primarily focuses on strategy, performance, value creation, culture and conduct, accountability and risk management. Sustainability matters, including those related to climate, form part of many elements of the Group's strategy and are integrated into the agenda-setting process. The Chair determines the timing for agenda items to ensure appropriate time is allocated, particularly for strategic issues.

Our November Board meeting is devoted to the Group's strategy and as part of this, the Board discussed the Group's strategy on sustainability. At this meeting, the Board also received an update on the publication of the '2021 Status Report' on TCFD that was published by the Financial Stability Board. The Board was notified that the key findings of the 2021 Status Report were being assessed by the business and the aim was to continue to strengthen our climate-related processes and disclosures. Our corporate purpose was also reviewed at the November 2021 Board meeting and within this discussion, climate change was reported as a thematic engagement priority.

The Group's corporate responsibility strategy, which includes climate-related issues, is formally reviewed by the Board annually. At the September 2021 Board meeting, there was a specific agenda item on corporate responsibility which included climate-related issues. At this meeting, the Board was updated on our commitments and progress towards setting science-based targets and net zero ambitions as well as the investment risks and opportunities relating to climate risk that face the Group. As part of this, the Board considered our investment into Natural Capital Research (a data-led science-based organisation which specialises in measuring natural capital assets globally), which was identified as a measure to help clients' growing demand for climate-focused investments.

We have a well-developed risk management framework to identify risks and opportunities. At Board level this oversight is through the Board Audit and Risk Committee (BARC), which receives quarterly reports on key risks impacting the business, one of which is climate change. The BARC provides an update to the Board after each meeting on matters discussed. The BARC reviews the Group's key risks twice a year and in November 2021 received an update on climate risk, which included information on physical and transition risks.

Finally, this 2021 TCFD Report has been formally approved by the Board.

Training on climate-related issues

The Group Company Secretary supports the Chairman and Group Chief Executive in providing a personalised induction programme to all new Directors. This helps to familiarise newly appointed Directors with their duties and the Group's culture and values, strategy, business model, businesses, operations, risks and governance arrangements. The induction process for newly appointed Directors is reviewed on a regular basis and is updated and tailored to ensure it remains appropriate. Induction and briefing meetings are generally opened up to all Directors to attend on an optional basis. Committee-specific inductions are also arranged when Committee membership changes, and these induction processes are tailored to the skills and knowledge of the individual and the forthcoming Committee agenda items.

As part of the regular briefings to the Board, in May 2021 the Board had a session delivered by the Global Head of Investment on sustainability including climate-related issues. The briefing session focused on: embedding sustainability across the business; client expectations, regulatory requirements and industry trends; our investment approach and the role of our in-house sustainability measurement tools; our sustainable product range; branding, reporting and corporate responsibility commitments and initiatives. In November 2021, the BARC received a briefing session from our Head of Group Financial Reporting and Head of Integration, Sustainable Investment on our greenhouse gas (GHG) footprint. The briefing session focused on GHG emissions reporting for Scope 1, 2 and 3 emissions.

Together, these briefing sessions provided the Board and BARC with an opportunity to consider the climate-related risks and opportunities that face the business.

The Board's role in the acquisition of Greencoat Capital Holdings Limited

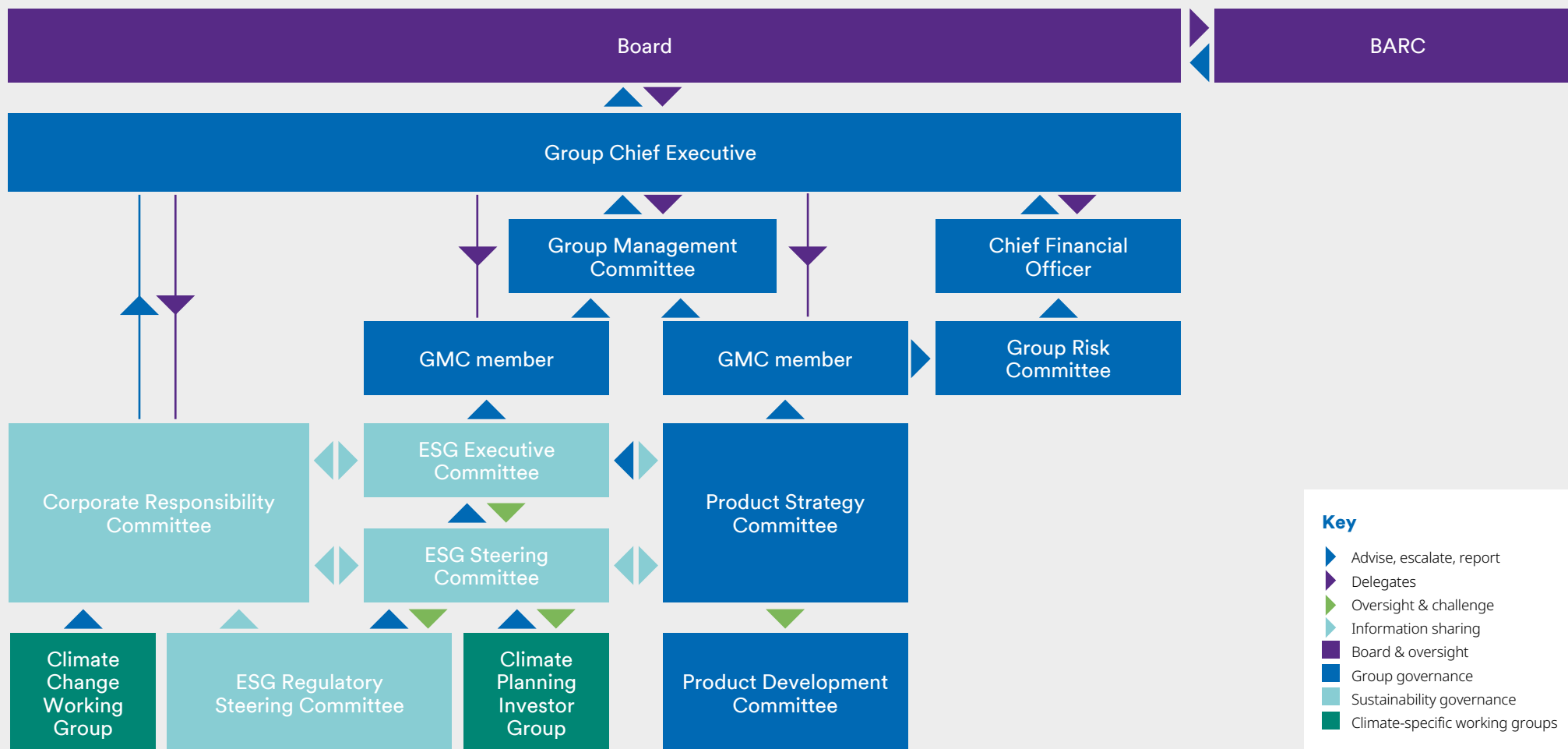
In December 2021, we announced an agreement to acquire a 75% shareholding in Greencoat Capital, a leading European renewable infrastructure manager. We expect to complete that acquisition later in 2022.

The Board is aware of the appetite of our clients for Private Assets and Alternatives products, therefore expanding our capability in this area was a key consideration for the Board in approving this acquisition. The Board recognises that tackling climate change will create huge structural shifts across the global economy and has witnessed growing institutional client demand for environmentally-positive products in order to meet their sustainability commitments, and this acquisition will enhance our capabilities in this area.

Our climate governance structure and management's role

Climate-related risks and opportunities are embedded within our business strategy. The Board delegates specific responsibilities to Board Committees and to the Group Chief Executive who has the authority to delegate further. Our governance structure for climate-related issues is shown below.

2021 governance structure for climate-related issues



There were a number of GMC role changes that took place in January 2022. Our governance structure will continue to adapt where needed in accordance with our business strategy.

Committee	Committee information for 2021	Description
Board Audit and Risk Committee (BARC)	<p>Chair: Schroders plc independent non-executive Director</p> <p>Membership: Independent non-executive directors of Schroders plc</p> <p>Meetings: 5</p>	<p>The BARC is responsible for overseeing financial reporting, risk management and internal controls, internal and external audit. The BARC receives reports from management on key risks to ensure they are considered at Board level. Oversight of key risks is essential to the delivery of the Group's overall strategy, and the BARC provides an update to the Board quarterly.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> As 'Environmental, social and governance (ESG) risk including climate change' is identified as a key business risk, the BARC received information quarterly in order to assess how it is being managed
Group Management Committee (GMC)	<p>Chair: Group Chief Executive</p> <p>Membership: Senior management from across the Group</p> <p>Meetings: 11</p>	<p>The GMC is the principal advisory committee to the Group Chief Executive. Its role is to advise the Group Chief Executive and report on matters of strategy, policy, financial reporting and risk and control issues which impact on the Group.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Considered the Group's strategy and key risks, including climate, ahead of submission to the Board and the impacts of acquisitions made by the Group in 2021 Reviewed the Corporate Sustainability annual update which included information on the Group's climate change risks and opportunities, our progress towards setting science-based targets and net zero ambitions
Group Risk Committee (GRC)	<p>Chair: Chief Financial Officer (CFO)</p> <p>Membership: Senior management from across the Group</p> <p>Meetings: 10</p>	<p>The GRC assists the CFO in discharging his responsibilities in respect of risk and controls. The executive oversight of risk is delegated by the Group Chief Executive to the CFO. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews emerging risks and developments to our internal key risks, one of which is 'ESG risk including climate change'.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Reviewed the description and framework of 'ESG risk including climate change' and an assessment of risk position versus risk appetite for this risk Reviewed the second line oversight framework of ESG risk within Schroders' agency Asset Management business
Product Strategy Committee (PSC)	<p>Chair: Global Head of Product, Solutions and Quant (2021)</p> <p>Membership: Group Chief Executive, Divisional Heads including Investment and Distribution, and leaders from the Product team</p> <p>Meetings: 6</p>	<p>The PSC identifies, prioritises and reviews the Group's overall product strategy globally. This includes consideration of climate-related opportunities to shape the development of new products.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Reviewed demand for sustainability-oriented thematic strategies, including climate change and decarbonising portfolios Discussed investment desk activities to support the Group's transition to net zero and the importance of developing climate-related strategies to support client objectives
Product Development Committee (PDC)	<p>Chair: Global Head of Product, Solutions and Quant and Global Head of Product Development (Co-Chairs, 2021)</p> <p>Membership: Divisional Heads, including Investment and Distribution, and leaders from the Product team</p> <p>Meetings: 12</p>	<p>The PDC reviews and recommends detailed product proposals, including climate metrics and targets as relevant.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Reviewed and recommended for approval the framework for carbon offset shares Reviewed and recommended for approval two new climate funds for launch; SISF Global Climate Leaders and SISF Carbon Neutral Credit 2040

Committee	Committee information for 2021	Description
Corporate Responsibility Committee (CR Committee)	<p>Chair: Group Chief Executive</p> <p>Membership: Senior management from across the Group</p> <p>Meetings: 6</p>	<p>The CR Committee provides advice to the Group Chief Executive to assist him in discharging his responsibilities regarding corporate responsibility. The Committee considers, reviews and recommends the overall global corporate responsibility strategy, including key initiatives, new commitments and policies to the Group Chief Executive for approval. The Head of Corporate Sustainability, a member of the Committee, reports annually to the GMC and the Board.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Reviewed and recommended our science-based targets and net zero ambitions for approval to the Group Chief Executive Considered the delivery plans for our science-based targets, including our climate engagement and escalation framework for portfolio companies, operational action plan and supply chain engagement strategy <p>From 2022, the CR Committee will be monitoring our progress towards our goals, including progress towards our 1.5°C target.</p>
ESG Executive Committee (ESG ExCo)	<p>Chair: Global Head of Investment (2021)</p> <p>Membership: The Committee membership has members in common with the CR Committee, the Product Strategy Committee and the ESG Regulatory Steering Committee, to assist with information flow</p> <p>Meetings: 12</p>	<p>The ESG ExCo considers the Group's sustainability strategy and advises the Global Head of Investment on the investment management sustainability strategy, including: management of our climate change strategy, management of climate targets and how we achieve our net zero asset management business model.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Development of our climate opportunity and risk model Consideration of our active ownership approach to help drive the transition to a low-carbon economy and reduce financial risks associated with climate change Consideration of products and solutions capabilities to meet client needs around reducing carbon emissions and contributing to environmental solutions Sustainability reporting including climate-related metrics Developments in sustainability regulations and associated new climate-related requirements
ESG Steering Committee (ESG SteerCo)	<p>Chair: Global Head of Investment (2021)</p> <p>Membership: The Committee membership includes Investment, Private Assets, Product & Marketing, Distribution, Legal, Compliance, Operations and Global Technology</p> <p>Meetings: 6</p>	<p>The ESG SteerCo oversees the delivery of our sustainability strategy, including the coordination, alignment, and monitoring of progress on the implementation of sustainable regulatory developments.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Developed our active ownership framework prioritising climate and biodiversity and nature resource constraints Enhanced our SustainEx model on climate metrics including Scope 1, 2 and 3 and avoided emissions Developed our Climate Solutions Framework around climate transition, climate mitigation and carbon capture
ESG Regulatory Steering Committee (ESG Reg SteerCo)	<p>Chair: Global Head of Product Governance</p> <p>Membership: Senior representatives from across the Group</p> <p>Meetings: 12</p>	<p>The ESG Reg SteerCo monitors emergent ESG regulations and determines their high-level impact on our ESG strategy and supporting operations. The ESG Reg SteerCo receives input on forthcoming climate-related regulation from our in-house Public Policy team, which actively engages with relevant regulators, industry trade associations and other climate initiative bodies, in addition to our in-house ongoing monitoring of the regulatory horizon, including climate regulations.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> Identified regulatory risks and confirmed that they are factored into the strategy setting and implementation planning activities of the appropriate Product, ESG and climate-related committees Provided a second line of oversight on implementation progress for new regulations into our business operations

Committee	Committee information for 2021	Description
Climate Change Working Group	<p>Chair: Head of Corporate Sustainability</p> <p>Membership: Representatives across the business to ensure input from all operational stakeholders and alignment to the breadth of our CR activities</p> <p>Meetings: 6</p>	<p>The purpose of the Working Group is to discuss and recommend our approach and action with regard to Group-wide commitments on climate change to the CR Committee. There is a focus on targets, such as our science-based targets submission and disclosures such as CDP.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> • Developed and supported the submission of our science-based targets to the Science Based Targets initiative and our climate change questionnaire to CDP • Review of other climate-related disclosures
Climate Planning Investor Group	<p>Chair: A Portfolio Manager for Global and International Equities, specialising in climate thematic investments</p> <p>Membership: Representation from investment desks, sustainability and data insights teams</p> <p>Meetings: 6</p>	<p>The Climate Planning Investor Group strives to ensure climate measurement tools and approaches used within the business are fit for purpose from an investor perspective. Its membership ensures that the right blend of expertise is available to meaningfully evaluate climate-related risks and opportunities.</p> <p>Climate activities during 2021:</p> <ul style="list-style-type: none"> • Consideration of how to quantify and communicate progress towards net zero • Reviewing how we engage with companies to understand their climate ambitions and influence their policies where necessary • Understanding what risks and opportunities are most important to investors (for example, carbon price fluctuations and risk of flood/ wildfire to physical assets), and in turn how we quantify and display this information in a meaningful way

Remuneration

The strategic importance of climate-related issues is reflected in our remuneration structures. For a number of years, our executive Directors have had sustainability-related measures included within their annual bonus scorecard. The measures are reviewed by the Remuneration Committee each year to align with our key priorities. For example, the determination of the 2020 bonus awards for executive Directors included measures around the integration of ESG into the investment process for all Schroders managed assets and progress in reducing our corporate emissions, including offsetting so that our operations are climate neutral. The determination of the 2021 bonus awards for

executive Directors included measures around embedding sustainability across the Group and progress towards operating as a net zero business through setting science-based emissions targets and establishing our Climate Transition Action Plan.

In addition to continuing to include sustainability measures in the determination of the annual bonus, from 2022 onwards, the Remuneration Committee determined that our commitment to climate action should also be reflected in the executive Director Long-Term Incentive Plan (LTIP). As a result, from 2022 onwards, a climate measure will be included in the LTIP performance scorecard. For 2022 this will be focused on us

leading by example to our investee companies and the wider market as measured through minimising our own emissions as a corporate and maintaining a leadership position on climate change, as assessed independently by CDP. This new climate measure will carry a 20% weighting in 2022. The choice of environmental LTIP measure and associated weighting will be reconsidered annually and we expect to update over the coming years to reflect our corporate responsibility priorities, external commitments and ultimately a shift towards robust measurement of Scope 3 financed emissions. Progress against our action plan to accelerate the quality and availability of this data is expected to be included in the executive Director annual bonus scorecard for 2022.

This use of remuneration structures to align employee interests to sustainability-related issues, including climate change, relevant to their areas of responsibility is reflected across the wider organisation. Performance against sustainability goals forms part of the annual compensation review for those with roles able to influence our investment and business operations, including members of the GMC, all fund managers, and corporate staff such as Workplace Services and Procurement.

STRATEGY

How our climate change strategy is leading our business and investments to a low-carbon future.

As an active investment manager we recognise that we have a fundamental role to play in making sure we are supporting the journey to a net zero and sustainable future. That's why we have made a number of commitments to accelerate our progress on managing climate risk and achieving net zero by 2050 or sooner, spanning the investments we manage and our own business operations.

We have built a strong set of proprietary tools which enable us to analyse the companies we invest in, tracking the risks and opportunities climate change poses. Combining this data with the insights gathered from our Sustainable Investment team, fund managers and analysts can, where necessary, realign portfolios.

We believe that our ability to engage with companies is a key strength, and that by having an open dialogue that tracks and holds investee companies to account, we can create value for our clients over the long term. To achieve our targets, we plan to focus our engagement activity on at least 1,000 companies over the next eight years, through multi-year and intense engagement programmes reflecting the circumstances and progress of each company.

We know that there is demand from many clients for opportunities to invest in climate solutions and we continue to expand the options available to our fund managers. Our Climate Solutions Framework is designed to help our clients tackle the climate challenge, whether reducing greenhouse gas emissions or actively contributing to environmental solutions.

Despite growing as a business, we believe we should reduce our operational greenhouse gas footprint and lead by example through ambitious targets and actions. We have set science-based targets for our operations and will continue to be climate neutral as we transition to net zero. We will encourage and support our supply chain to join the net zero journey with us.



Strategy continued

Accelerating positive change with our climate change strategy

It is our ambition to lead the transition to a low-carbon economy through our investment activities and the action that we take within our own operations. Our validated science-based targets will put us on a 1.5°C emissions reduction pathway and help us reach net zero across our value chain by 2050, or sooner.

The investments we manage

We recognise that the vast majority of our greenhouse gas (GHG) emissions exposure comes from the investments we manage on behalf of our clients. These are more than 6,000 times greater¹ than those from our own business operations. How we manage the climate risks within our portfolios and influence the transition of the companies in which we invest to a sustainable future will be integral to ensuring Schroders' continued success.

Over the next decade our decarbonisation strategy, as outlined in our Climate Transition Action Plan, will focus on the following key elements:

- Measure exposure through our Climate Risk Toolkit, including scenario analysis, and realign our clients' investment portfolios, building on years of climate research and risk analysis.
- Track and hold investee companies to account, calling on companies to demonstrate near-term delivery of goals, focusing on the most exposed companies and assets. We will apply our Climate Engagement and Escalation Framework.
- Take a solutions approach to net zero and developing investment products allowing clients to connect their capital to real-world emissions reductions.

Our own operations

We believe we should lead by example through ambitious targets and actions. We will:

- Reduce our own operational emissions and engage with our supply chain to do the same.

This section describes the actions we are taking to deliver on our climate strategy and commitments.

We support and actively engage with a range of climate change-related initiatives, memberships and organisations to help deliver our climate change strategy. These include:

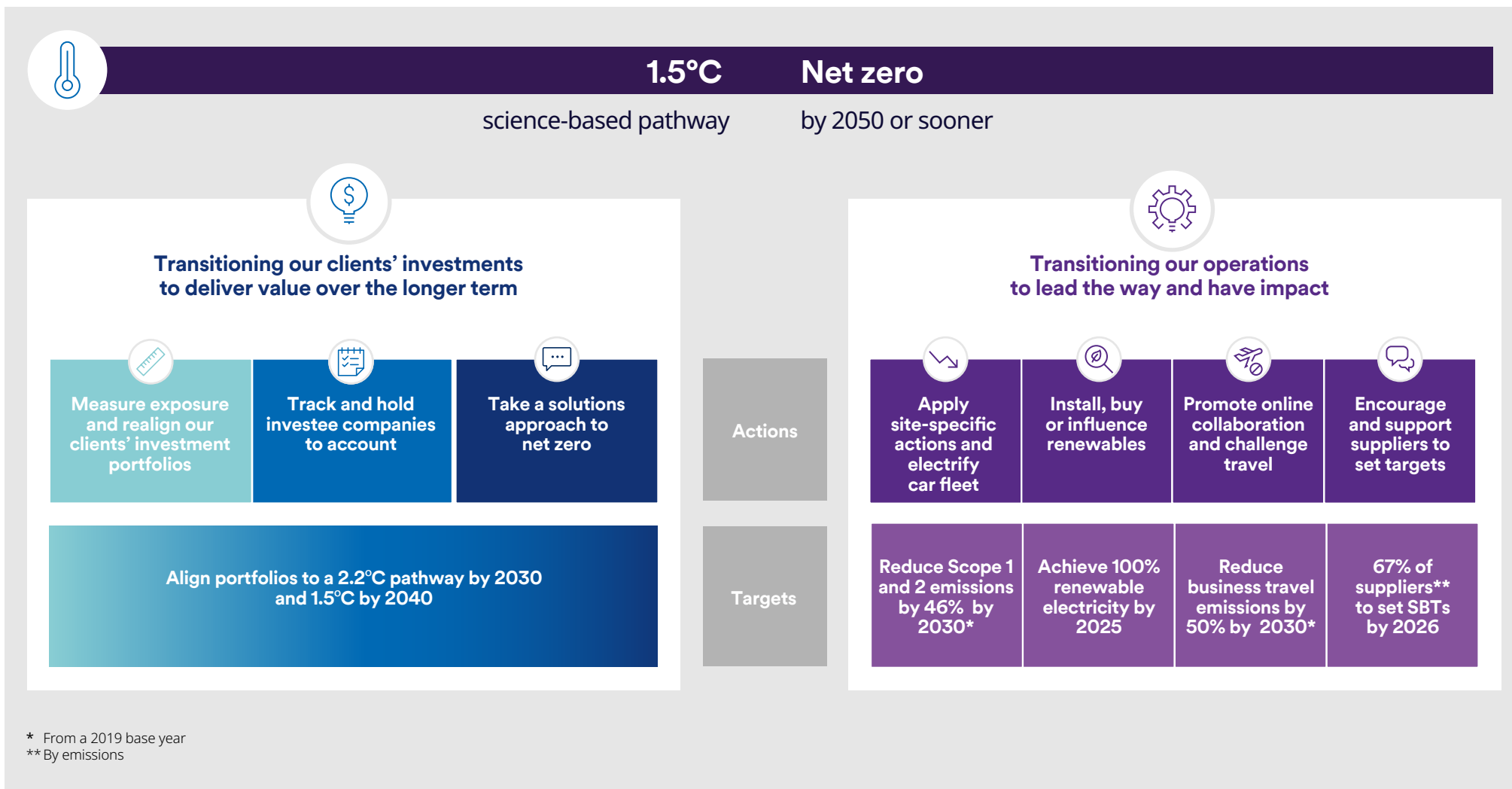


For a list of these climate-related initiatives and memberships with a summary of our engagement please see Appendix 2.

1. Based on 2021 Scope 1 and 2 emissions of investee companies (mandatory in-scope asset classes for SBTi, which represents over 60% of AUM) compared to Schroders' own Scope 1 and 2 emissions.



OUR CLIMATE CHANGE STRATEGY



Strategy continued

The investments we manage

As an active investment manager, we are well placed to navigate climate risks through the analysis we apply to our clients' investments and the opportunity we have to push companies into planning and executing their transition towards net zero carbon emissions. This section details our climate change strategy for the investments we manage on behalf of our clients. It outlines how we identify risks and opportunities using scenario analysis and tools, such as our Net Zero Dashboard; what those risks and opportunities are, and; how we will transition our clients' investments to deliver long-term value.

In the face of physical risks, the increasing commitment by governments to mitigate them is likely to manifest in a number of transition risks to the global economy. As an investor of our clients' portfolios, we recognise that it is our duty to navigate these climate-related risks, and to identify the opportunities created from the transition. We believe this can be achieved by managing our clients' portfolios in line with one of the following investment processes:

- Environmental, Social and Governance (ESG) integrated;
- Sustainable, or;
- Impact.

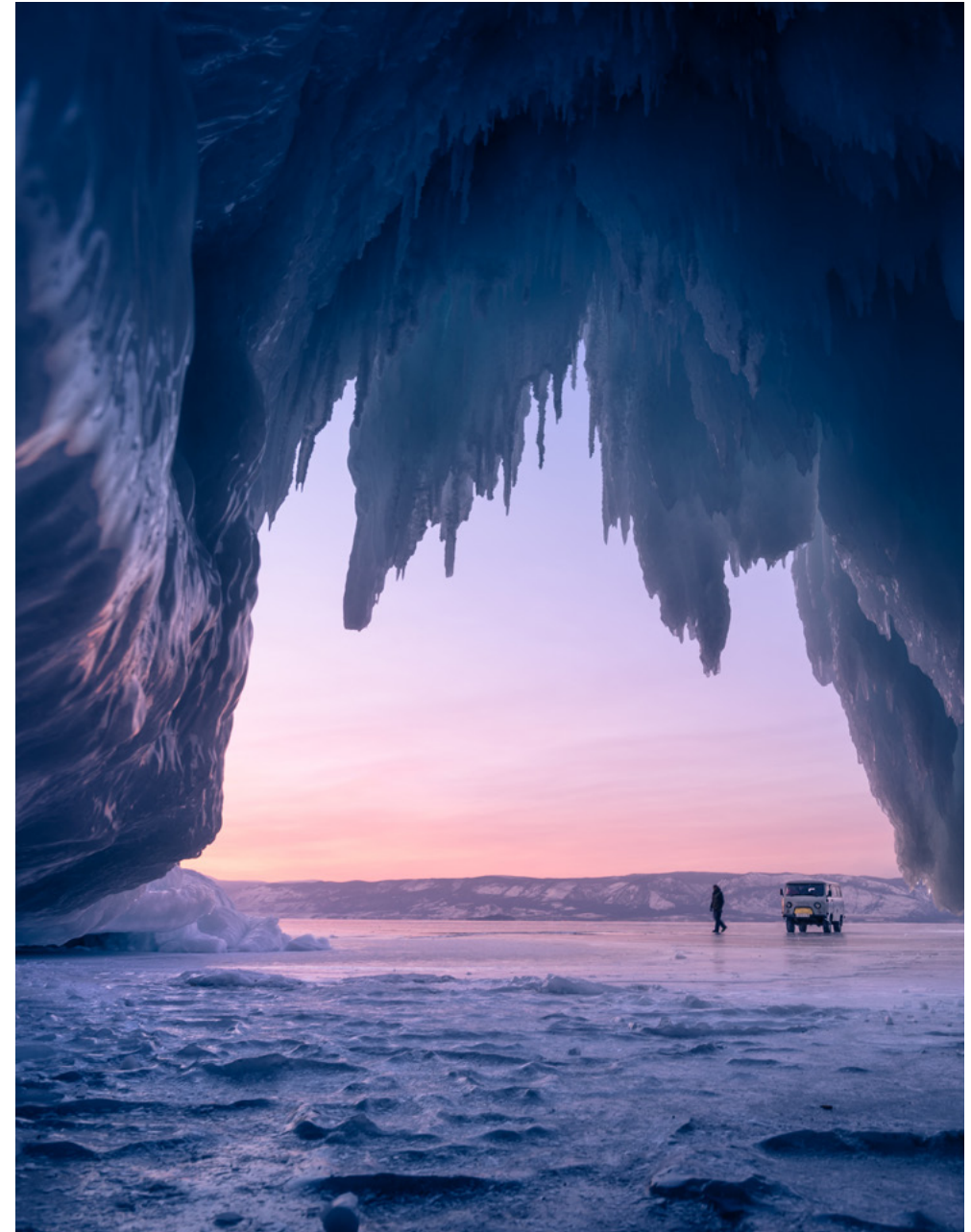
ESG integrated requires ESG risks to be considered by our investment teams throughout the investment process. Investment desks must submit, annually, accreditation documentation to demonstrate how integration is achieved for any given investment strategy.

In 2020, we achieved ESG integration across all our managed assets, fulfilling the target we announced in November 2019 (see the glossary on page 55 for more detail).

In 2022, this accreditation process will be enhanced to explicitly require the integration of climate-related risks, in order to embed our climate strategy more consistently (see page 23 for more detail).

We have also developed Sustainable and Impact strategies that, respectively, focus on a specific sustainability proposition, or on delivering a measurable positive impact on society with thematic alignment to the UN Sustainable Development Goals (see page 27 for more detail).

The risks, opportunities and strategies described below also apply to our Group's investment capital, seed capital, and unit-linked life assurance business.



MEASURE EXPOSURE AND REALIGN OUR CLIENTS' INVESTMENT PORTFOLIOS

To identify climate-related risks and opportunities within our investment portfolios, we have built up our resources and models extensively to help our analysts and fund managers better understand the threat climate change poses to investments. The Climate Risk Toolkit, explained in more detail below, focuses on the assessment of these risks.

The pace of change is tracked through macro-economic climate trend analysis using our Climate Progress Dashboard, which measures the speed and scale of climate action that will drive decarbonisation.

Bottom-up investment climate analysis provides multiple lenses of physical and transition risk assessment to support more holistic analysis ahead of investment decisions. Combined with scenario analysis, the Sustainable Investment team can work with fund managers and analysts to direct our active ownership strategy, empowering investment desks to engage with the most at-risk companies.

Climate Risk Toolkit

Macro-economic climate analysis

Climate Progress Dashboard

Visualises the gap between the International Energy Agency's (IEA) 'Current Policies' and '2 Degree scenario' through an implied temperature rating. This provides investors with a macroeconomic view of global climate action across several key themes, providing the capability to drill down by both geography and industry.

Bottom-up investment climate analysis

SustainEx™

Monetises environmental and social externalities created by companies on society. With Scope 1, 2 and 3 emissions accounting for almost 50% of the modelled costs to society, analysts and fund managers can use this to augment company valuations.

Carbon Value at Risk (VaR)

Measures the impact of higher carbon prices on companies' earnings, modelling the impacts of higher supply chain and operating costs, assuming higher prices and consequently lower demand in each sector.

CONTEXT

Provides a customisable qualitative framework where analysts and fund managers can weight the most material environmental indicators to assess the sustainability of a company's business model.

Temperature alignment

Assesses total portfolio holdings under two established external methodologies, providing an intuitive method of communicating our portfolios' exposure to climate-related risks.

Scenario analysis

Stresses our total portfolio holdings exposure to both physical and transition risks under different climate scenarios, providing insight into the locality and severity of our climate-risk exposure.

Strategic climate alignment

Net Zero Dashboard

Used to enable our investment teams to interrogate their portfolios' (funds and client mandates) financed emissions and implied temperature score in accordance with the Group's Science Based Targets initiative (SBTi) targets. The model enables them to break exposure down by both sector and region.

A spotlight on: SustainEx™

Schroders has developed SustainEx™ as a common measure of portfolio sustainability across the assets we manage. SustainEx™ provides investment teams with an estimated \$ value for the potential social or environmental impact of a company, which can be aggregated at the portfolio level and compared to the fund's own benchmark. The result is expressed as a percentage (positive or negative) of sales of the relevant underlying companies and other issuers versus the selected benchmark. For example, a SustainEx™ score of +2% would mean a company contributes \$2 of relative notional positive impact (that is, benefits to society) per \$100 of sales. This supports fund managers and analysts to identify companies that are taking advantage of the opportunities from the transition to net zero.

Thanks to a collaboration with the Singaporean sovereign wealth fund, GIC, we have integrated avoided emissions into this analysis to provide a more balanced evaluation of company climate impact. For example, conventional analysis of wind turbine manufacturing would point to its high emissions and fail to recognise the reduction it causes economy-wide as wind turbines displace fossil fuel power generation; also supporting the identification of investment opportunities.

Net Zero Dashboard

The Schroders Net Zero Dashboard measures investment activity alignment with our SBTi targets. Specifically, it calculates both the implied temperature score and financed emissions for a snapshot of our investment holdings so investment teams can track the pace of transition in individual portfolios.

We intend to assess portfolio progress over rolling three-year periods, consistent with the period over which we have found engagements typically bear fruit. This ensures investment teams are able to manage the transition thoughtfully, as valuations of better placed companies rise and market-wide sector rotations present opportunities for our clients.

Strategy continued: Measure and align

Scenario analysis

Climate scenario analysis, as with other types of risk modelling, is a method of assessing the exposure of a company, or portfolio, to climate-related risks in order to interpret their potential financial impact. We employ scenario analysis to help understand the potential impacts of our investments, to support our risk and opportunity identification, and to inform our associated strategic response. The power of scenario analysis lies less in its specific outputs (for example, valuation changes) but more in relative performance (for example, how investments fare differently in different scenarios). It allows us to understand the most at risk areas and prioritise these for our active ownership efforts.

We have assessed the exposure of our holdings to both physical and transition risks (see definitions on the following page) under multiple climate scenarios using well-established third-party models to ensure transparency and interpretability. We view the results of the scenario analysis through a variety of lenses, examining risk exposure by sector and geography.

Our methodology

We have applied physical and transition risk stresses to our investment holdings, to capture the potential impacts of climate risks. We have chosen a range of scenarios for different trajectories of the economy, society and the global energy system. Some scenarios emphasise capturing the financial damage to carbon-intense industries by rising regulatory costs, whilst others capture the costs due to physical damages where policy action is lacking.

Due to data availability constraints, the analysis captures most of the exposure of our portfolio of publicly listed equity and corporate bonds, but we plan to continue to expand coverage as data improves. The analysis covers 92% and 85% of our common and preferred stock, and corporate bond holdings, respectively.

Climate exposure data is mapped to investment holdings. Aside from the time series analysis or where stated otherwise, climate risk exposure is assessed from present to end of century, with values expressed in present terms as a proportion of current market value. Note, the underlying models do not take into account investee responses to climate-specific actions.

The primary source of data for measuring both transition and physical climate-related risks is issuer-level data from Morgan Stanley Capital International's (MSCI) Climate Value at Risk (VaR) model.

The investments we manage

Our own operations

Physical risks

MSCI's physical risk data measures exposure to approximately 10 different climate-related hazards; both acute and chronic. These are grouped into Average and Aggressive scenarios (see definitions below) and aggregated to an overall 'Extreme Weather Climate VaR' with some underlying hazards based on the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway (RCP) 8.5.¹ Physical risk is defined in the grey box on the next page.

Aggressive scenario

The Aggressive scenario relates to the 95th percentile of the cost distribution and can be considered a 'worst-case' scenario. It assumes the most extreme physical impacts from climate change, manifesting in the associated costs from extreme weather events, and other climate-related hazards, to company valuations.

Average scenario

The Average scenario relates to the 50th percentile of the cost distribution, and can be considered as the 'most likely' scenario. Based on the models underlying assumptions, it is the most probable outcome over the modelled 15 year period.

1. Scenarios are selected from different points on the modelled probability distribution of costs. Some of the underlying probability distributions are driven by climate model outputs, while others are based on the statistical extrapolation of historical data.



Strategy continued: Measure and align

Transition risks

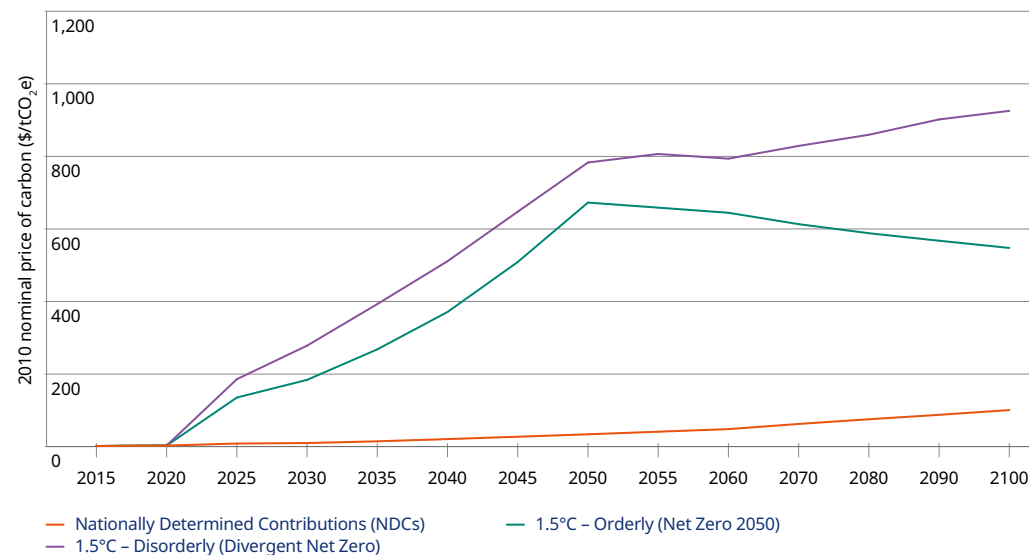
MSCI's transition risk data measures the exposure of companies to transition risk across Scope 1, 2 and 3 emissions under several Network for Greening the Financial System (NGFS) scenarios. These scenarios cover multiple transition risk stressors such as carbon price, fossil fuel prices and demand, energy mix evolution and emissions pathways. We have chosen NGFS scenarios to aid comparability across companies.

The three scenarios we have used to assess against our investment holdings are the following:

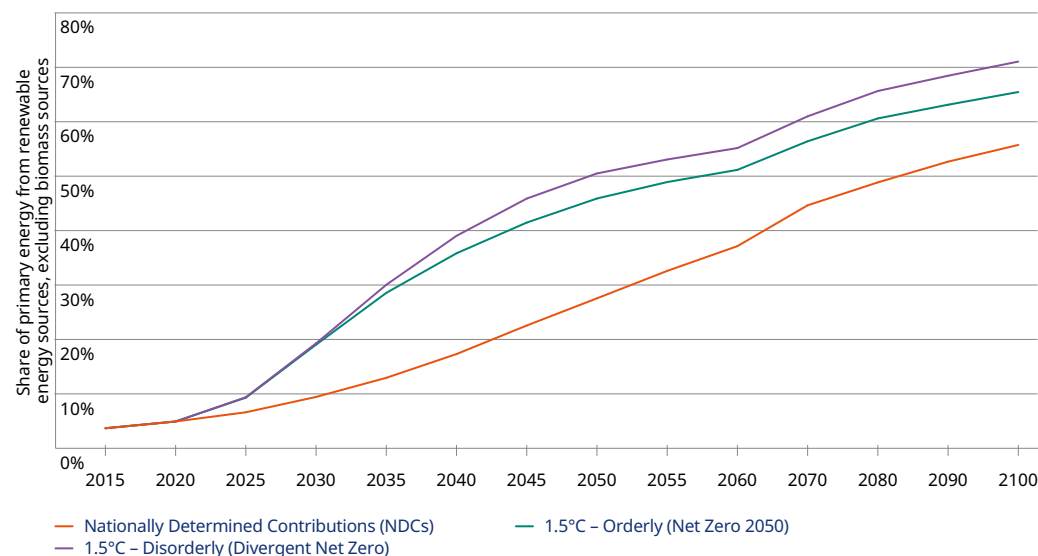
- 1.5°C – Orderly (Net Zero 2050);
- 1.5°C – Disorderly (Divergent Net Zero), and;
- Nationally Determined Contributions (NDCs), which implies a long-run temperature rise of 2°C by 2050, and close to 4°C by 2100.

Transition risk is defined in the grey box on the right of this page.

Global carbon price projection under selected scenarios



Share of primary energy from renewables under selected scenarios



Source: Schrodgers analysis of NGFS scenarios: NGFS Scenario Explorer <https://data.ene.iiasa.ac.at/ngfs>

Climate change risk types

In line with industry best practice and regulatory expectations we consider climate risks through the lens of physical risks and transition risks.

Physical risks reflect the risks associated with long-term changes in the climate and with more extreme weather events which may impact future business activities. In particular the impacts on the value of investments, held on behalf of clients, caused by direct or indirect physical climate changes and events; risk to our businesses and property assets and those of our suppliers and other partners caused by climate events.

Transition risks reflect the risks stemming from changes in the economy that will be required to limit long-run temperature rises, including higher or lower rates of demand growth, costs or risk profiles to companies, sectors or asset classes. These may include new or enhanced corporate climate change laws and regulations, changes in investor demand for climate-focused products, and more volatility in financial markets as asset prices adjust to reflect the increasing regulation of carbon emissions.

We consider these risks in the context of the following time horizons:

- 0-5 years: short-term
- 5-10 years: medium-term
- 10+ years: long term

Strategy continued: Measure and align

Scenario analysis findings

The heatmaps display physical and transition risks in aggregate, showing the exposure-weighted average climate risk for different regions and sectors based on MSCI's modelling. Looking at physical and transition risks in aggregate, we see the majority of economic sectors are affected to some degree.

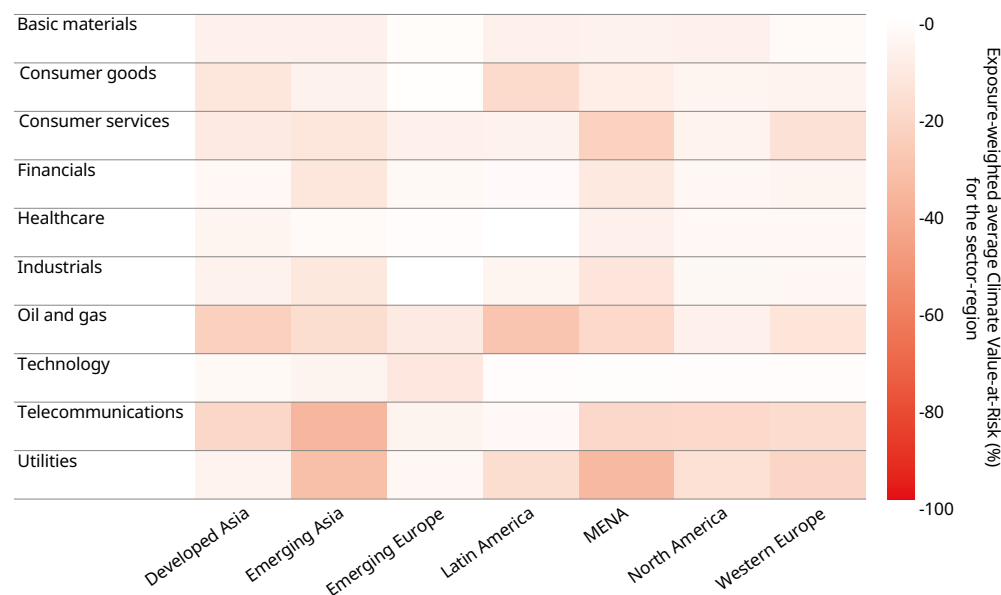
The physical risk signal is more evenly distributed across sectors, with a skew towards capital-intensive industries with large physical asset footprints (like oil and gas and telecommunications), particularly in regions such as Emerging Asia and Middle East and North Africa (MENA) where the projected impacts of extreme weather are most severe.

Policy-related risks (risks arising from changing economic policy that aim to address the physical risks of climate change), while still material for a large section of the market, are most pronounced in a few concentrated carbon-intensive sectors including utilities, oil and gas and industrials. We also see some regional differences in policy risk, as companies in different parts of the world vary in their levels of carbon intensity and exposure to policy risk.

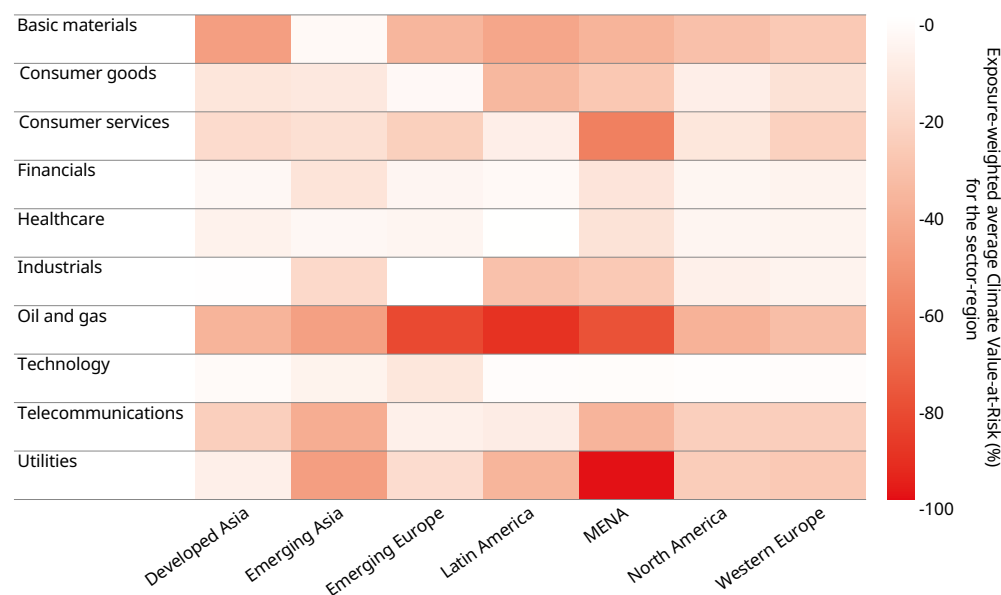
When assessing the impacts of transition risk using MSCI's models (see the top left graph on the next page), it is evident that our exposure is slightly greater under the 1.5°C Orderly (Net Zero 2050) scenario than the 1.5°C Disorderly (Divergent net zero) scenario. Although a modest difference, it is important to highlight why it occurs in relation to the different transition pathways.

The Disorderly scenario assumes a more fragmented approach to decarbonisation across certain sectors and regions, which alters the timing and impact of the modelled transition risk pathways. When combined with our investment holdings exposure, the result is that we see marginally greater transition risk under the Orderly scenario, because of the model's underlying assumptions.

Aggregated Climate VaR under 3°C



Aggregated Climate VaR under 1.5°C



Source: Schroders analysis of the sectoral and regional impact of aggregated physical and transition risks, using MSCI Climate VaR, under 3°C and 1.5°C scenarios.

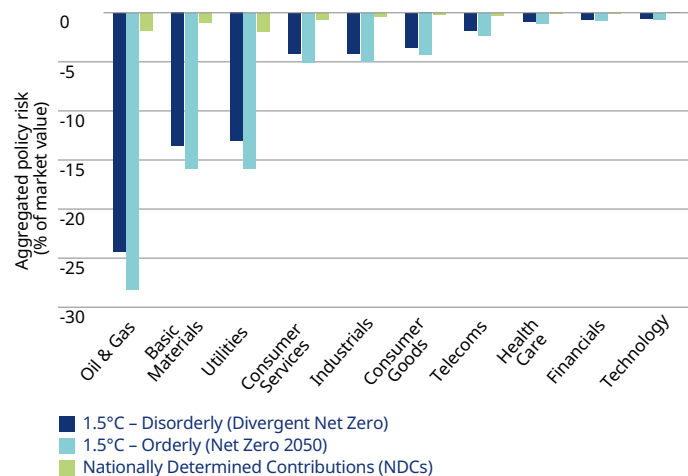
Strategy continued: Measure and align

With regards to physical risks (see far right graph), we see a much broader impact across the market in comparison to transition risks when applying MSCI models. However, the risks are highly specific to the profile and location of each business. Utilities and real estate companies with assets close to coastlines are particularly exposed to both rising sea levels and tropical cyclone risk. In contrast, food distributors, which rely on cooling technologies, are most exposed to the potential impacts of extreme heat on productivity. We find that both acute risks, like tropical cyclones, and chronic risks, like extreme heat, have the potential to have large impacts on investment outcomes if mitigation attempts fail.

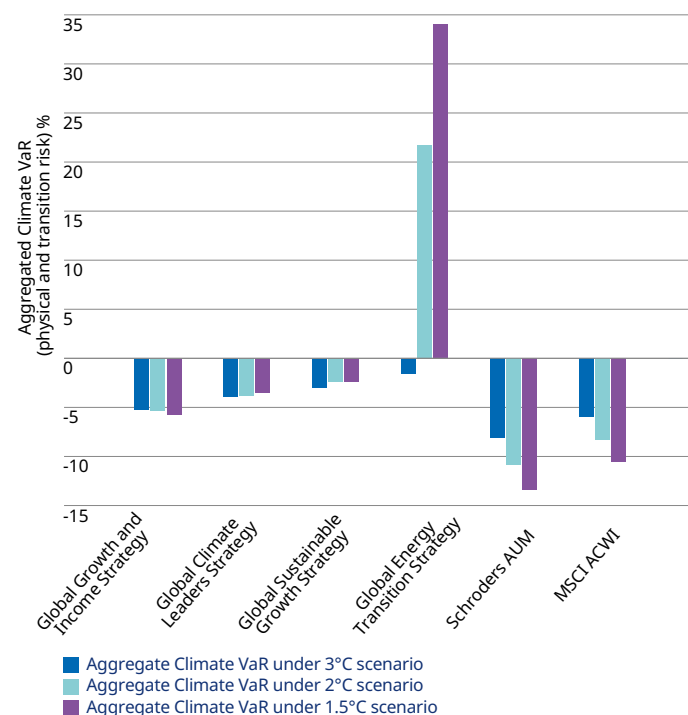
We show a range of Schrodgers' global equity portfolios (see bottom graph), along with an illustrative portfolio based on equity assets managed by Schrodgers, as well as the MSCI All Country World Index (ACWI). As expected, we see that our global sustainable portfolios have lower exposure to climate risks than the broader market. One exception is our Global Energy Transition strategy, which focuses on identifying long-term growth opportunities in the energy transition. As a result, this strategy is expected to benefit from scenarios with strong policy responses, which corresponds to limiting warming levels in line with the Paris Agreement.

When considering our aggregated equity exposure, it is worth noting that many of the mandates we manage are created with a focus on specific geographic areas and are managed with respect to regional benchmarks. The aggregate effect is that there is lower allocation to relatively lower risk regions, such as North America, and higher allocation to geographies with elevated risks, such as emerging markets.

Transition risk exposure¹



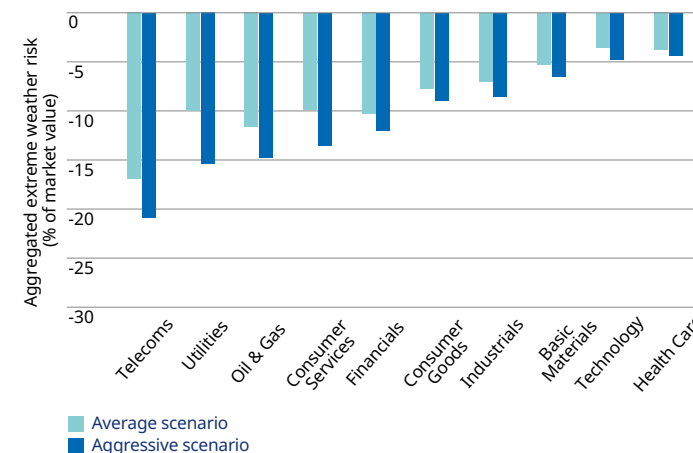
Schrodgers sustainable strategies under Climate VaR vs all in-scope AUM vs MSCI ACWI³



The investments we manage

Our own operations

Physical risk exposure²



Sources: 1. Schrodgers sectoral analysis of transition risk using MSCI Climate VaR.

2. Schrodgers sectoral analysis of physical risk using MSCI Climate VaR.

3. Climate risk exposure of a selection of Schrodgers sustainable strategies, an illustrative Schrodgers equity portfolio and the MSCI ACWI.

Strategy continued: Measure and align

Exposure of holdings to climate risk over time

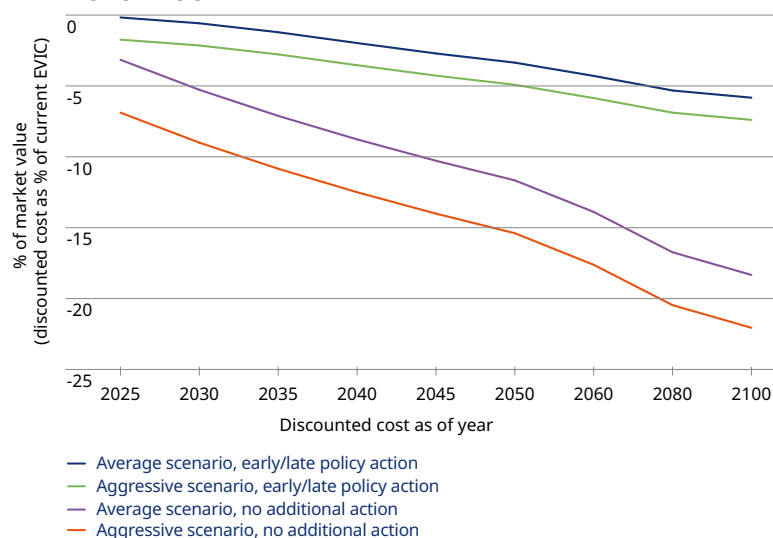
In recent years we have seen a number of regions impacted heavily by extreme weather events. In the graph to the right, we use MSCI's Climate VaR to assess the potential stress this may create to equity (common and preferred stock) and corporate bond valuations dependent on the policy action that is implemented. We use the Bank of England's (BoE) early/late action (implied temperature rise of 1.8°C by 2050) and 'No additional action' (implied temperature rise of 3.3°C by 2050) scenarios* to inform our analysis of the potential effect of policy on physical risk. When combined with MSCI's Aggressive and Average scenarios (see detail on page 16), we see that the severity of physical risks is dependent on the speed of climate action, with early action resulting in a more benign investment scenario, and 'no additional action' driving increasing physical risks; regardless of the scenarios likelihood (percentile of the cost distribution).

In the bottom graph on transition risk, we see that the urgency of the assumed policy response is key in defining when financial damages are expected, and the magnitude of valuation change. More aggressive scenarios have a bigger impact on valuations over the next 10 years, but in later years, the greater costs of inaction become clearer.

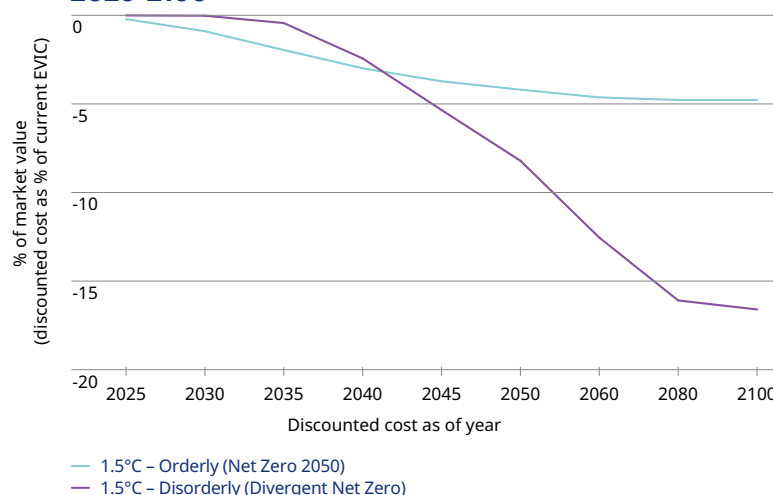
These scenarios are not intended to represent a full description of the future, but rather to draw attention to the key factors that could drive future risks or opportunities. They are hypothetical constructs, not forecasts. MSCI's approach assumes companies do not adapt over time, and continue to use their current business models across the time series. They also do not take into account any investment activities we undertake on behalf of our clients (such as engagement and portfolio rebalancing) to mitigate their exposure to climate-related risk.

* Derived from the BoE's Climate Biennial Exploratory Scenario (CBES).

Modelled pathway of common and preferred stock and corporate bonds exposure to physical risk scenarios, 2025-2100¹



Modelled pathway of common and preferred stock and corporate bonds exposure to transition risk scenarios, 2025-2100²



Using these results to inform our actions

We believe the best way for us to directly reduce our exposure to physical and transition risks is to engage and encourage investee companies to reduce their emissions.

We are planning an ambitious global engagement programme, which can be found in more detail in the 'Track and hold companies to account' section.

This programme will focus on targeting companies:

- With high levels of carbon emissions;
- That have not set commitments to decarbonisation commensurate with the challenge we face, and;
- That represent a significant allocation of client capital.

Taken together, these engagements cover nearly 70% of the transition risk faced by our total equity exposure, with approximately 30% of our engagement effort focused on the oil and gas industry. The best way for us to directly mitigate the exposure of our portfolios to both physical and disorderly transition risk is to engage with our investee companies to encourage them to reduce emissions, transition to low-carbon business models and strengthen their resilience to climate change.

Sources: 1. Schroders time series analysis of combined CBES and MSCI Climate VaR physical risk trajectories.

2. Schroders analysis of transition risk trajectories, using MSCI Climate VaR.

Strategy continued: Measure and align

Temperature alignment

We have compared the temperature alignment of our assets under management (AUM) under two well-established external methodologies: MSCI's Warming Potential and SBTi's Temperature Rating. Examining the temperature alignment of an investment portfolio helps to communicate the exposure to climate-related risk or performance on climate mitigation, on a consistent and intuitive scale over time (implied global mean temperature change in degrees Celsius). We have submitted our commitment to decarbonisation under the SBTi's methodology and so will track and report on this basis, whilst acknowledging the benefit of examining other approaches that provide different conclusions and perspectives.

Our methodology

MSCI's methodology considers the implied decarbonisation pathway of economic sectors under different temperature outcomes and uses the current carbon intensity of a company (across Scopes 1, 2 and 3 emissions) to arrive at a value for warming potential in degrees Celsius. SBTi's Temperature Rating methodology considers the current level of ambition of companies based on disclosed GHG emissions targets, translating these into a temperature score in degrees Celsius. Each methodology for assessing temperature alignment possesses its own strengths and limitations, and neither of them assess historical or cumulative emissions.

The SBTi Temperature Rating methodology prescribes how to calculate aggregate temperature scores using a total ownership approach. This essentially means that company temperature scores (to which the portfolios we manage are exposed) are weighted by the share of each company's GHG emissions. The MSCI aggregate warming potential data is applied to holdings and then weighted using the value of our investments to arrive at aggregate scores.

Temperature alignment findings

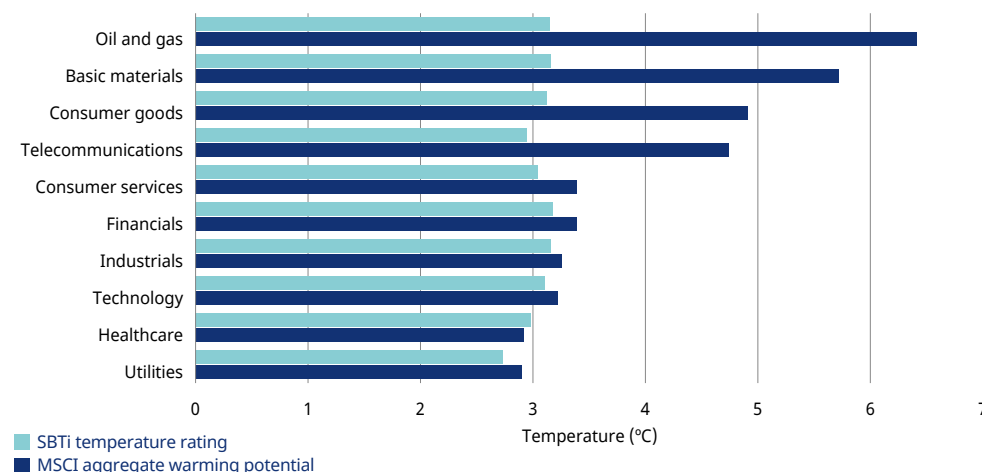
As we see from the results, the different approaches taken by the MSCI and SBTi at measuring temperature alignment yield contrasting results. By using companies' current emissions, MSCI describes the warming risks associated with the oil and gas industry as extremely high. In contrast, SBTi focuses on published targets meaning these firms have a much lower implied warming potential. We note, however, that generally across the market, the commitments companies have made do not go far enough. This highlights the importance of our engagement programme.

Our temperature alignment analysis also provides us with insight into the decarbonisation performance of our holdings. For example, utility companies, in Europe in particular, have often set targets across Scope 1, 2 and 3 emissions. Oil and gas producers, on the other hand, have set particularly ambitious targets under Scope 1 and 2 emissions, but not under Scope 3 emissions. An area of focus for our Climate Escalation and Engagement Framework is to encourage companies in such carbon-entrenched industries to establish Scope 3 targets.

The investments we manage

Our own operations

Temperature alignment of holdings under SBTi and MSCI



Source: Schroders analysis of sectoral temperature alignment using both SBTi's temperature rating and MSCI's warming potential methodologies.

Use of temperature alignment outputs

Temperature alignment is an output of our monitoring activities that can be used to direct further assessment and engagement activities. Our objective is to encourage the adoption of, and adherence to, robust and ambitious targets by our investee companies. With this approach, we categorise companies into four groups:

1. Already achieved net zero business models;
2. Committed to reach net zero in future;
3. Able to transition but not yet committed, and;
4. No viable pathway to transition.

Many investee companies currently fall into the middle two categories. Over time, it is expected that a large proportion of these companies will adopt targets and move from the 'able to transition but not yet committed' to the 'committed to reach net zero in future' category, but we expect the pace of adoption to be slower than required. Investment managers can engage and support companies on their transition to net

zero, to push for change, and hold companies to account when they fall short. We believe this is the responsible approach to dealing with real-world emissions; by engaging on the problem, not avoiding it.

The in-scope AUM (listed equities, corporate bonds, Real Estate Investment Trusts (REITs) and Exchange Traded Funds (ETFs)) we manage is, in aggregate, currently aligned to a 2.8°C pathway across our investee companies' Scope 1 and 2 emissions. We are committed to ensuring that by 2040, all of our AUM will be aligned to a 1.5°C pathway across Scope 1, 2 and 3 emissions, which approximates to a net zero 2050 trajectory and currently represents over 60% of our total AUM (as at December 2021).

Strategy continued: Measure and align

Risks and opportunities

We consider a number of physical and transition risks through the tools outlined in the Climate Risk Toolkit. Depending on the industry, these risks and opportunities manifest across different time horizons and with different impacts.

We consider these risks over the following time horizons:

0-5 years: short term

>5-10 years: medium term

10+ years: long term

The investments we manage

Our own operations

The Risk Management section on pages 34-39 provides further detail on how the Group identifies, assesses and manages climate-related risks in relation to our key risk types. The table below focuses on our assessment of the risks categorised as per the TCFD guidance.

Climate opportunities

Risk	Description	Impact on investees				Resulting impact to Schroders as an investment manager		
		Timeframe	Impact	Rating ¹	Portfolio management approach	Timeframe	Impact	Rating ²
Physical: Acute & chronic	The risk imposed on physical operations from extreme weather events or changes in temperature	Long term	Increased capital expenditure, increased insurance costs, increased damage and disruption costs, decreased security valuations	Industry dependent, for example: Agriculture – high Financial services – low	Assessed through the physical risk model	Long term	Lower AUM, decreased revenue	Medium
Transition: Regulatory & legal	The risk from changes to current/emerging climate-related regulation that impacts our/investee companies' operations or products	Industry dependent, for example: Oil and gas – short term IT – long term	Increased costs, decreased security valuations	Industry dependent, for example: Oil and Gas – high IT – low	Assessed through portfolio stress testing against different transition scenarios and SustainEx™	Medium term	Lower AUM, decreased revenue	High
Transition: Technology	The risk from the requirement to keep pace with technological advancements to effectively examine and manage climate risks and opportunities	Industry dependent, for example: Automotive – short term Cement – long term	Increased costs, decreased revenues, decreased security valuations	Industry dependent, for example: Automotive – high Cement – low	Assessed through horizon scanning and scenario analysis	Medium term	Lower AUM, decreased revenue	Medium
Transition: Market	The risk of climate change impacting product demand through changing client behaviour	Industry dependent, for example: Automotive – short term IT – long term	Decreased revenues, decreased security valuations	Industry dependent, for example: Automotive – high IT – low	Assessed through horizon scanning of climate trends	Medium term	Lower AUM, decreased revenue	High
Transition: Reputational	The risk from the perception of not having responded appropriately to climate challenges; greenwashing, for example	Short, medium and long term	Decreased revenues, decreased security valuations	Industry dependent, for example: Financial services – high IT – low	Assessed through horizon scanning, engagement and thorough due diligence, particularly on corporate governance	Short, medium and long term	Lower AUM, decreased revenue	High

1. Relative impact of the risk to investee companies.

2. Resulting impact to Schroders as an investment manager.

Strategy continued: Measure and align

The investments we manage

Our own operations

Climate opportunities

Opportunity	Description	Timeframe	Impact	Portfolio management approach
Resource efficiency	Investing in companies supporting energy efficiency	Short term	Increased revenue	CONTEXT framework. Enables the assessment of multiple technological trends, such as carbon intensity of the energy mix and CDP performance band
Energy source	Investing in companies supporting low-carbon energy sources	Medium term	Increased revenue	CONTEXT framework and SustainEx™. Enables the assessment of multiple environmental trends, such as the shift of capital from fossil fuel to clean energy
Products and services	Capability of companies to provide products in response to climate opportunities	Medium term	Increased revenue	CONTEXT framework. Enables the assessment of multiple customer trends, such as investee product alignment with customer values, customer preference for product types, and preferred marketing and comms channels
Market	Adapting investment proposition to reflect client preferences	Medium term	Better competitive position and increased revenue	Annual client investor surveys. Questionnaire assessing our clients' views on key product themes and trends likely to influence their investment decisions
Resilience	Providing products to manage the impacts of climate change	Short term	Increased revenue	CONTEXT framework. Enables the assessment of multiple environmental trends, such as more volatile resource prices, upward trends in extraction costs, and impact of emerging economies' resource demand

Integration of Group climate strategy

Our sustainability accreditation, proprietary tools and collaborative platforms have allowed us to reach full ESG integration across our managed assets (see page 55 in the glossary for more detail). While practical application may look different for, say, emerging market equity versus direct real estate, our stakeholder-centric approach to sustainability is clear and consistent and runs across our integrated strategies.

We launched the Schroders' sustainability accreditation framework in 2017 to drive and monitor ESG integration across our investment processes. The completed framework must be resubmitted annually by each investment desk in order for fund managers to maintain their accreditation status. In 2022, we will be releasing integration 2.0 where we will be requiring the assessment of specific climate-related risks in this framework.



TRACK AND HOLD INVESTEE COMPANIES TO ACCOUNT

We believe that tracking and holding companies to account, and engaging with the most material carbon emitters in our portfolios, is the best approach for us to make an impact. We do not believe that divestment is the best way for investors to address the climate crisis. We apply this mindset across both our listed equities and corporate bond AUM.

Climate Engagement and Escalation Framework

We have a long history of engagement and voting on climate topics with investee companies. Our Climate Engagement and Escalation Framework sets out how we will use our influence. For more information, please review our Climate Transition Action Plan.



1. Climate expectations

We have identified four climate objectives we expect all large and medium companies, in which we invest, to adopt:¹

1. Commit to decarbonise business models towards net zero around mid-century.

2. Set long-, medium- and short-term targets covering Scope 1, 2 and relevant Scope 3 emissions.

3. Publish a detailed transition plan explaining how they will deliver that transition and meet those targets.

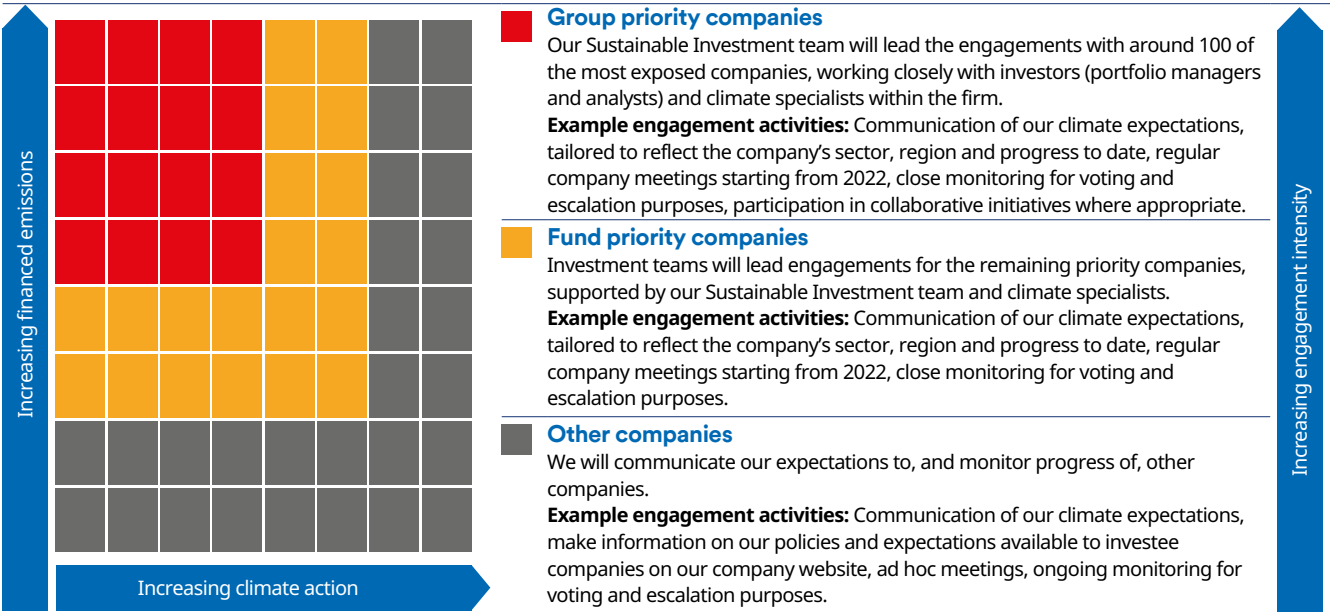
4. Publish their performance and progress annually.

In addition, we expect companies to report annually on their climate-related risks, and the steps they are taking to manage these risks.

2. Company prioritisation and selection

Our approach is to focus engagement efforts on companies contributing the most to our financed emissions, where our investment is concentrated, and where our influence is greatest. Our modelling suggests that we will need to focus activity on at least 1,000 companies through to 2030, which represents over 70% of our transition risk.

How we prioritise our engagements:



Strategy continued: Track and hold

3. Monitoring progress

We use a data-driven approach to monitor progress against our expectations and measure the impact of our engagements. Our Engagement Dashboard and proprietary tools allow us to track this at a company and fund or desk level. We use a wide range of metrics to track company performance, including:

- **Ambition** to reduce emissions, such as climate commitments, emissions targets
- **Organisation** changes to facilitate transition, such as board member responsibility, remuneration
- **Action** taken to reduce emissions, such as climate policies, renewable energy use
- **Progress** decarbonising its business model, such as reduced emissions intensity, change in absolute emissions

4. Voting policy

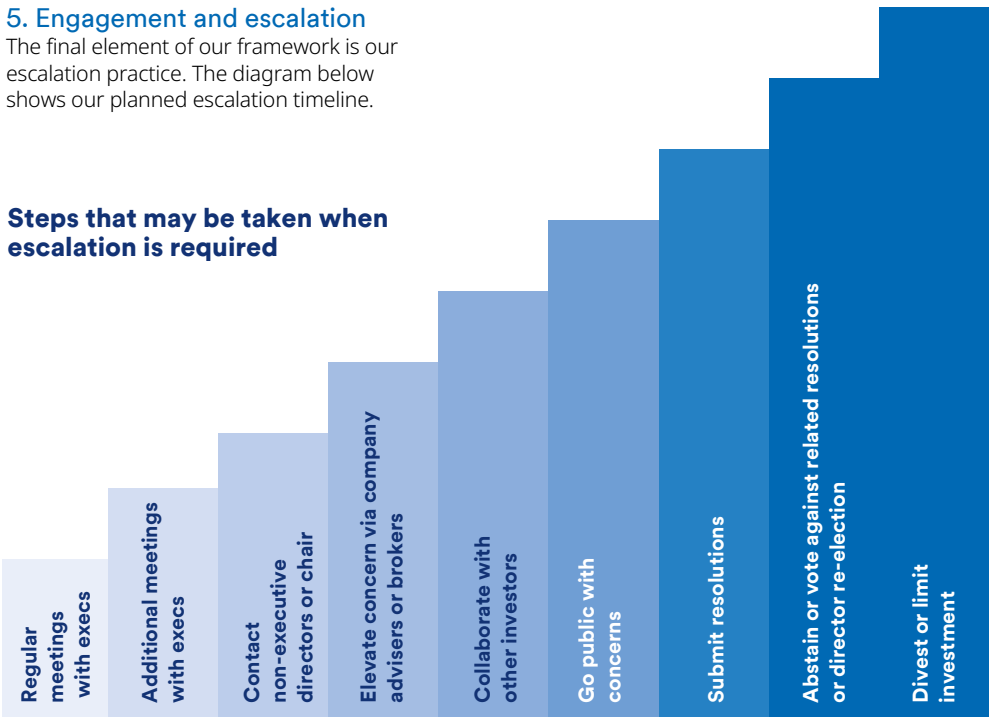
In line with best practice, we have adopted a ‘support or explain’ approach to resolutions, aiming to vote in favour of these where they align with our sustainability ambitions. We will do the following:

- **Shareholder resolutions** – In 2021, climate-related shareholder resolutions represented over 25% of shareholder resolutions at companies we invest in. We continue to support resolutions that align with our climate expectations
- **‘Say on Climate’ resolutions** – In 2021, we have seen a new type of proposal from management teams, giving shareholders a say to approve a company’s climate targets, policy or transition plan
- **Votes against boards** – We will use our vote to drive change, for example through voting against board directors in those companies significantly exposed and trailing on climate commitments

5. Engagement and escalation

The final element of our framework is our escalation practice. The diagram below shows our planned escalation timeline.

Steps that may be taken when escalation is required



Escalation timeline

Prioritise and select priority companies for engagements

Develop engagement plans for priority companies

Continue to develop climate dashboards and tools to monitor company performance on climate change

Communicate climate expectations

Publish our revised climate voting principles

Vote against directors to hold boards to account on climate issues starting with companies in advanced markets that have not made sufficient progress

Increase engagement intensity for priority companies that have not made sufficient progress. This may include escalating our concerns to board members or holding additional meetings with the company

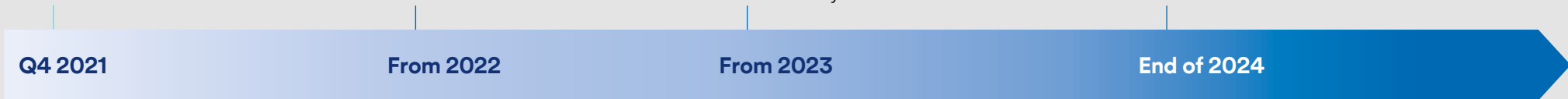
Publish our concerns about climate laggards where this will be constructive. This may include statements on voting intentions or investment decisions taken by individual funds

Failed engagement list

After three years, we will identify companies where our engagement and escalation efforts have not been effective

Investment decision

A committee formed of senior investors and sustainability specialists will review outstanding investments in these companies and decide whether or not to divest



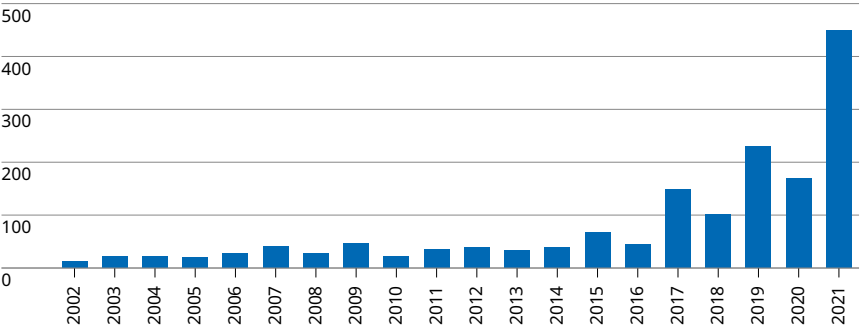
Note – We may divest from, or not invest further in, climate laggards at any point along this escalation timeline. For some of our funds, companies have to meet certain criteria for inclusion – for example, stretching emissions targets or limited exposure to certain types of carbon-intensive industries. We also have an exclusion on coal investment for certain sustainable funds (for example, our Article 8 and Article 9 funds under the EU’s Sustainable Finance Disclosure Regulation (SFDR) classification cannot invest in companies that generate more than 10% of revenues from thermal coal mining or more than 30% from coal fired power generation).

Strategy continued: Track and hold

Climate-focused engagement and voting activity

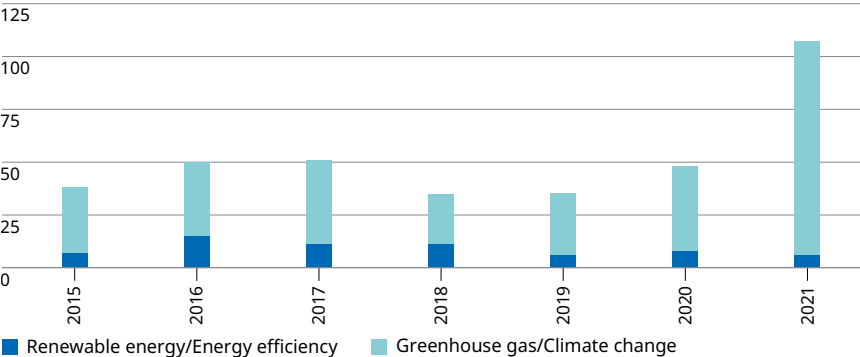
We undertook our first recorded climate engagement in 2002; since then, the scale has risen significantly and similarly, as the number of shareholder resolutions has risen, our voting has followed suit.

Climate-focused engagements



Note: 2021 includes climate-focused engagements to 30 September 2021

Number of climate-related resolutions on which we have voted



Note: 2021 includes climate-focused engagements to 30 September 2021

Case study: on thin ice – danger posed by thawing permafrost and how to prepare

Following a sizeable fuel tank leakage in Krasnoyarsk Krai, Russia, the Global Emerging Market Equities team wanted to understand the infrastructure risk of melting permafrost in Siberia to other Russian commodity producers. In collaboration with the Data Insights Unit and the Sustainable Investment team, we built a permafrost dashboard to identify the most at-risk companies. Read the full case study.



TAKE A SOLUTIONS APPROACH TO NET ZERO

We understand that our clients are all at different stages of their net zero transition journey. This is why we are building out our three-tiered approach to our climate solutions, expanding the options available to our clients, ensuring we provide products that not only look to reduce carbon emissions but also products that contribute to environmental or nature-based solutions.

We launched the Global Climate Change (GCC) strategy in 2007 and since then have launched a range of investment strategies focused on the climate challenge. As of December 2021, we managed over £5.7 billion in assets across our climate transition and climate mitigation strategies.

We have established the following Climate Solutions Framework to help our clients tackle the climate challenge, depending on where they are on their net zero journey.

A solutions approach to net zero

Our solutions		Area of future innovation
Reducing GHG emissions	Contributing to environmental solutions	
<div> </div> <p>Designed for clients that want to support the transition to net zero. These solutions invest in companies whom are actively transitioning to a lower-carbon business model and are reducing their exposure to GHG emissions.</p>	<div> </div> <p>Designed for clients that want to contribute to environmental solutions. We do this by investing in companies that have products and services that actively contribute to specific climate-related outcomes through technological development and innovation.</p>	<div> </div> <p>Designed for clients that want to invest in our nature-based solutions. We recognise the important role they will play in mitigating climate risk. We focus on analysing natural capital assets and identify the best way to maximise carbon capture and sequestration.</p>
Comprises our Sustainable solutions (Article 8 under SFDR) and includes strategies such as Global Climate Change and Global Climate Leaders.	Comprises our Impact Goals solutions (Article 9 under SFDR) and includes strategies such as the Global Energy Transition*, Global Cities and BlueOrchard Emerging Market Climate Bond.	
		Comprises our investment in Natural Capital Research where our aim is to provide access to conservation projects through high quality carbon credits that benefit local communities.

* More detail on the Global Energy Transition (GET) strategy can be found on the following page.

Strategy continued: Solutions approach

A spotlight on the Global Energy Transition strategy

Schroders' Global Energy Transition strategy aims to provide capital growth by investing in companies that are associated with the global energy transition. The strategy invests across the entire sustainable energy value chain, excluding companies that source revenues from both fossil fuels and nuclear. It only invests in companies that generate at least 50% of their revenue from activities contributing to the energy transition, or those which play critical roles in the transition and are increasing exposure to such activities.

The chart below shows an example of the strategy's point in time impact using SustainEx™ marked against MSCI Global Alternative Energy Index (GEAE) and MSCI ACWI Index (ACWI) indexes. These results tell us that for every \$100 of revenue generated by the companies within the strategy, they achieve a net positive impact on society of \$20.10, whilst the MSCI ACWI has a net negative impact, and the GEAE's is even more positive, at \$33.90/\$100 revenue.

Schroders impact rating and impact assessment using the proprietary SustainEx™ impact tool

Overall impact



Portfolio
+20.1%

GEAE
+33.9%

ACWI
-3.7%

Innovation in natural capital

We recognise that while expanding our range of climate-focused investment products helps many of our clients meet their investment goals, a growing number of institutional and retail investors are looking for more innovative solutions that connect their investment more concretely to emissions savings. As a result, we are working with several large institutional investors to develop investment solutions, with a focus on nature-based solutions.

In November 2021, we joined the Natural Capital Investment Alliance (NCIA), which aims to accelerate the development of natural capital as a mainstream investment theme. NCIA was created by His Royal Highness, the Prince of Wales, as part of his Sustainable Markets Initiative (SMI), and launched at Davos in 2020. Its members have plans to launch, or

have launched, investment products aligned to natural capital themes. These encompass strategies such as direct investments in sustainable forestry and land management.

Natural Capital Research

In 2021, we announced an investment in Natural Capital Research (NCR), along with Oxford Sciences Innovation (OSI). Using leading modelling and data techniques, NCR enables landowners, utility companies and corporates to map the natural capital provided by their landholdings. These include assets important for carbon storage and carbon sequestration. Through this innovative partnership, we will leverage NCR's mapping tool to strengthen our solutions approach and support clients as they pursue net zero portfolios.

The investments we manage

Our own operations



Climate action in practice: Our Real Estate business

Real estate is responsible for approximately 40% of global emissions. In recognition of the need to address them, Schroders Capital Real Estate committed to the member-led Better Buildings Partnership Climate Commitment in September 2019 and, as part of this, published a Net Zero Carbon Pathway in December 2020. The Real Estate target is to produce net zero carbon by 2050, aligned to the Paris Agreement's objective. We are developing fund pathways which consider decarbonisation requirements at asset level for 1.5°C using the Carbon Risk Real Estate Monitor (CRREM), which provides decarbonisation pathways aligned with the Paris Agreement's 1.5°C and 2°C requirements. We have strong foundations for a net zero carbon strategy with an active energy and carbon management programme established for our directly invested assets since 2016.

Our previous energy and carbon targets expired in March 2021, allowing new targets to be set to support continuity of our approach and accelerate towards net zero carbon.

Our net zero pathway solution is supported by detailed analysis of buildings using our Impact and Sustainability Action Plan.

This analysis also considers transition risk, particularly the expanding regulation at building level within the EU Member States and the UK relating to energy savings, net zero buildings and use of renewables. Existing regulations are monitored for compliance.

Physical risk is supported using Verisk Maplecroft risk information at high spatial resolution for asset locations, with 70% of the indices scored at a resolution of typically 5km x 5km. We have assessed our direct real estate assets representing 76% (£12.5 billion) of the Real Estate AUM (as at March 2021). This information profiles for a range of climate risks, at both asset and portfolio level, to understand exposure and enable the assessment of the potential adaptation strategies required. The analysis is also run to profile the risk to potential investment locations. These will then be quantified for a cost or valuation impact.

Transparency for our investors is important to us. We have participated in the Global Real Estate Sustainability Benchmark (GRESB) survey annually since 2011. In 2021 we participated for ten direct real estate funds and mandates representing 53% (£8.6 billion) of the Real Estate AUM (as at March 2021). We achieved an average score of 81% and the highest five-star rating for three funds.

In addition, our direct real estate fund reports and accounts include sustainability reporting and a TCFD disclosure. These reports are consistent across funds with the quality of these demonstrated by our listed vehicle, achieving a Gold European Public Real Estate Association (EPRA) Best Practice Sustainability Reporting Award for the last four years.¹

1. The Schroder Real Estate Investment Trust has received the EPRA Gold Award for Best Practice Sustainability Reporting for the past four years up to and including 2021. The EPRA Best Practice Sustainability Reporting standards apply to listed companies.

OUR OWN OPERATIONS

We are committed to reducing the impact of our own operations on the environment and mitigating the risks posed by climate change. This section outlines: how we identify the climate risks and opportunities for our own operations; our climate change strategy; the actions we are taking to meet our targets, and; how we consider climate risk and opportunity in our financial planning process.

Identifying risks and opportunities

We carry out an annual inventory across all relevant GHG emissions within our financial control boundary approach, which follows our accounting consolidation (see data, including our reporting boundary, on page 47). This helps us understand where the risks and opportunities are in our direct and indirect operational activities. Our key operational risks and opportunities are managed by the business functions. For example, the physical risks and transition opportunities for our buildings are managed by Workplace Services; our company car fleet by Human Resources (HR); and supply chain management by Procurement and relationship managers. These business functions are supported by the Corporate Responsibility (CR) Committee and Corporate Sustainability, who advise on overall strategy.

Physical risk assessment

To measure the physical risk on our owned and leased offices, we use data from Verisk Maplecroft (a research firm specialising in global risk analytics). We have conducted research to select a set of 23 individual risk indicators, which review both acute shocks (for example, wildfire hazard) and chronic stress (for example, air quality).

The risk indicators have a high spatial resolution so that we can understand conditions on a very localised basis. We have mapped and generated scores for all our owned and leased offices worldwide in this assessment.

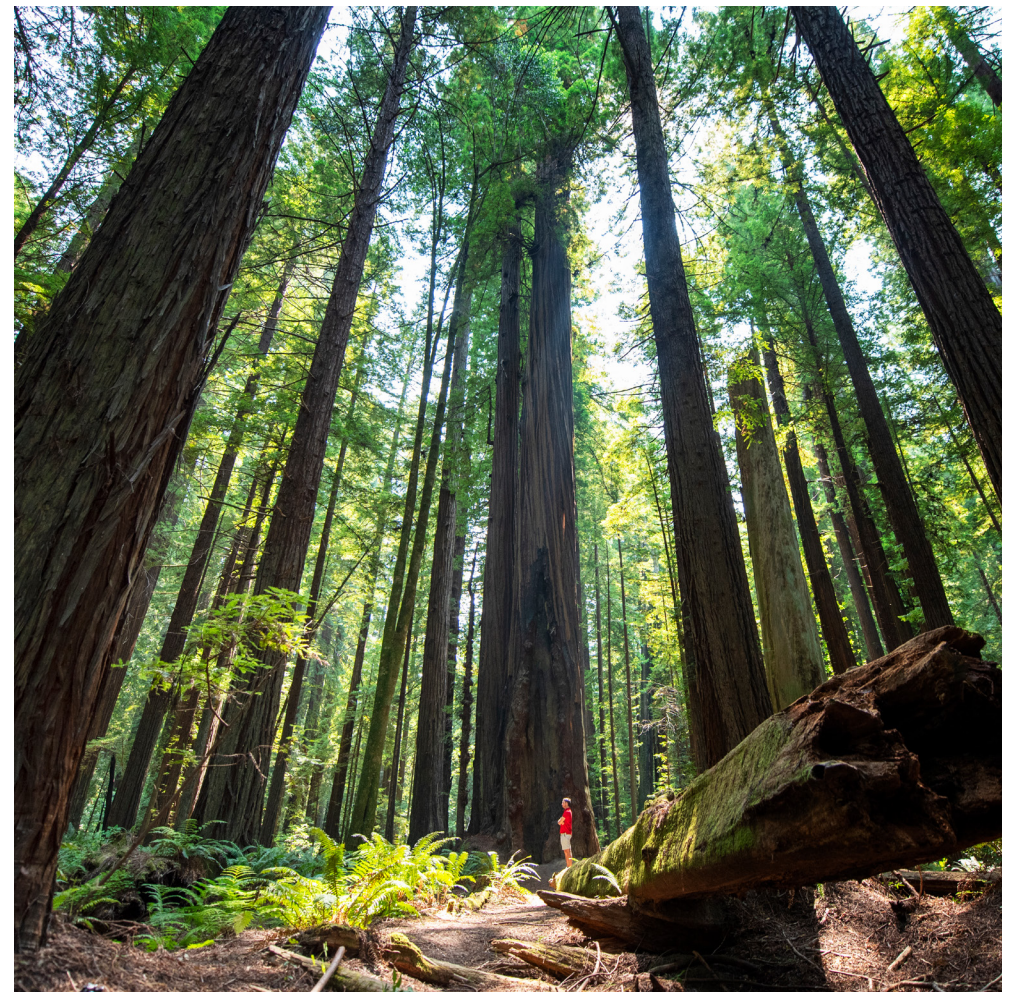
For new building locations, we will use these outputs to complement our existing environmental risk assessment due diligence process (for further detail see page 38). For existing buildings, we will use these outputs to inform the prioritisation of site-specific target setting.

Transition risk assessment

Individual business functions are responsible for identifying and assessing climate change transition risks that impact their business areas and functional responsibilities. The identification process is supplemented by second line functions, including Risk and Compliance, who provide insight on relevant risks across the Group, external risks and regulatory requirements. For example:

- Our Workplace Services and Procurement teams carry out first line assessment of technology and market risks and opportunities regarding capital goods or new technology for our properties and services from external suppliers.
- Policy and legal risks are assessed and monitored by our second line Compliance team and ESG Regulatory Steering Committee.
- Reputational risks are monitored by our Corporate Sustainability, Sustainable Investment and Communications teams.

Our ambition to be a climate leader entails keeping up-to-date on emerging best practice. Current climate initiatives (for example, pledges, commitments and memberships) are monitored, with relevant individuals assigned responsibility for ensuring voluntary commitments are met. New climate commitments require an impact assessment and approval from the relevant business function as well as other key roles within the business (for example, Sustainable Investment, Corporate Sustainability, Communications), and depending on the profile or impact of the initiative, the CR Committee.



Risks and opportunities

Climate risks

The decarbonisation of the global economy poses a number of risks and opportunities to our own operations. We consider these over the following time horizons:

- 0-5 years: short term
- 5-10 years: medium term
- 10+ years: long term

Risk	Description	Timeframe	Impact	Rating ¹	Operational management approach
Transition: Policy & legal	Increased carbon pricing on our own emissions	Long term	Increased costs	Low	Monitoring by the Policy, Regulatory and Compliance teams. Supported by Corporate Sustainability, Sustainable Investment and ESG Regulatory Steering Committee
Transition: Policy & legal	Increased regulatory requirements	Short term	Increased costs	Medium	Monitoring by the Policy, Regulatory and Compliance teams. Supported by Corporate Sustainability, Sustainable Investment and ESG Regulatory Steering Committee
Transition: Technology	Costs to transition to lower emissions technology for own emissions	Medium term	Increased costs	Medium	Feasibility studies and modelling at property level. Dependent on technology, for example, Building Management System upgrades, onsite renewables, electric car charging points
Transition: Reputation	Perception of not having responded appropriately to climate challenges	Short term	Decreased revenue	High	Internal team (for example, Corporate Sustainability) monitoring of external benchmarks and emerging best practice. Ongoing monitoring and discussion at relevant Committee, for example, CR Committee. Use of indicators and external benchmarks (for example, CDP) to improve performance
Physical: Acute & chronic	The impact on physical operations of extreme weather events or changes in temperature	Long term	Increased business disruption, capital expenditure and insurance costs	Medium	Real estate climate risk model (provided by Verisk Maplecroft). Risk assessment of our office locations evaluating 23 individual acute (for example, drought, flood, severe storm) and chronic (for example, heat stress, water stress, air quality) risk indicators. Review of insurance premiums

The Risk Management section in this report provides further detail of how the Group identifies, assesses and manages climate-related risks and how these processes are integrated into the wider risk management framework.

Climate opportunities

Opportunity	Description	Timeframe	Impact	Operational management approach
Resource efficiency	Increase energy efficiency of property portfolio	Short term	Decreased GHG emissions and costs	Implement ISO 14001 certification. Feasibility studies and modelling at property level. Specific initiatives dependent on measure, for example, Building Management System upgrades
Energy source	Lower emission sources of energy for property and transport	Short term	Decreased GHG emissions. Short term increase in costs	Feasibility studies and modelling at property and fleet level. Dependent on measure, for example, onsite renewables, hybrid/electric company cars

1. Relative impact of the risk on Schroders' own operations.

Strategy continued: Our own operations

Our operational climate change strategy

Our strategy is focused on reducing our environmental impact by reducing GHG emissions across our operational footprint, through decreasing energy demand, increasing energy efficiency and switching to low-carbon sources of energy provision. We will also target and engage with our supply chain to reduce their emissions.

Direct activities – property and fleet Implement environmental management systems

We are certifying our largest office sites to the ISO 14001 Environmental Management System (EMS) standard to address all site-level risks and set appropriate targets. To date, our global headquarters in London (in 2020), New York and Hong Kong (in 2021) have achieved certification. In 2022, we plan to certify our Horsham estate and our Luxembourg and Singapore offices. These buildings are responsible for 79% of our Scope 1 and 2 emissions (excluding company cars). We are audited internally by an independent consultancy and externally by an independent audit body each year to maintain our certification, holding us to account against our site-level targets. We will align our smaller office locations with these EMS principles and procedures.

Reduce energy consumption in our properties and fleet

We are developing site-specific net zero action plans in order to meet our new emissions reduction targets. These will include further energy efficiency measures, building on best practice, and will take advantage of emerging technologies. As we look to electrify our buildings to reduce the use of fuel sources, including gas, our renewable electricity plan will become more important.

We are further developing our sustainability selection criteria when considering new offices and have recently put this into action when choosing a new office. This led us to select a property with higher environmental credentials and a landlord supportive of initiating emissions reduction initiatives, over lower cost alternatives. Going forward, GHG emissions impact will be a

key consideration of the Group Capital Committee property assessments. In addition, we are developing green lease clauses to require data provision and green electricity procurement and will review existing leases for opportunities to align with these criteria.

We have around 80 leased cars across the world. Some of these vehicles are already hybrid or fully electric and as the lease periods come up for renewal, we are supporting the switch to low or zero emission cars. Our target is to transition our company car fleet to hybrid or fully electric by 2025 (with a strong preference for fully electric unless impractical) with the aim to be fully electric by 2030.

Increase renewable power

In 2019, we joined RE100, a global initiative bringing together the world's most influential businesses to help accelerate the transition towards zero carbon electricity grids. We have committed to only sourcing renewable electricity across all our owned or leased properties by 2025. Site-level action plans are being developed to look at the opportunities to install onsite renewables, switch to green electricity tariffs or buy Renewable Energy Certificates.

Value chain – business travel, supply chain engagement and people

Our operational Scope 3 value chain emissions (excluding our financed emissions) are about 40 times larger than our Scope 1 and 2 emissions. As 98% of these Scope 3 emissions relate to business travel and suppliers, we have chosen to set additional targets for these areas.

Reduce business travel

Our aim is to cut our business travel emissions in half by 2030, from a 2019 base year. Our Travel Policy encourages business travel to be kept to a minimum by requiring a clearly defined business purpose for each journey. It also promotes more sustainable transport methods where appropriate. So that our employees can meet and collaborate effectively online, we will continue to invest in communication technologies.

Supply chain and engagement

We review our business critical suppliers annually for attestation with our Supplier Code of Conduct. This requires suppliers to have environmental policies and processes in place. These business critical suppliers account for 19% of our supplier GHG emissions (Scope 3 category 1: Purchased goods and services; category 2: Capital goods, and; category 4: Upstream transportation and distribution).

In 2022, we will engage with the suppliers that contribute to 67% of our in-scope supplier GHG emissions to understand their existing sustainability targets and commitments and support them in setting science-based targets through information sharing, guidance and collaboration.

We will include a minimum standards review when tendering for goods and services. In addition, any new supplier over a minimum spend threshold will be asked to commit to setting a science-based target by 2026. In 2022, we will introduce a new policy requiring the supplier of any long-term contractual commitments beyond 2023 to do so. We will work collaboratively with our incumbent suppliers, providing guidance and support to help them navigate the process of setting a science-based target. Should an incumbent supplier repeatedly fail to make a commitment, despite our support, we will reassess the relationship.

As well as data related to the purchase of goods and services, we will gather and track suppliers' Scope 1 and 2 emissions data in order to improve the accuracy in calculating our supplier GHG emissions.

Climate neutral operations and the role of carbon offsetting

Our primary focus is on our decarbonisation plan, leveraging our own actions and influence to reduce GHG emissions. We also believe that, as we go through our transition process, there is a role for carbon offsetting. This is both to compensate for emissions that will still be released on our transition pathway and to neutralise residual emissions for net zero.

Since 2019, we have been operating our business on a climate neutral basis and will continue to do so in the future. This means we have offset our Scope 1, 2 and reported operational Scope 3 emissions in partnership with ClimateCare. For 2021, following our updated screening and greenhouse gas inventory (for the SBTi), this includes all Scope 3 category emissions (except supplier and financed emissions where we have engagement targets).

ClimateCare's projects are certified to an International Carbon Reduction and Offset Alliance approved international certification standard and have passed their proprietary enhanced due diligence process.

As the voluntary carbon market continues to grow and develop, we will seek to adopt the Oxford Principles for Net Zero Aligned Carbon Offsetting to help support the ongoing integrity of our approach.



How climate impacts our financial planning

The Group's strategic and financial planning process includes a detailed review of the business model and key planning assumptions. It is led by the Group Chief Executive and Chief Financial Officer in conjunction with management teams, with the outlook most recently updated in March 2022.

The business planning process considers the longer term headwinds that may materially impact the Group and assesses the need for business model changes. This includes consideration of the potential impacts of climate change on the Group. Our revenue assumptions consider the expected impact of product development activity, changes in client behaviour and other movements in AUM and pricing due to climate change or other factors. Our expense and funding assumptions consider the potential impact of planned investment and other changes in the business.

The Group also conducts an assessment of the key risks facing its business. As a core element of this assessment, stress testing is performed on the Group's five-year business plan. The stress scenarios include consideration of climate change risks, incorporating deterioration in the value of our AUM (for example, due to transition and physical risks crystallising earlier than expected) and the impact that reputational damage could have on net new business.

For 2021, we incorporated the output from our investment scenario analysis (as detailed on pages 16-21) to determine the potential impact of climate change on our AUM over the forecast period. In the short-term, the most significant stressed impact relates to transition risk as a result of early policy action by governments. The conclusions from these assessments form the basis of our Viability Statement, which can be found in our 2021 Annual Report and Accounts.

RISK MANAGEMENT

Identifying, assessing and managing climate risks to protect investments and our business.

To meet the challenges of climate change the global economy will need to transition to a net zero alternative, the repercussions of which will raise opportunities and risks for our business and the investments we manage. Climate change risk management has been embedded into our existing processes across the Group.

The Board is responsible for the management, direction and performance of the Group, and is accountable for our business strategy. Climate-related risks are embedded within our strategy, and in discharging their responsibilities, the Board is ultimately accountable for the oversight of climate-related risks that could impact the business.

Given the importance of climate-related risks to our business, 'ESG risk including climate change' has been identified as one of our key risks. The risk is assigned to a Group Management Committee (GMC) member who is responsible for ensuring actions are underway to address it and that it is ultimately mitigated effectively. It also means it has a risk appetite statement, approved by the Board, which enables us to provide an assessment of risk position versus our risk appetite on an annual basis, whilst monitoring performance of this risk throughout the year.

Climate-related risks are managed in accordance with our three lines of defence model. The heads of each business area take the lead role in identifying, assessing and managing risks, with independent monitoring carried out by the second line of defence, and Internal Audit provides independent assurance over the operation of controls. We recognise that climate change is a pervasive risk across many of our key risk types. Heads of business areas across the Group are responsible for identifying these climate-related risks and assessing the impacts to their business areas in line with their functional responsibilities.

From a Group-wide perspective, we analyse potential climate-related risks through the lens of both physical and transition risks over the short, medium and long term and via the range of proprietary tools and metrics we have developed. Many of our key processes have been adapted to incorporate climate-related risks including our approach to investment research and decision-making, product development process, active ownership and engagement with our investee companies, and ongoing assessment and monitoring of our own operations.



Building a robust framework

The Board is responsible for the management, direction and performance of the Group, and is accountable for our business strategy. Climate-related risks are embedded within our strategy, and therefore, in discharging their responsibilities, the Board is ultimately accountable for the oversight of climate-related risks that could impact the business. Non-executive oversight of the risk management framework process with respect to standards of integrity, risk management and internal control is exercised through the Board Audit and Risk Committee (BARC). Risks associated with climate change are fully embedded in the Group's risk management processes.

Respective business areas are responsible for identifying, monitoring and reporting on relevant risks and controls. The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer (CFO). The CFO has responsibility for the risk and control framework of the Group.

The first line of defence against undesirable outcomes is the business functions themselves and the line managers across the Group. Heads of each business area take the lead role with respect to identifying potential risks in their area, including those relating to climate change, and implementing and maintaining appropriate controls to manage these risks, including through

the Risk and Control Assessment process. Line management is supplemented by oversight functions, including Risk, Compliance, Legal, Governance, Finance, Tax and HR, which constitute the second line of defence. The compliance assurance team reviews the effective operation of relevant key processes against regulatory requirements.

Our investment risk framework is a good example of the lines of defence in operation in respect of climate change. Investment desks use a variety of tools and metrics to determine appropriate investment decisions. The second line Investment Risk teams review and challenge climate risk with the investment teams on a day-to-day basis, alongside Asset Class Risk and Performance Committees, where climate risk is a key part of the discussions. Quantitative Risk Analysts within Investment Risk also independently review the climate models and tools used.

Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme reviews the key risks to the Group, including climate change, and provides recommendations to improve the control environment. The team also carries out thematic compliance monitoring work.

Risk appetite

For each of our key risks (excluding strategic risks, as these risks mainly comprise factors that are external to our operating model), risk appetite statements are approved by the Board, and apply to the Group. Our risk appetite in respect of 'ESG risk including climate change', focuses on: the commitment to running our global corporate operations on a climate neutral basis; ongoing development of investment tools to help fund managers to better measure and manage the risks facing their investments; development of client-friendly products and engagement with clients on their requirements and with investee companies and policymakers.

Each risk appetite statement is supported by a number of measures/parameters to quantify risk appetite and to enable us to provide an assessment of risk position against risk appetite. Risk position versus appetite is formally assessed on an annual basis and is reviewed and challenged by the Group Risk Committee (GRC), GMC and BARC prior to the Board.

Climate change risk types

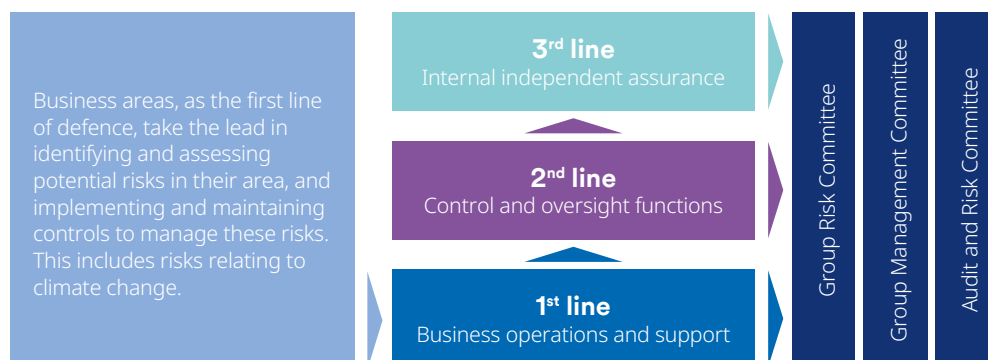
In line with industry best practice and regulatory expectations we consider climate risks through the lens of physical risks and transition risks.

The definitions of physical risks and transition risks can be found on page 17.

We consider these risks in the context of the following time frames:

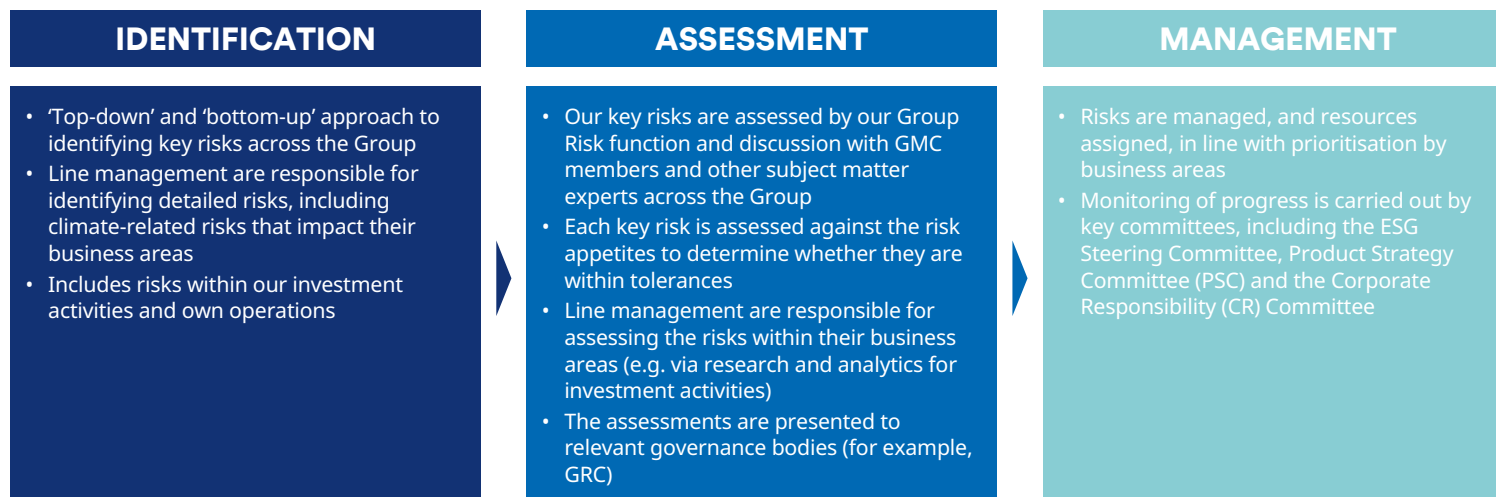
- 0-5 years: short term
- 5-10 years: medium term
- 10+ years: long term

Lines of defence



Risk management lifecycle

The risk management lifecycle is relevant for our own business operations, and for the investment management business we perform, regardless of product types or investment strategy.



How we identify and assess risk

We periodically assess the risks faced by our business using a 'top-down' and 'bottom-up' approach. The 'top-down' approach uses analysis from Group Risk and discussion with GMC members and subject matter experts around the Group. Emerging risks are identified and assessed and trends in existing risks are reviewed in light of the current internal and external environment, geopolitical factors, market conditions, changing client demand and regulatory sentiment. The objectives of regulators to ensure market integrity, good conduct, appropriate consumer protection and the promotion of competition within the industry are also taken into account. The 'bottom-up' approach uses the results from Risk and Control Assessments, trends in risk events and high-impact issues logged in our operational risk database. The results of these assessments are used to inform our internal key risks, which are presented to the GRC prior to the GMC, BARC and Board.

As part of this process, we specifically highlight 'ESG risk including climate change', as a key business risk. We define this risk as the failure to understand and accurately assess ESG risk within assets and portfolios and to appropriately represent these to clients and stakeholders. This may lead to poor investment decisions and a failure to offer ESG products impacting our performance, brand and reputation. During 2021, this risk was owned jointly by the Global Head of Product, Solutions & Quant and the Global Head of Investment.

However, climate change is a pervasive risk across many of our key risk types, and we detail in the table at the end of this section how climate change impacts these risks. At a more granular level, line management across the Group is responsible for identifying climate change related risks and assessing their impacts to their business areas and functional responsibilities. These risks are identified through a variety of different mechanisms, including regular strategic reviews of our business and product offerings,

detailed Risk and Control Assessments carried out across the Group and ongoing monitoring of the regulatory landscape. Risks within the companies in which we invest are identified through detailed research and analytics. The identification process is supplemented by second line functions, including Risk, Compliance, Legal, Governance, Finance, Tax and HR, who provide insight on relevant risks across the Group, external risks and regulatory requirements. Review and prioritisation of these risks, based on their impacts, are with the ESG Steering Committee for Investment, the PSC for Product and CR Committee for our own operations, taking into account our risk appetite where relevant.

Regulatory landscape

For emerging regulatory requirements relating to managing and reporting on climate impacts, the ESG Regulatory Steering Committee oversees the process to ensure that new, proposed regulations are identified and monitored as they progress through their consultation phase and are assessed for their high-level impact on our investment management and our own business' climate strategy and on the existing, and under development, operational practices and tools in place to support the attainment of the strategy. Once we are clear on the business implications of new regulatory requirements, these are integrated into the respective business divisions via relevant ESG Programme workstreams. The overall implementation is overseen by the chair of the ESG Executive Committee, who is responsible for the delivery of both regulatory and non-regulatory changes to achieve the Group's sustainability and climate strategy. Risks are monitored by the ESG Regulatory Steering Committee and escalated to the ESG Executive Committee, where necessary, for resolution.

Once new regulations, including climate regulations, are embedded in the business, relevant risks and issues related to maintaining compliance are logged in our operational risk management tool. This tool holds key operational risks, risk events (for example, errors and breaches), issues and associated actions. Group Risk own the framework for operating this tool and oversee the resolution of the matters logged. Group Compliance actively review compliance-related risk events and issues and report on substantive concerns to each meeting of the GRC and quarterly to the BARC.

Risk management continued

Management of climate risks

Climate change risk has been embedded into our existing processes and controls across the Group, alongside specific ESG and climate-related governance and decision-making bodies. Key processes and how these have been further developed to integrate climate change risk are detailed below.

Investment research and decision-making

Our fund managers across our investment desks, including Equities, Fixed Income and Multi-Asset, will make investment decisions based on detailed analysis (for example, of investee companies and macroeconomic views). In order to review climate-related risks within that investment analysis, we have developed a number of proprietary tools and metrics to support the assessment of each portfolio's exposure to climate-related risks and opportunities (discussed in more detail in the Strategy section). Dashboards are used by fund managers to provide users with access to the metrics, along with measures from external third-party ESG rating providers, and also to report on the coverage. Coverage is defined as the proportion

of assets (by value) within each portfolio that have been assigned a score by the tools.

Analysis to date has focused predominantly on public equity, credit markets and sovereign bonds. These tools include Carbon Value at Risk (VaR), the SustainEx™ tool and our Physical Risk Model.

The above proprietary quantitative tools are complemented by qualitative assessments which are recorded in our CONTEXT system, and are the result of proprietary insights, meetings and interviews. We also make use of external measures, such as MSCI Carbon Emissions and MSCI ESG analyses.

Within Private Assets we have developed an environmental management system (EMS) for the asset management of our direct real estate in the UK and Europe (certified to ISO 14001) to manage sustainability and impact risks and opportunities, and to develop resilience and performance of our portfolios and assets.

The ESG metrics, such as Carbon VaR and SustainEx™, do not generally provide adequate coverage across private assets. We are in the process of building a unified ESG and impact framework across private assets with shared principles, processes and taxonomy across the Private Assets investment teams, along with a unified data layer. Additionally, we are exploring an adapted version of SustainEx™.

Investment risk oversight framework

To oversee the management of climate risks within our investment activities, we have fully embedded climate change into our second line oversight processes. Day-to-day dialogue, review and challenge of climate risk with the investment teams is complemented by more formal discussions, as part of the quarterly Asset Class Risk and Performance Committee meetings. These committees are attended by asset class heads within the investment division, senior members of their direct management team and independent Risk, Compliance and Product Governance teams' representatives.

The climate-related models and tools are covered by our Group Model Governance policy, with the models subject to review by our Model Validation team within the central Group Risk function. This ensures they are conceptually sound, implemented as intended, robust in terms of controls and appropriately understood by the user base.

In addition to the investments in portfolios, we also focus our oversight process on the counterparties we are transacting with. The ESG component of external credit ratings are one of the factors that our independent Group Credit Risk team takes into account when undertaking credit analysis. We use insights from our internal tools to facilitate the oversight and assessment. For example, internal ESG scores are assigned in our CONTEXT system using a methodology created by the central Sustainable Investment team; these are used for the assessment of all our derivatives counterparties. Outliers result in further discussion with the investment teams and a clear business case must be made to justify continued use.

The risk oversight framework is also applied for the deployment of our own capital where we invest our own balance sheet into new funds via our seed capital programme. We will be using our proprietary tools to analyse and assess the extent to which our own financial assets are exposed to climate-related risks and opportunities. Seed capital investments are approved by the Group Capital Committee (CapCom), which is chaired by the CFO and attended by the Group Chief Executive. We are in the process of implementing a number of ESG measures, including risk, for these seed investments, which are reported to and reviewed by the CapCom.

Product development process

We assess our product range and client demand continually to ensure our offering effectively meets client needs in respect of climate change mitigation. As part of this activity, we monitor the strength and direction of asset flows into sustainable and climate-related funds, and look for opportunities to create products and solutions, which help clients meet their goals and obligations including mitigating climate change risk. This information and insight informs our product strategy which is discussed in whole or in part in a number of forums of which the Group Chief Executive is a member, including the PSC and the GMC, which he chairs.

To ensure that the marketing of our products is not misleading, we follow policies and guidelines regarding the development and dissemination of marketing materials and client communications to reflect applicable regulatory requirements. Staff receive relevant compliance training. In addition to defining many of the general principles, compliance officers or authorised persons also review templates of marketing content and approve certain materials deemed higher risk. We are updating these procedures to enhance our controls across the organisation, and to incorporate ESG and climate considerations in particular.



Risk management continued

Company engagement

Active ownership and engagement with our investee companies is a fundamental part of our strategy to drive transition and also enhance our reputation as an investment manager. As investors of our clients' capital, we aim to take an active role in our investee companies' progress to decarbonise by focusing on the companies that contribute the largest amount to our Scope 3 financed emissions. Our active ownership efforts seek to encourage better disclosures from the companies in which we invest and to improve data availability to assess climate-related risks. We monitor and measure the impacts of our engagements through the tools and models previously mentioned to understand the commitments made, actions taken and progress towards any targets. In addition, as the number of climate-related resolutions put to company general meetings has risen, we are refining and adapting our voting principles in this area and look to vote for resolutions which support our sustainability outlook. More details on our voting policy can be found on page 25 in the Strategy section of this report.

Management of our own operations

Our operations, in respect of our buildings and third party providers, are managed by our Workplace Services and Procurement functions, reporting to the CFO, who have processes in place to mitigate and control the risks associated with climate change. Where we acquire new premises (through real estate moves), detailed environmental risk assessments are carried out as part of the acquisition due diligence. This involves the use of third-party consultants to assess the associated risks relating to the new building and its location, including those that will be impacted by current or emerging climate change related regulations and longer-term physical risks. Should a physical event prevent our ability to operate, we have business continuity arrangements in place. Our key vendors are also subject to ongoing monitoring, annual due diligence reviews and incident management response planning.

We also use external data, for example, from Verisk Maplecroft, in line with our Real Estate investment business, to analyse climate change risks that our own buildings are exposed to. This enables us to determine localised risk assessments for all of our occupied assets worldwide. We are in the process of determining what specific actions need to be taken in respect of this assessment, which will be prioritised by the GMC, based on the degree of impact determined.

In addition, we also carry out strategic reviews on our properties on a periodic basis, which includes a detailed assessment of risks and opportunities associated with the properties, performed by third-party specialists. Our CR Committee considers recommendations in respect of the firm's own actions in response to climate change, including energy usage, waste and sustainable sourcing.



The impact of climate on our Group's key risks

Below, we detail the extent to which climate change impacts each of our more material key risk types and their associated GMC risk owner during 2021.* Those considered high impact are highlighted by .

Group key risk (risk owner during 2021)

Business model disruption (Group Chief Executive)

Climate change may drive the evolution of financial products and changes in regulation, resulting in transition risks that may impact our business model.

Changing investor requirements (Global Head of Product, Solutions & Quant)

Climate change risk is expected, in the medium term, to materially impact client considerations when determining their investment strategies, and therefore, the need for our investment offerings to appropriately reflect that. Furthermore, clients may require that our own activities adhere to specific carbon footprint thresholds before engaging us as an investment manager. Our failure to meet these targets may have a detrimental reputational impact.

Fee attrition (Group Chief Executive)

We may suffer fee attrition if clients move to more passive products if they offer appropriate ESG and climate change considerations when compared to active management.

Investment performance risk (Global Head of Investment)

Investment performance may be impacted if the focus on sustainability leads to poorer performance outcomes. In addition, there is a risk that portfolios do not meet their sustainability outcomes, which may have a detrimental effect on our ability to retain assets under management (AUM).

Reputational risk (Global Head of Product, Solutions & Quant)

Our reputation with clients and shareholders may be impacted if: we are perceived as not responding appropriately to climate challenges, due to the complex nature of assessing the impact of our investee companies' operations on climate change; we fail to meet the science-based targets we are establishing; we fail to meet our commitment to carbon neutrality. We may also face the risk of clients feeling misled by the marketing of ESG and climate funds, should the ESG credentials of an investment or product be exaggerated or misrepresented.

Conduct and regulatory risk (Group General Counsel)

Numerous climate-related regulatory requirements continue to be implemented globally across the financial services industry. Our failure to meet these requirements may result in regulatory sanction and/or litigation.

Group key risk (risk owner during 2021)

Financial instrument risk (Chief Financial Officer)

We expect the value and liquidity of financial instruments to be significantly impacted by climate risks, as investor and consumer sentiment on sustainability issues evolves, and businesses are required to transition to a lower carbon environment. Fundamental valuations will be impacted, as well as an increased capital flow into new financial products and instruments to finance the transition.

Information security and technology risks (Chief Technology Officer)

We do not envisage that climate change risks impact information security risk. However, our ability to assess and monitor climate change risk is dependent on the availability of appropriate technology (for example, the platforms that our analytical tools reside on).

Market returns (Group Chief Executive)

Market returns may be significantly impacted by climate change risks in the short to medium term, both physical and transition risks impacting market valuations and yields. Geopolitical risks may increase as greener economic policies are implemented worldwide in order to transition from fossil fuels.

Operational process risk (Chief Financial Officer)

Operational processes are impacted by climate change risk to the extent that they are new or need to be adapted in order to facilitate investment analysis, product development and reporting, amongst others. Errors within these processes may therefore impact our reputation, our regulatory compliance or require financial compensation.

Product strategy and management (Global Head of Product, Solutions & Quant)

Climate change risks materially impact our product strategy in order to ensure we offer clients the products that help them to achieve their investment objectives.

People and employment practices risk (Global Head of Human Resources)

Staff may be harder to retain or attract if we do not actively address climate change risks.

* There were a number of GMC role changes that took place in January 2022 and therefore the ownership of some of the key risks listed above, at the time of this report being published, are subject to change.



METRICS AND TARGETS

Monitoring our progress and holding ourself to account.

We use a number of metrics and targets to track progress against our climate change strategy to ensure that we are responding appropriately to the climate-related risks and opportunities facing our business.

The investments we manage:

Key metrics

- Financed Scope 1 and 2 carbon emissions in 2021 is 35.4 MtCO₂e¹
- Financed Scope 1 and 2 carbon footprint in 2021 is 69.9 tCO₂e/\$m invested¹
- Temperature score for Scope 1 and 2 carbon emissions at portfolio level in 2021 is 2.8°C¹

Targets

- Align our in-scope assets under management (AUM) to a 2.2°C pathway by 2030¹, across financed Scope 1 and 2 emissions
- Align our in-scope AUM to a 1.5°C pathway by 2040¹, across financed Scope 1, 2 and 3 emissions

Our own operations:

Key metrics

- Scope 1 greenhouse gas (GHG) emissions in 2021 are 1,980 tCO₂e
- Scope 2 location-based GHG emissions in 2021 are 3,908 tCO₂e
- Percentage of global renewable electricity consumption in 2021 is 84%
- Scope 3 business travel GHG emissions in 2021 are 1,722 tCO₂e
- Percentage of suppliers with a science-based target in 2021 is 10%

Targets

- Reduce absolute Scope 1 and 2 (location-based) GHG emissions by 46% by 2030 from a 2019 base year
- Transition to a hybrid or fully electric company car fleet by 2025 (with a strong preference for fully electric unless impractical) with the aim to be fully electric by 2030
- Increase annual sourcing of renewable electricity to 100% by 2025
- Reduce absolute business travel GHG emissions by 50% by 2030 from a 2019 base year
- Work with our suppliers so that 67% of suppliers in scope (by GHG emissions) will have science-based targets by 2026

¹. In-scope assets based on SBTi criteria and currently include listed equities (common stock and preferred stock), corporate bonds, Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs) asset classes.

THE INVESTMENTS WE MANAGE

Methodology for metrics and targets

In accordance with the recommendations made by the TCFD, we utilise the following metrics to report on our financed Scope 3 category 15 GHG emissions. This approach allows us to effectively assess and track our exposure over time.

Investment metrics methodology

Metric	Methodology	Usage	Limitations
Total carbon emissions Establishes the total GHG emissions of a portfolio's investments.	$\text{MtCO}_2\text{e} = \sum \left(\frac{\text{Current value of investment}}{\text{Issuer's EVIC}} \times \text{Issuer's GHG emissions} \right)$ <p>EVIC = Enterprise Value Including Cash</p>	Establishes the absolute volume of GHG emissions emitted by a portfolio.	Limited in terms of comparability or benchmarking due to its link to portfolio size.
Carbon footprint Measures a portfolio's GHG emissions normalised by its market value.	$\text{tCO}_2\text{e}/\$m \text{ invested} = \frac{\sum \left(\frac{\text{Current value of investment}}{\text{Issuer's EVIC}} \times \text{Issuer's GHG emissions} \right)}{\text{Current portfolio value}}$	Intensity metrics that enables comparison of different portfolios' emissions, irrespective of AUM.	Sensitive to changes in portfolio value.
Weighted Average Carbon Intensity (WACI) Measures a portfolio's exposure to carbon-intensive companies.	$\text{tCO}_2\text{e}/\$m \text{ revenue} = \sum \left(\frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Issuer's GHG emissions}}{\text{Issuer's revenue}} \right)$ <p>Scope 1 and 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value) rather than the equity ownership approach.</p>	Enables easy comparison between a portfolio and a benchmark.	Can only be used with listed equity and corporate bonds.

We have used the emerging industry standard developed by the Partnership for Carbon Accounting Financials (PCAF)¹ to calculate total carbon emissions (equivalent to financed emissions Scope 3 category 15 under PCAF) and carbon footprint (equivalent to economic emissions intensity under PCAF). We have used the TCFD recommended approach² to calculate the Weighted Average Carbon Intensity (WACI).

1. PCAF Global GHG Accounting & Reporting Standard for the Financial Industry (<https://carbonaccountingfinancials.com/standard>).

2. 2021-TCFD-Implementing_Guidance.pdf (https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf), page 52.

Portfolio temperature score

We have implemented the CDP-WWF temperature rating methodology to assess the forward-looking climate ambition of our investment portfolios in accordance with our public commitments to the Science-Based Targets initiative (SBTi). This model calculates the implied temperature pathway of our holdings based on the level of ambition by corporate GHG emissions reduction targets set by our investee companies.

Temperature alignment methodology – worked example



1. Calculated using a weighted average based on Scope 1 plus 2 emissions and Scope 3 emissions only for companies required to report on Scope 3.

Metrics and targets continued

2021 metrics

In February 2022, the SBTi validated that our financed emissions reduction goals are aligned with a 1.5°C trajectory by 2040. This submission included an overview of our Scope 3 category 15 carbon emissions and the implied temperature rise of our entire portfolio across all in-scope asset classes (listed equities (common stock and preferred stock), corporate bonds, REITs and ETFs), which accounted for over 60% of our total AUM (excluding associates and joint ventures) from a 2019 base year. It is important to note that, though our long-term target includes our investee companies' Scope 1, 2 and 3 emissions, the availability of Scope 3 data remains a challenge. It is, however, the single greatest source of carbon emissions for many of the highest emitting sectors, so PCAF have taken a phased approach to its reporting by financial institutions.¹ Accordingly, for all in-scope asset classes, the below values for 'total carbon emissions' and 'carbon footprint' include Scope 1 and 2 emissions for all sectors, whilst Scope 3 values cover the oil and gas, and metals and mining sectors only. For more detail on the asset class breakdown of our total carbon emissions and carbon footprint, refer to Appendix 3 on page 54.

Our WACI coverage is distinct, covering our equity, corporate bond and multi-asset investment desks' exposure. Note that the unit refers to aggregated investee company revenue, not Schroders' revenue.

Metrics type	Scope	Value (2021)	Value (2020)	Value (2019)	Units
Total carbon emissions	Scope 1 and 2	35.4	37.2	39.1	MtCO ₂ e
	Scope 3 ¹	446.8	754.5	709.2	MtCO ₂ e
Carbon footprint	Scope 1 and 2	69.9	78.2	95.5	tCO ₂ e/ \$m invested
	Scope 3 ¹	13,915.3	25,002.9	22,746.1	tCO ₂ e/ \$m invested
Weighted average carbon intensity (WACI)	Scope 1 and 2	163.6	176.7	N/A	tCO ₂ e/ \$m revenue
Portfolio temperature score	Scope 1 and 2	2.8	2.9	2.9	Celsius

The total Scope 1 and 2 carbon emissions associated with our investments in 2021 decreased by almost 5% year-on-year, and our carbon footprint has fallen by over 10% to a combined value of 69.9 tCO₂e/ \$m invested. Our in-scope assets are currently aligned to a 2.8°C pathway. Meanwhile, our exposure to carbon-intensive companies (WACI) fell over 7% year-on-year to 163.6 tCO₂e/ \$m revenue.

Data quality score (weighted average)	2021 emissions			2020 emissions			2019 emissions		
	Scope 1	Scope 2	Scope 3 ¹	Scope 1	Scope 2	Scope 3 ¹	Scope 1	Scope 2	Scope 3 ¹
Listed equities²	2.6	2.6	3.0	2.6	2.7	3.0	2.8	2.8	3.3
Corporate bonds	2.9	2.9	3.5	2.8	2.9	3.5	3.0	3.0	3.7
REITs	4.3	4.2	N/A	4.5	4.4	N/A	4.2	4.0	N/A
ETFs	5.0	5.0	N/A	5.0	5.0	N/A	5.0	5.0	N/A

PCAF requires the reporting of data quality to provide transparency and clarity on the limitations of the data available, as well as to hold companies to account on ensuring this quality increases over time.³ Using a 1-5 score, with 1 being the highest (externally verified data), a weighted average of data quality can be established for different asset classes. As expected for our listed equity² and corporate bond holdings, we see a general upward trend in the quality of data over time, but with our REIT and ETF holdings the quality is relatively flat.

Temperature score results by industry⁴

2021				2020			
Sector	Exposure (USD Bn)	Scope 1, 2 mid score	Scope 1, 2 long score	Sector	Exposure (USD Bn)	Scope 1, 2 mid score	Scope 1, 2 long score
Financials	105.6	2.9	3.1	Financials	95.8	2.9	3.1
Miscellaneous	82.2	3.1	3.2	Miscellaneous	81.8	3.0	3.0
Technology	71.5	2.8	2.6	Technology	64.6	3.0	3.0
Consumer goods	54.0	2.7	2.9	Consumer goods	49.4	2.8	3.0
Industrials	53.3	3.1	3.0	Industrials	48.9	3.1	3.1
Consumer services	39.6	2.6	3.0	Consumer services	37.1	2.7	2.8
Healthcare	35.9	2.3	3.1	Healthcare	32.0	2.8	3.0
Basic materials	25.9	3.0	3.0	Basic materials	22.8	3.1	3.1
Oil and gas	20.9	2.8	2.6	Oil and gas	17.4	2.7	2.8
Utilities	14.4	2.4	2.9	Utilities	14.1	2.4	2.4
Telecommunications	12.8	1.7	2.8	Telecommunications	11.7	2.2	2.5

Oil and gas companies have some of the most ambitious targets across Scope 1 and 2 emissions. This is in an attempt to hedge their carbon-entrenched business model, which is reflected in their high Scope 3 emissions.

The sectors with our highest investment exposure, like healthcare, consumer goods and consumer services, are already making progress on their decarbonisation journey through effective disclosure of carbon emissions targets. Companies in these sectors, however, must still be encouraged to set further, more ambitious targets across longer timeframes and their entire value chains.

Companies in the utilities sector have established particularly ambitious targets across Scopes 1, 2 and 3. Our exposure to western European utility companies has contributed to the strong performance in aggregate. Utilities, and in particular, electric power companies and independent power producers, are under the spotlight when it comes to the energy transition and have responded through strong public statements of ambition.

Temperature score results by asset class

2021				2020			
Asset class	Exposure (USD Bn)	Scope 1, 2 mid score	Scope 1, 2 long score	Asset class	Exposure (USD Bn)	Scope 1, 2 mid score	Scope 1, 2 long score
Listed equities ²	360.3	2.8	2.9	Listed equities ²	320.6	2.8	2.9
Corporate bonds	133.1	2.8	3.0	Corporate bonds	133.6	2.9	2.9
ETFs and REITs	22.5	3.1	3.2	ETFs and REITs	21.4	3.2	3.2

1. Requirement to report Scope 3 financed emissions is phased, see page 49 of the PCAF standard for more detail (<https://carbonaccountingfinancials.com/standard>).

2. Listed equities refers to our common and preferred stock exposure.

3. See page 103 of the PCAF standard for the detail of the data quality requirements (<https://carbonaccountingfinancials.com/standard>).

4. Mid score refers to medium-term temperature score (2019-2030), long score refers to long-term temperature score (2019-2040).

Metrics and targets continued

Targets

Our investments and investment products are increasingly Paris Agreement aligned and are actively monitored through a range of relevant metrics. The emissions reduction targets, which have been validated by the SBTi, cover the two interlinked dimensions of our financed emissions footprint and the ambition of corporate targets set by investee companies. We expect to continue making progress towards them through a range of mechanisms.

Firstly, it is expected that as the economy decarbonises external market momentum will encourage corporates to set more ambitious targets. As laid out in the Strategy section (see detail on page 24), we will engage with investee companies to apply further pressure regarding their carbon emissions and target-setting performance, and have initiated a climate-specific engagement campaign which details specific milestones and criteria for further escalation. Ultimately, where we do not see demonstrable progress, we can reduce our investment exposure to climate laggards through portfolio rebalancing.

We have implemented well-established third-party methodologies for assessing financed emissions and temperature alignment, and will continue to monitor and track progress against these metrics through a number of internal tools across the business (see page 15 for more detail).

Reduce medium-term implied temperature score to

2.2°C by 2030

Reduce the implied temperature score across 100% of our Scope 1 and 2 emissions by invested value within the common stock, preferred stock, corporate bonds, ETFs and REITs asset classes from 2.9°C in 2019 to 2.2°C by 2030.

Reduce long-term implied temperature score to

1.5°C by 2040

Reduce the implied temperature score across 100% of our Scope 1, 2 and 3 emissions by invested value within the common stock, preferred stock, corporate bonds, ETFs and REITs asset classes from 3.2°C in 2019 to 1.5°C by 2040.

Coverage of targets:

More than 60% of our total investment activities by assets under management as at 2019.

Progress against targets:

The assets we manage are, in aggregate, currently aligned to a 2.8°C pathway. As market momentum and investor engagement increases the number of companies with established targets, we expect that alignment to continue to move toward the targets we have committed to, recognising that the pathway is likely to fluctuate around the linear trend.



Metrics and targets continued

Ongoing monitoring

Our investment desks are empowered to take a leading role in the implementation of our transition strategy, under a consistent approach, with common goals and central oversight. With an engagement plan developed by the Sustainable Investment team, investment teams will leverage their relationships with, and knowledge of, target companies to push for ambitious decarbonisation commitments and transition plans.

Logged in a central database, the Sustainable Investment team monitors and tracks engagements across Schroders to determine progress against the transition strategy, and companies against their own climate targets. This ensures the actions we take are consistent with the plan we have established.

Coupled with climate data, temperature alignment can be determined at the individual holding, fund and investment team level to inform investment decision-making. This ensures the results of our climate strategy yield the transition we expect.

As engagement sits at the heart of our climate transition strategy, we have significantly increased the scale and capacity of the teams responsible for engaging with those companies. We have expanded our entire Sustainable Investment team by over 50% during 2021 and more than doubled the Sustainable Investment team focused on engagement activities.

Investments not initially in scope

To date, our SBTi targets have focused on the asset classes that represent the most significant portion of our AUM, in particular public equity and corporate bonds, which represent over 60% of our AUM (at 2019). That focus reflects both materiality to our business and rigour of possible analysis. Going forward, we are committed to expanding that scope to include other asset classes in 2022, particularly sovereign bonds and private assets.

Target setting in practice: Our Real Estate business

The Real Estate Sustainability programme includes energy and carbon reduction targets for the direct real estate under our management. Schroders Capital Real Estate's energy and carbon targets expired in March 2021 allowing new targets to be set to support continuity of our approach and our net zero carbon commitment. New energy and carbon targets aligned to 1.5°C using CRREM pathways for assets and funds should be finalised in Q1 2022.

The impact of Covid-19 and national lockdowns on building occupation and operation disrupted our analysis of Schroders Capital Real Estate's impact through active energy management programmes on energy reduction. Therefore, we have concluded to use the March 2020 analysis as the final results against the targets.¹ Our targets and progress against these targets to March 2020 are shown below:

- In the UK a 25% reduction in energy intensity and 52% reduction in carbon intensity, against a 2015/16 baseline (targets: 18% energy and 32% carbon reduction)

- Germany a 3.6% reduction in energy intensity, against a 2017/18 baseline (target: 3% energy reduction)
- Finland and Sweden a 1% increase in energy intensity, against a 2017/18 baseline (target: 7.5% energy reduction)
- Switzerland a 1% increase in energy intensity, against a 2017/18 baseline (target: 5% energy reduction)

Schroders Capital Real Estate's other targets include:

- Procure 100% renewable electricity² for landlord-controlled supplies by 2025. To March 2021, progress across our direct funds representing approximately 50% of our AUM ranged from 27-100% with further supplies in the process of transitioning to a renewable tariff as contracts and markets allow
- Send no waste to landfill. To March 2021, for our direct funds representing approximately 50% of our AUM at March 2021 there was a de minimis amount of waste to landfill

Ongoing monitoring and governance

- The Head of Sustainability and Impact Investment for Schroders Capital Real Estate has overall responsibility for proposing and monitoring progress against targets for all AUM
- The Schroders Capital Real Estate Direct Investment Committee is responsible for governance of fund targets which are approved annually
- The fund managers are responsible for achieving targets set for their fund, which include the Schroders Capital Real Estate sustainability targets
- The investment managers are responsible for implementing strategies at the asset level to support with achieving carbon reduction targets and ensuring investments remain resilient to both transition and physical risks

- Progress against targets is monitored for each direct real estate fund by the sustainability team and fund manager
- This is reported both in the entity's report and accounts, and as part of the fund's GRESB submission

2021 metrics

Real Estate had £16.3 billion total AUM at 31 March 2021.

We have emissions data for £8.3 billion of direct real estate AUM as at March 2021 as follows:

- Total Scope 1 emissions = 9,581 tCO₂e
- Total Scope 2 emissions = 31,186 tCO₂e

1. The targets apply to Schroders Capital Real Estate's directly invested UK and European discretionary mandates excluding hotel and residential assets and for landlord-controlled energy supplies only. These targets are based on building level energy (kWh/m²/year) and carbon (kgCO₂e/m²/year) intensity metrics, progress is measured as the change in average portfolio intensity since the baseline year and targets are set and tracked at the country level. Energy and carbon intensity are adjusted for changes in building occupancy and the impacts of weather, where appropriate.

2. Renewable electricity (%) is calculated according to the attributes of energy supply contracts as at the entity reporting date and only reflects renewable electricity procured under a 100% 'green tariff' (i.e. where generation is from 100% renewable source). The renewables percentage of standard (non 'green tariff') energy supplies are not known and not included within the number reported.

OUR OWN OPERATIONS

Our methodology and approach

We use a number of metrics to measure and monitor our environmental impact, which helps us determine what our targets should be. We use the GHG Protocol as our accounting methodology.

Scope	Methodology	Data used
Scope 1 Direct GHG emissions from sources that are owned or controlled by the Group.	$tCO_2e = \sum \left(\frac{\text{Total energy consumed (kWh)}}{1,000} \times \text{Relevant fuel energy type emissions factor (kgCO}_2\text{e)} \right)$	<ul style="list-style-type: none"> Activity data (e.g. fuel consumption) Fuel/energy type emissions factors
Scope 2 Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by the Group.	$tCO_2e = \sum \left(\frac{\text{Total energy consumed (kWh)}}{1,000} \times \text{Relevant grid average emissions factor (kgCO}_2\text{e)} \right)$	<ul style="list-style-type: none"> Activity data (e.g. electricity consumption) National/state-level emissions factors
Scope 3 business travel Indirect GHG emissions from the transportation of employees for business-related activities in vehicles owned or operated by third parties, such as aircraft, trains, buses and passenger cars.	$tCO_2e = \sum \left(\frac{\text{Total mileage travelled (miles or km)}}{1,000} \times \text{Relevant vehicle type emissions factor (kgCO}_2\text{e)} \right)$	<ul style="list-style-type: none"> Activity data: <ul style="list-style-type: none"> Air travel: distance travelled; cabin or class Sea travel: distanced travelled; passenger type Land travel: distance travelled; vehicle type; fuel type National emissions factors
Scope 3 supply chain emissions (categories 1, 2 and 4) GHG emissions from purchased goods and services (category 1), capital goods (category 2) and upstream transportation and distribution (category 4).	$tCO_2e = \sum \left(\frac{\text{Total spend GBP by product}}{\text{Supplier category by supplier}} \times \text{Relevant product category Environmentally Extended Input Output Data (EEIO) emissions factor (kgCO}_2\text{e)} \right)$	<ul style="list-style-type: none"> Activity data (e.g. spend) EEIO emissions factors

Metrics and targets continued

2021 metrics

We have enhanced our GHG emissions disclosure for 2021, providing a more detailed breakdown and reporting all relevant Scope 3 emissions categories.

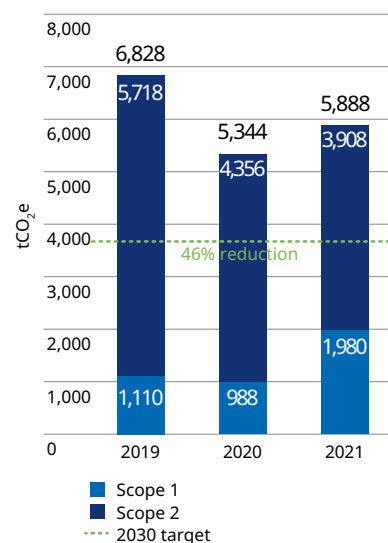
Our operational GHG emissions

Greenhouse gas emissions (tCO ₂ e)		2021	2020	2019
Scope 1	Building-related gas and fuel	533	382	488
	Cars (company-owned or leased)	419	366	326
	Fugitive emissions	1,028	240	296
Total Scope 1 emissions		1,980	988	1,110
Scope 2	Electricity (location-based)	3,438	3,863	5,034
	Electricity (market-based)	593	1,114	2,571
	Purchased heat (location-based)	470	493	684
Total Scope 2 emissions (location-based)		3,908	4,356	5,718
Total Scope 1 and 2 emissions (location-based)	UK operations	3,824	3,291	4,621
	Outside UK operations	2,064	2,053	2,207
	Total	5,888	5,344	6,828
Total Scope 1 and 2 emissions (market-based)	UK operations	1,723	916	2,408
	Outside UK operations	1,320	1,679	1,957
	Total	3,043	2,595	4,365
Energy consumption (kWh)				
	UK operations	13,206,057	13,885,648	18,495,195
	Outside UK operations	7,746,418	7,368,470	7,770,602
	Total energy consumed	20,952,475	21,254,118	26,265,797
Greenhouse gas emissions (tCO₂e)				
Scope 3 operational emissions	Category 1: Purchased goods and services	221,316	215,307	207,843
	Category 2: Capital goods	7,951	8,513	20,137
	Category 3: Fuel and energy-related activities	1,308	1,013	1,340
	Category 4: Upstream transportation and distribution	1,737	2,121	1,652
	Category 5: Waste generated in operations	137	141	261
	Category 6: Business travel	1,722	3,713	21,852
	Category 7: Employee commuting	1,652	1,115	2,693
	Category 8: Upstream leased assets	849	820	803
	Category 13: Downstream leased assets	8	8	9
Total Scope 3 operational emissions		236,680	232,751	256,590
Total operational emissions (location-based)		242,568	238,095	263,418
Other metrics				
Scope 1 and 2 tCO₂e per employee		1.04	0.96	1.27
Renewable electricity consumption (RE100)		84%	75%	50%

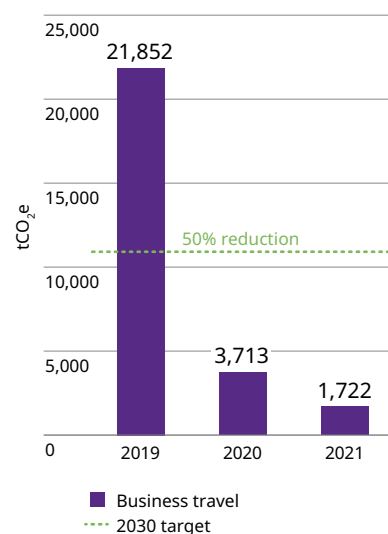
Additional information

Reporting period	The reporting period is 1 January to 31 December inclusive.
Baseline year	We have chosen 2019 as our baseline year as it is a reasonable representation for our business.
Reporting boundary	The financial control boundary approach has been applied to our greenhouse gas inventory, which follows our accounting consolidation approach. No category of emissions has been excluded from this boundary. Scope 3 categories 9 (downstream transportation and distribution), 10 (processing of sold products), 11 (use of sold products), 12 (end-of-life treatment of sold products) and 14 (franchises) have been assessed and are not relevant to our business. Our financed emissions from Scope 3 category 15 (investments) are reported on in 'The investments we manage' section.
Emissions factors	We have used a variety of greenhouse gas conversion factors for calculating our emissions. Emissions factors are determined by the emissions source and the emissions location so that the most accurate factor is applied. Sources of emissions factors used are: Defra, IEA, EPA, EPA eGRID, CCGI, NGA, Green-e.
Reporting methodology	We have reported on the emissions sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013. We followed the requirements of the Streamlined Energy and Carbon Reporting (SECR). We report our global emissions inventory using the GHG Protocol Corporate Standard, the GHG Protocol Scope 3 Calculation guidance, the GHG Protocol Corporate Value Chain (Scope 3) Standard and the Global GHG Accounting and Reporting Standard for the Financial Services Industry.
Metrics	We have used these metrics as they are common business metrics for our industry sector.
Average employees	The average number of employees for our reporting period are: 2021: 5,650, 2020: 5,556, and 2019: 5,359.
Data restatements	As part of our SBTi submission, the Group undertook an inventory review of its GHG emissions in 2021. The reported emissions for 2019 and 2020 have been restated following this review taking into account hotels and taxis in business travel, fugitive emissions and a number of data improvements.
Base year recalculation policy	We have used 2019 as the base year for our greenhouse gas emissions calculations. In order to accurately track progress towards our greenhouse gas targets, we will adjust the base year to account for significant changes such as structural changes, calculation methodology changes, or data errors.
Independent assurance	Incendium Consulting Ltd provided assurance over all of our operational emissions. This assurance was provided in accordance with AA1000AS (2008) Type 2 assessment.

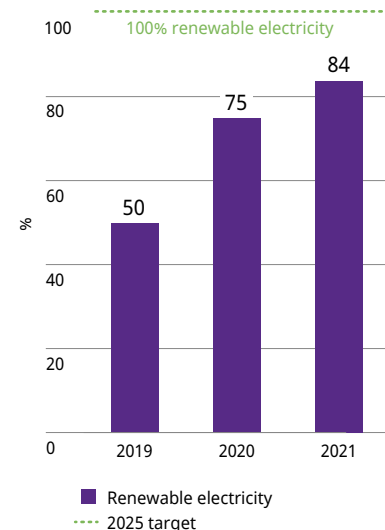
Scope 1 and 2 emissions performance



Scope 3 business travel emissions performance



Renewable electricity consumption (RE100 progress)



Waste

Waste produced at 1 London Wall Place (tonnes)

	2021	2020	2019
General waste	55	47	96
Cardboard	7	5	26
Coffee waste	14	13	77
Food	44	40	12
Vegware™	10	11	18
Glass	9	7	124
Mixed recycling	16	20	8
Paper	10	18	30
Confidential waste	9	12	
Total waste produced (tonnes)	174	173	391

Waste treatment at 1 London Wall Place (%)

	2021	2020	2019
Energy from waste	31%	27%	25%
Anaerobic digestion	25%	23%	20%
Recycled	44%	50%	55%
Total recycled (anaerobic digestion + recycled)	69%	73%	75%

Data includes all waste streams except for Waste from Electrical and Electronic Equipment (WEEE) waste.

Water

Water consumed at 1 London Wall Place (m³)

	2021	2020	2019
Total water consumed	25,400	22,698	26,966
m ³ per employee per year	10	10	11

Our total waste produced at our London headquarters has reduced from 2019 levels due to reduced occupancy in the building during the pandemic. Our recycling rates have also decreased due to the need for Covid-safe measures, including the use of disposable items. As restrictions lift, we aim to return to, and improve upon, our pre-Covid recycling rates.

We recognise the importance of water scarcity and understanding the impacts of our water use across our operations. In 2021, we began closely monitoring and reporting on our water use at our London headquarters. Our data shows that our water use per person is in line with the latest Real Estate Environmental Benchmark (REEB) typical practice water use benchmark figure.¹ We will look to increase our water use monitoring across our global operations through taking greater control over our water management, so that we can identify and implement initiatives to lower the amount of water used across our operations by as much as possible.

1. <https://www.betterbuildingspartnership.co.uk/real-estate-environmental-benchmark-2020>

Targets

We have set targets for each of our key metrics for our operations. In February 2022, the SBTi validated our Scope 1 and 2 targets and confirmed they are in line with a 1.5°C trajectory. We will review, and if necessary, recalculate and revalidate our targets if we achieve a target early or if there is a significant change in our company structure. We will also ensure consistency with the most recent climate science and best practices. We will do this, at a minimum, every five years.

Targets: Scope 1 and 2

- Reduce absolute Scope 1 and 2 (location-based) GHG emissions by 46% by 2030 from a 2019 base year
- Increase annual sourcing of renewable electricity to 100% by 2025¹ (RE100 target)
- Transition to a hybrid or fully electric company car fleet by 2025 (with a strong preference for fully electric unless impractical) with the aim to be fully electric by 2030

Target ambition: In line with SBTi guidance, we have chosen the most ambitious target for our Scope 2 emissions and have therefore set our target using the location-based methodology. Location-based targets are challenging because they are largely determined by the emissions intensity of the grid in that particular location, which is beyond our control. Our focus will be on reducing overall energy consumption and adopting energy efficiency measures across our office locations. We have additionally set a renewable energy procurement target, which is applicable to all offices which fall into our Scope 2 boundary, which we aim to achieve in 2025 ahead of our 2030 near-term target year.

Coverage of targets: 100% of Scope 1 and 2 emissions are covered by the target boundary.²

Progress against targets: In 2021, our total Scope 1 and 2 GHG emissions decreased by 14% compared to 2019, but increased by 10% from 2020.

The increase in Scope 1 emissions in 2021 is primarily due to a one-off incident regarding a suppression system. Additionally, we saw a small increase in building-related gas and fuel consumption; this increase will be considered in our site level energy efficiency action plans.

Our Scope 2 GHG emissions decreased in 2021 due to improvements in energy efficiency, particularly in our larger properties, and because the global pandemic continued to restrict occupancy in our properties, resulting in energy use reductions. Following the implementation of ISO 14001, the international standard that specifies requirements for an effective environmental system, in 1 London Wall Place (our London headquarters) and 2021 certifications of our New York and Hong Kong offices, we have been closely monitoring our energy consumption to identify areas of high usage and saving opportunities.

We have increased the percentage of renewable electricity used across our global offices from 50% in 2019 to 84% in 2021. This has been achieved by engaging with landlords to procure a green electricity tariff or through purchasing Renewable Energy Certificates.

1. For all properties owned or leased by Schroders (to cover all Scope 2 emissions within our financial control as defined by the GHG Protocol).

2. The target boundary is the same as our financial control reporting boundary with no exclusions.

Targets: Scope 3 business travel

- Reduce absolute Scope 3 business travel emissions by 50% by 2030 from a 2019 base year

Coverage of target: 100% of Scope 3 business travel emissions are covered by the target boundary.

Progress against target: Our business travel emissions have decreased by 92% compared to 2019 and by 54% compared to 2020.

The ongoing impact of the Covid-19 pandemic has resulted in a significant reduction in business travel compared to 2019 levels and we do anticipate these will bounce back to a certain extent once travel restrictions are lifted. As well as our Travel Policy requiring justification for business travel, we will be able to evaluate the impact of flexible working and improved conferencing technology on maintaining a reduction in business travel.

Targets: Scope 3 supply chain

- Work with our suppliers so that 67% of suppliers by emissions (covering Purchased Goods and Services, Capital Goods and Upstream Transportation and Distribution) will have science-based targets by 2026

Coverage of target: 100% of Scope 3 supplier emissions (Categories 1, 2 and 4) are covered by the target boundary.

Progress against target: In 2021, 10% of our suppliers, by emissions, in scope (see coverage of target above) have set a science-based target, compared to 1% in 2019.

This increase reflects the current momentum in the market of companies making climate commitments. In 2022, we started our supplier engagement programme to encourage and support our suppliers to set science-based targets.

Ongoing monitoring

The process of setting a science-based target has underscored the importance of having accurate and robust data, processes and systems. During 2021, we carried out a full screening and inventory across all relevant GHG emissions scopes and categories as defined by the GHG Protocol. In 2020 we rolled out an environmental accounting tool to improve the monitoring and measurement of our environmental impact across energy, transport, waste, water and paper use.

Through the use of this tool we collect and measure site-level performance data on a monthly basis, which is then verified internally, through a separate regional approver and finance verifier. Each site is required to upload utilities data. Through the tool we are able to log targets and track progress against them. We can also ensure that the most up-to-date, relevant emission factors are used in line with the GHG Protocol.

Performance dashboards containing results from the environmental reporting process are provided to the Group Management Committee and Board every quarter, including the necessary granular information to assess our progress against targets.



Flexible working

Last year we calculated employee homeworking emissions using a whitepaper from EcoAct. We used various industry sources to capture the impact of our employees working from home, including additional heating and cooling, lighting and use of technology before and during the pandemic. Due to continued remote working in 2021, both as a result of Covid-19 and our new Flexible Working Charter, we repeated the global employee survey to understand working habits during and out of lockdown periods. We received a total of 1,637 responses, representing 29% of our global workforce, and captured more data relating to their energy use and homeworking equipment use.

In 2021, our homeworking emissions decreased from 1,838 tCO₂e in 2020 to 480 tCO₂e. This is due to an improvement in our methodology as we captured the number of employee homes that use gas or energy for cooling. Our data shows that fewer employees' homes used gas than estimated in 2020. The decrease in emissions has also been driven by a reduction in the average time working from home per week. We will continue to develop and monitor this emerging category of GHG emissions reporting.

APPENDIX 1

Summary disclosures

This table provides a summary of our disclosures aligned with the TCFD framework.

TCFD pillars	Recommended disclosures	Our response
Governance See pages 5-10	a) Describe the Board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	<ul style="list-style-type: none"> The Board of Schroders plc has collective responsibility for the management, direction and performance of the Group, and is accountable for our business strategy. We embed climate-related risks and opportunities into our strategy. In discharging their Directors' duties, the Board is therefore ultimately accountable for the oversight of climate-related risks and opportunities that could impact our business. The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive, who then has the authority to delegate further whilst retaining overall responsibility for the delivery of our strategy. There are a number of management committees in the Group that assess, advise on and oversee climate-related risks and opportunities.
Strategy See pages 11-33	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<ul style="list-style-type: none"> Risks to our investee companies include physical risks affecting operations (long term), and transition risks from the move to a net zero economy affecting the business proposition (short, medium and long term). In turn, these can negatively impact Schroders' investment performance. Opportunities will arise in sectors that stand to benefit from the transition to a net zero economy, such as those focused on energy efficiency, renewable energy infrastructure, or climate change resilience/adaptation (short and medium term). For our role as an investment manager, our strategy is to measure exposure, track and hold companies to account and offer client solutions aligned to a net zero pathway. For our own operations, we will implement environmental management systems, reduce energy consumption for properties and company car fleet, increase renewable power, reduce business travel and support suppliers to set science-based targets. The majority of the risk lies in our investments. We identify where the risks lie and act to respond to those risks, in particular through company engagement. Our resilience is strong as we partner with our investee companies to transition and hold them to account. If companies do not take steps to transition to a 1.5°C world, we have the option of exiting those positions as a last resort.
Risk management See pages 34-39	a) Describe the organisation's processes for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	<ul style="list-style-type: none"> We identify risks through the lenses of physical and transition risk. We also identify risks via our existing risk taxonomy as climate risk is pervasive across our risk taxonomy. We assess the risk via research and analytics for investee companies (valuations) or ourselves (reduced revenue/increased costs) using our climate tools. Climate risk has been integrated into our existing processes alongside specific climate-related governance and decision-making bodies. This includes integration into product development and investment research processes. The process of identifying, assessing and managing climate risks has been embedded into our Group-wide risk management framework, which operates a three lines of defence approach. The Group Risk Committee reviews and monitors the adequacy and effectiveness of the Group's risk management framework. It also reviews developments to our internal key risks, one of which is 'Environmental, Social, Governance (ESG) risk including climate change'.
Metrics and targets See pages 40-50	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks. (All data is at 31 December 2021.) c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<ul style="list-style-type: none"> For our clients' investments, we review investee greenhouse gas emissions using absolute and intensity measures, and track implied temperature scores. For our own operations, we review greenhouse gas emissions on our property, fleet and supply chain. As an investment manager, our Scope 3 category 15 (financed emissions) represents our greatest exposure to climate-related risks. The combined Scope 1 and 2 carbon emissions for in-scope AUM is 69.9 MtCO₂e. The temperature score for the combined Scope 1 and 2 GHG emissions at portfolio level is 2.8°C. Our Scope 1 GHG emissions are 1,980 tCO₂e. Our Scope 2 location-based GHG emissions are 3,908 tCO₂e. Our Scope 3 business travel GHG emissions are 1,722 tCO₂e. 84% of our global electricity consumption is from renewable sources. For our clients' investments, align 100% of Scope 1, 2, 3 temperature score for equity, corporate bonds, ETFs and REITs holdings from 3.2°C in 2019 to 1.5°C by 2040. For our own operations, reduce absolute Scope 1 and 2 emissions by 46% by 2030 from a 2019 base year; increase sourcing of renewable electricity to 100% by 2025; reduce absolute business travel emissions by 50% by 2030 from a 2019 base year; and work with our suppliers so that 67% of suppliers (by emissions) will have science-based targets by 2026.

APPENDIX 2

Climate-related initiatives and memberships

We support and actively engage with a range of climate change-related initiatives, memberships and organisations to help lead progress towards a net zero future. Examples include:

Initiative/organisation	Abbreviation	Summary
Carbon Action Initiative	–	We were a founding signatory of the Carbon Action Initiative which aims to accelerate company action on carbon reduction and energy efficiency activities. Our involvement has been to engage with selected emissions-intensive companies that have yet to establish an emissions reduction target.
CDP	–	CDP runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. As a signatory of CDP, we have access to its extensive research and database on climate change, water and forestry. We also submit to their climate change questionnaire annually.
Climate Action 100+	CA100+	We were a founding signatory to the CA100+, a five-year collaborative engagement project to engage over 100 of the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions consistent with a 2°C scenario and strengthen climate-related financial disclosures in line with TCFD recommendations.
ClimateCare	–	ClimateCare helps organisations take responsibility for their climate impact by financing, developing and managing carbon reduction projects across the world. We work with ClimateCare to compensate for our operational greenhouse gas emissions.
Climate Financial Risk Forum	CFRF	We are members of the CFRF, an industry forum jointly convened by the Prudential Regulatory Authority and Financial Conduct Authority to build capacity and share best practice.
Coalition for Climate Resilient Investment	CCRI	We are signatories to the CCRI. This represents the commitment of the global private financial industry, in partnership with key private and public institutions, to foster the more efficient integration of physical climate risks in investment decision-making.
Institutional Investors Group on Climate Change	IIGCC	As signatories to the IIGCC we collaborate with the investment community to drive significant and real progress by 2030 towards a net zero and resilient future. We recently responded to a consultation on the IIGCC's proposed net zero investment framework.
Natural Capital Investment Alliance	NCIA	An initiative of the Sustainable Markets Initiative which aims to accelerate the development of natural capital as a mainstream investment theme. The alliance will engage the investment management industry to mobilise private capital efficiently and effectively for natural capital opportunities, with plans to mobilise more than USD10 billion by 2022.
Net Zero Asset Managers' initiative	NZAM	We were a founding member of NZAM, an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.
Powering Past Coal Alliance	PPCA	As a member of the PPCA and endorser of the PPCA Finance principles, we have committed to offer products that avoid exposure to equity and debt instruments of companies that plan to generate electricity from unabated coal, as well as engage on unabated coal fire generation and encourage information providers to track this data.
RE100	–	RE100 is a global initiative bringing together the world's most influential businesses driving the transition to 100% renewable electricity. We are a member of RE100 and have committed to sourcing 100% renewable electricity for our global offices by 2025.
Science-Based Targets initiative	SBTi	SBTi drives climate action in the private sector by enabling companies to set science-based emissions reduction targets. Our science-based targets were validated by the SBTi in February 2022.
Task Force on Climate-related Financial Disclosures	TCFD	The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. We align our climate-related reporting with its recommendations.

Initiative/organisation	Abbreviation	Summary
Task Force on Nature-related Financial Disclosures	TNFD	The TNFD is developing a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, which aims to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. We are a member of the TNFD Forum, a global multi-disciplinary consultative group of institutional supporters.
Terra Carta	–	As part of the Sustainable Markets Initiative, the Terra Carta is a charter that provides a roadmap to 2030 for businesses to move towards an ambitious and sustainable future. We support the aims of the Terra Carta.
The Investment Association	IA	We are members of the Investment Association and actively participate in the Sustainability and Responsible Investment Committee as well as in the Sustainable Finance Public Policy Working Group.
United Nations Global Compact	UNGC	We are signatories to the UNGC. We are committed to making the UNGC and its principles part of the strategy, culture and day-to-day operations of our company, and to engaging in collaborative projects which advance the broader Sustainable Development Goals of the United Nations. The principles include environmental considerations.
United Nations Principles for Responsible Investment	UN PRI	As signatories to the UN PRI, we are committed to providing transparency on the actions we are taking across our business on responsible investment including climate change.

APPENDIX 3

Total carbon emissions and carbon footprint asset class breakdown

The tables to the right break down our reported Scope 3 category 15 financed emissions from page 43 by in-scope asset class, as required by Partnership for Carbon Accounting Financials (PCAF). This includes our listed equity (specifically common stock and preferred stock), corporate bond, Exchange Traded Fund (ETF) and Real Estate Investment Trust (REIT) exposure.

Our financed Scope 1 and 2 emissions have decreased year-on-year across both listed equities and ETFs, whilst REITs has remained constant, and corporate bonds has increased. This trend for listed equities is maintained across Scope 3 financed emissions, whilst corporate bonds has shown fluctuation year-on-year.

Note that we are currently working to extend our operational baseline recalculation policy to cover the investments we manage on behalf of our clients.

Total carbon emissions (MtCO ₂ e)	2021 emissions		2020 emissions		2019 emissions	
	Scope 1,2	Scope 3	Scope 1,2	Scope 3	Scope 1,2	Scope 3
Listed equities	22.6	299.0	24.4	487.3	28.7	596.8
Corporate bonds	12.3	147.8	12.2	267.2	9.8	112.4
REITs	0.1	N/A	0.1	N/A	0.1	N/A
ETFs	0.4	N/A	0.5	N/A	0.6	N/A
Total	35.4	446.8	37.2	754.5	39.1	709.2

Carbon footprint (tCO ₂ e/\$m invested)	2021 emissions		2020 emissions		2019 emissions	
	Scope 1,2	Scope 3	Scope 1,2	Scope 3	Scope 1,2	Scope 3
Listed equities	63.7	11,823.4	76.0	21,579.3	99.1	24,135.4
Corporate bonds	96.5	21,677.6	91.5	35,185.5	94.3	17,420.5
REITs	7.6	N/A	8.3	N/A	6.9	N/A
ETFs	61.8	N/A	76.4	N/A	97.2	N/A
Overall	69.9	13,915.3	78.2	25,002.9	95.5	22,746.1

GLOSSARY

Active management

The management of investments based on active decision-making rather than with the objective of replicating the return of an index.

Active ownership

Driving change in the overwhelming majority of assets which have yet to reach net zero emissions, by holding those committed to doing so accountable for their progress and pushing those who have not yet committed to do so.

Acute risk

Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

Assets under management (AUM)

The aggregate value of assets managed on behalf of clients. In Wealth Management this includes assets where Schroders provides advisory services but the investment decisions are made by the client as well as assets held in custody where the client independently makes investment decisions, whether it is through direct contact with Schroders or via the Fusion wealth platform.

BARC

Board Audit and Risk Committee.

CapCom

Group Capital Committee.

Carbon dioxide equivalent (CO₂e)

A standard unit for measuring carbon footprints. It enables the impact of different greenhouse gas emissions on global warming to be expressed using an equivalent amount of carbon dioxide (CO₂) as a reference.

Carbon offsetting

Compensating your total carbon emissions by funding carbon negative activities elsewhere. Companies often offset their existing emissions by investing in projects such as tree-planting.

Carbon Value at Risk (VaR)

Measures the impact of higher carbon prices on companies' cash earnings, modelling the impacts of higher supply chain and operating costs, assuming higher prices and consequently lower demand in each sector.

Chronic risk

Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

Clients

Within our Asset Management business we work with institutional clients, including pension funds, insurance companies and sovereign wealth funds, as well as intermediaries, including financial advisers, private wealth managers, distributors and online platforms. We also provide a range of Wealth Management services to private clients, family offices and charities. At times, 'client' is used to refer to investors in our funds or strategies, i.e. the end client. We are increasingly focused on building closer relationships with the end client, whose money is invested with us, often via an intermediary or institution.

Climate Engagement and Escalation Framework

Our Climate Engagement and Escalation Framework sets out how we will use our influence as investors to help drive the transition to a low-carbon economy. It is made up of five key elements: climate expectations, company prioritisation and selection, monitoring progress, voting policy and escalation practice.

Climate neutral

Achieving net zero greenhouse gas emissions by balancing existing emissions with carbon offsets. Unlike net zero, climate neutrality is often (but not always) validated or certified by a third party. Use of these terms varies by region.

Climate Progress Dashboard

Schroders' proprietary tool which tracks the progress being made to limit the rise in global temperatures to 2°C. The dashboard includes 12 objective indicators, from political action through to carbon prices and fossil fuel use, and currently points to a rise closer to 4°C. The information can help investors to understand the scale of change required and to identify areas of investment risk and opportunity.

CONTEXT

A proprietary tool that provides a structured approach to analysing a company's relationship with its stakeholders and the sustainability of its business model. Driven by more than 250 metrics from over 75 data sources, it provides clear, objective information on how companies are managing material ESG issues and generates deeper insights for investors.

CR Committee

Corporate Responsibility Committee.

Engagement

Engagement is more than just meeting with company management, it is an opportunity to gain insight into a company's approach to sustainability. It also gives us the opportunity to share our expectations on corporate behaviour and to influence company interactions with their stakeholders; ensuring that the companies we invest in are treating their employees, customers and communities in a responsible way.

ESG

Environmental, social and governance.

ESG integration

ESG integration refers to the explicit and systematic incorporation of a range of risks and opportunities related to environmental, social and governance (ESG) factors into investment decision-making. In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of potential future opportunities and risks than traditional financial analysis alone. For certain businesses acquired recently we have not yet integrated ESG factors into investment decision-making. A small portion of our business for which ESG integration is not practicable or possible, for example our legacy businesses or investments in the process of being liquidated, and certain joint venture businesses are excluded.

Financed emissions

Absolute emissions that banks and investors finance through their loans and investments.

GMC

Group Management Committee.

GRC

Group Risk Committee.

Greenhouse gases

The seven gases covered by the United Nations Framework Convention on Climate Change (UNFCCC) – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆), and nitrogen trifluoride (NF₃). These gases trap heat close to the surface of the earth and are a key cause of climate change.

Greenhouse Gas (GHG) Protocol

Comprehensive global standardised frameworks to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions. The GHG Protocol supplies the world's most widely used GHG accounting standards.

Investee companies

The companies in which we invest, this term applies across all asset classes.

IPCC

The Intergovernmental Panel on Climate Change is the United Nations body for assessing the science related to climate change.

ISO 14001 environmental management system certification

ISO 14001 is the international standard for environmental management systems (EMS) and the most widely used EMS in the world.

Morgan Stanley Capital International (MSCI) Climate Value at Risk (VaR)

Climate VaR is MSCI's full quantitative scenario analysis solution, designed to provide a forward-looking and return-based valuation assessment of Listed Equity and Debt securities in order to measure climate related risks and opportunities in an investment portfolio.

MSCI ACWI

The MSCI All Country World Index is a global equity index of large- and mid-cap stocks.

MSCI GEAE

The MSCI Global Alternative Energy Index includes developed and emerging market large, mid and small cap companies that derive 50% or more of their revenues from products and services in 'Alternative energy,' defined as products and services that promote the generation of power using renewable or cleaner sources (i.e. cleaner than fossil fuels) or the development of alternative energy technology.

Net Zero Dashboard

The Schroders Net Zero Dashboard measures the forward-looking environmental impact of our investing activities. Specifically, it calculates both the implied temperature pathway and financed emissions for a snapshot of our investment holdings so investment teams and Group Risk can track the pace of transition in individual portfolios. Breaking exposure down by sector and region supports target setting by analysts and fund managers, whilst providing Group Risk with data to engage with investment teams on their climate transition approach.

Net zero

Net zero refers to reaching net zero carbon emissions by a selected date and refers to balancing the amount of emitted greenhouse gases with the equivalent emissions that are either offset or sequestered.

NGO

Non-governmental organisation.

Paris Agreement

A global commitment, agreed at COP21 in Paris in 2015, to limit increase in the global average temperature to below 2°C above pre-industrial levels.

PCAF

The Partnership for Carbon Accounting Financials is an industry greenhouse gas accounting standard used by the Science Based Targets initiative, which provides asset class methods and data resources for the quantification of financed greenhouse gas emissions from loans and investments.

Physical risk

Reflect the risks associated with long-term changes in the climate and with more extreme weather events which may impact future business activities. In particular, the impacts on the value of investments, held on behalf of clients, caused by direct or indirect physical climate changes and events; risk to our businesses and property assets; and those of our suppliers and other partners caused by climate events.

PSC

Product Strategy Committee.

Renewable energy

Energy collected from resources that are naturally replenished such as sunlight, wind, water and geothermal heat.

SBTi

The Science Based Targets initiative defines and promotes best practice in science-based target setting. Offering a range of target-setting resources and guidance, the SBTi independently assesses and approves companies' targets in line with its criteria.

Science-based target

A science-based target provides a clearly-defined pathway for companies to reduce their greenhouse gas emissions. The target is considered 'science-based' if it is in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

Scope 1 emissions

Direct greenhouse gas emissions from sources owned or controlled by the company, such as emissions from gas, oil and company vehicles.

Scope 2 emissions

Indirect greenhouse gas emissions from sources owned or controlled by the company, such as emissions from consumption of purchased electricity, heat or steam.

Scope 3 emissions

Indirect greenhouse gas emissions from sources not owned or controlled by the company, such as emissions from business travel or investments.

Scope 3 category 1 Purchased goods and services

All upstream emissions from the production of products purchased or acquired by the reporting company in the reporting year. Products include both goods (tangible products) and services (intangible products).

Scope 3 category 2 Capital goods

All upstream emissions from the production of capital goods purchased or acquired by the reporting company in the reporting year.

Scope 3 category 3 Fuel- and energy-related activities not included in Scope 1 or Scope 2

Emissions related to the production of fuels and energy purchased and consumed by the reporting company in the reporting year that are not included in Scope 1 or Scope 2.

Scope 3 category 4 Upstream transportation and distribution

Emissions from transportation and distribution of products purchased in the reporting year, between a company's direct suppliers and its own operations in vehicles not owned or operated by the reporting company.

Scope 3 category 5 Waste generated in operations

Emissions from third-party disposal and treatment of waste generated in the reporting company's owned or controlled operations in the reporting year. This category includes emissions from disposal of both solid waste and wastewater.

Scope 3 category 6 Business travel

Emissions from the transportation of employees for business-related activities in vehicles owned or operated by third parties, such as aircraft, trains, buses and passenger cars.

Scope 3 category 7 Employee commuting

Emissions from the transportation of employees between their homes and their worksites.

Scope 3 category 8 Upstream leased assets

Emissions from the operation of assets that are leased by the reporting company in the reporting year and not already included in the reporting company's Scope 1 or Scope 2.

Scope 3 category 9 Downstream transportation and distribution

Emissions that occur in the reporting year from transportation and distribution of sold products in vehicles and facilities not owned or controlled by the reporting company.

Scope 3 category 10 Processing of sold products

Emissions from processing of sold intermediate products by third parties subsequent to sale by the reporting company. Intermediate products are products that require further processing, transformation, or inclusion in another product before use and therefore result in emissions from processing subsequent to sale by the reporting company and before use by the end consumer.

Scope 3 category 11 Use of sold products

Emissions from the use of goods and services sold by the reporting company in the reporting year. A reporting company's scope 3 emissions from use of sold products include the Scope 1 and scope 2 emissions of end users.

Scope 3 category 12 End-of-life treatment of sold products

Emissions from the waste disposal and treatment of products sold by the reporting company at the end of their life.

Scope 3 category 13 Downstream leased assets

Emissions from the operation of assets that are owned by the reporting company and leased to other entities in the reporting year that are not already included in Scope 1 or Scope 2.

Scope 3 category 14 Franchises

Emissions from the operation of franchises not included in Scope 1 or Scope 2.

Scope 3 category 15 Investments

Emissions associated with the reporting company's investments in the reporting year, not already included in Scope 1 or Scope 2. This category is applicable to investors and companies that provide financial services.

Shareholder resolution

A proposal submitted by a shareholder for consideration at a company's general meeting, requesting that the company takes particular action.

SustainEx™

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

tCO₂e

Tonnes of carbon dioxide equivalent. A unit of measurement that is used to standardise the climate effects of various greenhouse gases on the basis of their global warming potential.

Temperature alignment

The method of interpreting an asset's or portfolio's exposure to abstract climate risk, and communicating it as an intuitive implied temperature score; measured degrees Celsius.

Transition risk

Reflects the risks stemming from changes in the economy that will be required to limit long-run temperature rises, including higher or lower rates of demand growth, costs or risk profiles to companies, sectors or asset classes. These may include new or enhanced corporate climate change laws and regulations, changes in investor demand for climate-focused products, and more volatility in financial markets as asset prices adjust to reflect the increasing regulation of carbon emissions.

Vegware™

Vegware™ is plant based compostable foodservice packaging used in our catering facilities in 1 London Wall Place, London and our Horsham estate as an alternative to single-use plastics.

WACI

Weighted Average Carbon Intensity measures a portfolio's exposure to carbon-intensive companies. An investment's emissions are allocated based on its weight within the portfolio, which is the current value of the investment relative to the current portfolio value.

Forward-looking statements

This report may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses of the Schroders Group. Such statements and forecasts involve risk and uncertainty because they are based on current expectations and assumptions but relate to events and depend upon circumstances in the future and you should not place reliance on them. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'sees', 'believes', 'expects', 'aims', 'confident', 'will have', 'will be', 'will ensure', 'likely', 'foresee', 'estimates' or 'anticipates' or the negative of these terms or other similar terms are intended to identify such forward-looking statements. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Nothing in this report should be construed as a forecast, estimate or projection of future financial performance.