

# Stewardship Code

Reporting on our stewardship activities and outcomes in 2022



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# Our commitment to stewardship

Against a backdrop of intensifying cost of living pressures, the Ukraine war and, of course, increasingly vocal anti-ESG rhetoric, our commitment to managing the capital our clients entrust to us to the best of our abilities is undiminished. As structural social and environmental pressures intensify – the impacts of which on businesses and investments are increasingly clear – sustainability is integral to our ability to deliver on our commitments to our clients. We use our influence to support and challenge companies to adapt to these changes and to help channel capital into innovative new solutions around the world.

Navigating these risks and identifying the associated opportunities will require change in many industries, providing us with opportunities to support change and transition in companies and the assets held in the portfolios we manage. During 2022, we have engaged on difficult sustainability issues with thousands companies across 73 countries.

We have invested heavily in developing sustainable investment strengths across our business in recent years. We now have a team of around 50 ESG and impact specialists in our Sustainable Investment team and growth across the wider organisation has been at least as important. Fund managers and analysts led one fifth of the sustainability-focused engagements we undertook in 2022. That's 1,112 of the 5,300 total, up from 345 in 2021. Engagement expectations are now embedded into the performance expectations of many fund managers and analysts, who are expected to undertake 2-3 high quality engagements annually.

Similarly, our colleagues across a wide range of business areas and functions throughout the firm have focused on embedding sustainability into the way we operate across the organisation.

Whereas stewardship was perhaps seen historically as being relevant to public equity investments more than other asset classes, we have focused on developing clear approaches and capabilities across the diverse public and private assets in which we invest.

Since first publishing our Engagement Blueprint, which lays out our priorities and expectations of companies and investments across six thematic areas, in early 2022, we have continued to make progress on a number of fronts.

The twin challenges of climate change and biodiversity loss epitomises why such engagement is so important. Against this challenging backdrop it is more important than ever to find ways of transitioning to net zero, tackling the growing threat of climate change while also maximising the potential investment performance benefits for our clients.



**Peter Harrison**  
Group Chief Executive  
30 April 2023

# Principle 1

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

## Our Business

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.

Our business is organised across two segments – asset and wealth management – with four distinct business offerings. In Asset Management our Schroders Investment Management business offers active management across a full range of asset classes through mutual funds and institutional mandates. This is now supplemented by a complete private assets business, Schroders Capital, whilst Schroders Solutions brings our public and private asset management capabilities together to offer complete investment solutions to institutional clients. Schroders Wealth Management offers advice across the wealth spectrum through our various brands.

Our clients include individuals who invest directly and those who invest through businesses or financial advisers. We also serve the investment needs of institutions like insurance companies, pension funds and charities.

We employ 6,196 employees across 38 locations globally. Our success depends on the decisions they make every day. We are responsible for managing £737.5bn (as at 31 December 2022) of assets for our clients who trust us to deliver sustainable returns.

## Our Strategy

In response to industry disruption, we are focused on growing our revenues by expanding into areas that bring us closer to clients and their needs.

**We recognised early that we needed to change** to increase the length of client relationships and generate higher lifetime earnings from those relationships. We also identified the need to diversify into areas of our industry that are seeing higher growth and to expand our global footprint. We have pursued these goals by focusing on three priorities across our business: our three strategic priorities are delivered through four principle businesses that form the Group.

### Where we stand today

By focusing on our three strategic priorities, we have built four strong businesses – **Schroders Wealth Management, Schroders Solutions, Schroders Investment Management and Schroders Capital.**



**Build closer relationships with clients:** Developing trusted adviser relationships that promote longer client relationships and more sustainable margins, particularly through Schroders Solutions and Schroders Wealth Management.



**Expand our private assets business:** Meeting the increasing client demand and help us generate more stable, long-term revenues that are less exposed to fee pressure, through our Schroders Capital offering.



**Grow asset management:** Focusing on differentiated investment capabilities in areas of demand, such as sustainability and thematic, and in higher growth markets, such as China and India. We offer these capabilities across the Group.

Each business has significant market presence in its own right and combined they offer a valuable opportunity to take more of our capabilities to more of our clients. We are now able to offer a broad set of investment management and advisory services for individuals, families and institutions across public and private assets. The challenges our clients face to meet their long-term investment goals are considerable. Being able to answer those challenges under one roof is a powerful and distinctive proposition.

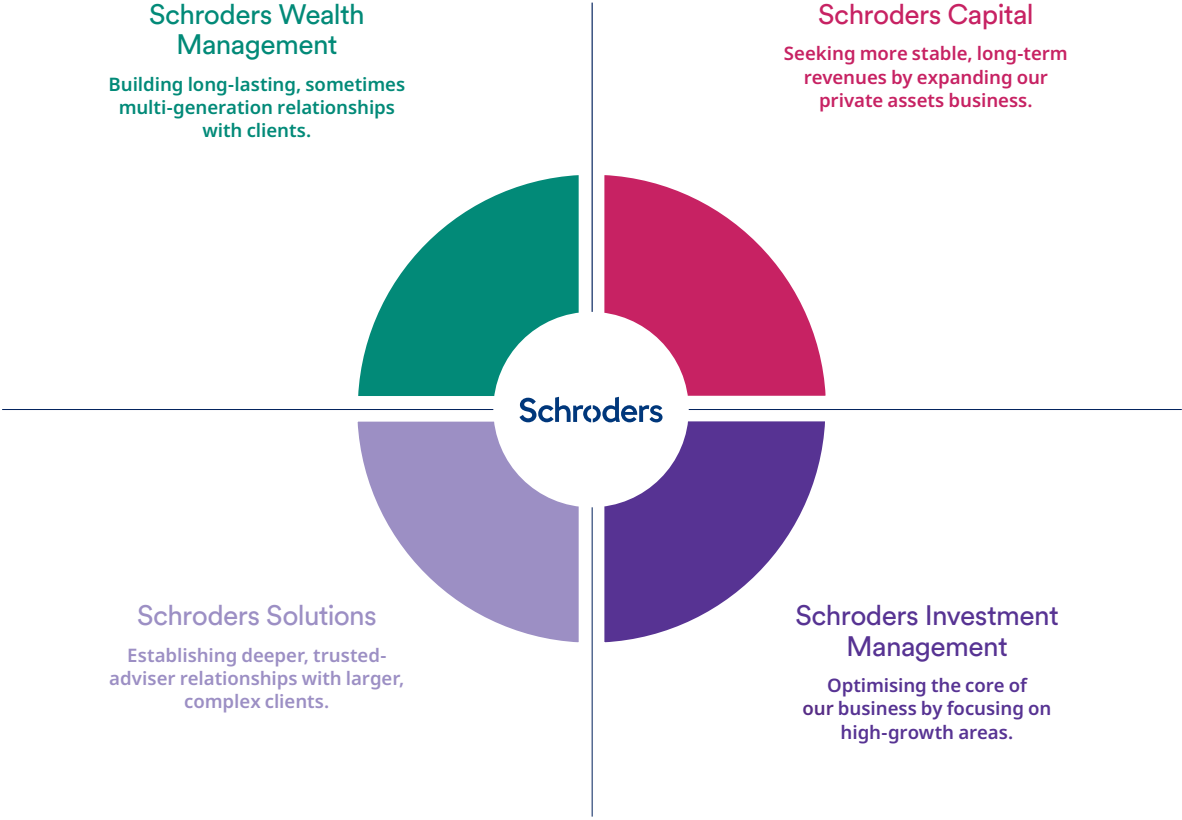
## Our strategy is enabled by sustainable leadership

Sustainability is embedded throughout our strategy because we believe it is how we can deliver long-term value for clients and all stakeholders. We see demand for sustainable investment as a driver of new business. As an active investor, it is also important to lead by example – so we focus on being true to our purpose in every aspect of our operations.

## Looking ahead

We have largely built the capabilities we need to meet our strategic goals. Our focus in the coming years will be on clients' increasingly complex needs, as well as growing our private assets and wealth businesses, which have significant positive potential.

**Our three strategic priorities are delivered through four principle businesses that form the Group:**



**Enabled by sustainable leadership**

**Investing sustainably**

We integrate the consideration of ESG factors across our portfolios of managed assets to help inform better investment decisions, the importance of which is increasingly recognised by our clients.

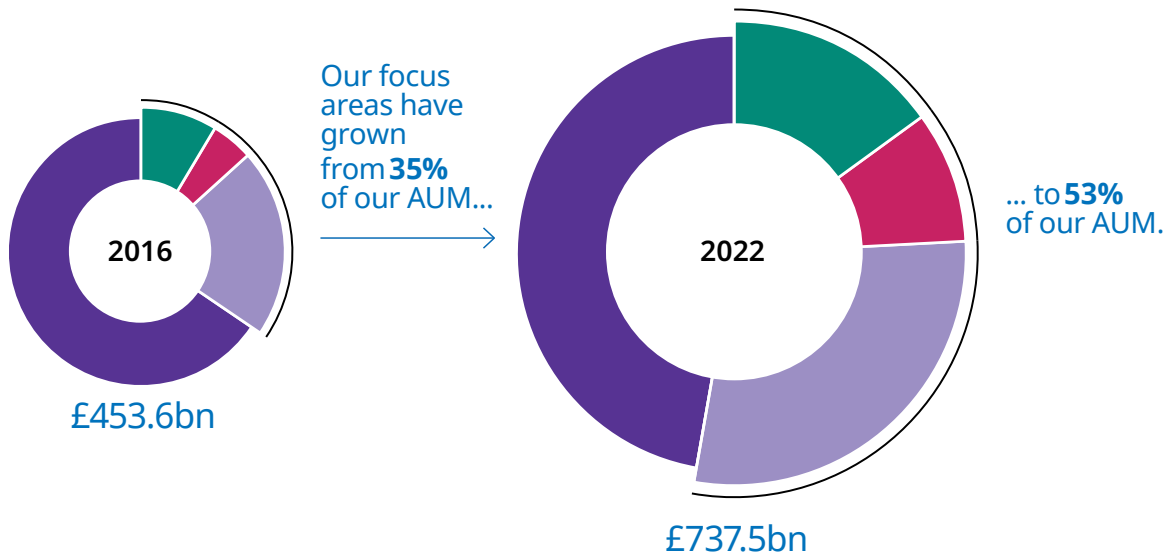
**Prioritising our people and culture**

Delivering our long-term strategy is dependent on our ability to attract, retain and motivate the best people.

**Leading by example**

As an active investor, we need to hold ourselves to the same high standards that we ask of the companies we invest in.

## Evolving composition of our assets under management



Source: [Schroders, Full year results 2022; issued on 03 March 2023.](#)

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

Exercising stewardship is part of how we manage investments for our clients and we consider client preferences in both designing our product range and in our investment solutions offered to institutions. Where possible in this report, we show how we have integrated the Stewardship Code principles across our business. Particularly in relation to Principles 9 to 12, we focus on our core investment management business and how the approach differs across asset classes and geographies.

Our approach to stewardship does not differ fundamentally between products. We are responsible stewards of our clients' assets regardless of the type of holding or the investment strategy in which they are held and act accordingly.

### Our Purpose

Our purpose is to provide excellent investment performance to clients through active management. We believe we achieve this by understanding our clients' needs, anticipating how these will evolve in the future, and focusing on building wealth for them in the long term. We tailor our investment strategies and solutions to clients' objectives and preferences, and we focus on protecting and growing our clients' wealth.

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



### Kim Lewis

Head of Active Ownership

For over 20 years we have undertaken constructive and committed engagement with the management teams at the companies and assets we invest in. We are rightly proud of our long track record and of how we accelerated the impact of our work in recent years. The process is undertaken by our Active Ownership team and by hundreds of fund managers, investment and sustainability analysts around the world. Crucially, analysts and fund managers making investment decisions are central to engagement efforts, not a siloed team sitting in a corner. Our approach can be broken into three stages:

- 1 Dialogue** – fact-finding engagements with companies to understand if and how they are preparing for the long-term challenges they face
- 2 Engagement** – we support companies to help them to understand the potential impact of these challenges and to encourage them to take action in the areas where change may be required
- 3 Voting** – we use our voice and rights as shareholders to support the changes we believe should be effected. We must be transparent, and so in 2022 we published our award-winning Engagement Blueprint<sup>1</sup>. It means that our expectations are clear to companies and available to scrutiny by anyone. Experience has shown us that sustainability never stands still; new research will emerge, data sets will expand and regulation will change, and so we have committed to update our Blueprint on an annual basis.

## Our Investment Beliefs

**We believe in the value of active investment management and that a thoughtful approach to navigating investment risks and opportunities will become increasingly important to managing those risks and delivering returns to our clients.**

Sustainable investment is not just a research effort, a fund range or a way of reporting. It is understanding how the investment decisions we make affect, and are influenced by, the myriad social and environmental issues shaping economies, industries and investment portfolios.

We have invested heavily in building that understanding. It means we have conviction in our views – rather than bending to pressure from non-governmental organisations (NGOs) or adhering to industry league tables.

Our heritage in active management allows us to be bold; to develop thoughtful views of the world we are heading toward, rather than the one we are coming from. As a global, fully scaled investment platform, we bring together insights from across our network of analysts and fund managers, across regions, investment styles and asset classes.

Active management also brings us the ability to influence the management teams of companies and assets held in the investments we manage. Our ability to successfully support and encourage the transition towards more sustainable and successful business models is an increasingly important component of the value we create for our clients. By combining our specialist expertise in the central Sustainable Investment team with the breadth and depth of relationships and insights our investment teams have across global industries, we have a strong platform to build on.

<sup>1</sup> We first published our Engagement Blueprint in 2022 and have since updated this in 2023: <https://www.schroders.com/en/insights/economics/how-we-updated-our-engagement-blueprint/>

Through constructive and committed engagement with management teams at the companies and assets we invest in, active ownership is a key element of the value we can bring to our clients. We believe that social and environmental forces are reshaping societies, economies, industries and financial markets and in doing so are increasingly influencing investment returns. Approached thoughtfully and with focus, encouraging companies to adapt to these changes, and holding them accountable for doing so, can strengthen the long-term competitiveness and value of their businesses and at the same time help accelerate change towards a more sustainable global economy.

We believe that by engaging directly with companies we can reach a more complete opinion on their fundamental strengths and identify instances where a company's long-term opportunities and risks are not fully reflected in its market valuation.

When we analyse the potential of an investment to create, sustain and protect value for our clients, we look at a wide selection of risks and opportunities. We believe that environmental, social and governance (ESG) factors will be important drivers of financial performance and investment returns over the longer term.

We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. In 2022, we released our inaugural Engagement Blueprint, setting out our ambitions and approach to active ownership at Schroders. The Blueprint lays out our long-term expectations of companies across six thematic areas: Climate Change; Natural Capital and Biodiversity; Human Rights; Human Capital Management; Diversity and Inclusion and Corporate Governance. It aims to bring transparency to our investee companies and our clients around our expectations, while also giving our internal investment teams guidance for their engagements on the most material issues.

We are proud that the Engagement Blueprint was awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022.

### Integration

**We integrate the consideration of ESG factors across our portfolios of managed assets to help inform better investment decisions, the importance of which is increasingly recognised by our clients.**

ESG integration is the incorporation of risks and opportunities related to ESG factors into the investment process. In principle, this leads to a broader assessment of the drivers of business and

asset valuations than traditional financial analysis alone, particularly in the long term. Recognising that no standard framework exists to assess the integration of ESG factors into investment processes, we have developed a proprietary accreditation framework which we apply to our investment processes. Different investment strategies may consider different ESG factors as part of their investment process and apply them in different ways. ESG factors may not be the primary factors that influence an investment decision.

Our accreditation framework promotes consistent approaches and standards across the firm. It requires investment teams to describe how ESG factors are incorporated into their investment processes and provides a consistent basis on which to assess how those factors are taken into account. For certain businesses acquired within the last two years we have not yet accredited the integration of ESG factors into investment decision making. In addition there is a small portion of our business for which the integration of ESG factors is not practicable or possible, for example, certain legacy businesses or investments in the process of being liquidated, and certain joint venture businesses are excluded.

In order for an investment desk to be accredited it must complete an Annual ESG 'accreditation document' outlining how ESG is integrated into their investment philosophy and practice, which is reviewed to ensure consistent standards are applied across investment desks. This is a living document, that is refreshed annually and includes case studies on how ESG has impacted investment decisions and stewardship activity. The same integration accreditation approach is generally used across asset classes and geographies. For further information about our approach to ESG integration, please refer to Principle 7.

### Our commitment to a net zero pathway

While sustainable investment spans a wide spectrum of social and environmental trends and their investment consequences, climate change stands out for its dominance of policy agendas and social concerns. We continue to invest in building the capabilities to support transition in portfolios we manage and to develop investment solutions to support our clients' own goals. Reflecting our conviction of the importance of preparing for the disruption climate change presents, we are a founding member of the Net Zero Asset Managers initiative and the largest asset manager to have our climate targets validated by SBTi. Delivering that transition for the benefit of our clients requires firm-wide engagement and effort.





**Andrew Howard**

Global Head of Sustainable Investment

**Q Schrodgers' purpose is to provide excellent investment performance to clients through active decision-making. How does sustainable investing help you to achieve this?**

**A** Social and environmental forces are reshaping businesses and financial markets creating risks and opportunities. The companies adapting fastest will thrive. A key point of good active management is to identify the potential winners and losers. We will continue to develop investment products that offer exposure to key sustainability trends.

**Q ESG is in Schrodgers' DNA, but can you say that all of your investments are sustainable?**

**A** We integrate the consideration of ESG factors across our investment desks. The way in which those factors are reflected in any given investment process may vary, so that doesn't mean we avoid companies that may not be considered "sustainable" or which face challenges. By engaging with companies to encourage transition toward more sustainable business models, we can help our clients to benefit from the value created.

**Q At what point would you decide not to invest in a company?**

**A** If you're not in the room, you can't be heard and you can't effect change. That said, divestment is an option when we have tried all other avenues. Effective engagement is key.

**Q How do you manage the risk of overselling or greenwashing?**

**A** Good governance and transparency are the antidote. That is why we continue to invest in building strong processes and controls so that portfolios meet the commitments we have made. Secondly, we realise that sustainability means different things to different people. We have worked hard to develop models and measures so that we can be clear what we mean.

**Q Some asset managers have left industry net zero initiatives, do you still think net zero is achievable and what is Schrodgers' role?**

**A** We are proud to be a leader on net zero commitments. That position won't change. The suggestion from some corners is that returns must be sacrificed in the pursuit of climate goals. We believe that is fundamentally wrong. Our climate transition plan is designed to help us deliver returns for our clients, not constrain us from that goal.

The route that the global economy takes to achieving the net zero goals that global leaders have agreed will determine how our clients can our clients participate in the opportunities that transition will create. Companies able to decarbonise their business models will be at an advantage and the evidence of recent years tells us that stock markets have rewarded companies able to cut their emissions faster than peers<sup>2</sup>. In 2022, we embarked on the biggest engagement effort Schrodgers has ever undertaken. Analysts, fund managers and sustainability specialists across the firm engaged over 700 companies representing around half the Group's financed emissions from portfolios in

scope of our targets. We have seen the temperature alignment of those portfolios falling from 2.8°C to 2.6°C during the year. Environmental and social pressures underline the need for the investment industry to find new ways to connect capital to the solutions to those challenges. We have developed a broad range of investment strategies spanning public and private assets, including the creation of Akaria Natural Capital in 2022, a joint venture to invest in nature-based solutions in South-East Asia. More information about our approach to managing climate risk can be found under Principle 4.

<sup>2</sup> Based on Schrodgers analysis of listed companies in the MSCI ACWI IMI index. We examined changes in companies' emissions over the last five years, relative to sector peers, and compared the total shareholder returns delivered by companies in each quintile of emissions reductions.

## Stewardship in our Private Assets & Alternatives teams

Although sustainability and stewardship have had a greater focus in public market investment activities for many firms in our industry, we are committed to embedding consistent principles into investment processes across the range of asset classes in which we invest. Private assets are a growing part of our business and a strategic focus for future growth, underlining the importance of applying consistent principles across investment desks.

Schroders Capital is our private assets investment division and includes liquid alternative strategies. It provides our clients with an institutional route to leading specialised investment teams across private asset classes. This range of portfolio building blocks along with our solutions and sustainability and impact capabilities enable us to design and deliver bespoke private asset strategies and multi-assets solutions as well as liquid third-party managed hedge funds and other investments across a range of societal and environmental themes.

We now have a presence in private equity, real estate, infrastructure, private debt and credit alternatives. The GAIA (Global Alternative Investor Access) platform gives clients access to alternative investments via Schroders and third-party funds.

In 2022, we achieved multiple milestones in our sustainability and impact journey in Schroders Capital:

- We have been a major contributor to the launch of new Sustainable and Impact investing strategies, concentrating innovation efforts on products and solutions that focus on sustainable and impact outcomes with robust criteria, performance management, and monitoring and reporting processes
- We have created bespoke investment solutions integrating sustainable and impact across a range of multi-private assets investment strategies tackling topics like energy transition, economic growth, and social inclusion
- We have developed an over-arching Schroders Capital Sustainable and Impact Policy<sup>3</sup> that embeds sustainability and impact considerations into the investment process, consistent with the group wide approach and priorities
- We have significantly invested in our investment teams and sustainability experts to ensure we have a more comprehensive toolkit and skill set to innovatively address sustainable and impact

2022 also marks the publication of Schroders Capital's inaugural Sustainability and Impact report which for the first time encompasses the entire private assets investment division of Schroders group<sup>4</sup>.

This report presents an overview of our ambition, methodologies and how our activities in private markets have performed in terms of delivering long-term sustainability characteristics and impact through selected Key Performance Indicators (KPIs) and case studies.

## Serving our clients

Our core belief that investments should be actively managed was rewarded in 2022. The conscious and considered decisions of our fund managers have driven positive outcomes for clients with 73% (2021: 79%) of assets outperforming their relevant comparator over three years. 86% of our public market AUM had a better SustainEx™ score than their benchmark (2021: 77%)<sup>5</sup>.

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

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

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

## Our Governance

Our Sustainable Investment capability sits within our Investment function. Andrew Howard, our Global Head of Sustainable Investment, runs the Sustainable Investment team and in 2021 became a member of the Group Management Committee (GMC). He reports fellow GMC member Rory Bateman following Rory's appointment to Co-Head of Investment and Head of Equities. So when it comes to stewardship within Schroders, there is a straight line of accountability to Peter Harrison, our Group Chief Executive, and to the Board of Schroders plc.

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

<sup>3</sup> [https://mybrand.schroders.com/m/11049f36631d59fd/original/April-2022\\_SC-SI-Policy-vF-1.pdf](https://mybrand.schroders.com/m/11049f36631d59fd/original/April-2022_SC-SI-Policy-vF-1.pdf)

<sup>4</sup> [Schroders capital sustainability & impact report 2022](https://mybrand.schroders.com/m/6e4df20da03cfd84/original/FY-22-press-release.pdf)

<sup>5</sup> <https://mybrand.schroders.com/m/6e4df20da03cfd84/original/FY-22-press-release.pdf>

## Our culture and Values

### Our approach to sustainability leadership



### Prioritising our people and culture

Our people are central to our purpose and critical in delivering our firm-wide strategy. We strive to create an inclusive culture which celebrates diversity of thought and provides a world-class work environment. It helps us to attract and retain exceptional employees and supports our ability to deliver excellent investment performance and client care.

We want to be the employer of choice. To maintain this position, we offer:

- Purpose and inspiration;
- Fair pay for performance;
- High-quality work in a good environment that prioritises wellbeing; and
- Personal growth opportunities

Our Board tracks and measures success by looking at a range of measures including how successful we are in retaining highly-rated employees, and by tracking the results of our For further information about our approach to ESG integration, please refer to Principle 7, including the percentage of our people who feel proud to be associated with Schroders.

### Our values

**We strive for excellence:** Being good at what we do is a powerful way to create value for all stakeholders and secure a long-term future for our business.

**We promote innovation and teamwork:** We challenge how things are done, anticipate future opportunities and understand that to deliver value takes collaboration and a healthy respect for individual skills.

**We have passion and integrity:** We are realistic about what we can achieve, but are ambitious too, approaching everything we do with energy and drive. This sits alongside openness and responsibility to deliver on our promises. Please see page 30 of the annual Report for more information.

### Our focus on engagement and retention

Developing and retaining talented people is key to our ongoing success. We actively monitor the retention of our employees with an emphasis on those who have received a strong performance rating in their annual performance review. Our retention of highly-rated employees has consistently been at 94% for several years. This represents a committed and engaged workforce, aligned with our values.

## Our approach to inclusion and diversity

Our commitment to creating a truly inclusive culture at Schroders is at the centre of our people strategy, and is led by our Group Chief Executive, along with executive sponsorship from our GMC members. We do not believe it is possible to meet the high standards set by our global client base without the breadth of thought and experience that comes from having a diverse workforce and leadership team.

Our managers are key to maintaining our inclusive culture and reputation for excellence. 700 of our managers attended 'Lead to Win' training in 2022 and we introduced a new way for teams to feedback to managers to help them improve. Our data-driven approach to inclusion helps us drive meaningful change. Key achievements in 2022 include:

- Publishing our first combined workforce diversity and gender pay gap report, providing stakeholders with transparency about our progress<sup>6</sup>
- Removing the 2:1 university degree criterion from our entry level programmes, making investment management more accessible to people from all backgrounds
- Improving our ranking in the Social Mobility Employer Index and our score in the Bloomberg Gender Equality Ind

We will be setting new targets for gender and other underrepresented groups in 2023. We are committed to providing equal employment opportunities and combatting all forms of discrimination. In keeping with our Equal Opportunities Policy, we give full and fair consideration to all employment applications, including those from disabled people, considering their particular aptitudes, skills, behaviours and abilities. If employees become disabled, we continue to employ them wherever possible, with retraining if necessary to enable continued career development.

Please see page 31 of our Annual report and Accounts for further information about our approach to prioritising our people and culture<sup>7</sup>.

## Gender diversity

### Schroders plc Directors



### Subsidiary Directors



### All employees



### Senior management



### Total senior management



■ Female ■ Male

<sup>6</sup> [www.schroders.com/workforce](http://www.schroders.com/workforce)

<sup>7</sup> <https://www.schroders.com/en/investor-relations/results-and-reports/results-reports-and-presentations/>

# Principle 2

## Signatories' governance, resources and incentives support stewardship.

### Our ownership structure

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

The history of Schroders began in 1804 when JH Schroder became a partner in J.F. Schröder & Co, a London-based firm founded by his brother JF Schroder. It has evolved since then into the company today known as Schroders plc. Throughout that time, the Schroder family have maintained a significant interest in the business, which we believe has been a significant benefit to the Group. Today, the interests of some members of the Schroder family (being certain descendants of the late Helmut Schroder and, in some cases, their spouse or former spouse) are spread across a number of parties, who are collectively known as the Principal Shareholder Group.

The Principal Shareholder Group is comprised of a number of private trustee companies (and investment companies controlled by those trustee companies), a number of Schroder family individuals, and a Schroder family charity which, directly or indirectly, are Shareholders in the Company. During 2022, the Board proposed changes to simplify the Company's dual share class structure through the enfranchisement of our non-voting shares and a related compensatory bonus issue. These changes were subsequently approved by shareholders and have now come into effect. The changes were the result of direct engagement and enable all shareholders to enjoy the same economic rewards and risks, and have the same voting rights. Following the enfranchisement, the Principal Shareholder Group currently holds 711,037,338 Ordinary Shares (44.11% of the issued Ordinary Shares) in the Company.

This ownership structure enables us to take a longer-term view in relation to our business and our clients' interests than many of our competitors, consistent with our role as a long-term steward of clients' capital.

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

That's why climate performance measures comprise 30% of executive directors' long term incentive plans and we are integrating quantitative financial sustainability measures into annual bonus plans for exec directors. Please see our section in 'Incentives Structure' under this principle for further information.

To encourage this, we ensure that our sustainability experts maintain an ongoing dialogue with those responsible for Schroders' own governance arrangements, including our Group Governance

team. For example, representatives from both teams participate in our Group Sustainability and Impact Committee which, as we outline in the next section, is part of the governance framework surrounding sustainability and stewardship within Schroders.

Conflicts of Interest may arise from time to time for example, when it comes to exercising our voting rights over any shares in Schroders plc. Principle 3 has further details around our approach to conflicts of interest and how we manage them.

### Our governance framework

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

Our Board has collective responsibility for the management, direction and performance of the Group, and is accountable for our business strategy. The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive, who has the authority to delegate further, whilst retaining overall responsibility for the delivery of our strategy. There are a number of management committees that assess, advise on and oversee the implementation of our corporate strategy.

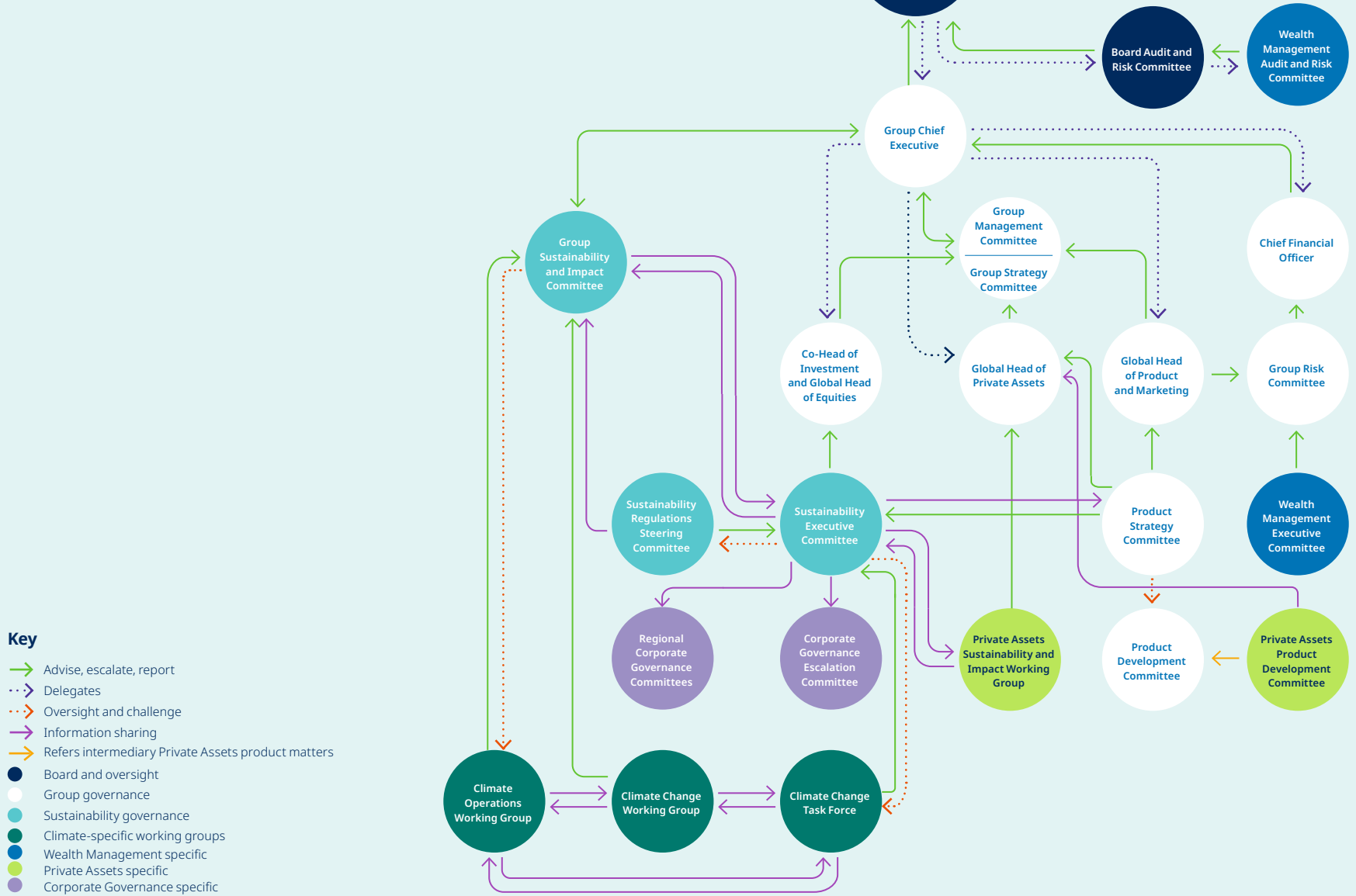
In 2022 we continued to build on our sustainability governance framework. A significant focus across these committees was on the implementation of the EU's Sustainable Finance Disclosures Regulation (SFDR) and preparatory work for similar disclosure and labelling regimes being introduced in jurisdictions outside of the EU. This was in response to the increased scale of relevant regulatory change taking place globally and our objective to successfully engage and implement each new regulation as it comes into effect.



This governance structure sets the parameters of our sustainability programme, which, in turn, serves as the backdrop to our stewardship agenda. Specifically, we see stewardship, that is, using our role as active owners to effect change in companies, as an essential tool in supporting their transition to more sustainable business practices. This supports us in delivering our sustainability ambitions as a firm and sustainable investment returns for our clients.



By bringing different functions together we aim to build that there is a firm-wide approach to stewardship and sustainability, which is consistent across our product and services offering, and that stewardship activities are informed by client preferences and priorities. We also aim to have a common view, so far as possible, as to how ESG factors should be integrated across our Investment teams and communicate this effectively both within the firm and to our existing and prospective clients.

# Overview of the sustainability governance structure



## Governance structure for sustainability and stewardship









Forum	Information	Description	2022 activities on stewardship and sustainability
 <p>Board Audit and Risk Committee (BARC)</p>	<p><b>Chair:</b> Schroders plc independent non executive Director</p> <p><b>Membership:</b> Independent non-executive Directors of Schroders plc</p> <p><b>Meetings:</b> 5</p>	<p>The BARC is a Board Committee and 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>	<ul style="list-style-type: none"> <li>- As 'ESG risk climate change' is identified as a key business risk, the BARC received information quarterly to assess how this is being managed</li> <li>- Consideration and discussion of external reporting requirements for sustainability related disclosures</li> </ul>
 <p>Group Management Committee (GMC and GSC)</p>	<p><b>Chair:</b> Group Chief Executive</p> <p><b>Membership:</b> Senior management from across the Group</p> <p><b>Meetings:</b> 11</p>	<p>The GMC comprises the wider senior management team and is an advisory committee to the Group Chief Executive on the day-to-day running of the Group's business.</p> <p>The GSC comprises the senior management team who have primary responsibility for the development and delivery of the Group's strategy. It is an advisory committee to the Group Chief Executive.</p>	<ul style="list-style-type: none"> <li>- The GMC considered the Group's strategy and key risks, including 'ESG risk including climate change', ahead of submission to the Board</li> <li>- The GMC reviewed the sustainability annual update which included how sustainability trends were shaping our industry and the progress in our priority areas which included climate change and biodiversity</li> <li>- The GSC discussed sustainability-related issues as part of the delivery of the Group's strategy</li> </ul>
 <p>Group Risk Committee (GRC)</p>	<p><b>Chair:</b> Chief Financial Officer (CFO)</p> <p><b>Membership:</b> Senior management from across the Group</p> <p><b>Meetings:</b> 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>	<ul style="list-style-type: none"> <li>- Reviewed the description and framework of 'ESG risk including climate change' and an assessment of risk position versus risk appetite for this risk</li> <li>- Reviewed the following topics: <ul style="list-style-type: none"> <li>- Sustainability and Impact frameworks across Private Assets, Internal Audit</li> <li>- ESG Framework, ESG integration for counterparty selection</li> </ul> </li> </ul>



Forum	Information	Description	2022 activities on stewardship and sustainability
 <p>Group Sustainability and Impact Committee (GSI Committee)</p>	<p><b>Chair:</b> Group Chief Executive</p> <p><b>Membership:</b> Senior management from across the Group</p> <p><b>Meetings:</b> 6</p>	<p>The GSI Committee provides advice to the Group Chief Executive to assist him in discharging his responsibilities regarding sustainability and impact. The Committee considers, reviews and recommends the overall global sustainability and impact strategy, including key initiatives, new commitments and policies to the Group Chief Executive for approval. The Global Head of Corporate Sustainability and Global Head of Sustainable Investment are members of the Committee and report annually to the GMC and the Board. The GSI Committee monitors progress towards our goals, including progress towards our science-based targets.</p>	<ul style="list-style-type: none"> <li>- Reviewed the progress against our climate change strategy and delivery plans for our science-based targets, including climate engagement with investee companies, operational action plans; and supply chain engagement strategy</li> <li>- Reviewed our approach to managing modern slavery risk, including engagement with investee companies, supply chain risk mapping, due diligence and engagement strategy; and training</li> <li>- Reviewed the annual sustainability reporting (climate, inclusion, modern slavery) as regards our action plans (including investee company engagement) and progress</li> <li>- Discussed and recommended for approval our Group Position Statements on climate change, nature and biodiversity; and human rights (including investee company engagement)</li> <li>- Discussed any new external sustainability commitments made e.g. initiatives, memberships, pledges, advocacy</li> </ul>
 <p>Sustainability Executive Committee (ExCo)</p>	<p><b>Chair:</b> Co-Head of Investment and Global Head of Equities</p> <p><b>Membership:</b> Senior management from across the Group</p> <p><b>Meetings:</b> 24</p>	<p>The ExCo develops and oversees the delivery of our Group level investment management sustainability strategy. The ExCo has senior representation from across the business including Sustainable Investment, Client Group, Product, Wealth, Private Assets and Corporate Sustainability to enable co-ordination and alignment across the business.</p>	<p>As part of the ExCo's investment management stewardship priorities, it oversaw delivery of:</p> <ul style="list-style-type: none"> <li>- The launch of ActiveIQ, a proprietary engagement tracking tool used by over 150 investors</li> <li>- 517 priority climate engagements aligned to our award-winning engagement blueprint</li> <li>- Voted on over 70,000 resolutions, including active involvement in 3 shareholder resolutions for BMW, VW &amp; Sainsbury's</li> <li>- Publicly declared 15 votes on climate, worker and digital rights, fair pay</li> </ul>





Forum	Information	Description	2022 activities on stewardship and sustainability
 <p>Sustainability Regulations Steering Committee</p>	<p><b>Chair:</b> Global Head of Product Development and Governance</p> <p><b>Membership:</b> Senior representatives from across the Group</p> <p><b>Meetings:</b> 12</p>	<p>The Sustainability Regulations Steering Committee supports the work of the Group Regulatory Oversight Committee and oversees the progress of in-flight sustainability regulatory change programmes, as well as monitoring emergent sustainability regulations and determining their high-level impact on our Group sustainability strategy and supporting operations. The Sustainability Regulations Steering Committee receives input on forthcoming climate-related regulation from our in-house Public Policy team and is supported by our global Legal and Compliance functions.</p>	<ul style="list-style-type: none"> <li>- Discussed and reviewed our responses to regulatory consultations for emerging sustainability regulations</li> <li>- Provided a second line of oversight to the development of ActiveIQ and development of engagement data reporting</li> <li>- Supervised the development of product level sustainability disclosures</li> <li>- Identified regulatory risks and confirmed that they are factored into the strategy setting and implementation planning activities of the appropriate Product and Sustainability committees</li> </ul>
 <p>Product Strategy Committee (PSC)</p>	<p><b>Chair:</b> Group Chief Executive</p> <p><b>Membership:</b> Senior management from across the Group</p> <p><b>Meetings:</b> 11</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>	<ul style="list-style-type: none"> <li>- Reviewed demand for sustainability-oriented thematic strategies, and undertook to conduct more advanced research into approaches for helping clients to mitigate the impacts of climate change and nature degradation</li> <li>- Agreed cross-functional support for delivering portfolios which contribute to clients' environmental and social goals</li> <li>- As part of continuing to define, review and prioritise the Group's overall product strategy, during 2022, the PSC met quarterly with 2 of 4 meetings focused on sustainability-related strategic priorities. These were the Group's approach and strategy for Impact Investing, and the assessment of client needs and the strategic fit for a new capability in Natural Capital. These resulted in agreed resourcing support for developing both capabilities and go-to-market strategies in each. Inherent to both of these priorities are the long-term stewardship of client's capital, for positive environmental and social impact, alongside financial returns.</li> </ul>

Forum	Information	Description	2022 activities on stewardship and sustainability
 <p>Product Development Committee (PDC)</p>	<p><b>Chair:</b> Head of Product Development – UK and Europe</p> <p><b>Membership:</b> Senior representatives from Investment, Client Group, Operations, Compliance, Legal and Governance</p> <p><b>Meetings:</b> 15</p>	<p>The PDC reviews and recommends detailed product proposals, including climate-focused strategies and assessment of climate and sustainability related portfolio measures as relevant.</p>	<ul style="list-style-type: none"> <li>– Approval of new sustainable funds, funds with sustainability characteristics and sustainability amendments to existing funds including all related sustainability disclosures</li> <li>– Approval of new disclosures related to sustainability regulation</li> <li>– Approval of the launch of carbon offset share classes including responses to regulatory enquiries</li> </ul>
 <p>Private Assets Product Development Committee</p>	<p><b>Chair:</b> Head of Private Assets Legal and Head of Product Management Private Equity</p> <p><b>Membership:</b> Senior representatives of the Schroders Capital business, including Investment, Product and Client Group teams</p> <p><b>Meetings:</b> 13</p>	<p>The Private Assets PDC is responsible for the development and lifecycle of all private assets products, except those targeting (or made available to) intermediary investors, where an initial business case recommendation is provided by the Private Assets PDC, with further consideration of these products then given by the PDC.</p>	<p>The Committee considered various proposals for the launch of products with climate-related features, including a fund specifically targets at climate impact investing.</p>
 <p>Private Assets Sustainability and Impact Working Group</p>	<p><b>Chair:</b> Head of Sustainability and Impact for Private Assets</p> <p><b>Membership:</b> Representatives from across the Group</p> <p><b>Meetings:</b> 20</p>	<p>The Working Group works on the implementation of the Sustainability and Impact (S&amp;I) ambition, strategy, policy and practices, across Schroders Capital. The Working Group reviews S&amp;I processes and recommends improvements, oversees the implementation of the S&amp;I policy for both existing and new investment strategies.</p>	<ul style="list-style-type: none"> <li>– Discussed and planned the development and delivery of Schroders Capital sustainability and impact ambition, the continuous alignment of business policies, investment practices and frameworks with the ambition and across Schroders Capital</li> <li>– Discussed issues that are better addressed at Schroders Capital level or need to be escalated to Group level including engagement approaches, climate measurements and target setting methodologies, regulatory requirements and guidance</li> </ul>

Forum	Information	Description	2022 activities on stewardship and sustainability
	<p><b>Chair:</b> Schroder &amp; Co. Limited independent non-executive Director</p> <p><b>Membership:</b> Independent non-executive Directors of Schroder &amp; Co. Limited</p> <p><b>Meetings:</b> 8</p>	<p>The WMARC is responsible for overseeing financial reporting, risk management and internal controls, internal and external audit within the Group's Wealth Management business. The WMARC receives reports from management on key risks within Wealth Management. Oversight of key risks is essential to the delivery of the Group's overall strategy, and the WMARC's minutes are provided to the BARC and the WMARC Chair presents an annual update on that Committee's activities to the BARC.</p>	<p>The WMARC considered Schroder &amp; Co. Limited's plan for publishing its climate-related financial disclosures and the financial risks of climate change on the Wealth Management business.</p>
	<p><b>Chair:</b> Global Head of Wealth Management</p> <p><b>Membership:</b> Senior executives within the Group's Wealth Management business</p> <p><b>Meetings:</b> 11</p>	<p>The WMEC meets monthly to assist the Global Head of Wealth Management in discharging their responsibilities in managing Wealth Management including in respect of strategy, policy, finance, people, systems, conflicts of interest risk and controls. One of the WMEC's roles is to review new products and investment offerings for the Group's Wealth Management business.</p>	<p>The WMEC considered the new MiFID II sustainability preference assessment, its impact and how the Wealth Management business will comply with the requirements.</p>
	<p><b>Chair:</b> Global Head of Corporate Sustainability</p> <p><b>Membership:</b> Representatives across the Group to ensure input and alignment from operational and investment stakeholders</p> <p><b>Meetings:</b> 5</p>	<p>The Climate Change Working Group discusses and recommends our approach and action to Group-wide commitments on climate change to the GSI Committee. There is a focus on targets, such as our science-based targets, disclosures such as CDP, communications and employee engagement.</p>	<p>Developed and supported the submission of climate-related disclosures, such as CDP, and climate-related reporting framework consultations.</p> <ul style="list-style-type: none"> <li>- Discussed and reviewed SBTi progress</li> <li>- Discussed and reviewed our carbon offsetting approach and projects portfolio for the next few years</li> <li>- Discussed internal climate engagement campaigns and external communications plans, such as Earth Day, COP27 and COP15</li> </ul>

Forum	Information	Description	2022 activities on stewardship and sustainability
 <p>Climate Change Task Force (CCTF)</p>	<p><b>Chair:</b> Climate Change Strategist</p> <p><b>Membership:</b> Representatives from Sustainable Investment team</p> <p><b>Meetings:</b> 44</p>	<p>The CCTF drives climate workstreams from an investment perspective, including climate analytics, engagement, reporting, integration and research. The CCTF aims to improve coordination, consistency and innovation, in order to meet our climate goals. The CCTF consults with the Climate Planning Investor Group, a subset of investors with experience integrating climate-related considerations to test and refine climate planning and proposals.</p>	<p>Discussed and planned the development of new tools to support climate analytics, including data sources and visualisation outputs.</p> <ul style="list-style-type: none"> <li>– Monitored progress on climate engagement targets and insights derived from engagements</li> <li>– Discussed updates to the client and internal climate training curriculum, including feedback from sessions</li> </ul>
 <p>Climate Operations Working Group</p>	<p><b>Chair:</b> Global Head of Corporate Sustainability</p> <p><b>Membership:</b> Representatives from Corporate Sustainability, Workplace Services, Group Procurement, Group Finance, Sustainable Investment and Communications</p> <p><b>Meetings:</b> 10</p>	<p>The Climate Operations Working Group was set up in 2022 to help facilitate and monitor the delivery of our operational science-based targets. There is a focus on data, accounting processes, progress reporting and action plans.</p>	<p>Discussed and reviewed the operational emissions reporting for internal committees.</p> <ul style="list-style-type: none"> <li>– Discussed and reviewed the operational emissions assurance process</li> <li>– Discussed and reviewed the emissions recalculation process for financed and operational emissions</li> </ul>

Forum	Information	Description	2022 activities on stewardship and sustainability
	<p><b>Chair:</b> Regional AO team analyst</p> <p><b>Membership:</b> Regional investment desks</p> <p><b>Meetings:</b> 2 per year per region</p>	<p>The corporate governance team convenes meetings of Schroders regional corporate governance committees at least twice a year to discuss evolving governance issues in the regions. The membership comprises the relevant members of the corporate governance team that are responsible for the region and representatives of the investment teams that cover the region. These committees form the basis for developing our approach to voting at proxy meetings in the region and other matters such as agreeing the letter that we send to our investee companies in the region before the proxy season.</p>	<ul style="list-style-type: none"> <li>- A meeting was convened pre and post AGM season with full committee attendance. Topics discussed included: <ul style="list-style-type: none"> <li>- a review of last quarter's voting stats and comparisons to peers/previous vote history</li> <li>- Significant votes against from the last quarter</li> <li>- Policy changes for 2023</li> <li>- Significant governance engagements</li> </ul> </li> <li>- Ad-hoc discussions with committee members e.g. sign off of governance letters</li> </ul>
	<p><b>Escalation committee: Chair:</b> Co-Head of Investment</p> <p><b>Membership:</b> members of the active ownership team</p> <p><b>Meetings:</b> 1</p>	<p>The escalation committee is convened when the corporate governance team is unable to agree with all the investment teams on how to vote on one or more resolutions at a shareholder meeting. Schroders always intends to vote in line with what it views is the best way to promote the future success of the company and long-term returns to its clients. Our investment teams may have different strategies and therefore we often debate different approaches to voting but generally come to collective agreement on how to vote.</p>	<p>The escalation committee only met once during the year to review the remuneration proposals at a UK listed company which ultimately we voted against</p>

## Our Resources

### Our Sustainable Investment team

Schroders has an experienced and well-resourced central Sustainable Investment team, which has been embedded as part of our investment division since its creation over two decades ago. That teams' work is complemented by a 'whole firm' approach to sustainability through which specific activities are shared with teams across the business best placed to deliver them. By combining our specialist expertise in the central Sustainable Investment team with the breadth and depth of relationships and insights of our investment teams across global industries, we have a strong platform to build on.

The Sustainable Investment team serves as a central resource for expertise on sustainability issues. We do not consider sustainable investment decisions to be binary or "black and white" and investing sustainability is not a compliance exercise; it is an exercise in considering a wider range of social and environmental factors when making investment decisions. Therefore, the team does not decide whether a company is "good" or "bad" in ESG terms, but ultimately provides

the necessary resources, information, strategy and guidance for fund managers and analysts to draw conclusions on the sustainability profile of a company and act appropriately.

To deliver against our ambitions in sustainability including our net zero targets, during 2022 Schroders continued to invest substantially in the Sustainable Investment team resource. As at end of December 2022, we had over 50 people in the team globally, with over 400 years' combined investment experience.

With Climate Change knowledge and responsibilities spread out across the organisation, we created dedicated role to help the delivery of our collective vision. We therefore recruited a Climate Change Strategist, so that we could continue to strengthen our Climate Change strategy. We also expanded our central Active Ownership resources by adding a total of six additional headcount, including a Head of Engagement. We have also created a new role of Active Ownership Operations and Insights manager dedicated to supporting the evidencing of our engagement activity, as well as its impact.

## Sustainable Investment Team

A global team with over 400 years' collective experience

Andrew Howard Global Head of Sustainable Investment:		
<b>Sustainable Investment Management</b> Powering investment decision making with insights and analysis 24	<b>Active Ownership</b> Engagement and voting to drive progress 13	<b>Product</b> Collaborating with clients and stakeholders 14
ESG integration	Engagement	Global coverage
Thematic research	Voting	Regional coverage
Models & data		

With further dedicated resources across the firm



50+ ESG Investment Champions



20+ Investment Insights Unit

Source: Schroders as at December 2022.

The Sustainable Investment team is organised into three pillars:

**1. Sustainable investment management:** this incorporates integration, thematic research, ESG models and ESG data.

Our Integration team works with our investment teams to integrate our proprietary ESG tools and research into their investment processes. This includes organising ESG training for investment teams. The team is also responsible for the annual review and integration accreditation of all our investment desks (we outline this process under Principle 7).

Our Research team is responsible for conducting research into our key thematic areas and working in collaboration with investors to help them understand how these themes impact their portfolios.

- Our Models team is responsible for the development, maintenance and evolution of our suite of proprietary tools.
- Our ESG Data team is responsible for ESG data procurement, data hygiene, maintenance and governance before it feeds into our proprietary tools and models.

**2. Active ownership:** this encompasses engagement and voting. Our Engagement team partners with investors to have dialogue with the companies in which we invest, seeking to understand how prepared they are for a changing world and pushing them towards more sustainable practices. The team track the progress of these engagements and hold companies to account. Our Corporate Governance team is responsible for voting in line with our voting guidelines and principles as outlined under Principle 12.

**3. Product:** this entails our client, product and solutions activities. Our Product team is responsible for the externally-facing aspects of our sustainability strategy. This includes communicating our suite of products and solutions, client reporting and supporting our engagement with regulators and industry bodies. The team also produces material to support investor education on sustainable investing.

We also have regional sustainability specialists in Europe, Asia and North America, who work closely with our regional investment desks and clients globally to help them to achieve their sustainability objectives.

The Sustainable Investment team works in partnership with many teams around Schroders including our investment teams, Investment Insights Unit, Product Governance and client teams. We also have a number of dedicated sustainable equity and credit analysts who are embedded within our investment desks.

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

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

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

Our sustainability 'champions' provide a bridge between their immediate teams and the Sustainable Investment team and act as sustainability subject matter experts supporting Investment and Client Group colleagues. The aim is to ensure investment desks use all the resource available to them and apply appropriate rigour in how sustainability is integrated into their investment process. Distribution champions support their client-facing colleagues and their clients in keeping abreast of the developments within the Schroders sustainability capability. They also aim to ensure that client interests and concerns are communicated back to the Sustainable Investment team.

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

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

As discussed above, the Sustainable Investment team provides our analysts/fund managers with the necessary tools and information to allow them to analyse sustainability factors with respect to their holdings and to identify issues for engagement as part of our stewardship activities. In 2022 we published our inaugural Engagement Blueprint which provides investors with a common framework for our expectations of companies across 6 thematic areas. The central Active Ownership team support investment desks to implement this framework through the development of engagement guides and dedicated research on each of the thematic areas. Individual desks establish their respective priorities both in terms of topics and companies with which to engage.

Once these priorities are agreed, our analysts and fund managers determine the objectives, timeframes and the appropriate process of engagement and execute that plan, often with support from the Sustainable Investment team. We regard this approach as “bottom-up”, starting with research with respect to individual companies. The engagements that are led directly from our Sustainable Investment team are often more “top-down”, whereby the team determine key trends and risks, often supported by thematic research, and then engage with companies and sectors most exposed to those risks. Our reporting under Principle 9 expands on this approach further.

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

Depending on the investment focus of each desk, the ensuing engagement may have a different regional footprint. For example, European Equity will concentrate on European companies. Generally, we do not think of our stewardship activities differentiated by regions but rather by investment desks, albeit many of which have a specific regional focus. Our analysts provide the regional context for each firm. Whilst the starting point of our stewardship (across both equities and credit) are the companies themselves, this regional context is important in order to understand the different pressures companies face. This, in turn, shapes our stewardship priorities.

### Tools, data and technology supporting our stewardship

In recent years we have invested significantly in technology resource and data including building out the data models, governance and analytics teams within the Sustainable Investment Team. These teams use analytics and data science techniques to uncover investment insights linked to sustainability trends resulting in the development of our own proprietary sustainable investment research tools that have been key to our ESG integration across investment teams and are highly relevant for Principle 7 as well.



## Proprietary tools

### CONTEXT™<sup>8</sup>

CONTEXT provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. Comprising over 260 metrics across over 13,000 companies, it is designed to support our investors' understanding of the sustainability of companies' business models and profitability, and provides structured, logical and wide-ranging data to support our analysts' views. This consistent structure makes information sharing easier and allows us to identify market wide trends and insights.

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

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

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

### SustainEx™<sup>9</sup>

SustainEx™ provides an estimate of the potential societal and environmental "impact" that may be created by the companies in which we invest, allowing our investors to assess ESG factors that might impact our clients' investments over time. Whereas CONTEXT focuses on evaluating companies' performance in key areas, SustainEx™ provides a measure of those impacts expressed as a notional percentage of revenues (positive or negative) of the relevant company. For example,

a SustainEx score of +2% would mean that a company contributed US\$2 of positive impact (that is, benefits to society) per US\$100 of revenues.

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

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

Whilst many of the metrics used within the SustainEx™ model are relevant issues to engage companies on, this requires careful analysis and understanding of each of the 'externalities' calculated by the model as well as thoughtfulness as to how best to engage with the company.

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

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

In 2022 we expanded this model to cover sovereigns. The extension of our analysis to the country-level helps us quantify the positive and negative impacts countries have on the rest of the world.

<sup>8</sup> Context is a proprietary tool used by Schroders to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders' investment-decision making or research by fund managers or analysts through the use of CONTEXT will reflect their judgement of the sustainability of one or more aspects of the relevant company's or issuer's business model rather than a systematic and data-driven score of the company or issuer in question.

<sup>9</sup> Schroders uses SustainEx™ to estimate the net social and environmental "cost" or "benefit" of an investment portfolio having regard to certain sustainability measures in comparison to a product's benchmark where relevant. It does this using third party data as well as Schroders own estimates and assumptions and the outcome may differ from other sustainability tools and measures.

### ThemEx

In 2022 we expanded the use of ThemEx within Schroders, which maps companies products and services to sustainable investment themes including the UN Sustainable Development Goals (SDGs).

ThemEx is complementary to SustainEx. ThemEx's analysis of products and services compliments the analysis provided by SustainEx which estimates the social and environmental externalities created by companies' business models. ThemEx provides a view of the extent to which companies' product and services support SDGs for over 16,000 companies across 6000 products and services.

ThemEx works by mapping business activities to sustainable investment themes including the SDGs. This mapping is based on proprietary analysis to determine the extent to which different business activities are positively or negatively aligned to each theme. Each activity may be aligned to several themes. This provides a way to assess the exposures portfolios may have to sustainability themes, whether intended or not; identify companies with high levels of positive or negative exposure to those themes and therefore provides a consistent basis for measuring portfolio alignment to sustainability themes through products and services.

### Climate tools

Our sustainability accreditation framework, proprietary tools and collaborative platforms help us to integrate the consideration of ESG factors across our portfolios of managed assets. We continue to increase the capability of our scenario models to help our investment teams better understand the

threats from climate change, as well as to identify the opportunities from the net zero transition. The Climate Analytics Framework below, aims to explore these specific risks and opportunities through different lenses to provide investment teams with a rounded view on the impacts to their investments.

### Reliance on certain third-party data sources and services

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

The key third party service providers that support our stewardship activities are set out below:

Service provider	Brief description of purpose
MSCI ESG	<ul style="list-style-type: none"><li>- ESG data, research and ratings as an input into proprietary ESG analysis</li><li>- Screening</li></ul>
Sustainalytics	<ul style="list-style-type: none"><li>- ESG data, research, and ratings as an input into proprietary ESG analysis</li></ul>
Refinitiv	<ul style="list-style-type: none"><li>- ESG data as an input into proprietary ESG analysis</li></ul>
Bloomberg	<ul style="list-style-type: none"><li>- ESG data as an input into proprietary ESG analysis</li></ul>
ProxyInsight*	<ul style="list-style-type: none"><li>- To analyse proxy voting trends both over time and comparisons to peers</li><li>- Provides vote results of meetings to determine cases of significant dissent where escalation may be needed</li></ul>
ISS	<ul style="list-style-type: none"><li>- Proxy voting</li><li>- Proxy voting research</li></ul>
BoardEx	<ul style="list-style-type: none"><li>- Company director data to help assess board composition and the experience/external commitments of individuals</li></ul>
Xtract Research	<ul style="list-style-type: none"><li>- Analysis of bond indentures and covenants</li></ul>

\*Now called Insightia (a Diligent Brand)

## Schroders Capital

Many of the tools and models described here focus on public assets analysis, but the principles and priorities are common across the group, including private assets.

Our Private Assets and Alternatives businesses are organised and managed under the umbrella of Schroders Capital, Schroders Group investment division for private assets. Schroders Capital has its own Sustainability and Impact Policy<sup>10</sup> reflecting common principles and ambitions but recognising that private assets investments require business specific approaches to account for the specificities of each investment practice and the sector we invest in. Engagement and stewardship are a key component of this Policy and are at the heart of our value creation strategy and sustainability and impact ambition in private assets. While we share common principles and engagement themes, each private assets business develops business-specific and asset-specific engagement strategies focused on what they see as material issues and appropriate approaches depending on the sector, asset and industry.

For example, consistent with group priorities, Schroders Capital engages on a broad range of topics, from understanding how a company is adapting as climate risks intensify, to responding to emerging trends like consumer backlash to single-use plastics. It also gives us the opportunity to share our expectations on corporate behaviour – for example, our views on tax and efforts to prevent bribery and corruption – or focus on promoting gender diversity and inclusion across the investment value chain. Various teams work together to identify areas that warrant discussion with companies or stakeholders. In addition, specific strategies at Schroders Capital may have a higher engagement level when directly operating and managing assets.

For example, Schroder Real Estate will often own an entire real estate asset, such as an office development or retail park, within a fund or client mandate and can address how that asset performs from a range of perspectives, such as ESG, directly. Within Private Equity, where the business invests directly in an unlisted entity it is able to take a more ‘hands-on’ approach to determining how the business is run along with its fellow shareholders. Stewardship in these cases is very different to engaging as a minority owner in a publicly listed company, as is the case generally for our mutual funds, institutional and solutions businesses.

For BlueOrchard, Schroder’s emerging markets impact specialist based in Zurich, actively engaging with portfolio companies is critical to delivering against impact targets, and therefore this division only looks at sustainable practices but more importantly at the business model of the company itself, in order to maximise its overall positive impact.

## Schroders Capital's approach to Sustainable and Impact (S&I) investing

Schroders Capital aims to implement a consistent assessment of sustainability risks and opportunities across its investment processes. This overarching approach guides our practices and ensures that S&I are gradually embedded in all the relevant steps of the investment process, from the formulation of strategic intent, to origination and structuring, portfolio management, impact at exit, and verification, drawing on market best practices, principally the Operating Principles for Impact Management (Impact Principles), to which Schroders Plc is a signatory for its Impact-driven strategies.

This common approach for S&I strategies starts with three central tenets:

### Intent

We strive to ensure that S&I considerations are well represented in the investment objectives and complement the achievement of financial returns.

### Contribution

Our S&I investment process seeks to contribute positively through a range of strategies and themes including climate mitigation and adaptation, financial inclusion, healthcare, sustainable cities, innovation, job creation and economic growth. Active ownership and engagement expand our principles and their implementation across the entire value chain of intermediaries and stakeholders with whom we work.

### Measurement

Transparency and disclosure are fundamental to our approach. We collect S&I metrics to measure the effectiveness of our investments in achieving the goals we set for each strategy, theme, or sector. These also inform future investment decisions.

<sup>10</sup> [https://mybrand.schroders.com/m/11049f36631d59fd/original/April-2022\\_SC-SI-Policy-vF-1.pdf](https://mybrand.schroders.com/m/11049f36631d59fd/original/April-2022_SC-SI-Policy-vF-1.pdf)

## Wealth Management

### Cazenove Capital

Cazenove is the principal UK Wealth Management business of the Schroders Group, that makes investment decisions on behalf of clients. It aims to help its clients plan for a successful financial future. Such clients include business owners, corporate executives, stewards of family wealth, and individuals who have built their wealth in many different fields. Sustainability risks form part of its view of investment risk and, therefore, its portfolio managers assess these risks across their entire client base and not just for clients invested in their sustainable product range. In many cases, Cazenove Capital invests its clients' wealth in third-party funds, hence its sustainability risk assessment applies to both the manager with whom they invest and the strategy or fund in which they are invested.

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

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

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

### Benchmark Capital

Benchmark offers a leading range of proprietary services to support UK financial advisers. These include compliance, platform, practice management and investment services, all accessible through a single sign on, protected by industry-leading security. Benchmark joined the Schroders Group in 2016 and in 2021, Schroders acquired the remaining minority interest to expand our wealth management offering.

Since all investments are in funds and third-party managers which are typically outsourced to investment managers, including Schroder Investment Solutions, there is no direct investment involved and therefore Benchmark works closely with Schroders to align stewardship activities where relevant.

## Our incentives structure

For FY2022, executive pay was awarded in line with the current remuneration policy as approved by shareholders in 2020. The bonus element of executive Director pay was determined by the Group Remuneration Committee according to the achievement of the performance measures in the balanced scorecard. The scorecard included a 30% weighting for non-financial factors which took into account achievement against strategic climate, sustainability, people, risk and governance matters.

A new Directors' remuneration policy was approved at our 2023 AGM. During 2022, the Remuneration Committee undertook a detailed review of the existing policy, involving consultation with a number of key stakeholders, including our internal Sustainability team and a number of key shareholders. While the proposed remuneration policy remains largely unchanged, the Committee identified a few areas where the implementation of policy was updated to further improve alignment to our strategic priorities and respond to shareholder feedback. For more information, please see page 86 of our Annual Report and Accounts<sup>11</sup>.

Included in the policy implementation changes was the addition of a financial ESG metric in the 2023 annual bonus scorecard: 'proportion of Article 8 and 9 funds', carrying a 10% weighting. The measure was chosen as an externally-defined proxy for the extent to which our product range offered to clients has sustainable characteristics. The targets set for the measure reflect our strategic priority of being a leader in sustainability, building on our achievements to date. Additionally, the climate metric in the 2023 long-term incentive bonus scorecard was updated to align to a newly-introduced company KPI: 'portfolio temperature score', carrying a 30% weighting. The portfolio temperature score tracks our progress towards our net zero ambitions and provides an opportunity to transition to an AUM-related climate metric in the LTIP, which previously focused on the percentage of renewable electricity used across our global offices. In setting targets, consideration was

given to our disclosed net zero ambitions and interim target to align portfolios to a 2.2°C pathway by 2030 as validated by the SBTi. A leadership position on climate change, as independently assessed by the CDP, must also be achieved in each year of the performance period in order for the executives to experience any payout.

The use of remuneration structures to align employee interests to sustainability-related issues relevant to their areas of responsibility is also reflected across the wider organisation. Performance against sustainability goals forms part of the annual performance review and in turn compensation outcomes 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. A significant proportion of higher-earning employees' variable remuneration is granted as deferred shares and/or fund awards (which are notional investments in funds managed by the Group), thereby aligning the interests of employees with that of our shareholders and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.

Following the launch of the Engagement Blueprint in 2022, Schroders made engagement a requirement for investors, and it is tied to compensation. Every investor's objectives require at least three substantive engagements per year. Fund managers can choose from the six core themes in the engagement blueprint when considering their company interactions. The engagements are closely monitored by Rory Bateman, co-head of investment and head of equities, alongside the Active Ownership team.

<sup>11</sup> <https://www.schroders.com/en/investor-relations/results-and-reports/results-reports-and-presentations/>

## Climate Incentives

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 2022, the determination of the annual bonus awards for the executive Directors included a measure relating to engagement with investee companies that fall in scope of our science-based targets, using our influence as an asset manager to drive quantification of a reduction in emissions. The 2022 annual bonus scorecard also took into account our objective to put into place climate voting principles as part of the launch of our Engagement Blueprint.

In addition to continuing to include sustainability measures in the executive Directors annual bonus scorecard, from 2022 our commitment to climate action was also reflected in our Long-Term Incentive Plan (LTIP). The 2022 LTIP incorporated a climate metric relating to the percentage of renewable electricity used across our global offices.

For the 2023 grant, the climate measure will evolve towards the temperature alignment of our assets under management (AUM) to the target net zero pathway. This change to a quantitative, investment focused metric, aligns to our interim target of aligning our portfolios to 2.2°C by 2030, on the way to 1.5°C by 2040. In order to achieve payout from either climate metric (2022 and 2023 LTIP), we must also maintain a leadership position on climate change in every year of performance measurement, as assessed independently by CDP.

## Performance reviews and training

Moreover, the performance reviews of Schroders employees are required to take into account the training they have undertaken, including ESG training for members of relevant teams.

All permanent and fixed-term employees globally have access to our global learning management platform, Spark. Spark offers an extensive range of digital learning content across a variety of sustainability themes, including climate change and biodiversity. In 2022, employees completed over 1,000 modules that had a sustainability focus.

These included modules related to physical risk, using our Carbon Value at Risk (Carbon VaR) proprietary model and carbon capture and storage.

Role-specific training forms an essential part of our training programmes. Throughout the year, the Sustainable Investment team hosted a weekly teach-in for participants to learn about sustainability-related workstreams around the firm. For product and investment colleagues, the monthly briefing call, 'Sustainability for investors', keeps employees informed with our latest sustainability research, models and product updates.

Sales Excellence is our dedicated sustainability training programme for our sales teams, who build and manage our client relationships. The Sales Excellence sustainability modules were mandatory for all sales employees, globally. In 2022 we ran modules on climate, active ownership and impact.

The climate module covered our climate commitments, asset owner approaches to net zero, climate engagement case studies and an overview of our climate solutions.

Beyond internal training, we continue to support our employees through professional qualifications in relation to climate and nature, including the Chartered Financial Analyst (CFA) Institute Certificate in ESG Investing and the CFA UK Certificate in Climate and Investing.

# Principle 3

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

### Conflicts framework

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

We have provided a summary of our Group-wide conflicts of interest policy<sup>12</sup> that covers the identification, prevention and management of conflicts. All staff globally are subject to the policy, and all employees have received training on our through our mandatory training framework. There are also supplementary local policies, where necessary to comply with local regulatory requirements. Under our Conflicts Framework, potential and actual conflicts are prevented, eliminated, mitigated, or appropriately managed through effective measures and governance and oversight arrangements, such as:

- Processes and controls implemented through policies and procedures
- Modifications to or limitations imposed on business processes or personal activity
- Client disclosure
- Business decision to change or stop an activity

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

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

From time to time, the Group Conflicts Committee is asked to adjudicate on instances of material conflicts that cannot otherwise be eliminated or have not been resolved locally or through a standing process (for example, trade order allocation processes), in order to reach a consensus that the outcome is in the in the best interests of clients. Conflicts that cannot be resolved by the Group Conflicts Committee, or matters which could impact the risk profile of the firm, are escalated to the Group Risk Committee (for more details see Principle 4) and to relevant legal entity boards.

The Group Conflicts Committee also provides a report of material matters to the Group Risk Committee on a regular basis, and Compliance reports regularly on conflicts to relevant legal entity boards. Where agreement cannot be reached on a particular issue, or the conflict is deemed to involve a significant reputational impact, the matter may also be escalated to the Group Chief Executive for a final resolution.

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

Our Group Conflicts of Interest Policy is reviewed annually. The Compliance team also carries out second line monitoring and review of conflicts management to determine if material conflicts have been identified and the Group Internal Audit provide a third line review of our Conflicts Framework.

### Conflicts of interest

#### Business conflicts

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

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

<sup>12</sup> <https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

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

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

- **Outside directorships or business activities.** Individuals may seek to hold directorships or other roles which either conflict with firm or client interests by limiting the time available to their primary role, or where they sit on boards of clients or of funds. Individuals may also sit on multiple boards with potentially conflicting interests. At Schroders, all outside directorships and business activities must be approved in advance. We have a policy on outside business interests that governs this process and sets out the criteria that we will apply to determine whether an outside business activity is permissible.

### Stewardship conflicts

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

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



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

### Voting conflicts

Schroders is responsible for monitoring and identifying situations that could give rise to a conflict of interest, including those that could give rise to a conflict of interest when voting at company meetings, in line with Schroders Group Conflicts of Interest policy. Those responsible for monitoring and identifying situations that could give rise to a conflict of interest are responsible for informing the Corporate Governance team of any potential conflicts.

Where a potential conflict is identified with respect to a fund or client on whose behalf the Corporate Governance Team is voting, or the company being voted on, we will follow the standard voting recommendations of a third party (the supplier of our proxy voting processing and research service).

Examples of potential conflicts include, but are not limited to:

- Where the company being voted on is a significant client, or part of the same Group as a significant client of Schroders
- Where the Schroders' employee making the voting decision is a director of, significant shareholder of, or has a position of influence at the company being voted on
- Where Schroders votes at a company where a Schroders plc director or senior manager is a director or senior manager of the company being voted on
- Where Schroders plc or an affiliate is a shareholder of the company being voted on
- Where there is a conflict of interest between one client and another or there is a pressure to vote in a particular way due to a client request
- Where we vote on Schroders plc resolutions

There may be scenarios in which it is in the best interest of the client to override the recommendations of the third party (described above) and vote in a way that may be perceived to benefit Schroders. In such scenarios, Schroders will obtain approval for the decision from Schroders' Head of Equities (or other relevant asset class) with the reason for such a vote being recorded in writing. If the third party recommendation is unavailable, Schroders will vote in what we believe to be the best interests of clients, irrespective of whether this puts Schroders at a disadvantage.

### Voting conflicts in 2022

In 2022 we recorded a total of 170 conflicts of interest in connection with voting. We followed our policy to vote in line with our provider, ISS's standard policy recommendations in all cases with the exception of 6 proposals.

### Case Study Conflict Policy Escalation

We placed a vote against our proxy adviser's standard policy and voted for the remuneration report and policy at a large multinational bank at its 2022 annual shareholder meeting. We followed the escalation process under our conflicts policy in order to do so. We had engaged with the company in October 2021, making clear our expectations in order to support the remuneration committee's proposals. If we are not satisfied with the progress next year, then we may escalate to a vote against.

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

# Principle 4

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

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

The first one is how we identify and manage market-wide and systemic risks. This is addressed by our firm-wide risk management framework.

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

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

We cover each aspect in detail below.

### Our risk management framework

Our rapidly evolving industry, global presence and core business activities mean that we are exposed to a variety of risks. Our risk management framework and strong system of internal control enable us to manage our risks and helped us respond to the challenges of 2022. Integral to our framework is our strong control culture and the effectiveness of our three lines of defence. Our second line of defence was strengthened in 2022 by bringing together our Risk and Compliance functions. This has allowed us to provide better oversight of the first line, enabling us to support business growth in a risk controlled manner through more integrated discussions and alignment of approach.

### Managing risks

The Board is accountable for the maintenance of a prudent and effective system of internal control and risk management. It assesses the most significant risks facing the business and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on 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 Audit and Risk Committee. We embed risk management within all areas of the business at Group and legal entity level. The Group Chief Executive and Group Management Committee (GMC), as an advisory committee to the Group Chief Executive, regularly review the key risks we face. They are also responsible for monitoring that individual behaviours, within the teams they manage, reflect the culture and control standards of the business. The Group Strategy Committee, which supports the Group Chief Executive with the development and delivery of the Group's strategy, regularly receives

a risk dashboard which includes metrics to monitor exposure against key risks. Subsidiary boards fulfil their obligations for managing risks in line with regulatory and legal requirements. The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer has responsibility for the risk and control framework of the Group and chairs the Group Risk Committee (GRC). The GRC supports the Chief Financial Officer in discharging his risk management responsibilities. 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 changes to existing risks. The GRC is supported by a number of sub-committees, including the Group Conflicts Committee, the Financial Crime Committee and the Information Security Risk Oversight committee which review and challenge risks and report significant risk matters to the GRC.

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

### Assessment of viability

The assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group, which are outlined on pages 40–45 of our Group Annual Report and Accounts<sup>13</sup>. The Directors review the key risks regularly and consider the options available to the Group to mitigate these risks so as to ensure the ongoing viability of the Group.

Stress testing is performed on the Group's business plan and considers the impact of a number of the Group's key risks crystallising over the assessment period. This includes consideration of new and emerging risks, identified through the business planning process, that could have a material impact over the five-year planning period.

The severe but plausible stress scenarios applied to the business plan include consideration of the following factors:

- A deterioration in the value of our AUM as a result of a severe period of market stress, similar in severity to the global financial crisis
- The impact of a material operational risk event or poor investment performance which could lead to reputational damage and significant outflows of our AUM

<sup>13</sup> [https://mybrand.schroders.com/m/1b80ae7c77f220c9/original/Schroders\\_Annual-Report-and-Accounts\\_2022.pdf](https://mybrand.schroders.com/m/1b80ae7c77f220c9/original/Schroders_Annual-Report-and-Accounts_2022.pdf)

- A significant decline in net operating revenue margins reducing projected revenues, together with an increase in the ratio of total operating expenses to net operating income
- The early crystallisation of certain climate change risks
- Prevailing economic factors such as the potential for a sustained period of high inflation, elevated interest rates and a marked slowdown in global growth

The Group also assesses the impact of the regulatory stress scenario published by the Prudential Regulation Authority. The stress scenarios are consistent with those used in the Group's consolidated Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

Having reviewed the results of the stress tests, including a scenario that combines a number of the factors set out above, the Directors have concluded that the Group would have sufficient capital and liquid resources and that the Group's ongoing viability would be sustained. In drawing this conclusion, the Directors assessed the management actions that are available to the Group and were comfortable that they are sufficient in order to maintain adequate capital and liquidity surpluses. The Directors also have regard to business model changes that may be required given the new environment in which the Group would be operating.

It is possible that a stress event could be more severe and have a greater impact than we have determined plausible. In this context, we conduct reverse stress tests, which demonstrate the unlikely and very extreme conditions required to make our business model non-viable.

The Directors' current, reasonable expectation is that Schroders plc will be able to continue in operation, meeting its liabilities as they fall due, over a viability horizon of at least five years. The Board's five-year viability and longer-term assessment is based on information known today.

Three material market-wide risks that we focused on during 2022 were cyber risk; liability driven investments as well as business services and operational resilience.

**Set out below are summaries of the Committee's activity in three areas where members of the first line of defence attended and presented to the Committee in relation to emerging and thematic risks.**



### **Information and cyber security**

Information and cyber security has been a key area of focus for the Committee for a number of years as a result of the continually evolving threat landscape and increasing sophistication of attacks.

As is typical of a Group of our size, we see a continuous stream of cyber attacks against our business, most typically involving phishing as a means of establishing initial access. As a result, we have built a dedicated cyber security department, led by the Chief Information Security Officer, made up of staff from a diverse set of backgrounds including financial services, law enforcement, military, government and various other industries. Using these varied skills, the team has developed robust defences to protect the Group and its clients against ongoing attacks, and we continue to strengthen and develop these defences year-on-year.

During 2022, our cyber security strategy remained focused on protection against the primary threats facing the financial services sector such as ransomware. Improvements made continue to be aligned to input received through external independent reviews such as the 2021 external review led by PwC, with progress on delivery against the strategy regularly reported to the Committee. In addition, EY performed its annual 'Cyber in the Audit' assessment to determine the maturity of our cyber security capabilities in light of the cyber risks posed to the Group and the robustness of processes and systems that management has put into place to respond to these risks. Our Internal Audit function has dedicated technology auditors that undertake a range of assurance work in this space to provide assurance to management on the effectiveness of information and cyber security arrangements and to support the delivery of further enhancements.

We recognise that cyber security goes beyond our dedicated cyber teams and is a responsibility of all of our employees. Accordingly, we have put in place extensive training and testing programmes for our staff to equip them with the right skills to recognise and respond appropriately to potential attacks. In addition, we have developed a strong governance structure for cyber with a focus on transparency and collaboration. This structure involves a continuous information flow from our Information Security Risk Oversight and Global Technology Risk Committees up to the GRC which in turn reports into the Board Audit and Risk Committee. During 2022, the Committee devoted a material part of its agenda to cyber-related topics given the rapidly developing threat landscape including crisis and recovery plans. In addition, Committee members have received briefings on thematic topics, including Cloud transition risks, to keep them up to date with the latest developments in this area and also ensuring digital security is foremost in our Cloud architecture. We recognise the value that comes from a strong international cyber security posture in financial services and are active participants in government, regulatory and industry bodies on this topic. We will continue to actively engage in this area throughout 2023 and beyond.



### Liability Driven Investment

In November, the Board Audit and Risk Committee discussed Liability Driven Investment and our response to the volatility experienced in the gilts and bond markets between late September and mid- October. During this period, our Solutions business, along with multiple functions across the firm, engaged in a series of intraday calls to address the challenges set by the unprecedented events. Our Distribution and Fiduciary Management teams proactively communicated with our clients and their consultants to inform them about the implications of the market disruption. There was also significant engagement with our regulators in both London and Luxembourg. Following the events of this period, we instigated a review spanning our three lines

of defence to determine where our systems and processes could be strengthened, should similar stresses be experienced in the future. We have also been engaging constructively with policy makers on the potential evolution of the applicable regulatory regimes. Liability Driven Investment will remain an area of focus for the Committee as the wider implications of the market events emerge.



### Business services and operational resilience

During 2022, there was a focus on the first phase of the FCA and PRA operational resilience regulations under which our in-scope Group subsidiaries were required to prepare and approve operational resilience self-assessments. Under the regulations, Schroders plc was required to provide overall approval, which was facilitated by the publication of a consolidated view of the self-assessments. The Committee reviewed the consolidated self-assessment in February and recommended it to the Schroders plc Board for approval. The self-assessments are a written record of our compliance with the first phase of the regulations and identify our important business services, set our impact tolerances to avoid intolerable harm to our clients and identify areas where we should enhance our operational resilience. In line with the next phase of the regulations, we are now focusing on continuing to mature and test the resilience of our important business services against severe but plausible scenarios and on improving our resilience in the areas identified. This is with the overall objective of achieving full operational resilience by March 2025.

The Committee will review progress and the consolidated self assessment on an annual basis and will recommend it to the Schroders plc Board for approval. The applicable subsidiary boards will similarly review and approve their self-assessments. These assessments will continue to evolve as we embed the regulatory requirements into our everyday processes and as we continue to mature our operational resilience and testing capabilities.

## Managing Cyber security risks in our investment portfolios'

Cyber risk is one of the most immediate and financially material risks that organisations face today. Those that fail to implement robust management on cybersecurity will be less resilient and less sustainable.

### 1. Cybersecurity Scorecard

We have developed a cybersecurity scorecard as a way of externally measuring company cyber preparedness. The scorecard consists of nineteen metrics, assessing corporate cybersecurity across three dimensions:

- a Cybersecurity exposure** – this measures the extent to which a company may be exposed to cyber threats based on internet activity, type of business activity it undertakes and the geographic regions in which it operates
- b Cybersecurity management** – this measures the robustness of a company's cybersecurity practices including management oversight, company policies, training and auditing practices
- c Cybersecurity momentum** – this measures the recent trajectory of certain cybersecurity vulnerability metrics, to determine whether the company's threat level is worsening, improving or remains stable

### 2. Scorecard Headline Results

We have calculated a cybersecurity score for over 6,000 globally listed companies. The results of the analysis are presented within a cybersecurity scorecard, highlighting the top and bottom performing regions and sectors. We can also explore the sectors within each region, to identify the most and least exposed companies. Our headline results indicate that companies in Developed Europe have the strongest cyber performance on average, while companies in Developed Pacific score the lowest. On a sector basis, Utilities fair best while the Industrials sector looks most at risk.

### 3. Analysing recent cybersecurity breaches

We find the majority of breached companies were synonymous with a cybersecurity score that i) underperformed its sector peer group, It is well understood by the investment community and business leaders that the threat of cyber attacks to businesses is growing. In 2021 businesses suffered 50% more cyber attacks per week compared to 2020. Consequently, cyber risks have become one of the largest concern for companies globally, with 44% of company respondents to the Allianz Risk Barometer Survey highlighting cyber incidents as the top concern.

As well as becoming more frequent, cyber attacks are also becoming more costly to businesses. In 2022, the average cost of a data breach increased 3% year on year to reach an all-time high of \$4.35m, representing a +13% increase since 2020.

In light of this, we have undertaken a deep dive into the world of cybersecurity with the aim of understanding which industries, regions and companies are most exposed to this risk. We outline our approach below.

- i) underperformed its regional peer group and
- ii) contains a declining momentum score

We have screened the global list of more than 6,000 companies by these three criteria to show the ten most "high risk" companies by region.

### 4. Key Tactical and Strategic Recommendations

Lastly, in collaboration with the UK National Cyber Security Centre and the Department for Digital, Culture, Media and Sport, we have generated a range of tactical suggestions and strategic recommendations that investors can use to benchmark company cybersecurity performance and use as a best practice guide when engaging with corporates.

## Case Study: Cybersecurity in the Technology, Media, and Telecoms (TMT) Sector

### Blueprint theme: Governance and oversight- transparency, risk and reporting

Cyber threats present a material and growing risk to the Technology, Media and Telecoms (TMT) sector.

In 2022, we engaged companies in this sector to understand how they're managing this cyber risk. A questionnaire was sent to over 28 companies covering the companies' cyber security management practices, the reporting structure, and reporting frequency around cyber risk.

The results of the questionnaire helped the investment desk develop an understanding of best practice and enabled investors to begin working with companies to adopt such measures. Given that cyber security risk is an ever-evolving field, the questionnaire enabled us to keep abreast of recent developments and risk management practices.



### Samuel Thomas

Sustainable Investment Analyst

“Cyber-attacks are an evolving threat facing businesses and society across the globe. It is well understood by the investment community now that cyber risks present a very real threat to businesses, as attacks become more frequent and more costly each year. In 2022, the average cost of a data breach increased 3% year-on-year to reach an all-time high of \$4.35 million, representing an increase of more than 13% since 2020. Cyber threats are becoming ever more sophisticated and financially damaging, it is therefore increasingly important for investors to consider cybersecurity as a material factor when evaluating the resilience and sustainability of businesses.”

## Geo-political risk, economic pressures and our crisis management approach

The last few years have tested our emerging risk and crisis management processes. From the Covid pandemic which began in 2020, to the geo-political events of 2022 (specifically Russia's invasion of Ukraine in February and the LDI crisis in September and October), we have managed all crises proactively to minimise disruption to the business and our clients. We consider emerging risks on a regular basis across the firm and incidents as they arise. We operated a daily call in February and an intraday call in September to manage the impact from the events noted above. We also have a crisis management plan which provides a coordinated and structured approach.

This overall approach served us well in response to Covid and recent events. Whilst geo-political risk continues to remain high due to war in Europe and some political tension between China and the West, our business remains diversified globally, providing additional resilience. We regularly monitor our exposure to geo-political risk and take proactive action where possible.

In response to the Russia-Ukraine conflict, the sustainability team conducted a number of areas of research to support investors to engage with companies on emerging risks such as human rights, energy security and labour migration.

We were shocked and deeply saddened by the Russian invasion of Ukraine. Our hearts go out to the millions of people affected, which include some of our employees and their families and friends.

Our exposure to Russia, Belarus, and Ukraine was minimal at less than 0.1% of assets under management. In 2022 we agreed we will not be investing in Russian or Belarusian equities or bonds for the foreseeable future.

In 2022 we focused on examining our non-Russian holdings to understand how the companies are managing their businesses in Russia, Belarus, and Ukraine, their supply chains and the stakes they may own or operate. We have been engaging with these companies to ensure they are responding appropriately to the crisis.

We found that:

- Many companies confirmed their intention to wind down operations in Russia
- Some companies were maintaining essential services (e.g. access to medicine) and continued to employ staff in situ

We also signed a letter coordinated by the Investor Alliance for Human Rights, which committed us to conduct enhanced due diligence of our portfolios, as called for by the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises. This involved calling on investee companies to take several steps to map their operations against these principles, and to prevent and mitigate their exposure to human rights risks based on these findings. Companies are expected to terminate business activities, if such risks proved to be inmitigable.

### Case study: Russia Engagement

#### Escalation:

Meeting with C-suite	
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

An example of our escalation in this area is with a British automotive distribution company. This company was highlighted as part of our exposure analysis. We spoke with the company to gain more

insight into the proportion of its business exposed to Russia, which it communicated was at 10% of revenue. This led to a follow up call in which we sought more information about its plans for this part of the business. We encouraged the company to make a statement of intent with regards to its Russia operations.

Shortly after this call, we were pleased to see the company announce that it had concluded its business interests in Russia and was starting the process of transferring this business from the wider group. This led to a follow up call with the company, in which we discussed its transfer plans, especially how it would manage the 1500 employees in Russia.

We were encouraged by the company's fast action to reduce their exposure to Russia and felt confident it was acting in an appropriate manner.

## Focus on climate change and nature as a systemic risk

As part of our risk management 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 risks within assets and portfolios and to appropriately represent these to clients and stakeholders.

Climate change, and the steps needed to transition to a net zero economy, will raise risks and opportunities for our business and the investments we manage. We have embedded climate change risk management into our established processes. For more detailed information about our overarching strategy for addressing climate change, please refer to our Group TCFD report<sup>14</sup>. We have summarised key parts of this report with respect to our focus on addressing systemic and market wide risks and our active ownership approach below.

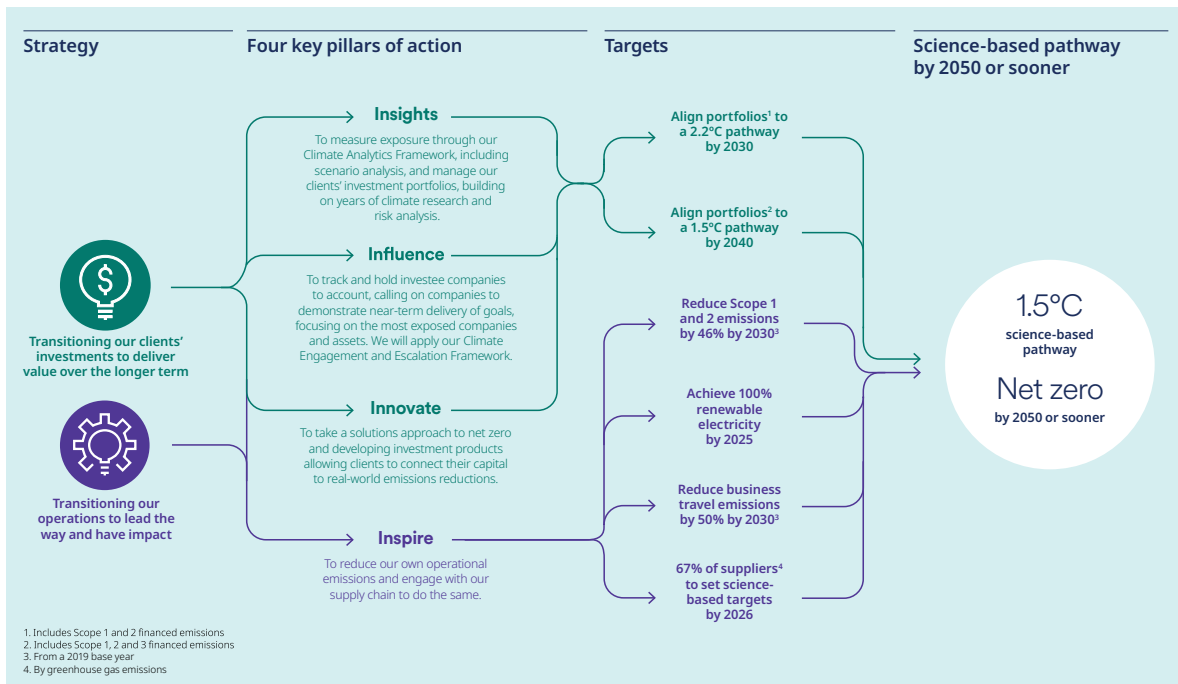
We were among the first 20 financial institutions to have our targets formally validated by the Science Based Targets initiative (SBTi) in February 2022 and are the largest investment manager by assets under management (AUM) to have done so. The validation confirmed that our Scope 1 and 2 targets are in line with a 1.5°C trajectory and that our relevant 1 AUM is also targeted to be fully aligned with a 1.5°C pathway by 2040.

Given the importance of climate-related risks to our business, 'ESG risk including climate change' has been identified as one of our key risks. For 2022, the risk was owned by the Global Head of Sustainable Investment, who is responsible for the actions 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, while monitoring performance of this risk throughout the year.

Climate-related risks are managed in accordance with the same three lines of defence model we use for all risks. The heads of each business area take the lead role in identifying, assessing and managing risks; independent monitoring is then 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.

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.

## Our climate change strategy



Source: Schroders 2022 Climate report.

<sup>14</sup> <https://www.schroders.com/climate-report>



Many of our key processes have been adapted to enable the incorporation of climate-related risks; these processes include our approach to investment research and decision-making, product development, active ownership and engagement with our investee companies, and ongoing assessment and monitoring of our own operations (you can find more details about our third party procurement framework under Principle 8).

However, climate change is a pervasive risk across many of our key risk types, and we detail in the table below 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, with the ExCo for investment, the PSC for products, the Private Assets Product Development Committee and investment committees for private asset products, the WMEC for Wealth Management and GSI Committee for our own operations, taking into account our risk appetite where relevant. This governance and oversight framework is described in greater detail under Principle 2.

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 climate tools described in Principle 2. 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.

## The impact of climate on our Group's key risks

Given the importance of climate-related risks to our business, 'ESG risk including climate change' has been identified as one of our key risks and is monitored using our risk appetite metrics. The following table details our principal risks to the firm and the extent to which climate change impacts each of these, including their associated GMC risk owner during 2022.

Key risks considered to be high impact are highlighted by: 

### 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.

### 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.



### 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.



### 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).

### 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.

### 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.



### 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).



### 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.

### 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.



### 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.



### 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.



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

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

Schroders: Climate Report 2022.



**Carol Storey**

Climate Engagement Lead

The aim of our climate engagements is to support companies to take the right steps, in the right way, to protect their bottom line, enhance investment value and of course, secure a better future for all.

commitments. We engage with these investee companies to encourage them to reduce emissions, transition to low-carbon business models and strengthen their resilience to climate change.

In 2022, we engaged with 737 companies on climate topics, across more than 1,100 individual engagement events. Collaborative engagements through the CDP non-disclosure campaign and the Institutional Investors Group on Climate Change (IIGCC) climate lobbying disclosure campaign accounted for just over 10%.

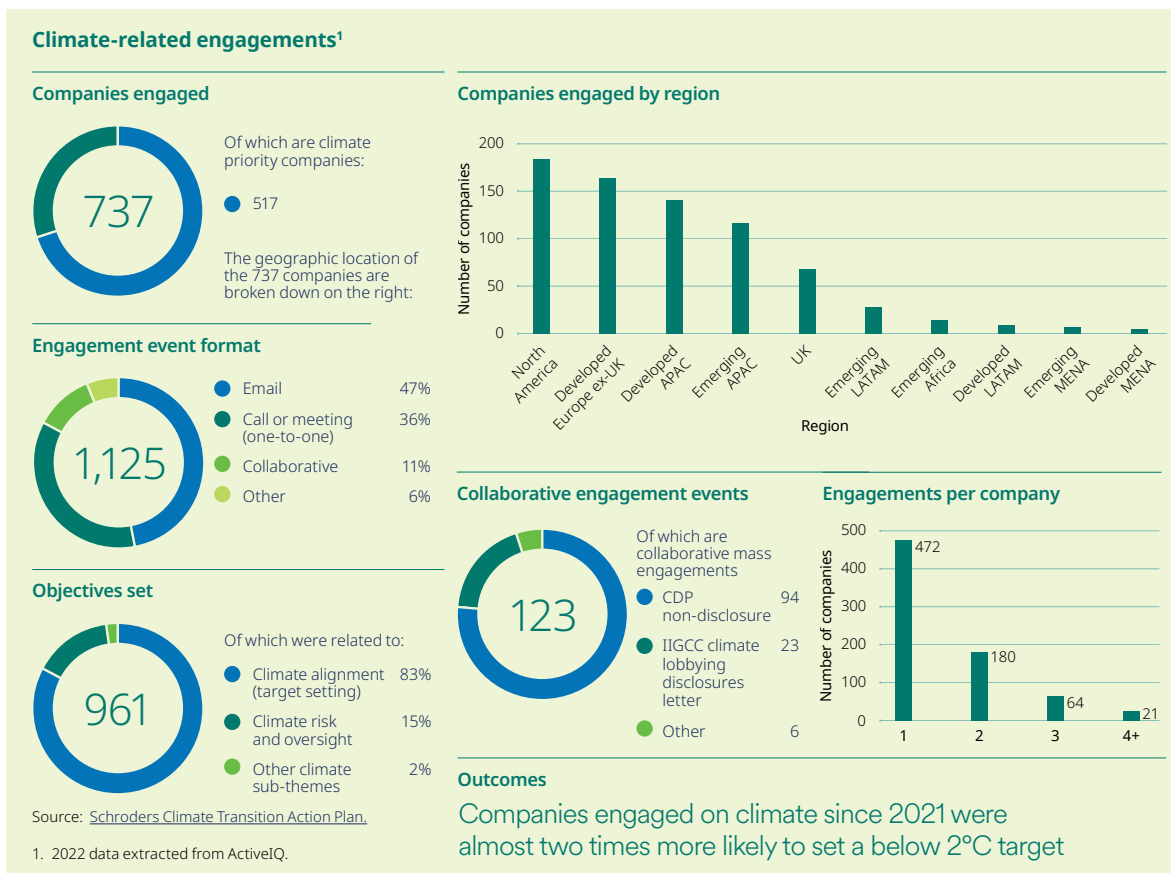
Over the same period, we voted in support of 69% of shareholder resolutions on climate, and 76% of management 'Say on Climate' resolutions. Although we consider voting powers an important lever for change, we do not immediately support shareholder resolutions if we do not believe they advance our goal of supporting the company to protect long-term value by transitioning its business model toward a low carbon value chain.

We have found that over the two year period from the start of 2021 to the end of 2022, the companies we engaged were almost two times more likely to establish emissions reduction targets than those we did not engage. Those changes cannot be solely attributed to our active ownership strategy, but we are encouraged by the effect of our efforts to date.

**Company engagement**

Engaging with our investee companies as outlined under Principle 9 is our main lever to drive transition in the investments we manage, and to managing climate-related risks and opportunities.

In 2022, we began an ambitious global engagement programme. It focuses on companies to which we have significant exposure, which have high GHG emissions but have not yet made decarbonisation



Source: Change to Schroders Climate Report 2022.

### Climate-related voting and escalation

Shareholder resolutions (supported)	Votes against directors (directors)
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69%

66

'Say on Climate' resolutions	Votes against directors (companies)
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76%

46

Participation in co-filing opportunities	Pre-declarations
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2

3

Company flagged and public statement made
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1



### A growing focus on nature

Climate change has dominated the sustainability agenda in recent years – with good reason. As well as the fundamental threat it poses, there will also be substantial disruption to economies, industries and companies as efforts to limit long-term temperature increases accelerate. However, some of the same forces that have led to the climate crisis – notably growing demand from a larger, wealthier global population pushing the planet to its limits – are becoming evident in a wider range of biodiversity and nature-related challenges<sup>15</sup>.

The Organisation for Economic Co-operation and Development (OECD) has estimated that the services nature provides to the planet are worth around 1.5 times our global GDP<sup>16</sup>. But nature's capacity to provide these benefits is being eroded quickly by

the pressures caused by economic development and growth. According to the World Wide Fund for Nature, wildlife populations have declined by an average 69% over the last five decades<sup>17</sup>. Whilst precise figures are impossible, some estimates imply that the value of the services nature makes to the global economy have declined by around \$10 trillion annually in recent decades<sup>18</sup>.

As a result, it's unsurprising that societies, policy makers, companies and investors have become increasingly focused on nature and are starting to crystallise the environmental threat as a financial and investment risk. We saw this momentum first-hand when we attended the COP15 conference in December 2022.

In 2022, we published our Plan for Nature<sup>19</sup> and Group Nature and Biodiversity Position Statement<sup>20</sup>. These set out our commitment to the Finance for Biodiversity Pledge<sup>21</sup>, our target to eliminate exposure to commodity-driven deforestation in the companies held in the investment portfolios we manage by 2025 and the key actions we are taking.

We are committed to taking action to tackle the threats degrading nature poses to the investments we manage and to our business. Our actions and commitments run parallel to our climate change strategy:

- Insights: Developing our understanding and analysis to identify the exposure to nature risk companies and assets have
- Influence: Engaging with and influencing companies to reduce their exposure to nature risk and their impacts on nature
- Innovate: Offering investment solutions to protect and restore nature and deliver long-term returns

Reflecting those principles, we have established several initiatives, set targets and joined with industry peers to collaborate and share knowledge on nature and biodiversity. As a result, Global Canopy's 2022 Forest 500 assessment increased our score by 46%, placing us 1<sup>st</sup> in the 150 global financial institutions tracked<sup>22</sup>.

Going forward, we plan to develop our nature related commitments, so that these become stronger and more comprehensive. We will integrate these with our climate change strategy and performance measurement, in order to deliver superior risk-adjusted returns for our clients.

<sup>15</sup> <https://climatechampions.unfccc.int/wp-content/uploads/2022/09/Assessing-the-financial-impact-of-the-land-use-transition-on-the-food-and-agriculture-sector.pdf>

<sup>16</sup> <https://www.oecd.org/environment/resources/biodiversity/G7-report-Biodiversity-Finance-and-the-Economic-and-Business-Case-for-Action.pdf>

<sup>17</sup> <https://www.worldwildlife.org/press-releases/69-average-decline-in-wildlife-populations-since-1970-says-new-wwf-report>

<sup>18</sup> <https://www.sciencedirect.com/science/article/abs/pii/S0959378014000685>

<sup>19</sup> <https://mybrand.schroders.com/m/71fa11994039cf15/original/schroders-plan-for-nature.pdf>

<sup>20</sup> <https://mybrand.schroders.com/m/4d6b8da1cd44ccc9/original/Group-Nature-and-Biodiversity-Position-Statement.pdf?ga=2.212701396.1198308454.1666594648-1262909953.1662454045>

<sup>21</sup> <https://www.financeforbiodiversity.org/about-the-pledge/>

<sup>22</sup> <https://forest500.org/rankings/financial-institutions>

## Case Study: Encouraging climate leadership at a North American bank



1

We have been engaging with a North American bank since January 2021, both unilaterally and collaboratively with other institutional investors via the Institutional Investors Group on Climate Change (IIGCC). In 2021, we set three climate-related objectives:

1. To set interim milestones and science-based targets relating to the bank's net zero commitment
2. To produce a comprehensive fossil fuel lending policy, including how the bank plans to address misaligned activities
3. To report on Scope 3 Category 15 emissions

2

These three objectives were partially met over the course of the year (e.g. a policy covering thermal coal rather than all fossil fuels was introduced), resulting in further engagement in 2022, by raising three issues ahead of our voting decision:

- We challenged the bank to set absolute financed emissions targets in addition to intensity-based targets for relevant sectors
- We sought validation of the bank's targets via an independent party
- We requested the bank to expand its thermal coal financing policy to cover existing clients as well as new clients, and to establish policies for other sensitive industries

3

**Voting outcome:** We had the opportunity to further escalate our engagement activity through our voting rights.

We took the decision to:

1. Vote against the Chair of the Board
2. Support one climate-related shareholder resolution
3. Not to support another climate-related shareholder resolution

## Climate and Nature industry involvement and public policy

### Climate Financial Risk Forum

In 2022 Schroders has actively supported the Climate Financial Risk Forum (CFRF) to draft new guidance publications due in early 2023. The CFRF aims to build capacity and share best practice across financial regulators and industry, to advance the financial sector's responses to the financial risks from climate change. Schroders participates in the data, disclosure and metrics working group as well as the scenario analysis working group.

### Science-Based Targets initiative (SBTi)

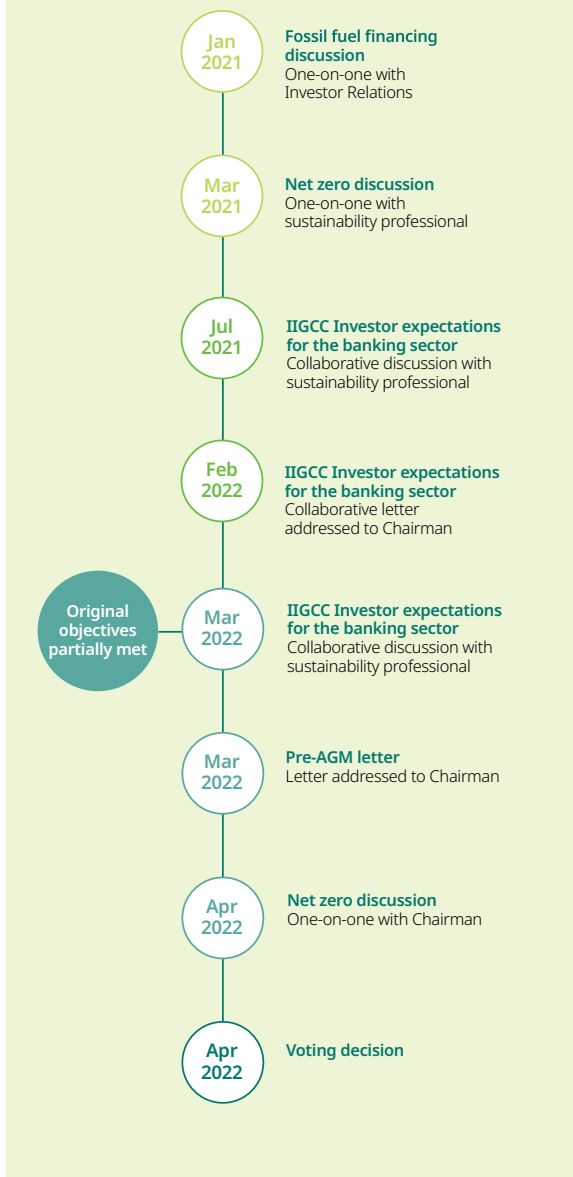
SBTi drives climate action in the private sector by enabling companies to set science-based emissions reduction targets. Our science-based targets (covering our operational and investment-associated emissions) were validated by the SBTi in February 2022.

We also responded to the consultation on the Net Zero institutions Foundations Draft in 2022. SBTi are expected to launch the final Financial Net Zero Standard in Q1 2023.

### Climate Disclosures

As a signatory of CDP, we have access to its extensive research and database on climate change, water and forestry. We achieved an 'A' for our 2022 climate change questionnaire (for year end 2021), the only UK headquartered financial services company and in the top 2% of all companies scored globally.

## Engagement progress and escalation



## 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.

In 2022, we were actively involved with a TNFD-supported pilot on Palm Oil led by Global Canopy in Singapore through participation in workshops, reviewing proposals and sharing lessons learnt. The main aim of the pilot was to gather early insights into current practices used in the assessment, measurement and disclosure of nature-related risks and opportunities related to palm oil, as well as common barriers and challenges experienced during the process.

## Finance for Biodiversity Pledge

In 2022, we signed the Finance for Biodiversity Pledge. By doing so, signatories commit to protecting and restoring biodiversity through their finance activities and investments by:

- Collaborating and sharing knowledge
- Engaging with companies
- Assessing impact
- Setting targets
- Reporting publicly on the above before 2025

We joined the Finance for Biodiversity delegation at COP-15, with 75 financial services representatives to call for an ambitious post-2020 global biodiversity framework. We joined two campaigns advocating for mandatory disclosures on nature and we're pleased that the final agreement included commitments to align public and private financial flows with the framework and ensure that companies disclose their risks, dependencies and impacts on biodiversity.

## Make it Mandatory - Business for Nature

We supported a call to action to Heads of State at COP15 to make article 15 mandatory: "At COP15 in Montreal, we call on you to adopt, in Target 15, mandatory requirements for large and transnational businesses and financial institutions to assess and disclose their impacts and dependencies on biodiversity, by 2030."

## 'Moving together on nature': statement from the private financial sector to the conference of the parties to the convention on biological diversity - COP 15

150 financial institutions, representing over \$24tn in assets under management, called on world leaders to adopt an ambitious post-2020 Global Biodiversity Framework at the UN Biodiversity Conference COP15.

## Promoting a well-functioning financial system

### Industry involvement and public policy

We have a long-standing commitment to support and collaborate with several industry groups, organisations and initiatives to promote well-functioning financial markets. Our key stakeholders include exchanges, regulators and international and regional trade associations. For example, Schroders is a member of trade bodies such as the Investment Association in the UK, the European Fund and Asset Management Association (EFAMA), the Asia Securities Industry and Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in the US.

Through this participation we share our insights to support the development of policy recommendations, share best practice and build coalitions of like-minded market participants to advocate for better functioning markets. We consider this to be key in improving responsible investment standards across sectors, establishing a consistent dialogue with companies, and in promoting the ongoing development and recognition of sustainability and ESG within the investment industry. A full list of organisations and initiatives of which Schroders is a member or signatory is available on our website<sup>23</sup>.

## Committees or initiatives promoting responsible investment

### HUMAN RIGHTS

#### PRI Advance

Schroders is lead investor endorsing the UN PRI's Advance initiative. Advance is a stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society.

As a lead investor, we have committed to leading on engagements with two companies and supporting engagements at another three companies. We have also committed to respecting human rights in our group human rights statement and outlining our due diligence approach in our Modern Slavery Statement<sup>24</sup>.

#### Investor Alliance for Human Rights

Schroders is a member of the Investor Alliance for Human Rights which is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. We are part of the digital rights collaborative engagement group and support engagements with companies as part of this programme.

### HUMAN CAPITAL MANAGEMENT

#### Oxford Rethinking Performance Initiative

We are members of the Oxford Rethinking Performance Initiative<sup>25</sup>. This is a group of stakeholders from both investment and corporate worlds, led by Saïd Oxford Business School focused on developing ideas to measure the operationalisation and value of purpose. Specifically, we have engaged with the Initiative and academics from Oxford on the subject of valuing human capital. We are also working with the group on a variety of impact related workstreams.

<sup>23</sup> <https://www.schroders.com/en/sustainability/active-ownership/industry-involvement/>

<sup>24</sup> <https://prod.schroders.com/en/sysglobalassets/digital/global/corporate-responsibility/schroders-plc-modern-slavery-statement-2021.pdf>

<sup>25</sup> <https://www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-initiative-rethinking-performance>

## OTHER

### Operating Principles for Impact Management<sup>26</sup>

Schroders signed up to the Operating Principles for Impact Management in 2022. Becoming a signatory reflects the ambition of Schroders to become a leader in sustainability and impact.

As a signatory to the Impact Principles Schroders commits for part of its assets<sup>27</sup> to disclose on yearly basis how these are aligned to the Impact Principles and, at regular intervals, to arrange for an external independent verification of this alignment.

### UN Global Compact (UNGC)

As a signatory to the UNGC we support and integrate its ten principles covering four areas – human rights, labour, environment and anti-corruption – into our business strategy. In 2022 we became an Early Adopter of the UNGC's Communication on Progress as part of our commitment to transparently disclose our implementation of the Ten Principles and contribution to the SDGs.

### Investor Forum

In 2022, we were involved in several of the Investor Forum's collaborative initiatives. We outline them below:

- Working group on investing in the defence industry. The working group's aim was to set out the process by which investors can establish a 'values-aligned' investable universe within the defence sector, with practical guidance on how to formulate a robust and transparency Defence Investment Policy
- We fed into the development of a modern slavery toolkit for investors
- We provided feedback to the Home Office on possible changes to S54 of the 2015 Modern Slavery Act in relation to extending coverage to include financial portfolios
- We participated in the Investor Forum's Development Programme for diverse employees in the asset management industry

### Biopharma

We signed the investor statement for the Biopharma Investor ESG Communications Initiative that aims to help biopharma companies and investors achieve more effective, efficient, and decision-useful communications about the sector's most important ESG topics.

## REGIONAL INITIATIVES

### UK: Investment Association

With representation on both the Stewardship and Remuneration committees, we contributed to the updating of its remuneration principles and shareholder priorities for 2023.

## EU

### EU sustainable finance stakeholder group

Schroders is also part of a group of EU stakeholders with different backgrounds, but a common interest in sustainable finance. Other members include ACCA, Accountancy Europe, CDSB, Eurosif, Frank Bold, PGGM, WWF, Share Action and World Benchmarking Alliance. In 2022, the group issued a joint statement supporting the European Commission's initiative to improve the regulatory framework on corporate reporting<sup>28</sup>.

## APAC

### Asian Corporate Governance Association

We are members of the Asian Corporate Governance Association (ACGA), an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. We joined several group investor calls with companies in South Korea with concerning governance practises; as well as co-signing a letter to the Tokyo Stock Exchange on gender diversity expectations.

<sup>26</sup> The entity proposed is Schroders plc. to cover public, private assets and wealth management.

<sup>27</sup> The AUM of Impact Driven Product range is considered 'covered assets'.

<sup>28</sup> <https://www.efama.org/newsroom/news/csr-d-why-we-need-get-improved-corporate-sustainability-data-2024>



### **Asia Securities and Financial Market Association (ASIFMA)**

ASIFMA is an independent, regional trade association which aims to promote the development of liquid, deep and broad capital markets in Asia, which is fundamental to the region's economic growth.

Schroders is part of two ESG ASIFMA workstreams that discuss items directly affecting financial institutions and those affecting underlying investee companies and assets. Schroders regularly contributes to Asia-Pacific industry and regulatory consultations through ASIFMA. Schroders is also part of the newly formed AAMG ESG Committee, responsible for defining the priorities and strategy for ESG matters and issues affecting or impacting member firms operating in the Asia region.

### **Singapore Green Finance Centre (SGFC)**

Schroders is a founding partner, of the SGFC, a collaboration between Imperial College London and Singapore Management University, and supported by the Monetary Authority of Singapore. The centre conducts multidisciplinary research and talent development opportunities in the area of sustainability, climate and green finance to support and transform businesses in Singapore and the Asian region.

In 2022, Schroders continued to steer the direction of research and initiatives of the SGFC through our position on the advisory board. The SGFC has provided pioneering research on areas such as impact measurement and carbon markets, while producing education programmes to build talent in areas such as climate change management.

### **Investment Management Association of Singapore (IMAS)**

IMAS represents professionals from more than 150 investment management firms in Singapore, actively enhancing the standards of professionalism amongst practitioners, advocating industry concerns, working closely with government agencies and regulators to formulate policies and strategies, including in sustainable finance.

In 2022, Schroders represented IMAS in the steering committee of Singapore's Green Finance Industry Taskforce. The taskforce, convened by the Monetary Authority of Singapore (MAS), has a mandate to accelerate green finance in Singapore through improving disclosures and fostering green solutions.

### **Institute of Banking and Finance (IBF), Singapore**

IBF works with senior practitioners from the financial industry to identify required core competencies and skills, and encourage the adoption of the IBF Standards as a benchmark in the training and development of finance professionals.

Schroders contributes to working group discussions and has helped shape the curriculum and proficiencies of the Sustainable Finance Technical Skills and Competencies (TSCs). The Sustainable Finance TSCs include thematic topics such as climate change management, natural capital management, carbon markets and decarbonisation strategies management and taxonomies application, which will equip an individual with a broad understanding of sustainability issues. The TSCs also cover functional knowledge such as sustainability investment management, sustainability risk management, sustainable insurance and re-insurance solutions and applications that are tailored for different financial sector roles.

## **US**

### **Council of Institutional Investors (US)**

In addition to joining the leading US asset owner organisation as an associate member we were invited to host a panel discussion on executive remuneration to compare and contrast the issues with executive remuneration in the US and the UK and provide some suggestions for better stewardship. We will also host a panel discussion on good labour practices at the Spring 2023 conference.

### **DCIIA (Defined Contribution Institutional Investment Association)**

Schroders is a member of DCIIA and also part of the ESG Subcommittee Leadership. We were invited to speak on several panels at their 2022 Innovation Forum and also co-authored a thought piece for their resource webpage on the topic of ESG data and research in DC plans.

### **IEN (Intentional Endowments Network)**

Schroders is a member of IEN and also sits on its Experts Panel. In 2022 we were invited to speak at a virtual conference with their University members and to moderate an in-person panel hosted during Climate Week NYC, as well as to present its full membership on the topic of the finalized Department of Labor (DOL) rule regarding ESG investments in DC plans.

### **HCMC (Human Capital Management Coalition)**

Schroders is a member of the HCMC and also leads the “research/data” strike team/ subcommittee to collect relevant data and research to support HCMC messaging regarding the value of human capital information in the investment, engagement, and proxy voting processes and the financial consequences of not having access to this data.

### **Public Policy: Consultations and shaping best practices**

We believe that working with peers and policymakers on sustainability and ESG issues is an important activity. As part of our wider public policy engagement, we continued educating and advising our clients on developments in the sustainability agenda throughout 2022. Moreover, we regularly respond to public consultations both as a firm and working with investor groups. Below we outline Schroders direct contribution to public policy developments in 2022. Additionally, we contributed to responses submitted by industry bodies such as the Investment Association (IA) and the European Fund and Asset Management Association (EFAMA), and outlined our positions in engagement meetings with policy makers and regulators around the world.

### **US**

In 2022, we responded to the SEC’s consultation on ESG fund disclosures. Our response supported disclosures to improve clarity and transparency for clients, without prescribing or defining strict categories and labels in a rapidly evolving market. However, we cautioned the Commission on a number of points, such as 1) overemphasizing specific metrics like GHG emissions, 2) including engagement and voting as a distinct product category, and 3) encouraging an overreliance on third-party ratings (which are not subject to regulation or broad oversight) to determine fund categorization.

### **APAC**

1. Australia Treasury consultation on climate-related financial disclosure
2. Green Finance Industry Taskforce (GFIT) consultation on second version of its Green and Transition Taxonomy
3. MAS Survey on the Use of ESG Ratings by Asset Managers
4. MAS Consultation on Retail ESG Fund Disclosures
5. Taiwan FSC ESG Fund Disclosures

### **EU, UK and International**

1. FCA consultation on Sustainability Disclosure Requirements (SDR) and investment labels (DP 21/4)
2. European Commission’s Public consultation on strengthening the quality of corporate reporting and its enforcement
3. ESMA Call for evidence on Market Characteristics for ESG Rating Providers in the EU
4. ESMA Consultation on Guidelines on certain aspects of the MiFID II suitability requirements
5. European Commission’s Targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings
6. Consultation by the Transition Plan Taskforce (TPT): a sector-neutral framework for private sector transition plans
7. Consultation by the ISSB on General Requirements for Disclosure of Sustainability-related Financial Information (Exposure Draft ED/2022/S1)
8. ESMA’s Call for Evidence on the Implementation of SRD2 provisions on proxy advisors and the investment chain

All Schroders responses are available on request.

## Overview of initiatives Schroders participates in

General initiatives	Environmental/ climate initiatives	Social initiatives	Governance initiatives
United Nations Global Compact (UNGC)	Net Zero Asset Managers Initiative	Access to Medicine Index	ICGN International Corporate Governance Network
EFAMA Responsible Investment Working Group	CDP Climate Change CDP Water CDP Forest	WBA's Digital Inclusion Collective Impact Coalition (CIC)	Asian Corporate Governance Association
Principles for Responsible Investment (PRI)	'Aiming for A' investor coalition	Workforce Disclosure Initiative	UK Corporate Governance Forum
UKSIF	Climate Action 100+	Farm Animal Investment Risk & Return (FAIRR)	Institute of Business Ethics
EuroSIF	Transition Pathway Initiative (TPI)	Investor Alliance for Human Rights	Eumedion
Swiss Sustainable Finance	Global Real Estate Sustainability Benchmark (GRESB)	Find it, Fix it, Prevent it	
Responsible Investment Association Australasia (RIAA)	Better Building Partnerships		
Investment Association Sustainability and Responsible Investment Committee	Paris Pledge for Action		
Investor Forum	Powering Past Coal Alliance Finance Principles		
Focusing Capital on the Long Term			

Source: Schroders as at 31 December 2022.

# Principle 5

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

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

- The ongoing review of our policies, procedures and related materials on our engagement and voting approach and
- The ongoing maintenance of our engagement database

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

### Policy reviews

In 2022, we conducted a review of the ESG Policy. This policy incorporates our voting guidelines. As a result of this review, we have updated our voting guidelines. The ESG policy will be revised to reflect these changes to the voting guidelines and made available publicly in Q2 2023. In the meantime, the revised voting guidelines are available on request.

The voting guidelines provide an overview of how we approach the most common proposals we see at shareholder meetings around the world. They explain our high-level approach to how consider different types of resolutions proposed by boards, such as director elections, remuneration related proposals, capital issuance requests, proposals related to the external auditors and other oversight bodies for which shareholders have votes. They also cover our approach to shareholder proposals.

The guidelines provide an agreed internal summary of our general approach and are used by the corporate governance team and members of the active ownership team when making voting decisions. We also take account of company disclosure, any engagement that we may have with the companies at whose meetings we are voting, and the views of the relevant investment teams when analysing shareholder meeting agendas and voting.

Our ESG policy and voting guidelines outline our principles and processes in terms of integration and stewardship. It sets the main parameters of our engagement and voting. For example, it explains our process of engagement (as described under Principle 9), our general stance on corporate governance issues (as described under Principle 12), and our approach to environmental and social issues, [themes of blueprint] .

We will regularly review these documents with the aim of ensuring that we are following local and international best practice and that we accurately describe our activities. As part of this, we assess industry codes and best practices in different regions, consider emerging best practice through consultants and assess areas of weakness highlighted by our own experiences.

### Maintaining the quality of our engagement data

2022 was a transitional year when it came to recording engagements at Schroders. In July, we launched a new engagement recording tool called ActiveIQ.

The launch of ActiveIQ meant engagements could be better aligned to the Engagement Blueprint, with a clearer progress framework using a milestone-based approach. ActiveIQ includes data from legacy engagement systems. The data migration process entailed quality assurance checks from the project team and ActiveIQ users. It involved cross-referencing transformed data with previous public statistics on engagement, where alignment of summary statistics was found to be satisfactory.

By the end of 2022, Schroders-wide engagements were recorded and accessible through ActiveIQ. At this time, a refreshed quality assurance process was launched, accommodating the large scale of oversight needed given the increasing volume of investor-led engagements. The ongoing quality assurance process involves several steps:

- 1 Roll-out of a training programme for new users of Active IQ covering how to log engagements and record high quality engagement plans, guidance for sharing sensitive information and following best practice for writing and sharing case studies
- 2 Completed objectives are reviewed and approved on a monthly basis by the central Active Ownership team. This includes review and approval of all objectives reaching Milestone 4 across Schroders. Completed objectives are considered regarding whether they follow SMART guidance, and whether evidence is sufficient for approval. Poor quality records and duplicate events are identified and remediation activities are undertaken on a monthly basis

- 3 Two internal forums convene on a regular basis to ensure quality assurance and reporting are aligned to stakeholder expectations. Firstly, the central Active Ownership team meets to calibrate guidance to investment desks. Second, a reporting working group determines the formal reporting framework, processes for investment desk reviews of engagements and objectives, and what information is appropriate to share externally (e.g. with clients)

We will continue monitoring quality assurance processes over 2023, and working with teams across Schroders to drive quality in the recording and sharing of engagement activities.

## Assurance and oversight

### Three lines of defence

Our rapidly evolving industry, global presence and core business activities mean that we are exposed to a variety of risks. Our risk management framework and strong system of internal control enable us to manage our risks and helped us respond to the challenges of 2022. Integral to our framework is our strong control culture and the effectiveness of our three lines of defence, including those related to our stewardship activities. Our second line of defence was strengthened in 2022 by bringing together our Risk and Compliance functions.

This has allowed us to provide better oversight of the first line, enabling us to support business growth in a risk-controlled manner through more integrated discussions and alignment of approach.

The first line of defence in managing and mitigating risk is the business functions themselves and the line managers across the Group. Heads of each function take the lead role with respect to identifying potential risks and implementing and maintaining appropriate controls to manage these risks, by applying our Risk and Control Assessment (RCA) process.

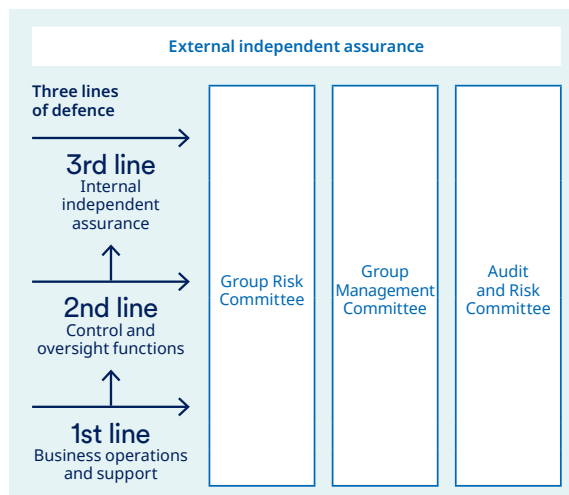
Line management is supplemented by oversight functions, including Group Risk, Compliance, Legal, Governance, Finance, Tax and HR, which constitute the second line of defence. The compliance assurance programme reviews the effective operation of relevant key processes against regulatory requirements.

Internal Audit provides retrospective, independent assurance over the operation of controls and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from the Group's auditor. The team also carries out thematic compliance monitoring work.

We maintain comprehensive insurance cover with a broad range of policies covering a number of insurable events.

### Lines of defence overview

Business areas, as the first line of defence, take the lead in identifying and assessing potential risks in their area, and implementing and maintaining controls to manage these risks. This includes risks relating to climate change.



Source: Schroders as at 31 December 2022.

### Strengthening our approach to risk management

In 2022, we combined our Risk and Compliance functions under the leadership of the Chief Risk Officer (CRO). Bringing these functions together has allowed us to increase collaboration and effectiveness across the teams, develop talent, and ultimately improve the robustness of the second line of defence.

We have found natural synergies between the two functions. For example, a failure to comply with conduct and regulatory expectations is most likely to arise due to operational risk failures. As such, management of these risks in a more integral way is proving beneficial.

We have also seen improvements in our reporting. We have combined our reports to the GRC and Audit and Risk Committee which has enabled us to more clearly highlight the key matters for senior management attention, resulting in more focus on these issues. In addition, by having our Investment Risk and Investment Compliance teams work together more closely we have been able to leverage the skills and experience of both functions in order to provide better oversight of our portfolios.

2022 a number of initiatives were undertaken to progress our management of risk. These are summarised on page 40 of our group annual report and accounts and includes the enhancement of our ESG risk dashboards and analytical techniques to support the review and challenge of ESG risks, including at the Asset Class Risk and Performance Committees.

These committees are the primary venue for the first- and second-line functions to review and challenge risk and performance. For private assets strategies we developed proprietary scorecards to assess the ESG risk of individual transactions.

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

The Sustainable Investment team also carries out an annual integration accreditation process across investment desks. This process involves close collaboration between the Sustainable Investment team and each investment desk, culminating in the submission and approval of individual desks' accreditation documents. Desks are required to describe their approach to ESG integration, how it is embedded within their investment philosophy and processes, and provide examples and case studies. Desks must also support the firm's proxy voting and engagement processes.

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

In 2022, our Internal Audit team carried out a review of the Sustainable Investment team, as well as reviews of certain individual investment teams.

The primary objective of the audit was to determine whether the team's internal controls were operating effectively to mitigate the key risks associated with the activities reviewed.

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

### Investment Risk oversight framework

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

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

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

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

A key tool used to support ESG risk analysis (both at the ACRPC level and on a day-to-day basis) is the ESG Risk Dashboard. This provides transparency on the

ESG risk profile of a portfolio and highlights where a portfolio may have exposure to positions with heightened ESG risks. It incorporates both internal measures based on our proprietary tools as well as raw (published) company data and external measures such as MSCI ESG scores. Ultimately, it allows users to immediately identify the individual positions that drive the portfolio-level ESG scores. The Dashboard is used by our investment teams as well as the Group Risk function to consider the sustainability characteristics of the underlying portfolio compared to its benchmark. It was made available to all investment teams in 2020. We continue to invest in enhancing our suite of proprietary ESG tools. For example, in 2022 we increased the data coverage of public securities within our SustainEx tool, and enhanced our proprietary scorecards used for assessing private market investments.

### External assurance

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

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

### Assessment of audit quality and effectiveness

The Board Audit and Risk Committee (BARC) is responsible for evaluating the performance of the external auditor. In February 2022, ahead of the consideration of the 2021 Annual Report and Accounts, the Committee received initial feedback on the conduct of the 2021 audit, which identified no significant areas of concern. A full assessment of the external auditor was carried out by way of a questionnaire prepared in accordance with the Financial Reporting Council's (FRC's) guidance and completed by key stakeholders. Interviews with senior managers and Group Finance were also held. The findings of the questionnaire were presented to the Committee in May 2022. EY generally scored highly in the auditor effectiveness questionnaire and was assessed to have further improved in the fourth year of its audit. Areas of improvement were identified and discussed with EY to allow for enhancements to be made ahead of the 2022 audit.

EY perform an independent external review of our internal control procedures in line with the International Standard on Assurance Engagements 3402 (ISAE 3402), issued by the International Auditing and Assurance Standards Board, the Technical Release AAF 01/20 (AAF 01/20), issued by the Institute of Chartered Accountants in England and Wales (ICAEW), and the control objectives for investment management, Information Technology, and Real Estate Fund Management set out in AAF 01/20. The review in 2022 did not identify any material exceptions. Our annual internal controls report demonstrates operation of key controls within our UK and US businesses and includes an independent opinion on our UK engagement and voting processes.

In addition, Schroder Real Estate operates an Environmental Management System (EMS), which is externally certified to ISO14001<sup>29</sup> and which provides the framework for managing its environmental responsibilities in the asset management of direct real estate in the UK and Europe. Independent oversight of sustainability risks is also provided by the Schroders Group Investment Risk function.

### Independent model validation

Our proprietary models are reviewed by our Internal Model Validation Committee. Given the maturity of our SustainEx model and the scale of its use across the firm, in 2022 we decided to engage an external party to provide an independent review and validation of the model against its objectives, including any recommendations for improvement.

The validation involved Klinkby Enge performing an assessment of the model's methodology for estimating and estimate the net social and environmental "costs" and/or benefits of any given issuer. Klinkby Enge independently chose a sample of externalities to assess, and found the model meets its declared objectives, with no critical observations made. We have agreed a response to each recommendation and initiated implementing these following to the external validation.

<sup>29</sup> ISO 14001 is an internationally agreed standard that sets out the requirements for an environmental management system.

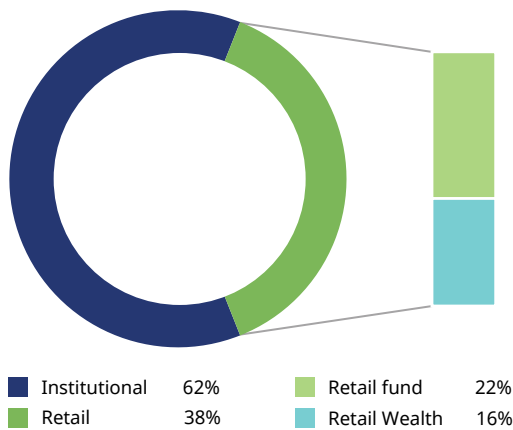
# Principle 6

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

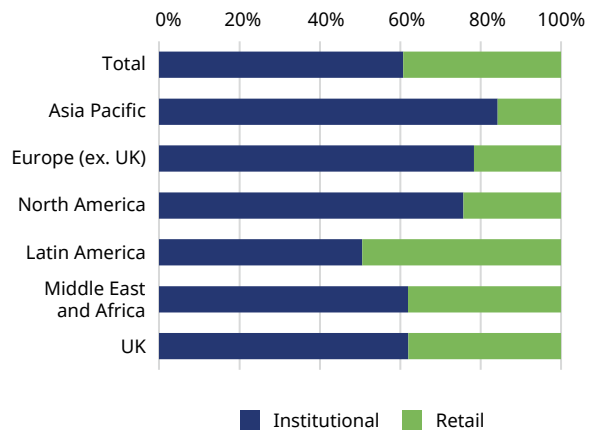
## Our client base and assets under management

Across our business, about under two thirds of our assets are managed on behalf of institutional clients and over one third on behalf of retail clients, including Wealth clients. The regions with a relatively larger retail investor base are Europe (ex UK) and the UK (where all our Wealth assets are managed). By contrast, in the Americas and in Middle East and Africa, most of our assets (84%) are managed for institutional clients.

### Assets under management by client type



### Assets under management by client type and region



Sources: Schroders as at 31 December 2022. The figures are based on the Group assets under management excluding those from associates and joint ventures.

Most Schroders' investments, across all regions and client types, are managed with a long-term perspective to reflect our culture and principles. We believe that the best way to deliver excellent investment performance over the long term is to invest in companies with fundamentally sound and sustainable business models that have strong long-term growth prospects. However, we do offer a small number of products to meet our clients' needs that are based around shorter term trading strategies.

The investment horizon over which we aim to deliver for our clients generally varies across products. Broadly, most of our fixed income and equity funds have 3-5 year minimum performance periods, whereas for multi-asset funds this tends to be either 5-7 years or 7-10 years. We define the minimum performance period as the shortest time frame over which we anticipate delivery of the performance objective. These time periods are set with reference to the length of a 'typical' market cycle for the respective asset classes. Certain bespoke products have more customised time periods for assessment and cannot be meaningfully summarised into a single figure.

## Understanding our clients' needs

Clients are the central focus of our business. As investors of our clients' capital, our business is dependent on being able to identify, understand, and meet the ongoing and evolving needs of our clients. We work hard to anticipate the needs of our clients so we can provide products and solutions that will support them achieve both their financial and sustainability objectives.

Every year, we conduct three surveys that reflect our diverse client base and feed into our thinking<sup>30</sup>:

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

We explore each and their findings below.

<sup>30</sup> Cazenove Capital did not carry out a new survey across charity clients in 2021. The last survey carried out was in 2020, which was an update to a similar exercise in 2015 and which we covered in our 2020 Stewardship Code Report. Our main takeaway from those was is that for purpose-led investors like charities, exclusions rather than active ownership remain a preferred approach to sustainable investment. This is something that we continue to monitor closely.



### Global Investor Study

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

In 2022, we surveyed 23,950 people who invest from 33 locations around the globe, spanning across Europe, Asia and the Americas. The detailed survey results can be found here<sup>31</sup>.

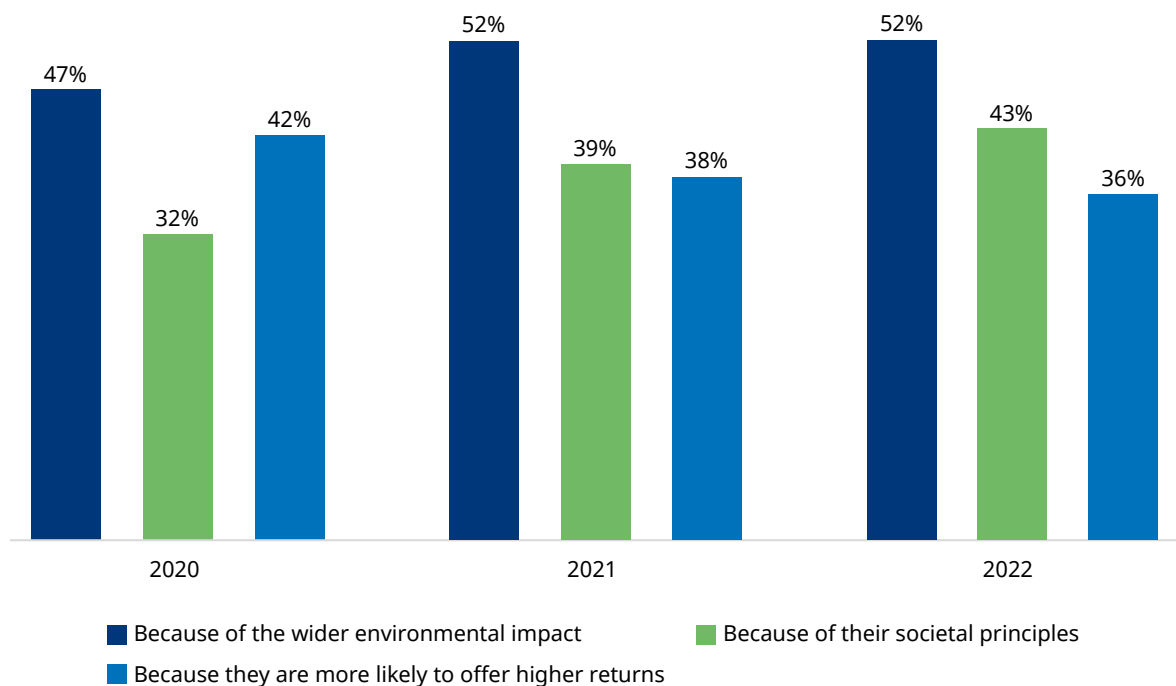
From a sustainability perspective, the results indicated that retail investors:

- Environmental impact is the primary reason why people are attracted to sustainable funds
- Returns matter: 56% seek a fund that focuses primarily on delivering financial returns while integrating sustainability factors

- The priorities people most want their fund managers to engage on are human capital management, natural capital and biodiversity and climate change. This is consistent across age groups and locations
- People are looking for greater personalisation when it comes to their investments. 57% said that the ability to choose investments that align with their personal sustainability preferences would encourage them to increase their allocation to sustainable investments
- Almost half (48%) said they wanted more education around sustainable investing, with a lack of clear definitions cited as one of the most significant barriers to investing sustainably

Lack of transparency around sustainable investment was cited as the biggest barrier to investors increasing their allocation to sustainable strategies, closely followed by lack of common definition and performance concerns. Educating our clients on sustainability and stewardship remains a focus for us.

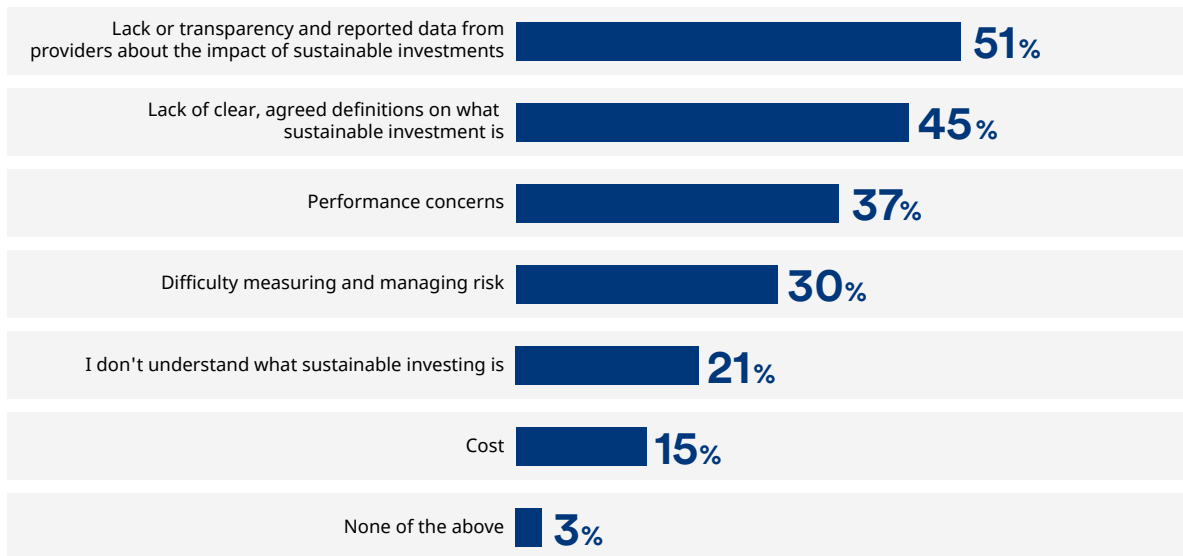
### Why people are drawn to sustainable funds



Sources: Schroders, 2022.

<sup>31</sup> <https://www.schroders.com/en-sg/sg/individual/global-investor-study-2022/sustainability-report/>

## The factors people consider to be a barrier to increasing their sustainable investments

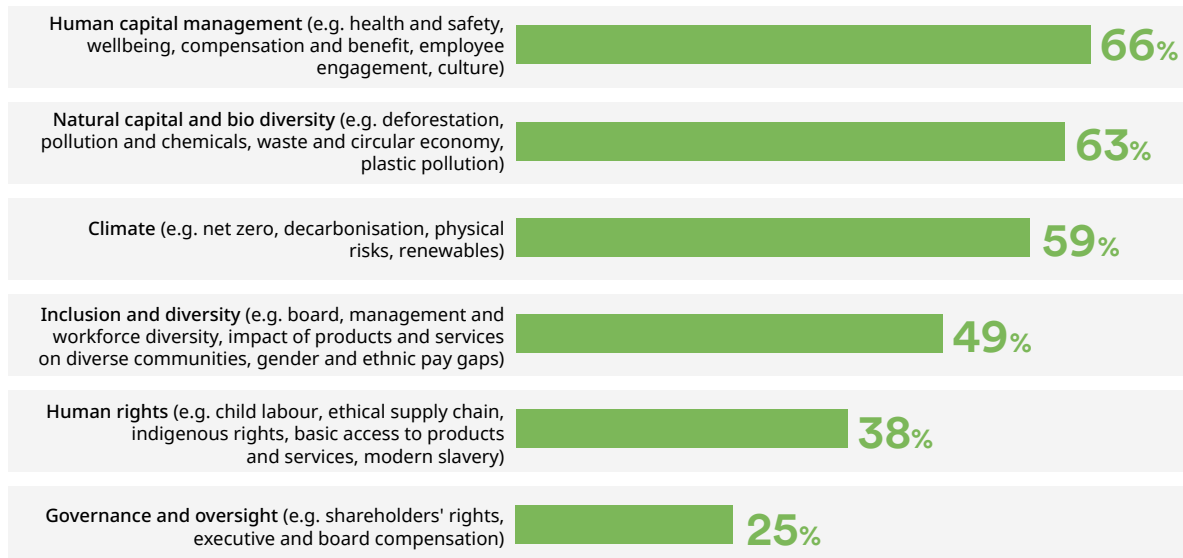


Sources: Schroders, 2022.

With regards to stewardship activities, human capital and natural capital and biodiversity came out as top priorities for end investors. This aligns with our thematic stewardship focus and our research priorities in this area. Thinking about both education and transparency around these themes will be key as we move through 2023.

## Fairness in society; concern for the environment

### The areas that people feel are most important for investors to engage companies on



Sources: Schroders, 2022.

## Institutional Investor Study

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

The respondents represent a spectrum of institutions, including corporate and public pension plans, insurance companies, official institutions, endowments and foundations, collectively responsible for US\$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022. The 770 institutional respondents were split as follows: 205 North America, 300 in Europe (including UK and South Africa), 215 in Asia Pacific (including Israel) and 50 in Latin America. Respondents are from 28 different locations. The detailed survey results can be found here<sup>32</sup>.

The sustainability section of the study highlighted some key findings from our institutional clients:

- Understanding the impact of their investments is key for global institutions
- Investors are keen to adopt sustainable investing further, but need more opportunities to invest in the energy transition
- The journey to net zero is underway for global institutions with 39% of investors having made a net zero commitment
- Real world outcomes and transparency are integral to active ownership
- Performance concerns and consistent data are identified as the key challenges for institutional investors



**Andrew Howard**

Global Head of Sustainable Investment

The findings of this year's Institutional Investor Study are clear; more and more institutional investors want to measure, manage and deliver impact. Recognising concerns over tensions between sustainable investment and return goals, it's becoming clear that thoughtful approaches grounded in investment experience will be increasingly critical.

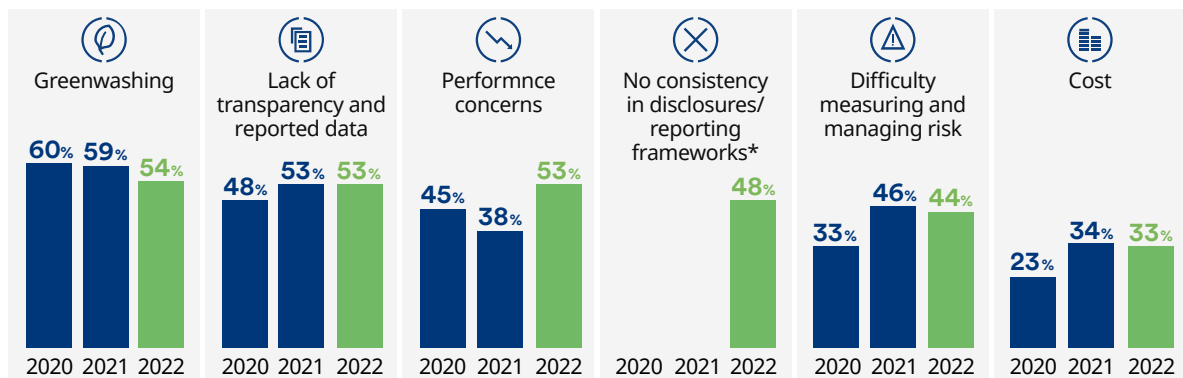
<sup>32</sup> <https://www.schroders.com/en-gb/uk/institutional/institutional-investor-study-2022/sustainability/>

## How important are the following engagement topics to you?

64%	<b>Governance and oversight</b>	Transparency of voting and shareholder resolutions, particularly around climate and diversity issues
62%	<b>Human rights</b>	Impact companies have on workers, communities and consumers
61%	<b>Climate</b>	Climate action and transparency over climate
54%	<b>Human capital management</b>	Ensuring workers and other stakeholders are supported and protected
49%	<b>Inclusion and diversity</b>	Ensuring diverse and inclusive workforces
45%	<b>Natural capital and biodiversity</b>	Identifying and managing material natural capital risks

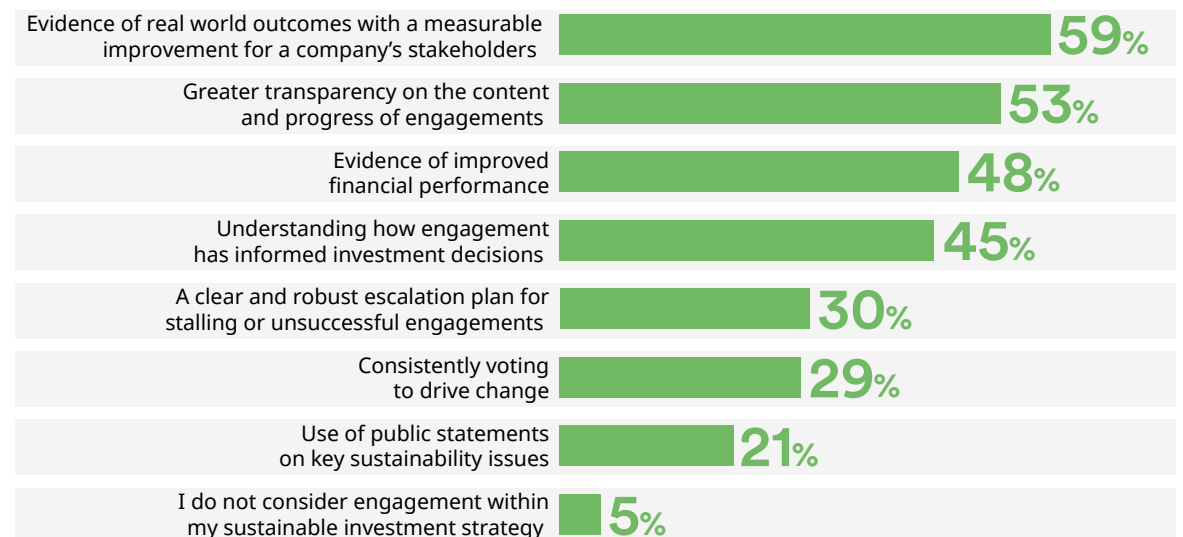
Respondents rated answers on scale from 1-5. % Important (4+5).  
Source: Schroders Institutional Investor Study 2022.

## Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments?



% Multiple answers allowed. \*This option was not asked in previous years.  
Sources: Schroders as at 31 December 2022.

## What features of an engagement strategy are most important to you?



% Multiple answers allowed.  
Sources: Schroders as at 31 December 2022.

The 2022 results show that 95% of institutional investors surveyed consider engagement to be part of their sustainable investment strategy. What we hear from clients is that evidence and transparency are their key asks. This includes both evidence of how engagement has impact financial performance, as well as the impact on real world outcomes.

This theme is similarly reflected in greenwashing and transparency which are cited as the greatest challenges for institutions. Performance concerns amongst clients have also increased in 2022 after a challenging year for the performance of some sustainable investment strategies in the market. This indicates that we will need to continue improving on the quality of our reporting and transparency of our engagement activity, with a focus on demonstrating the real world and financial impacts.

### UK Financial Adviser Survey

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

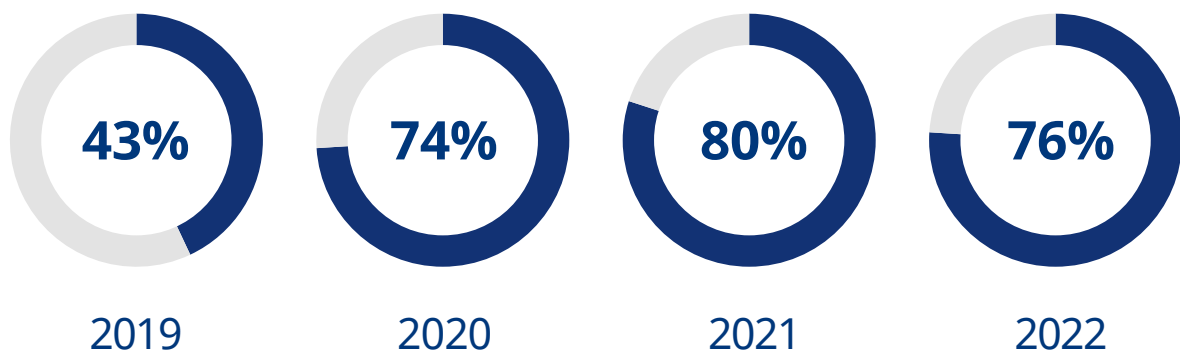
The 2022 Survey received feedback from 439 advisers from 350 firms in the UK on a wide variety of topics including sustainable investing. The detailed results can be found here<sup>33</sup>.

Despite the market headwinds, 76% of advisers reported they were specifically considering sustainability and ESG factors as part of their fund selection process, an increase from 43% polled in 2019. This follows an increasing number of advisers' clients who have begun to explicitly specify that their investments should reflect ESG factors.

Additionally, the survey found:

- 56% expect an investment manager to consider sustainability/ESG factors as part of investment decision making in order to minimise risk and maximise returns
- Only 8% of advisers prioritise maximising returns and minimising risks entirely over the sustainability of investments
- 51% of advisers have seen an increase in the number of clients asking for sustainable investment options over the past 12 months. This is however down from 75% in November 2021
- 89% of advisers think that events over the past two years have reinforced the importance of stewardship and using an asset manager which actively engages with company management
- However, 37% of advisers do not think they receive enough information to demonstrate that investment managers which actively engage are driving change

### Percentage of advisers specifically considering sustainability and ESG factors as part of their fund selection process:

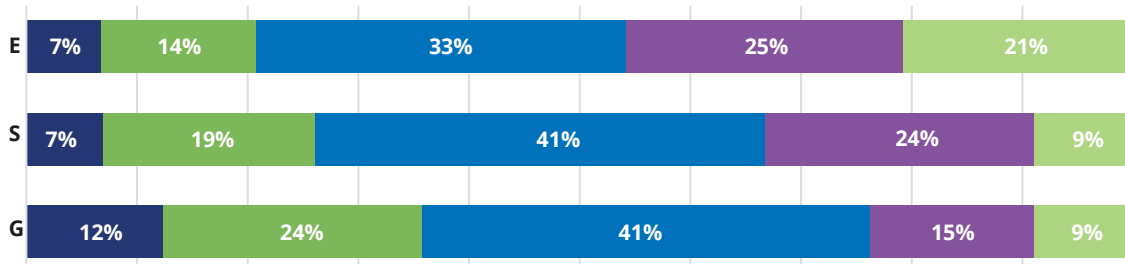


Sources: Schroders as at 31 December 2022.

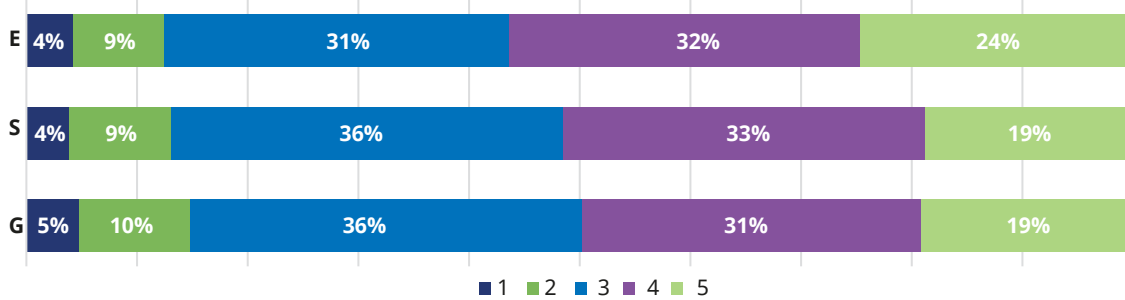
<sup>33</sup> [https://mybrand.schroders.com/m/7370b93744de82d6/original/606092\\_Schroders-Annual-Adviser-Survey-2022\\_Adviser-Report\\_ONLINE.pdf](https://mybrand.schroders.com/m/7370b93744de82d6/original/606092_Schroders-Annual-Adviser-Survey-2022_Adviser-Report_ONLINE.pdf)

**On a scale of 1 to 5 (with 1 being least important, 5 being most important), how important are the E, S and G factors of ESG when selecting an investment?**

To your clients



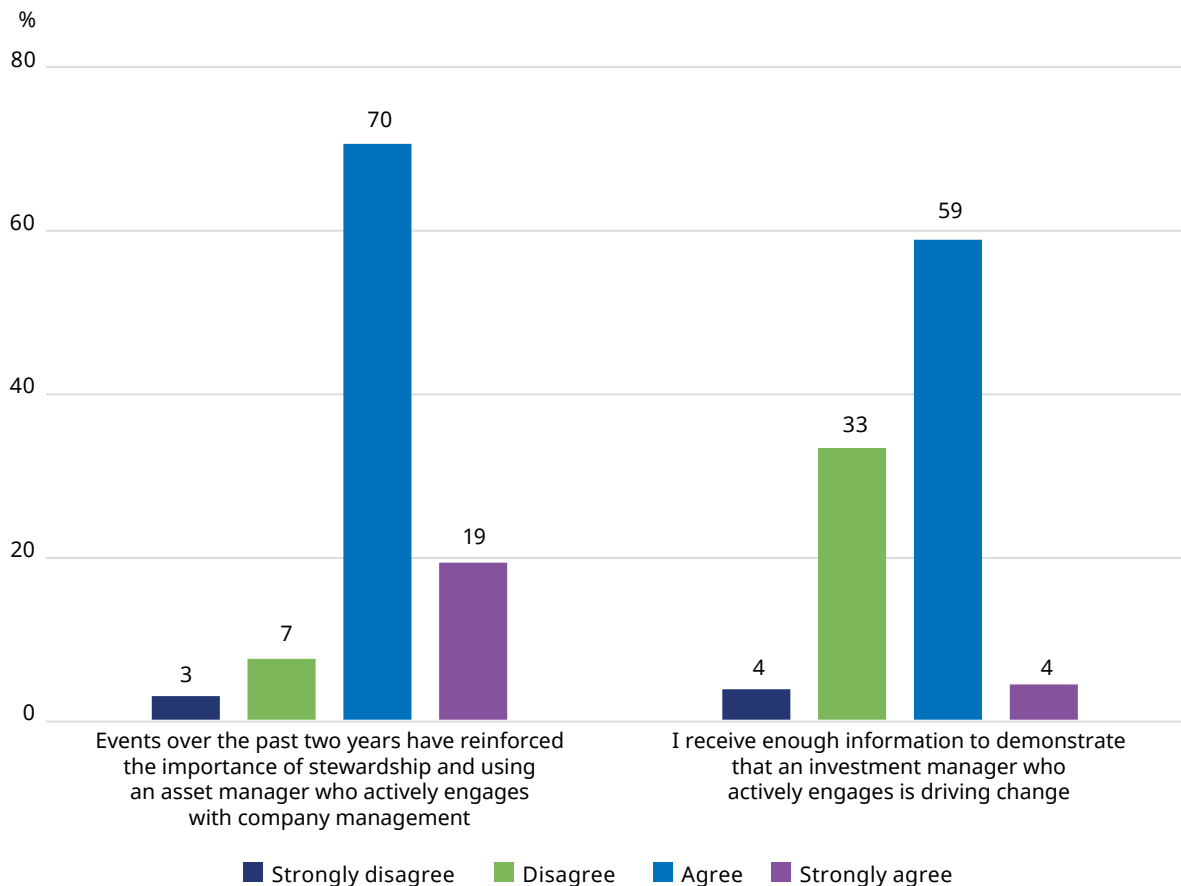
What you think they should be



Sources: Schroders as at 31 December 2022.

On stewardship specifically, 89% of advisers think that the last two years has reinforced the importance of active ownership. However, 37% of advisers do not think they receive enough information to demonstrate that an investment manager who actively engages is driving change. As with our Institutional Investor Survey, this reinforces a need for more detailed reporting and transparency around stewardship.

**To what extent do you agree with the following statements:**



Sources: Schroders as at 31 December 2022.

## Incorporating client feedback

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

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

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

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

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

For example, we see a number of commonalities across the results and also through the years:

- Investors are concerned about greenwashing
- Sustainable investing remains a complex area is and there is a need to improve understanding and education
- There is a great need for more transparency and reporting for clients

Our ESG Risk Dashboard (outlined under Principle 5) aims specifically to help Investment and Risk teams monitor greenwashing risk. Additionally, we have a comprehensive reporting framework, which we describe below.

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

Given our focus as an active manager on ESG investment practices and stewardship, we believe it is appropriate for clients to give voting discretion to Schroders. We have invested considerable resources in our active ownership capability and our corporate governance experts who, working alongside our investment teams, make voting decisions in the best interests of our clients. This reflects the fact that our ESG policy and voting guidelines are integrated within our investment processes and that stewardship altogether is part of each holding's investment thesis. This is key to our offering as an active investment manager.

We do not separate voting from engagement. We view voting as a one-off event in a long, ongoing process of engagement with a company. Such engagement is inherent to our investment process. Active investment, engagement and voting are integrated into one programme of work that aims to drive better investment outcomes for our clients. Separating voting from engagement may diminish our ability to influence companies. It could also reduce our credibility when, for example, a voting decision does not reflect the dialogue that has taken place with the company and any progress that may have been made. Furthermore, we believe the impact of our engagement and voting power is maximised if we can present a single voice to companies.

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

## Communicating activities and outcomes

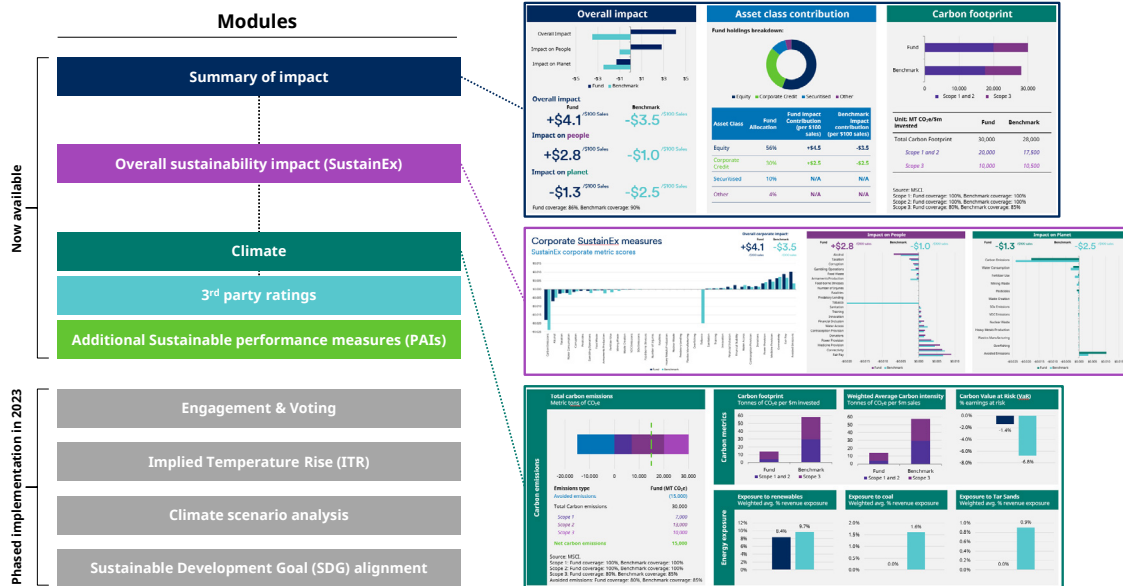
The investment we have made in the development of proprietary tools and internal processes serves exactly the purpose of providing more transparency. As we discuss under Principle 2, tools such as SustainEx™ enrich our research process but also enable us to quantify the impact an investment has on society and the environment.

During 2022 we focused on meeting regulatory reporting requirements, and establishing the necessary infrastructure to help us continue to provide greater transparency to our clients. We introduced the European ESG Template (EET) to support our clients with understanding their clients sustainability preferences. We also introduced the Carbon Emissions Template in the UK to provide UK pension funds with

climate-related metrics to support TCFD reporting. These, alongside existing sustainability reporting and analytics, are now all supported by a dedicated ESG database that centralises the storage and distribution of ESG metrics.

In 2022 we continued the roll out of our ESG factsheets for the sustainability focussed funds to other fund ranges globally. Based on SustainEx™ metrics, there show the fund's estimated impact compared to that of its benchmark as well as measures for "Impact on People" and "Impact on Planet" (based on a subset of the full metrics in the SustainEx™ model). The factsheets are complemented by detailed climate metrics, third-party ratings for the fund's holdings as well as additional sustainability metrics compared to the benchmark.

## Fund level ESG reporting



Source: Schroders. For illustrative purposes only.

We are also very transparent in regard to our stewardship activities. We disclose these on both a quarterly and annual basis in our Sustainable Investment Reports. Past reports can be accessed here<sup>34</sup>.

The reports include information such as:

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

These reports are complemented by the monthly publication of our voting activities (past records are available here)<sup>35</sup>, where we provide details of how votes were cast globally. This includes information on our votes against and abstentions, along with the rationale for these decisions.

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

In 2022, we also rolled out an internal training module on active ownership for our client-facing staff as part of our Sales Excellence programme. Over 300 of our sales people took part in this training, which covered the various aspects of active ownership, industry landscape, our thematic approach and client demand.

<sup>34</sup> <https://www.schroders.com/en/sustainability/active-ownership/sustainability-analysis-in-practice/>

<sup>35</sup> <https://vds.issgovernance.com/vds/#/MTAwMzE=>



# Principle 7

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

## Our approach to ESG integration

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

Our central Sustainable Investment team works with investment teams across our business to integrate ESG into their investment processes.

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

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

## Schroders' Integration Accreditation framework

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

The accreditation process starts with a collaborative effort between the Sustainable Investment team and the investment teams to map out the end-to-end investment process from idea generation to portfolio construction and ensure ESG is integrated systematically and meaningfully into the relevant steps.

Our approach is holistic – we want to integrate ESG into established investment processes rather than create separate processes, which run the risk of becoming an after-thought or a box ticking exercise. Our Sustainable Investment team checks that the different investment desks can articulate



**Stephanie Chang**  
Head of Integration

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

For a team to be truly integrated, they must take responsibility for identifying, understanding, and managing ESG risks and opportunities. The Sustainable Investment team regularly shares its knowledge and expertise with our investors and has developed a number of proprietary tools such as CONTEXT and SustainEx to help them successfully identify, understand, and manage ESG risks and opportunities in their strategies.

and demonstrate how relevant issues are identified, investments are examined, portfolio decisions are influenced and how they monitor and manage emerging ESG risks. Documentation, produced by investment desks, is reviewed by the Sustainable Investment team and recorded to ensure robust oversight of that integration. We always require case studies to demonstrate integration in practice. The accreditation is refreshed on an annual basis and investment teams are expected to deepen levels of ESG integration over time. For example in 2022, we updated our accreditation framework to include integration requirements related to active ownership and climate change. These are in the process of being rolled out over 2023 so that our investment teams continue to apply best practice to integrating ESG in their investment processes.

In 2022, we have strengthened the controls around our accreditation processes by automating processes where possible, requiring independent reviews and introducing escalation processes. We have also been updating our entire ESG training curriculum so that our investors stay on top of the latest ESG trends and best practice.

The collaboration between our fund managers, analysts and the Sustainable Investment team work includes the following:

- The Sustainable Investment team works directly with each investment team so that we are comfortable with the basis upon which ESG integration is implemented within any given investment process. It then provides ongoing advisory services to ensure that ESG continues to be integrated in a relevant way for the asset class, investment strategy and market, taking into account evolving best practices. Accountability remains with each investment team to ensure ESG is integrated in its research, analysis, and decision-making processes, with central oversight of those desk level processes
- The Sustainable Investment team produces regular research to ensure our investment teams keep abreast of relevant ESG-related considerations, and how they can impact valuation and risk. As part of the team's restructure (as explained under Principle 2) our investment research analysts now have a thematic focus. There are five themes: human capital, human rights, climate change, natural capital and biodiversity, and sustainable innovation and technology
- As we describe under Principle 2, our Sustainable Investment team has developed a number of proprietary ESG tools to help our fund managers and analysts identify, understand, and manage ESG risks and opportunities. CONTEXT and SustainEx™ are our flagship tools currently available for equity and corporate credit. In addition, we have developed a number of more focused, asset class

specific tools that enable particular investment teams to integrate ESG into their investment process. We describe some of these under the asset class headings in the following section. The main reason for developing our own proprietary tools is that we consider relying solely on third-party sustainability ratings and research provides a limited view of ESG factors, as the underlying filters, analysis, and methodologies are opaque

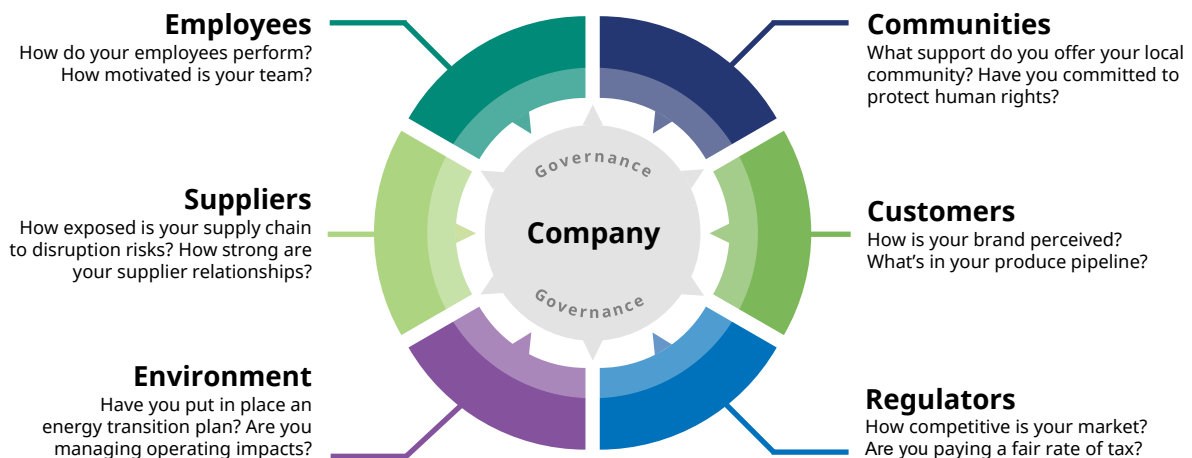
- The Sustainable Investment team also provides ongoing training to analysts and fund managers and this training is included in the latter's personal objectives

Our investment teams have a variety of ways to prioritise different ESG considerations across their portfolios. The most prominent factor that applies across all investment strategies, including those not explicitly marketed as sustainable investment strategies, is financial materiality. All teams consider ESG events and conditions that could affect the financial value of our investee companies or their credit-worthiness. Investment strategies with an explicit sustainability focus may additionally consider the adverse impacts that investee companies may have on the environment and society, even where these are not deemed to be financially material.

### Integration across different asset classes

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

### Schroders' stakeholder model



Source: Schroders as at 31 December 2022.

## Company analysis

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

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

These two things are part of how we think independently of company size and, by extension, whether a fund invests mainly in large or small companies. We will take size into consideration when identifying peers and we will account for the resources a company of a given size has when assessing how ESG performance is evolving.

### Case study: ESG integration in US small-cap equities

Given the increasing risks posed by climate change, we identified a US based public electric and gas utility company for which this presented a material risk. The company demonstrated laudable net zero goals – committing to net zero by 2050 with a mid term target of 50% reduction of CO2 emissions by 2030 and elimination of coal from the generation mix by 2040 – and some progress with retiring fossil fuel plants whilst investing in renewables. However with soaring natural gas prices, the company was compelled by regulation to use the cheapest priced fuel which was coal.

Analysis using our proprietary climate tools suggested that despite its decent external ESG ratings, it faced material risk from a low carbon transition and we were concerned that it would not be able to meet its medium term emissions reduction targets. We reached out to the company which acknowledged challenges to near term progress but stated that it remained committed to its long term goal. In our view, this stranded asset risk made the investment riskier in the long term and we subsequently divested from this company. We continue to monitor and engage with the company in case the situation changes.

### Case study: ESG integration in Global Credit

Our Global Credit franchise has integrated ESG across a broad spectrum – from the environmental and social themes underpinning its investment research to the “bottom-up” company level analysis of ESG factors leveraging the firm's proprietary tools. Rigorous consideration is given to ESG factors at the portfolio construction level. The Global Credit team has also formalised its approach to active ownership by mandating engagement objectives for each of its credit analysts. Despite the absence of voting rights generally in debt instruments, the team believes in being responsible stewards of our clients' capital and are committed to exercising this responsibility to aid the search for investment performance. Bondholders can provide additional leverage to the voice of voting shareholders and we believe that our goal of seeking long term, sustainable returns is one we share with shareholders.

The Global Credit team has aligned and deployed a consistent ESG rating framework across its regional research and portfolio management teams. This means that portfolio managers looking at individual credit instruments have access to a consistent level of research and a comparable set of ratings regardless of geography. The framework now encourages analysts to apply a uniform distribution across their respective sectors to address any perceptions that certain sectors are inherently 'good' or 'bad' from an ESG perspective. An 'F' (for 'Fail') rating was also introduced to identify issuances by companies that are structurally challenged by ESG issues with low probability of a sufficiently timely and appropriate mitigating action being undertaken by the company. 'F' rated investments are generally regarded as unsuitable for investment across the Global Credit franchise.

But these considerations will be the same independently of whether this company is large or small so that there won't be differences in the integration approach, for example, between a large capitalisation equities fund and a small capitalisation equities fund or between investment grade credit and high yield credit. The thing that matters in scoring a company is how it is doing against its peers and whether its ESG performance is improving or not.

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

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

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

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

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

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

### Private markets

For privately held companies, a similar approach is undertaken by our private equity and debt investors. We integrate ESG factors as part of our investment process to identify issues that can impact an asset's risk and return profile. In addition to ESG integration, in 2022 we formally articulated the first joined up Sustainability and Impact Policy that describes our ambition, our approach to product classifications, and key governance arrangements and exclusions across private assets. This policy is publicly available and reflects common principles and ambitions but also the fact that private asset investments require specialised sector-specific policies to best capture the risks and opportunities of different business models. All private assets businesses have therefore developed a proprietary ESG framework – including ESG scorecards and processes – that reflects the material ESG factors affecting the underlying assets.

However, in private assets, we are limited by the lack of publicly available data as private companies typically disclose less sustainability risk information. There are also constraints in our ability to transact given the lower liquidity and higher transaction costs common in private markets.

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

Ongoing company engagement is also particularly important in light of the absence of data.

For our direct private equity investments, we will typically be in regular communication with the management team and seek a board seat for one of our investment team members. However, this may not be possible where we have invested indirectly or have taken a minority stake.

We engage on a broad range of topics, from understanding how a company is adapting as climate risks intensify, to responding to emerging trends like consumer backlash to single-use plastics. It also gives us the opportunity to share our expectations on corporate behaviour – for example, our views on tax and efforts to prevent bribery and corruption – or focus on promoting gender diversity and inclusion across the investment value chain.

Finally, engagement provides us with a unique opportunity to steer companies' interactions with their stakeholders, ensuring that the companies we invest in are treating their employees, customers, and communities in a sustainable and responsible way. Various teams work together to identify areas that warrant discussion with companies or stakeholders. In addition, specific strategies at Schroders Capital may have a higher engagement level when directly operating and managing assets. Please refer to our Sustainability and impact report available on Schroders Capital website for more details and illustrative case studies.

### **Case study: ESG integration in Schroders Capital Private Equity**

Throughout our private equity due diligence and investment monitoring process, we emphasise the importance of responsible investing and encourage our partners to adopt institutional standard responsible investing practices. These include proactive and regular disclosure of all relevant and material ESG risks, as well as ESG performance. Sustainability considerations are integrated and applied throughout the investment process and are key drivers of investment decisions. As a result, sustainability factors are assessed across the pre-investment selection, investment due diligence, execution, and post-investment monitoring of all investments. Proactively assessing these factors should lead to emphasizing investments with positive ESG elements, excluding investments that pose ESG risks, and engaging where further ESG impact is feasible.

Our private equity decision making is rooted in our proprietary RISE Framework (Raising Impact, Sustainability & Engagement). This currently includes four tools that are applied to measure S&I performance for different investment strategies: RISE Primary for GP assessment, RISE SDG for mapping against the relevant UN Sustainable Development Goals, RISE Direct for assessment of direct and co-investments, and RISE Impact for our impact investments.

### Case study: ESG Integration in Asia ex Japan Equities

We are long-term “bottom-up” investors. We have a clear focus on long-term return on investment capital, utilising a Shareholder Return Classification framework to judge the relative attraction of different businesses. This longstanding process has been back tested with market data and we believe offers superior investment returns in our clients’ portfolios over many years. ESG analysis is entirely complementary to our ROIC analysis. To that end, we have enhanced the discipline of our ESG analysis since 2020, through documenting identified material ESG risks and opportunities from a stakeholder lens (using CONTEXT). While much of our analysis will be qualitative given the quality of ESG disclosure in our markets, we draw on external and internal measures of sustainability such as SustainEx™, CarbonVaR as well as third part data providers.

As managers of large pools of capital, we believe that we have a responsibility to our investors and all stakeholders to exercise our ownership rights and obligations and encourage sustainable business practices. Often the quality of the dialogue we have during engagement with a company on ‘E’ and ‘S’ targets can provide us with invaluable insight into the ‘G’ and management capability of a company. More generally we feel we have a role to play in encouraging companies to improve disclosure and transparency on their ESG reporting, in line with global best practice.

Climate change is a priority theme for us given its potential to present material risks and opportunities. We engaged with a manufacturing company on this topic in 2022. The company had already significantly increased their disclosure on ESG issues in the past 2 years, and achieved material reduction in Scope 1 and 2 emission intensity. Looking ahead, the company had also made new commitments to reduce Scope 1 and 2 emissions by 60% by 2030, alongside expressing an ambition to become a net zero organization and map Scope 3 emissions.

### Sovereign Debt

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

We approach sovereign analysis by identifying the building blocks of a country’s economic growth (such as capital, labour or productivity) and then we identify sustainability risks that impact those building blocks. For example, we look at health and education metrics as indicators of the capability (and potential) of a country’s labour force. We also consider the risks to economic growth in the form of a country’s ability and willingness to repay its debt such as, the strength of a country’s institutions and the rule of law.

### Structured Credit analysis

We believe an in-depth understanding of collateral cash flow and the impact of the securitised loan’s structure is the foundation of generating returns in a market where size and complexity leads to exploitable inefficiency. The consideration of sustainability risks provides a more holistic assessment of the quality of the collateral and the sustainability of the cash flows. We have enhanced our sustainability assessment framework to incorporate more environmental considerations and formalised this in an ESG scorecard. Fundamentally embedded within our research is a review of governance, fair lending or predatory lending, climate-related risk, the health of the loan for the consumer as well as exposure to physical climate or climate transition risks. Counterparty considerations are a part of the asset consideration and governance. Additionally, we have developed proprietary analytics consisting of asset specific models, surveillance and forecast/trend analysis to assist in assessing the sustainability of investment ideas.

### Case study: ESG integration US Municipal Bonds

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

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

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

A real world example of how we use MUSE in the investment process is our continued analysis of wildfire risk in California. The 2022 wildfire season was considered mild by comparison, after

two years of record setting wildfires. However, while it was still considered "mild" there were a total of 7,667 fires burning almost 364,000 acres – approximately 900 structures were damaged or destroyed. When looking at school districts to invest in, MUSE gives us the ability to monitor environmental risks down to the census tract level (average size of 4,000 people), allowing us to make sure we are being compensated for the risk that the property tax base could be negatively impacted by wildfires. A real world example of how we use MUSE in the investment process was when a California school district came to market with new debt issuance. The credit was reviewed from a fundamental perspective then analyzed in MUSE. The metrics in MUSE pointed to potential environmental challenges to the school district in the long term given its location, specifically wildfires and earthquakes. Our concern is increased risk of those natural disasters will destroy the property tax base, which supports the bond repayment through ad valorem property taxes. Helping to negate our concerns is the fact the district is quite large (almost 200 square miles), and we felt we were being compensated for the environmental risks. Combining the fundamental and ESG analysis, the deal presented to the team as a potential investment opportunity given where it was being priced that day.

### Convertible Bonds analysis

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

A principal element of capital protection is delivered through the "bond floor" which is influenced by the stability and quality of the issuer. Sustainability

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

**Multi-Asset**

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

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

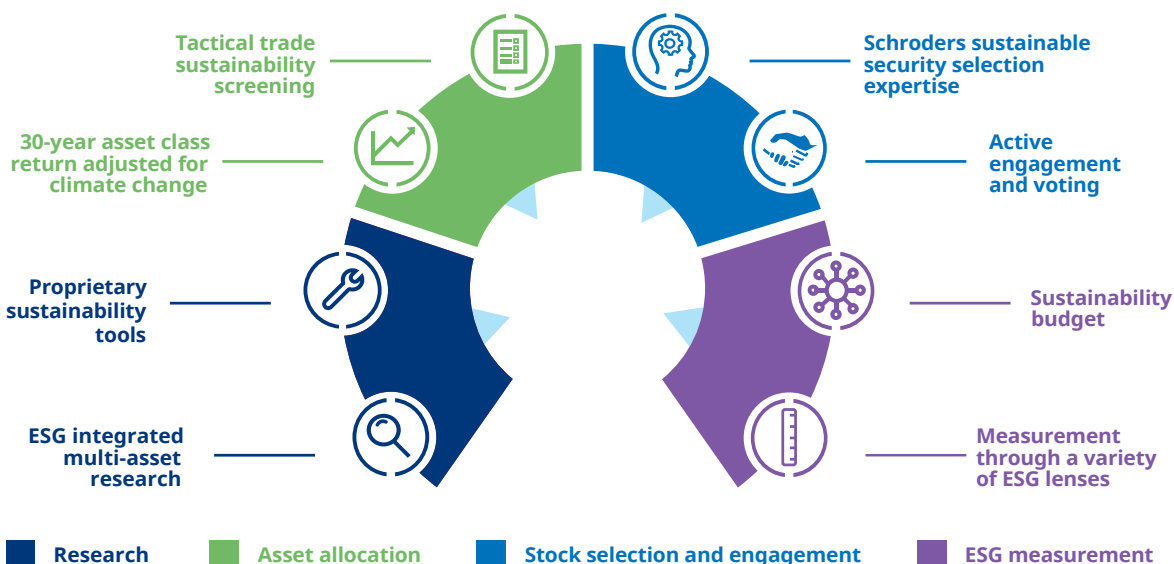
The trade-offs involved in establishing a sustainability budget revolve around removing or reducing asset classes and company components that are not

deemed sustainable from the universe available for investment. It provides the investment team with a flexible tool to monitor and measure the sustainability of the portfolio, while permitting other assets that are useful for diversification, tactical asset allocation and risk reduction.

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

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

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



Source: Schroders. For illustrative purposes only.



### Fund of funds

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

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

### Case study: Manager Solutions

The fund of funds team serves a variety of internal clients with their requirements around third party fund allocation. We recognise the challenges in integrating ESG directly into the externally managed strategies given the indirect nature of our investment. Our approach is to focus on assessing the firm as well as the strategy that we are researching, through the use of ESG surveys. We are a part of Schroders' Multi Manager Working Group, which has developed a Firm ESG Survey and a Strategy ESG Survey when assessing external managers. This joint approach gives us greater leverage as a firm for engagement purposes and it enables the sharing of best practice and knowledge between working group members.

In 2022, we introduced a set of climate change related questions into our ESG questionnaires including asking managers for disclosure around their carbon footprint and implied temperature alignment, their voting records on climate-related issues as well as whether they have a climate transition action plan. These have helped us gain additional insight into the views and preparedness of the external managers we use which are inputs into our overall research and decision making process. Given Schroders' overall net zero commitments, it is important that we play a leadership role in advocating for progress in our industry.

### Case study: ESG integration in Schroders Investment Solutions

As multi-asset investors, our influence on ESG considerations at a company level is indirect. Effective and responsible active ownership is however, part of our fundamental approach to investing and this is maintained despite the degree of separation.

We recognise that companies play a critical role in societies and are heavily exposed to changes in those societies and the natural environment. We believe that by engaging with fund managers, who in turn engage with companies and their management, we can improve our understanding of the issues that are faced, as well as the approaches to managing them. This helps us to protect or enhance the value of our investments.

We actively engage with fund managers and fund management companies on a variety of ESG issues contained within our questionnaires. For example, whether a manager is a Stewardship Code signatory, what thought leadership they produce on ESG, whether performance objectives of senior management are linked to ESG targets.

Our aim for actively engaging with fund managers and fund management companies includes the following:

- To encourage fund managers to engage with their underlying holdings to adopt longer-term approaches to their stakeholder relationships
- To improve investment insights for investors through the reported ESG data provided by fund management companies

- To generate sustainable returns or avoiding investment risks associated with ESG related matters (such as stranded asset risk)
- To improve the scores and ratings of fund managers and fund management companies in our annual Fund Manager ESG Survey and Fund Level Scorecard

Engagement efforts of all relevant fund managers are obtained and reviewed to ensure that fund managers are making progress towards good outcomes. This enables the investment committee to track the progress of engagement and how this impacts positive change over time. This exercise filters from our managers to their engagements with underlying companies, with the aim being to both improve the reporting and data associated with ESG, as well as to drive ESG outcomes where appropriate. All ESG engagements are captured in Active IQ.

In 2022 we held a series of review sessions, involving members of the ESG Multi-Manager Working Group, to reflect best ESG practices. From feedback and reviewing the answers from the original Strategy ESG Survey, we have included guidance for alternatives and non-traditional asset classes. Managers of strategies can view this additional guidance if they manage one of the following alternative asset types: Hedge Funds & Liquid Alternatives, Real Estate, Social Housing & Property or Infrastructure & Renewables. For example, this includes additional guidance on an Investment Process question to provide additional information on how ESG factors are considered for both short positions and synthetic exposures.

## Cazenove Direct Equity Case Study: Climate Change

As a team which invests directly in equities, we use the firm's proprietary sustainability tools and assessment frameworks to inform investment decisions and engagement activity. We run a Global Ethical equity model, which follows a responsible investment policy that includes avoiding areas of harm and pursuing the goals of the Paris Agreement. We monitor the alignment of the portfolio companies with a 1.5°C warming scenario by tracking their climate ambition.

We assess whether companies have set, or have committed to set Science Based Targets, i.e. those that are in line with what the latest climate science says is necessary in order to reach the goals of the Paris Agreement. We also look at those companies who have signed up to RE100, which is a commitment to deriving 100% of their energy from renewable sources by 2050, and whether they have made a commitment to be carbon neutral or net zero by 2050. We have committed to engage with companies who do not currently report on, or set targets to reduce their GHG emissions.

In 2021 we initiated conversations with machine vision specialist Cognex and cyber security company Fortinet, which did not disclose their Scope 1 and 2 carbon emissions due to their emissions not being material to the business operations. Both companies published their inaugural sustainability reports in 2022 and with them details of their Scope 1 and 2 carbon emissions. Fortinet have also set a goal to become carbon neutral by 2030, and have signed the Science Based Targets initiative's (SBTi) commitment letter to align their business with a 1.5°C warming scenario – an ask we put to their team last year. As at 31 December 2022, 100% of the Global Ethical portfolio reports its Scope 1 and 2 carbon emissions, and 84% have a target to reach carbon neutrality or net zero by 2050.

### **Case study: ESG integration in Japanese Equities**

We have been signatories to the Japanese Stewardship Code since 2014. The team has established a Stewardship Committee which is responsible for engagement with investee companies on ESG issues, with the aim of encouraging best practice and influencing change over time.

An engagement focus list is maintained and it currently comprises 17 companies with engagement topics such as climate change, board diversity, and corporate governance. Companies are identified as engagement targets based on several factors including recommendations from fund managers and analysts, our holding size, and potential effectiveness of engagement. Companies on the focus list are engaged with on periodical basis until the engagement objective is achieved. At that point, the company is then removed from the focus list. Each engagement is attended by the research analyst responsible for that stock alongside a member of the Stewardship Committee. We also consult and collaborate with the central Sustainable Investment team when it is needed. We log all our engagements in the firm's new ActiveIQ engagement database and monitor progress through pre-determined milestones.

In 2022, we engaged with 17 companies including Toyota Industries on a variety of ESG-related issues including climate change, board diversity, and cross shareholding. On climate change, our analysis has identified the opportunity for improvement, and we asked the company for more active disclosure and policy setting. While we continue to engage with the company, we note gradual improvement in their disclosure and practices.

### **Derivatives**

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

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

### **ESG Integration Case study: Commodities**

In order to enable our Commodities funds to gain carbon exposure, the team conducted extensive analysis of the world's carbon markets. We decided to focus on the European market as it is the largest and most established market, and so has better maturity, transparency and liquidity. Our analysis led us to believe that the market is now better structured for success; anticipated tightening of the supply of allowances plus increasing attention to decarbonisation of the European economy will contribute to driving prices up despite a short term drop due resulting from the European energy crisis.

Following our in depth analysis, our Commodities team has introduced the opportunity to invest in carbon futures (EU Emissions Allowances or EUAs) for the first time. While we will not always have a position in carbon, the addition of this asset class enables us to capture additional return opportunities for our clients as Europe's low carbon transition accelerates.

Additionally in 2022, we undertook a deep dive of the emissions reduction plan of the Council for Metal and Mining (which counts 28 mining companies and 35 commodities associations as members). We assessed the likely implications for the long term demand and supply of these commodities and therefore how prices may move. By committing to long term net zero targets, we believe that miners are limiting their ability to respond to short term price signals in a purely market driven way. This reinforces our long-term thesis and limits our willingness to express aggressive bearish views on a short-term cyclical basis.

## Infrastructure Finance

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

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

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

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

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

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

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

## Insurance-Linked Securities

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

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

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

## Real Estate

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

Our investment process includes consideration of sustainability credentials and risks throughout the investment lifecycle. We conduct pre-acquisition ESG due diligence to understand the sustainability credentials and risks and to reflect into our investment decisions. After the acquisition, sustainability objectives are established for each asset. Implementation follows throughout the asset hold period and reviews are regularly conducted, typically twice a year at portfolio level.

The environmental factors of most importance to us include energy, carbon and water use and efficiency, as well as waste management and disposal, pollution, and physical risks. From a social perspective, we are interested in optimising the tenant experience, fostering community relationships, and contributing

to local prosperity. We also focus on good governance of our assets and portfolios including, for example, compliance with building regulations, oversight of third-party property managers where they may be responsible for the daily support to a building and ensuring product level reporting meets regulation and industry best practice.

### **Case study: Real Estate Securities**

We have always considered the risks presented by climate change in our investment process through our proprietary Long Term Index (LTI). The LTI is comprised of 4 Impact Scores representing Environmental, Transport, Innovation and Economic pillars. Every company is assessed and scored using this approach. Factors assessed include physical risks such as wildfires and storms, social risks such as heat and water stress, and policy risks such as carbon regulation.

This year, we have created a focus list for climate engagement with the support of the central Sustainable Investment team. We targeted a number of companies and spoke to them on their plans for decarbonisation, net zero plans, green building certifications as well as how management is compensated in relation to climate and sustainability objectives.

One example is our engagement with Extra Space Storage. While the company is progressing with some actions such as its solar programme, retrofitting LED lighting and monitoring energy consumption at each site, we felt that the company could do more to align itself to a net zero pathway. We understood from our engagement that the company feels that significant technological advancement would be required in order for it to commit to a net zero pathway however the company agreed to consider advancing some of its commitments, in particular, setting a short term Scope 1 carbon emissions reduction target. While this is not everything we would have liked, we consider this to be a positive development and will continue engaging with this company regularly in 2023.

### **Differences across geographies**

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

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

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

### Case study: ESG integration in Asia macro

Our view is that countries with better or improving ESG factors make better long-term investments and generate sustainable cash flows. That is, such countries have the willingness and the ability to service their debt.

Within ESG, we see governance factors as being most highly correlated with sovereign credit risk. Institutional weakness and political instability often directly impact a government's ability and willingness to pay. We believe social factors are correlated with GDP per capita and are therefore important in generating the cash flows needed to service debt. Lastly, environmental factors are crucial considerations but are typically correlated with sovereign risk over the longer term even though they often generate short, sharp shocks.

Examples of the ESG factors we will consider when analysing sovereign risk include indicators of political stability, corruption levels, life expectancy, Gini coefficient and carbon emissions per capita. The analysis then informs portfolio construction.

Additionally, we run scenarios to stress test our portfolios. Some of these are based on ESG trends such as a scenario where developed nations introduce legislation to simultaneously fight climate change and economic inequality through the use of redistributory carbon taxes.

### Our use of third-party service providers

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

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

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

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

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

# Principle 8

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

### Oversight of external service providers

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

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

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

Our Procurement team check that practices are compliant with our policies.

Depending on the types of relationship, activities, and the related level of risk assessed by Schroders, the management measures to be employed may differ. In all cases, we carry out an initial due diligence assessment and ongoing monitoring to ensure that the services supplied are of an acceptable quality and that our supplier code of conduct has been adhered to. Our Supplier Code of Conduct<sup>36</sup> sets out the high standards and behaviours we expect from them, covering human rights, ethical sourcing, bribery and corruption, living wages, diversity and inclusion, health and safety and the environment.

We engage proactively with our external service providers through regular communication from employees and have an established framework that governs our approach to selection, on-boarding, management, oversight and reporting across our supply chain. We have introduced the Supplier Oversight Team to enable controls with regard to supplier sustainability provisions at the point of onboarding and through ongoing monitoring.

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

We have dedicated resource to lead the focus on our sustainability responsibilities within the supply chain. This allows us to assess and review those suppliers deemed to be of higher risk to modern slavery. In 2022, we appointed Slave Free Alliance, who are supporting us in updating our risk mapping and due diligence of our supply chain. We also monitor, engage and support our suppliers in setting science-based targets to meet our own goal for 67% of suppliers (by greenhouse gas emissions) to have set a science-based target by 2026. In 2022, we contacted more than 200 suppliers to state our climate expectations, understand their existing sustainability commitments and climate targets, and provide links to useful resources. We also provided funding for five of our UK based small and medium-sized enterprises, who had not yet set science-based targets, to participate in a 12-month 'Foundations for Responsible Business' programme.

### Proxy advisers

We use the services of ISS for our voting and research requirements. We also use research from the Investment Association's Institutional Voting and Information Service (IVIS) to supplement this. Every three years Investment and Procurement lead the tender for proxy advisers. The last tender process took place over the second half of 2022. The Corporate Governance experts within our Sustainable Investment team and the procurement team worked to determine a shortlist of providers with whom we engaged to reach a decision. As a result of this review, we only renewed our current arrangement for one year to enable us to evaluate further the current and possible future capabilities of our current provider and another leading provider with global capability. We will continue our due diligence on possible providers during 2023.

The RFP process evaluates the resources, governance, and systems of the possible providers. A thorough assessment is made on the quality and timeliness of the research and the ability of a firm to execute the complex needs of our institution. In addition to this process our Information Security team will conduct due diligence reviews to ensure the provider complies with the high standard required from our providers, the last of which was undertaken at the end of 2022.

<sup>36</sup> <https://www.schroders.com/en/sustainability/corporate-responsibility/supplier-code-of-conduct/>



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

The accurate and timely delivery of proxy votes to our investee companies through technology ensures we exercise our ownership responsibilities without having to attend multiple shareholder meetings. We are reliant We use the services of ISS for our voting and research requirements, we also use research from the Investment Association's Institutional Voting and Information Service (IVIS) to supplement this. Every three years Investment and Procurement lead the tender for proxy advisors. The last tender process took place over the second half of 2022. The Corporate Governance experts within our Sustainable Investment team and the procurement team worked to determine a shortlist of providers with whom we engaged to reach a decision. As a result of this review, we only renewed our current arrangement for one year to enable us to evaluate further the current and possible future capabilities of our current provider and another leading provider with global capability. We will continue our due diligence on possible providers during 2023.

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

### ESG data vendors

Our preference is for raw ESG data, which we consume from a range of sources including Refinitiv, MSCI, Bloomberg, ProxyInsight, BoardEx and Sustainalytics. We outline how we use the data of each vendor under Principle 2. In our experience, ESG data quality lags compared to that of other financial datasets hence we also monitor the output of our use of third-party data within the models and ahead of reporting. Our data governance team oversees the lifecycle of the data use in collaboration with Global Technology.

We consistently engage with our data providers to support the quality of the data inputs that we use in our proprietary models and analysis. In 2022, in response to ongoing discussions with MSCI regarding their Climate VaR product, they have made a more extensive dataset available to all users which includes time series information.

### Manager selection

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

To integrate sustainability factors into our manager selection process, we first examine the manager at the firm-level, where we aim to understand if sustainability factors are a central part of the firm's ethos and culture. We do this by using ESG questionnaires which have the same overarching objective of seeking to understand external managers' sustainability approach better. Secondly, at the strategy level, we assess the extent to which the investment manager integrates sustainability risk considerations in their own investment processes.

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

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

**Case study:**  
**Improving Stewardship Practices at an Equity Manager**

**Team: Solutions Investment**

**Company: US Financial Institution**

**Sector: Financials**

**Region: US**

**Blueprint theme: Governance and Oversight**

**Background**

For our solutions investment desk, we use a single manager for our its core equity allocation. We assign a rating to the manager on different aspects of its services using a traffic light system. This manager had a 'green' overall; however, the rating of its stewardship activities was amber. This prompted us to engage with the manager on a materiality basis given the importance of this manager to its portfolio.

We identified the manager's engagement practices as the primary area for improvement, specifically the need to establish a clearly articulated engagement framework.

**Engagement in 2022**

We engaged with the external manager over multiple meetings in 2022, with separate sessions focusing on engagement. The managers were receptive to the feedback and acknowledged that improvements could be made to their engagement processes.

We were pleased to see progress in the form of the establishment of a proxy committee, and the appointment of a new chair of the committee. The intention is for the committee, overseen by the chair, to drive and take ownership of engagement activities. The progress made by the committee in improving the manager's stewardship practices has been encouraging. Firstly, the manager has established company-level scorecards with guidance for engaging on issues such as executive pay, diversity, and governance structure. The aim of the scorecards is to better inform engagement decisions and ensure consistency of approach.

Secondly, the manager will produce semi-annual stewardship reports.

We were encouraged with these developments and, as a result, we upgraded the stewardship pillar to a 'green' rating. We will continue to monitor the manager's progress on improving stewardship practices.

# Principle 9

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

### How we prioritise material sustainability issues

In our Engagement Blueprint<sup>37</sup>, we set out the sustainability issues that we determine to have the potential to be material to the long-term value of our investee holdings. When companies fail to address these adequately, we believe that over time they might negatively impact their financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, communities, to the environment, suppliers and regulators. By strengthening relationships with that range of stakeholders, business models become more durable. The governance structure and management quality that oversee stakeholder relationships is also a focus for our engagement discussions.

In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement:



**Hannah Shoemith**  
Head of Engagement

Engagement is one of the most significant ways in which we can influence our investments in order to maintain and enhance their value. Our engagement is outcomes-focussed, constructive and tailored to material ESG issues. Our focus on SMART objectives and embedding of engagement into the investment lifecycle mean we believe we are well positioned to seek to drive sustainable change.



+ cross-cutting thematic priorities and sector specific issues

<sup>37</sup> We first published our Engagement Blueprint in 2022 and have since updated this in 2023: <https://www.schroders.com/en/insights/economics/how-we-updated-our-engagement-blueprint/>

Our themes are underpinned by additional cross-cutting thematic priorities, such as business ethics, and sector specific issues, like antimicrobial resistance (AMR) and health. We also increasingly recognise the interconnectedness of ESG themes, such as the Just Transition within the climate theme, which recognises the social dimension of the transition to a resilient and low carbon economy. We seek to reflect this interconnectedness where possible in our engagements with companies.

In our Engagement Blueprint for each theme we set out our key sub-themes, the long-term outcomes we aim to achieve and the corresponding short- to mid-term actions. Where possible we align our desired long-term outcomes with established international goals, such as the Paris Agreement or the UN SDGs. That said, the objectives we may set are unique to a specific company depending on its current practices, our determination of its most material issues and broader considerations such as company size, geography and sector. As such, we don't engage on all key themes for all companies; rather, we focus on achieving positive outcomes for their most material themes, and our clients' most material holdings.

### Strengths of engaging as an active manager

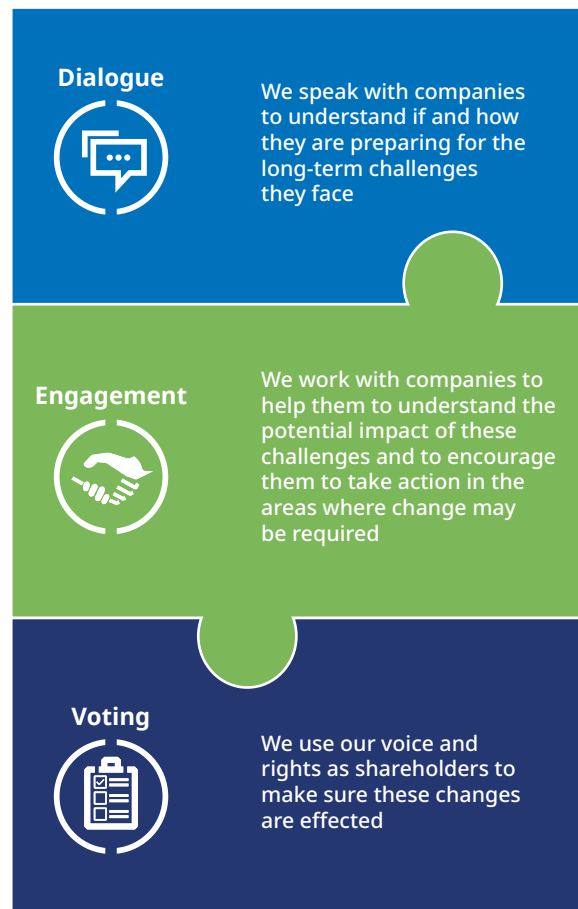
As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the companies in which we invest.

Our active ownership priorities reflect the combined perspectives of our fund managers, investment analysts and sustainability specialists across the firm, supported centrally by the Sustainable Investment team. We aim to take a common approach across investment desks and asset classes, including across equity and fixed income investments, and other asset classes that do not have voting rights. Our approach to active ownership is also similar across geographies and market capitalisation. Differences in expectations arise from country and regional contexts, which can sometimes provide additional considerations; for example, differing socio-cultural factors, regulatory maturity and resource constraints.

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

## Active Ownership in practice

### We identify three key methods for practicing Active Ownership



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

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Our approach to active ownership focusses on achieving meaningful outcomes and sustainable change - that's why we prioritise the depth and quality of our engagements over the volume of activity. When determining when to engage and setting an objective for the engagement, we would expect to consider the following factors amongst others:

- 1 Materiality:** We seek to focus our engagement on what we consider to be the most material sustainability threats and opportunities to the company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value. While we look at the sustainability issues companies themselves deem material, we also apply our own understanding and judgement. This may include using our proprietary ESG tools and research, such as CONTEXT (please refer to Principle 2 for further information on our ESG tools and research)
- 2 Regional context:** The potential materiality of issues and the expectations we have of companies may vary by country and region; for example, because of differing socio-cultural factors, regulatory maturity and resource constraints. Where possible we reference country or regional initiatives, regulations and leading practice from peers in our dialogue with companies
- 3 Realistic outcomes:** We consider both leading practice and what could realistically be achieved by the company in the next few years, including considering the size of the company and how quickly it might effect change
- 4 Ability to monitor progress:** We aim to use objective, measurable metrics or indicators that can be used to assess company performance on an issue
- 5 Length of engagement:** We aim to set short-to mid-term objectives – that can often be achieved over a 12 to 24-month period depending on the intensity of the engagement – but with a longer-term vision in mind. We recognise that some issues may require more urgent action than others, and that other objectives may take longer for a company to achieve

We generally engage with one of two objectives in mind:

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

We aim to set pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where they are suitable for the engagement. We aim to monitor progress against the engagement objectives at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding, typically at least annually. That said, we recognise that the length

of time to achieve an objective will vary depending upon its nature. Key strategic changes might take time to implement into a company's business processes, however additional disclosure requests could be achieved on a faster timeline. A measurable outcome from our engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, or a change to the governance of an issue. We recognise that success factors may be subjective, and that Schroders' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, no matter how large or small our influence may be.

### Recording our engagement

Our Sustainable Investment team tracks engagement progress in order to monitor outcomes. As explained under Principle 5, in 2022 we transitioned our engagement database to a platform which better captures the progress and outcomes of engagements.

ActiveIQ is Schroders' engagement application, launched in July 2022. This system helps investors set and track engagement strategies with companies or other entities in their portfolios. Investors have engagement requirements and are able to document their work quickly and easily with this intuitive platform. They are able to create collaborative engagement plans, set SMART objectives, and record both insights and outcomes-driven events. The database uses clearly defined milestones and goals so progress can be clearly tracked. ActiveIQ features an analytics portal enabling all users to monitor engagements and track whether KPIs are being met at the corporate, desk, and individual level.

The system was launched to help investors across Schroders record their ESG engagements, in order for investors to meet the engagement requirements introduced in 2022.

## Engagement by blueprint theme and subtheme, Top 10

Excluding mass communications around voting season

Blueprint theme	Blueprint subtheme	% of Topics	Rank
Climate Change	Climate alignment – decarbonising and minimising emissions	43%	1
Climate Change	Climate risk and oversight	8%	2
Governance and Oversight	Executive remuneration	6%	3
Governance and Oversight	Boards and management	6%	4
Human Rights	Customers and consumers	5%	5
Governance and Oversight	Purpose, strategy and capital allocation	5%	6
Governance and Oversight	Transparency and reporting	3%	7
Human Capital Management	Investment in the workforce	2%	8
Human Capital Management	Corporate culture and oversight of human capital	2%	9
Natural Capital and Biodiversity	Circular economy, pollution and waste	2%	Tied 10th place
Human Rights	Workers	2%	Tied 10th place



**Yumna Yusuf**

Climate engagement associate

"We believe that proxy voting and engagement go hand in hand as complementary activities to facilitate good stewardship practice. We take the time to engage with climate laggards to gain a deeper insight into the challenges and issues faced by companies as well as opportunities arising from decarbonisation. This nuanced view of individual companies helps inform our voting approach and decision."

**Climate engagement**

In 2022, a major focus for engagement across Schroders had been on climate change. You can find further detail about our approach to addressing climate change as a systemic risk in Principle 4. This was the first year of implementation of the Climate Transition Action Plan. Our own analysis has shown that companies able to reduce their emissions quicker than peers have typically outperformed in recent years<sup>38</sup>. As policy measures intensify to encourage decarbonisation and penalise emissions, we expect that performance tailwind to continue. To benefit from that, during 2022, we embarked on our largest engagement exercise yet. Of the more than 1,000 companies we believed would be necessary to engage with by 2030 to reach our climate commitments, we engaged with 737 companies in 2022. We identified 517 of these to be priority companies.

Many engagements revolved around communicating the climate expectations outlined in our 2021 Climate Transition Action Plan. Four in ten (43%) of discussions in 2022 focused on climate alignment, including steps companies are taking to decarbonise and minimise emissions. An additional 8% were on climate risk.

The companies we engaged were responsible for around half of the financed emissions of the asset classes in scope of our targets. This is a whole-firm effort, with analysts and fund managers across Schroders' global offices speaking to hundreds of companies to explain our views and goals. Our engagement has proven successful; the companies we engaged on climate since 2021 have been almost twice as likely to set a new below 2°C target than those we did not.

<sup>38</sup> Based on Schroders analysis of listed companies in the MSCI ACWI IMI index. We examined changes in companies' emissions over the last five years, relative to sector peers, and compared the total shareholder returns delivered by companies in each quintile of emissions reductions.

**Case Study:  
Climate Transition and Reporting at an Energy Company**

**Team:** UK All Cap

**Company:** North American Energy Company

**Sector:** Energy

**Region:** North America

**Blueprint theme:** Climate Change – Climate alignment

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

compressors, and improving well valves. He also highlighted the company was looking at using offsets, carbon capture projects, and working with a 3<sup>rd</sup> party to develop its strategic planning and disclosure on environmental issues.

The investment desk was encouraged by this discussion, and it seemed the company was starting to make progress on environmental issues. We also asked how the company was managing methane leaks, during a call with the CEO and CFO. Our objectives for the company included the publishing of additional reduction initiatives, and better populating third party ESG data submissions.

**Background**

Methane gas, compared to carbon dioxide, contributes 25x more to the enhanced greenhouse effect per unit<sup>17</sup>. As such, reducing methane emissions is critical to reducing company contribution to climate change. We engaged with this oil and gas company to improve its emissions reduction targets and disclosures. We asked the company to:

- Publish a marginal abatement cost curve to identify potential investments
- Provide greater granularity on emission reduction from 2026-2030
- Achieve Oil and Gas Methane Partnership (OGMP) 2.0 Standard Pathway Accreditation
- Achieve OGMP 2.0 Gold Standard Compliance within five years

This engagement began in 2021. In the first call, the chair of the board communicated the company's ESG strategy and how it was focussing on leak detection, replacement of diesel

**Climate Engagement 2022**

The engagement in 2022 began with an insights-driven call with the CEO and CFO, to gain more information on the progress the company was making in addressing the methane leak issue. We also asked about key activities on emission reductions beyond reducing leaks. Another meeting with the company's sustainability executives followed on the same topic.

These discussions were critical in gaining detailed information and communicating expectations to the company on climate targets and reporting. We were pleased to then see the company gain industry recognition for good practice reporting (Best ESG Reporting Winner: Basic Materials in the ESG reporting Award 2022), as well as achieving OGMP 2.0 Gold Standard Pathway Accreditation.

The company has acknowledged all climate objectives set, giving us increased confidence in future progress. We will continue engaging on the remaining objectives and monitor the company's progress in reducing its emissions.





### Sarah Woodfield

Active ownership Manager,  
Biodiversity and Natural Capital

“It is essential that we work with companies that are highly exposed to forest risk commodities to ensure they are taking every step possible to eliminate deforestation in their operations and supply chains. To maximise our impact, we have made nature central to our engagement strategy.”

### Biodiversity and Natural Capital

In 2022 we began to build out our engagement approach to natural capital and biodiversity with a focus on developing a strategy to deliver on our commitment to eliminate commodity driven deforestation from our investments in 2025. Initial discussions with companies early on in their journey to considering biodiversity loss focus on the impacts and dependencies on nature and how they are setting up governance to identify the location of nature related risks in their operations and supply chains and implementing a strategy to manage this risk. For further information on our approach to managing biodiversity and nature as a systemic risk, please see Principle 4.

### Case Study: Biodiversity and climate issues and management at Nexa Resources

**Team:** Emerging Market Debt

**Company:** Nexa Resources

**Sector:** Basic Materials

**Region:** Latin America

**Blueprint theme:** Nature and  
Biodiversity, Climate

#### Background

Mining companies can have a large impact on the physical world. Their operations can directly lead to pollution, soil erosion, human-wildlife conflict and biodiversity loss, such as runoff of toxic chemicals in local water supplies. These impacts can lead to increased costs, loss of licence to operate, and reputational damage. These companies are also carbon intensive, through the production of energy intensive materials.

Engagement with Nexa began in September 2021. Nexa is a zinc producer operating five long-

life underground mines, all in South America. Our main objective was to understand how the company was managing nature-related risks at its production sites. The company identified water management as a key material issue in its Andean sites and biodiversity at its Brazil sites, with these areas being at high risk of water scarcity and biodiversity loss.

In 2022, Nexa included biodiversity as one of the most material issues for the company in its April 2022 ESG report.

#### Environmental issues in 2022

In this engagement, we stressed our interest in seeing better practice on natural capital and biodiversity issues. Some of these practices include putting in place comprehensive policies to manage and reduce negative impacts on nature and biodiversity through the full value chain, as well establishing board-level responsibility on these issues.

We sought to understand its the company's approach to managing nature-related risks. The company noted three sites required a biodiversity plan, yet only one had been published. We wanted to understand when the remaining plans would be published and what actions have been taken at the site with the existing plan.

Furthermore, we asked whether the company had a no-net-biodiversity-loss commitment in line with International Council on Mining and Metals principles, and what plans were in place if not. We requested the publication of more detailed information on the biodiversity projects that had been tagged as preservation, reforestation, or biodiversity-related in expense claims.

To consider environmental impact more holistically, we also widened the scope of engagement to include climate change in 2022. In particular, we enquired about potential emissions reduction targets and the main barriers in Nexa's decarbonisation trajectory. This cumulated in a call where the company explained its work on biodiversity and climate issues. This engagement was helpful in gaining a more detailed understanding of its biodiversity and climate strategy. However, we expressed that there were still some information gaps remaining regarding the technological limits and trade-offs required for progress.

With Nexa updating its ESG program in its Q4 2022 report, we have increasing confidence in the company's evolving ability to manage material environmental issues. We look forward to monitoring the company's progress and providing further feedback on strategy and implementation.



### **Katie Frame**

Active Ownership Manager

“Engagement across the spectrum of social issues has been an important part of our active ownership programme in 2022. In particular, in the UK we have been focussing our engagement with retailers around the current cost of living crisis. This has really brought to the forefront the need to ensure companies are seeking to act in the best interest of all of their key stakeholders, addressing specific needs they may be facing in the current context. We’ve been asking companies how they’re supporting workers in low paid jobs through this time, whilst also considering the need to build supply chain resilience and keep prices competitive for consumers.”

## **Human Rights**

We continue to actively engage with individual companies on human rights practices, the details of which are disclosed in our quarterly Sustainable Investment reports<sup>39</sup>. In 2022 we undertook 181 engagements related to human rights issues, across 35 different countries and 108 companies. This was a large increase in human rights engagements compared to 2021’s 26 and historical averages of 23 (2015-2019) engagements. The development of dedicated human rights resources in our Engagement Team and the wider Sustainable Investment Team is a key driving factor of this increase. This has enabled us to perform more targeted human rights and modern slavery engagements, as well as to provide more support to our investment teams to perform their own engagements on these issues.

In 2022, there was also a change in the regional distribution of the human rights engagements. All regions have seen an absolute increase in the total number, but Europe ex UK, has seen the largest increase relative to other regions, increasing from 13% to 29% of all human right engagements. One reason for this has been the increase human rights engagement with European countries, due to the Ukraine conflict.

Our commitment to direct engagement with investee companies is unchanged and we plan to continue to deepen and broaden our human rights engagement strategy going forward.

<sup>39</sup> <https://www.schroders.com/en/sustainability/active-ownership/sustainability-analysis-in-practice/>

## Case Study: Sustainability Disclosure at Apple

**Team: Sustainable Investment**

**Company: Apple**

**Sector: Technology**

**Region: US**

**Blueprint theme: Human rights and circular economy**

### Background

Our past engagements with this company have focused on governance and supply chain disclosure. The company is receptive to our suggestions and has taken action on improvements in the past.

### Engagement in 2022

In 2022, we wrote to the Investor Relations team of the company to recognise its leadership role in many aspects of its climate change work, as well as outlining a number of questions around some of the nuance of its climate change targets and longer term plans beyond 2030. On human rights, we asked for more information about how it assesses the effectiveness of its due diligence process in light of recent reports alleging the use of illegally sourced gold in its supply chain. Finally we noted the recommendations of the 2022 Ranking Digital Rights Big Tech Scorecard and asked about its plans to implement these<sup>40</sup>.

This led to a follow up meeting where we encouraged the company on further action on climate change (particularly on the circular economy), human rights and diversity. We discussed why the company has set a 'carbon neutral' target,

rather than 'net zero', which the company explained its view as largely the same. In light of this, we have asked them to clarify its offsetting strategy. We also discussed the company's human rights due diligence programmes. Finally, we sought to understand the company's speak up mechanisms and encourage the company to improve disclosure around inclusion.

After the meeting, we shared detailed feedback on the company's ESG programmes at its request. We noted strengths in its climate goals, but reiterated the main areas in which we would like to see improvement. We also highlighted that we see an opportunity for the company to lead more on its product circularity work. On human rights we noted opportunities for more outcomes-based disclosure. We also reiterated our request for diversity and inclusion disclosure and finally explained that we are seeing more companies include ESG metrics in pay, which could present an opportunity for Apple.

We will continue to engage and review the company's action against the targets we have set over the coming months.

<sup>40</sup> <https://rankingdigitalrights.org/bts22/>

## Governance and Oversight

Another important area of engagement in 2022 was executive remuneration. There were several one-to-one engagements with investees, as well as a multi-stakeholder meetings organised towards the end of the year looking at executive compensation in the context of a cost-of-living crisis. These case studies are available further in this section.

In October 2022, we hosted two events on the topic of executive remuneration. We invited the Chairs of Remuneration Committees from a number of FTSE350 companies to meeting at our offices with some of our fund managers and Corporate Governance team, to discuss some of the most material issues around executive pay.

We hosted two of these meetings; the first was with companies that are more domestically focused and the second was for companies that are more global in nature. The intention was to have a transparent discussion on the current challenges that UK companies are grappling with in relation to executive remuneration and what key developments we should expect ahead of the 2023 proxy season. This event was particularly timely, given many UK companies were renewing their Remuneration Policies in FY2023, and consulting with shareholders as part of this process. Overall, we had Remuneration Committee Chairs from nine companies attend the respective events held over two consecutive days.

The format of the event was relatively informal because we wanted this to be two-way discussion, rather than a presentation that only expressed Schroders' views. Rather, this was a great opportunity to share views, ideas and debate on the topic of pay. At both events the cost of living crisis and how companies are thinking about executive pay against this backdrop, was a key focus. We also covered questions around retaining and attracting top talent, particularly in relation to competition with the US. Additionally, we spoke about the impact of incorporating environmental and social metrics into remuneration.

Our consultations with companies on updates to their remuneration policies was more informed as a result of this engagement. For example, we were encouraged to hear from the directors about the steps companies were planning or had already taken



**Ariella Levine**

Corporate Governance Analyst

“A key theme for our engagement with companies in 2022, was a growing understanding that they cannot exist in a vacuum and boards need to exercise responsible oversight which includes taking into consideration all stakeholders. From supporting employees through the cost of living crisis, navigating the just transition to generating risk-adjusted returns; we believe this all ultimately starts with strong governance.”

to support their employees through the cost of living crisis, either in the form of one-off bonuses, early pay increases or other benefits. We asked the companies to ensure that any initiatives were disclosed in their upcoming annual reports, because this is something we will be considering when looking at executive pay in 2023.

This also informed our voting recommendation for executive salary increases to be lower than the wider workforce in FY2023. Similarly, we used other topics of conversation to directly inform our engagements with companies and our voting recommendations for the 2023 proxy season. Another example is how we assess environmental and social performance measures. It was interesting hearing this through the lens of companies and, in turn, we explained our thinking on these measures as shareholders.

Finally, this was a good exercise in terms of building relationships with important stakeholders.

The event was held under Chatham House Rule.

**Case Study:  
Executive Remuneration at Pearson**

**Team:** UK All Cap

**Company:** Pearson

**Sector:** Consumer Cyclical

**Region:** UK

**Blueprint theme:** Governance and Oversight – Executive remuneration

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

Increasing fixed and variable pay in the same year is also concerning, given the multiplier effect this could create. As such, we would be unlikely to support the remuneration policy at annual meeting should the company go ahead with implementing the proposed changes.

**Remuneration consultation in 2022**

In 2022, the company sought our feedback and input for the renewal of the remuneration policy. We had a series of in-person and virtual meetings with the company to discuss the proposed changes to the policy. It was seeking to increase the CEO's base salary significantly, in addition to increasing the overall variable pay opportunity for the CEO and CFO.

**Background**

We have been engaging this company on governance issues since 2016, covering topics like board oversight, shareholder compensation and executive remuneration.

In 2022, we had a series of in-person and virtual meetings with the company to discuss the proposed changes to the remuneration policy. The company is proposing significant increases to fixed pay and variable pay. From the company's perspective, it is competing with the US for talent and business; therefore, executive pay should be reflective of US quantum and structure in order to retain and attract the best talent.

In our view, this is problematic - we do not generally support pay increases based on benchmarking. Additionally, we are not supportive of UK listed companies pivoting to US pay structures or increasing pay to match US quantum levels.

The company's aim was to bring executive pay more in line with US pay levels, given the CEO is based in the US, and the company's strategic focus is the US market. During this engagement we expressed our view on the US/UK pay divide and why we believe that UK companies should not be adopting US pay practices, particularly in a cost-of-living crisis. We also had the opportunity to encourage the adoption of a social metric in the remuneration policy, as it's more material to a company in its sector.

Our discussions on the company's revised remuneration policy are ongoing. We look forward to seeing our feedback considered and reflected in the future remuneration policy.

## Human Capital Management

In 2022, we held 188 engagements on a variety of topics related to human capital management (HCM). As companies began to adjust to a post-Covid landscape and labour shortages became a challenge in many sectors, one of the areas we focused on was how companies were investing in their workforce. We engaged over 30 service and retail sector companies on their paid sick leave and paid family leave policies. We were interested to understand whether companies had maintained or expanded benefits made available during the pandemic, which employees had access to benefits, and how they engaged with employees to design benefits packages. This led to many productive meetings where we communicated our expectations on paid benefits and learned how companies weighed the risks and opportunities of paid benefits. These engagements will continue in 2023, where we will continue to press companies who lacked comprehensive benefits to do so. In addition, we have become more engaged on shareholder proposals on this topic, and submitted one co-filing at a US retailer.

In the UK and Europe, our HCM engagements focused on the cost of living crisis and how companies were working to support low-wage employees. In addition to engaging supermarkets on this topic, we have also engaged retailers to understand how their wages for hourly employees align to achieving a decent standard of living. For example, we engaged a UK retailer to understand how they currently set wage levels, how they value wages with other benefits they provide, and how they see their compensation packages versus their peers.



**Lucy Larner**  
Engagement Associate

"We believe that by investing in their employees and providing a benefits package which allows them to achieve a decent standard of living, companies can better position themselves to attract and retain talent, a key advantage in today's market. That's why we encourage companies to offer benefits such as sick pay, family leave and care leave, which can help reduce turnover, boost productivity and provide wider benefits to the company and its employees."

In our engagements with these retailers we have shared expectations such as:

- Undertake and more clearly communicate how the company assesses the costs vs. benefits of increasing wages
- Disclose employee turnover and retention metrics
- Bring company pension contributions further in line with peers, and towards market leading offerings

In 2023 we expect to continue engaging on the cost of living, particularly for companies which pay below a living wage.

## Case Study: Paid benefits

**Team: Sustainable Investment**

**Company: Service and Retail Sector Companies**

**Region: United States**

### Background

As part of our engagement on human capital management, we encourage companies to evaluate compensation and benefits holistically and provide these for employees' physical and mental health. In the US, there is no federal requirement to provide paid sick or parental leave, and lack of access to these benefits is particularly prevalent in the service and retail sectors.

We contacted several US companies in the retail and service sectors on paid sick and family leave policies in 2022. The objective of this engagement was to understand the policies currently in place, and to encourage the companies who lacked these to make them available for all employees. We set out two key engagement requests:

- Establish a minimum number of paid sick leave policy available to all employees. These days must be paid at 100% and can be earned on an accrual basis
- Provide family leave which offers full or partial pay under the Family and Medical Leave Act. These days should also be exclusive of short-term sick leave. The employer should disclose the percentage of pay offered to salaried, hourly and contract employees

### US Paid Benefits in 2022

We sought to engage with over 30 companies across the US retail and service sector, such as major fast foods brands, large retailers, as well as logistics companies. We sent a formal letter to all the companies, requesting it disclose information on paid benefits and requesting dialogue.

Over the fourth quarter of 2022, we engaged many of the companies we contacted to understand their policies in greater detail, and encourage them to expand their paid benefits offering. In particular, we focused on expanding paid sick leave to hourly and part-time workers when the company's current policy did not provide for this. We continue to hold meetings with companies and collect data on their current sick leave and family leave policies. This information-gathering helps us understand baselines and set targets for improvement. For companies that currently do not offer paid sick leave or family leave, we are considering escalation methods, including holding follow up calls and considering voting on shareholder resolutions addressing these issues.



### **Pippa O'Riley**

Corporate Governance Analyst

"Our conversations on diversity and inclusion have continued to both broaden and deepen with our investee companies. Whilst encouraged by the progress made throughout 2022, there is still a long way to go through all diversity lenses. Most importantly, companies that have worked hard to increase their diversity across various layers of their organisation now need to put even more energy into the inclusion element. Our engagement has largely focused on asking companies to share their oversight of these inclusion elements, as well as communicating our increasingly strict voting policies in this area."

### **Diversity and Inclusion**

In 2022, we had 83 engagements with 69 companies on Diversity and Inclusion (D&I) issues and have continued to enhance our voting policies on D&I. One of the priority areas for action is making boards more representative of society. In November 2021, we wrote to FTSE100 chairs to make clear our expectations, as investors, that they should ensure a level of ethnic diversity on their boards. In 2022, we then began voting against the nominations committee chair of any FTSE100 or S&P500 company that did not have at least one director of colour. We treated a company's non-disclosure as not meeting the requirement. We communicated this criteria to each company before annual meetings through sending a letter. As a result, we voted against the election of five FTSE100 and eight S&P500 company nominations committee chairs, due to the lack of ethnic diversity on the board in 2022.

Every time we voted against a board recommendation for diversity reasons we communicated this to the company. We will be expanding this approach in 2023, by voting against the Chair of the Nomination Committee when there is no non-white Director on the Board at all companies in the Russell 3000. As well as focusing on ethnic diversity at Board level, we also continue to support gender diversity. Globally, we voted against some 611 directors in 2022, due to their lack of gender diversity on the board. We also expanded our policy in the UK in 2022 to begin voting against directors at companies with all male executive committees, this led to 5 votes against in the UK in 2022.

### **Case Study: Board Gender Diversity at Delta Electronics**

**Team: Asian Equity**

**Company: Delta Electronics**

**Sector: Industrials**

**Region: Asia Pacific**

**Blueprint theme: Diversity and Inclusion –  
Board diversity and inclusion**

#### **Background**

We began engaging with this electronics manufacturing company in 2021 on the subject of gender diversity at the board level. We asked Delta to complete a survey on the company's approach to target setting for gender diversity, for the board and the wider business. The objective was to encourage the company and monitor progress towards meeting our expectation of at least 10% female representation on the board.

#### **Gender Diversity in 2022**

In September 2022, we had a call with the company to understand what steps it was taking to meet our expectations around gender diversity, at the board level and across the whole organisation. In the call, the company described what it was doing to address the lack of female representation on the board. Additionally, this was an opportunity for us to gain a better understanding of some of the challenges the company was facing in increasing female representation.

Over the course of this engagement, we were pleased to see the appointment of a female director to the board, increasing the female representation over 10%. We look forward to future dialogue with the company around continuing to improve diversity across the wider workforce.



### Our engagement outcomes

The launch of ActiveIQ included a refreshed outcomes assessment framework, based on clearly defined milestones. The milestones are defined as:

- M1 – engagement opportunity identified and communication started
- M2 – acknowledgement by company of issues raised
- M3 – company commits to an improvement plan
- M4 – company implements our engagement ask

When an objective reaches milestone 4, the lead analyst of the objective must submit evidence of completion that is reviewed and assessed by the central Active Ownership team, for a four-eye view of objective completion.

The below table shows the milestone progress of objectives in 2022. In our experience, it takes an average of two to three years for companies to effect the change requested. We therefore expect to see more milestone-based progress in the future on these objectives and will aim to reflect on several years' worth progress in future reporting.

Note: We are evolving our external reporting with the launch of a refreshed reporting framework in July 2023.

A further engagement momentum progress metric is used to give a sense of where progress is likely to be made and where it is stalling. This can be broken down by theme, sector, region, or some other aspect

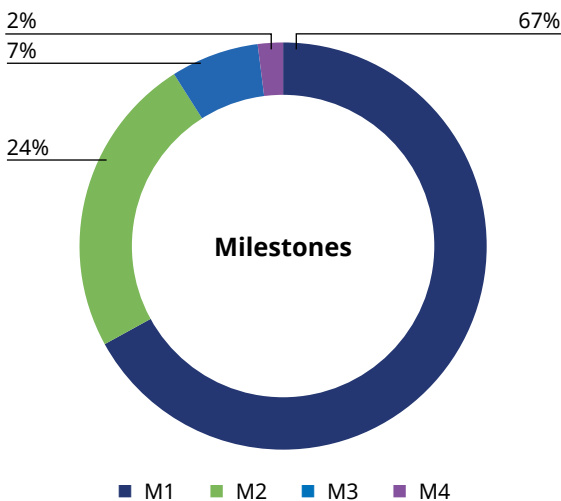
of engagement, for a detailed understanding of trends in progress and where there may be common challenges. This is used to inform what support is provided by the central Active Ownership team to investment desks.

The Engagement Momentum is set by the lead analyst and defined as:

- Accelerating: Progress in the past 6 months (e.g. positive changes to board, good discussions/meetings)
- Steady: Regular engagements to determine/encourage progress in past 6 months
- Stalling: No engagements in past 6 months, no progress on objectives
- Decelerating: Company has regressed on objectives in past 6 months, limited engagement
- Failed: Company becomes un-engageable (e.g. sanctions, regulatory exclusions)

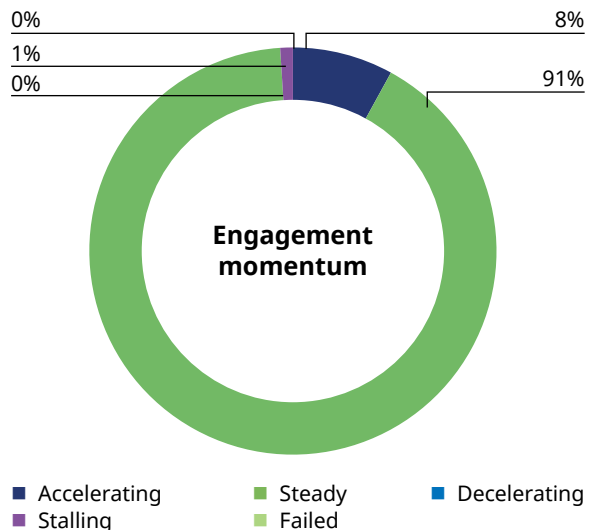
The table below shows the engagement momentum for incomplete objectives in 2022 (I.e. those not yet reaching milestone 4). Given this was a new progress measure introduced with ActiveIQ, many of the engagements are making steady progress, which may change as time passes and more engagement gets underway. Effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate, which we discuss further under Principle 11.

### Engagement outcomes for objectives set in 2022



Source: Schroders as at 31 December 2022.

### Engagement momentum in 2022



Source: Schroders as at 31 December 2022.

## Reporting on our engagements

As we outline under Principle 6, each quarter we produce a public Sustainable Investment report which highlights our engagement and voting activities over the period. The engagement section of the Sustainable Investment report includes detailed case studies as well as the total number of engagements and the companies engaged with broken down by region, type and sector. From mid-2023, the reports will also include milestone and engagement momentum.

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

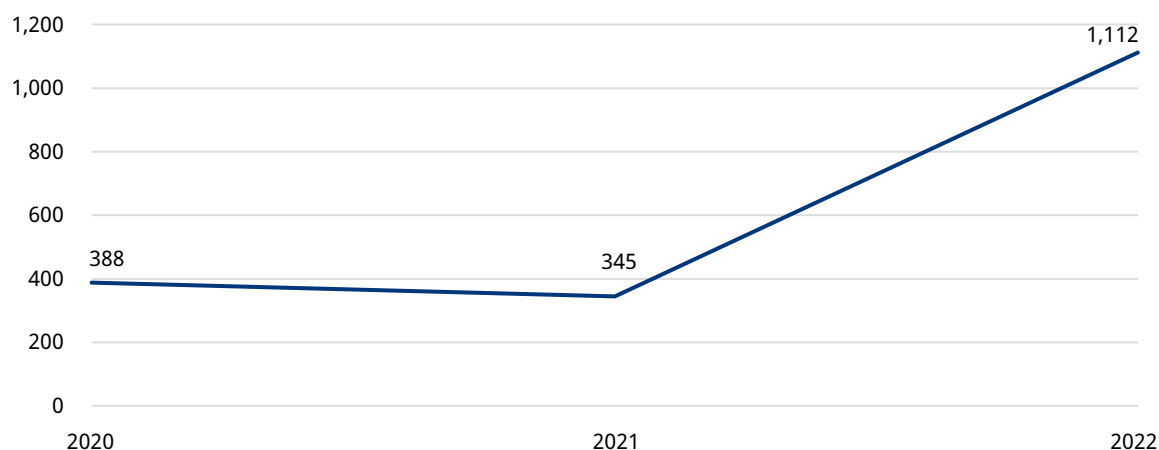
We believe transparency is an important feature of effective active ownership. We are cognisant, however, that some disclosures may be counterproductive. This is particularly the case while

an engagement is ongoing and when making specific details public may harm our long-term relationship building with companies which we view as essential for effective active ownership. Hence we usually report on engagements or name companies after the engagement has come to a close or if there has been substantial progress.

For our public reporting of our engagement activity, we report engagement activity based on whether the engagement was led by the central Sustainable Investment team or one of this investment desks. This is done to monitor and highlight the engagement activity by investors, who had engagement requirements introduced in 2022. These requirements are linked to investor compensation.

In 2022, there were considerably more engagements by investors that in previous years. There were 1112 direct engagements by analysts and fund managers in 2022. This includes engagement across several environmental, social, and governance issues. Compared to previous years, investors recorded 345 engagements in 2021 and 388 in 2020.

## Investor-led engagements 2020–2022



Source: Schroders as at 31 December 2022.

The categories of reported engagement activity are below.

In addition to engagements conducted by the investment desks, the central Sustainable Investment team led 362 engagements. This includes engagement with prominent organisations on salient ESG issues, including our engagement on the cost of living crisis, digital rights at large technology companies, and executive compensation. These case studies are further in this section.

Over the course of the year, there was collaboration between investment desks and the central Sustainable Investment team on engagement.

Furthermore, we worked with other partners to drive change at investee organisations, for example as part of the IIGCC and in support of the CDP, which are explained in Principle 10. In 2022, there were 530 engagements of this type in 2022.

Finally, 3,308 mass communications were sent around voting season in 2022, which are letters sent to holdings globally. This includes the annual Schroders governance expectations letter. It also includes notifications of votes against management, when we attempt to contact every company explaining our rationale for doing so and initiating important dialogue for in-depth engagement.

## 2022 Engagements

Type	Number of engagements
Sustainable Investment Team-led	362
Analyst/Fund Manager-led	1,112
Campaigns and Collaborations	530
Mass engagement around voting season	3,308

Please note that the engagement statistics in this section (e.g. engagement format, by theme) exclude mass communications around voting season.

### Methods of engagement

A company engagement generally begins with a process of enhancing our understanding of the company and helping the company to understand our position on a topic.

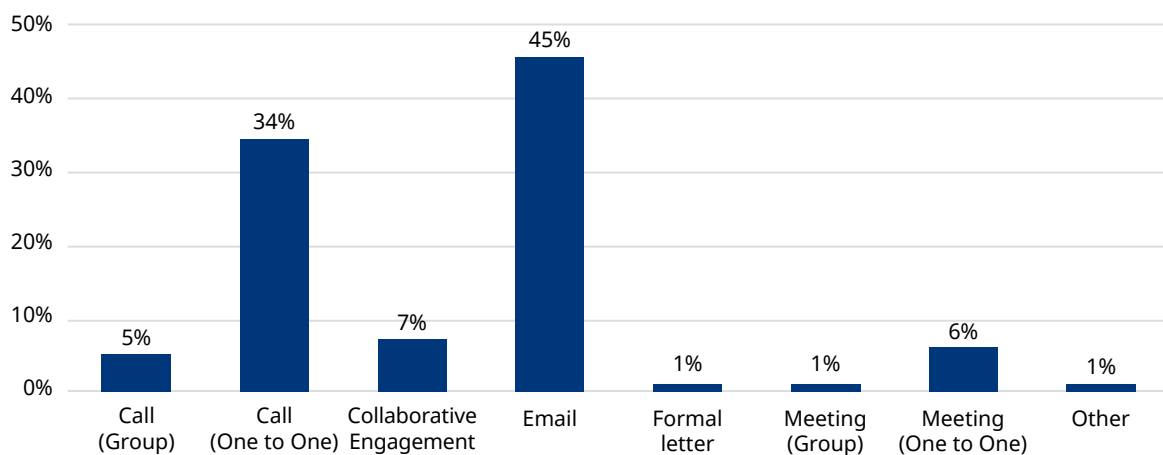
We rarely attend company general meetings in person as we believe there are usually more efficient and effective means of communicating with companies. Moreover, general meetings take place at

specific times during the year whereas engagement is something that we do on an ongoing basis throughout the year.

Nearly half of engagements (45%) were emails in 2022. Many of these would have been used to outline Schroders expectations on detailed, costed transition plans, as part of our Climate Action Transition Plan activities. Engagement often then develops into dialogue with companies. Four in ten engagements were one-to-one calls and meetings.

### Engagement format in 2022

Excluding mass communications around voting season

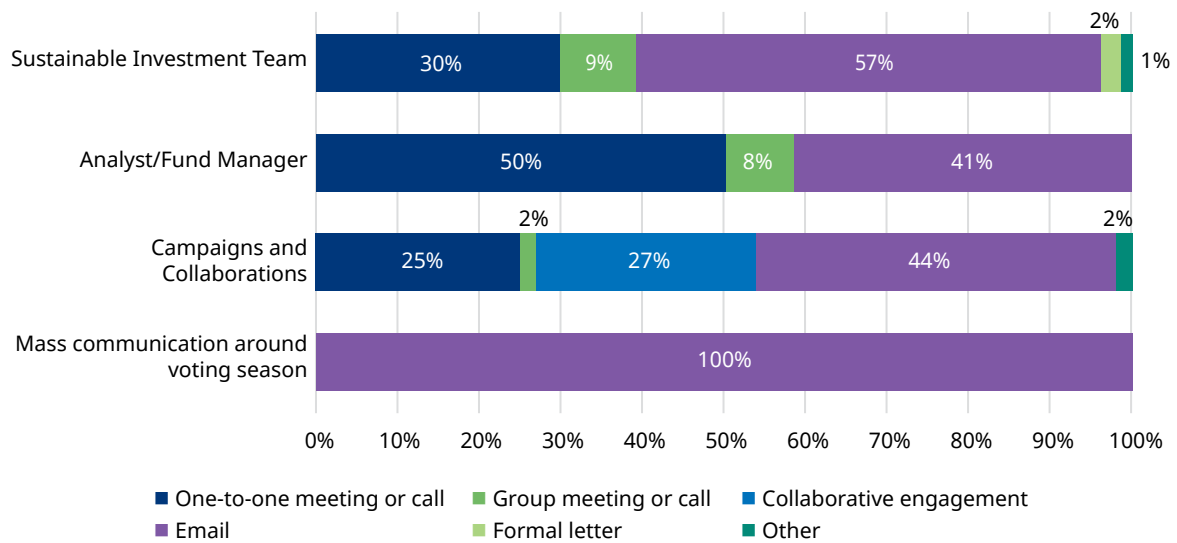


Source: Schroders as at 31 December 2022.

Considering the engagement format by the type of engagement, analysts and fund managers are the most likely to have one-to-one calls and meetings. Half (50%) of their engagements were in this format in 2022, compared to 41% email-based engagements and a further 8% being group calls or meetings.

For the Sustainable Investment team, about a third (30%) of engagements were one-to-one calls and meetings in 2022. The majority of engagements were emails (57%), while a further 9% were group calls and meetings – the latter falling in line with investor-led engagements.

## Engagement format by type



Source: Schroders as at 31 December 2022.

### How engagement differs for funds, assets and geographies

It is crucial that our stewardship activities are owned across the firm. As such, our central Sustainable Investment team has worked hard to equip our analysts and Portfolio Managers with the knowledge and skills to engage with their investees (for example through providing training, publishing thematic toolkits and providing bespoke support). Some engagements continue to be led centrally where the investee has particular strategic relevance, but generally stewardship activities are undertaken by our investment desks. We are able to leverage our holdings by working collaboratively across funds, giving us greater clout and increasing the chances that the company listens and reacts to our engagement.

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

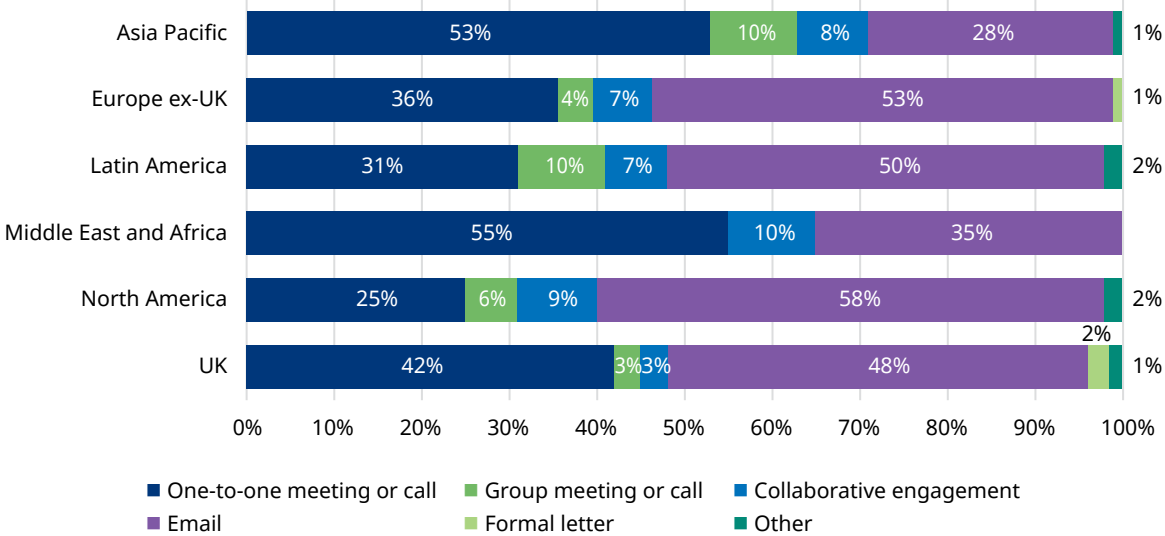
we consider both leading practice in the region and what could realistically be achieved by the company in the next few years. We also recognise companies' responsiveness to our engagement objectives will vary across countries, and where possible, we will reference country or regional initiatives, regulations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

Considering engagement format by region, email-based engagements dominate the more mature markets. In 2022, emails constituted 58% of engagements in North America, 53% of engagements in Europe (excluding the UK), and 48% in the UK. Latin America also saw high rates of email-based engagement at 50%. On the other hand, just 35% of engagements in the Middle East and Africa were emails, compared to 28% in the Asia Pacific region.

In the Middle East and Africa, and the Asia Pacific region, one-to-one meetings and calls were most dominant at 55% and 53% of engagements, respectively. We typically assume that less developed markets need more time and one-to-one engagement to affect change. We recognise that it may take longer for companies operating in some countries to achieve sustainability goals – either because of limited progress to date, or because of factors specific to the country or region (for example, socio-cultural factors). These considerations also have an impact on our decision when structuring engagement and considering escalation.

### Engagement format by region

Excluding mass communications around voting season



Source: Schroders as at 31 December 2022.

## Engagement at Schroders Capital

Schroders Capital investment teams have developed business-specific and/or individual engagement approaches with their investees, service providers and other key stakeholders including industry bodies and market players where relevant.

### Case study: Insurance-Linked Securities

In our insurance-linked securities business, we engage quite actively due to the nature of the asset (providing insurance indemnity mostly against natural catastrophes), and our discussions take place with counterparties, which can be either corporate clients and insurance companies or brokers / dealers through structured questionnaires to achieve better transparency regarding the risks insured by ILS and the counterparties to whom the protection is provided. Each transaction is evaluated using the ILS ESG Accreditation Framework.

#### Tracking and reporting

Schroders Capital take a pro-active approach to managing our investments and engaging with our investees and counterparts (in relation to ESG topics) in a number of ways.

Some examples of how we achieve that, across investment teams, are provided below:

- Incorporating environmental considerations into general meeting resolutions, loan documentation, such as covenants to comply with environmental regulations, manage pollution, and reduce carbon emissions
- Reporting (subject to data availability) on environmental metrics such as carbon footprint and energy intensity
- Exercising voting rights responsibly and taking account of the environmental consequences of voting
- Engaging with the management of our investees and counterparts to encourage them to adopt policies that would be beneficial for the environmental and reduce their impact on climate change

Engagement activities are actively monitored by responsible individuals and forums.

Any examples of bad practice from any of our investees would first be addressed at this level before any subsequent escalation to the CEO of Schroders Capital.

#### Lessons learned

We periodically conduct surveys and share questionnaires with our key stakeholders. Key challenges identified and lessons learnt are outlined below, which are consistent with a broader Schroders Group-wide assessment:

- There is a growing appetite for sustainable and impact investment products in the private assets market with an expectation to retain standard levels of return
- There is a stronger interest in climate change risks and resilience considerations, following a growing appreciation of the impact climate change can have on financial risks and returns.
- There is a skills shortage and knowledge gap across various ESG specialisations in the private assets industry
- There is growing concern around the increasingly stringent, complex and often incomparable sustainability reporting requirements

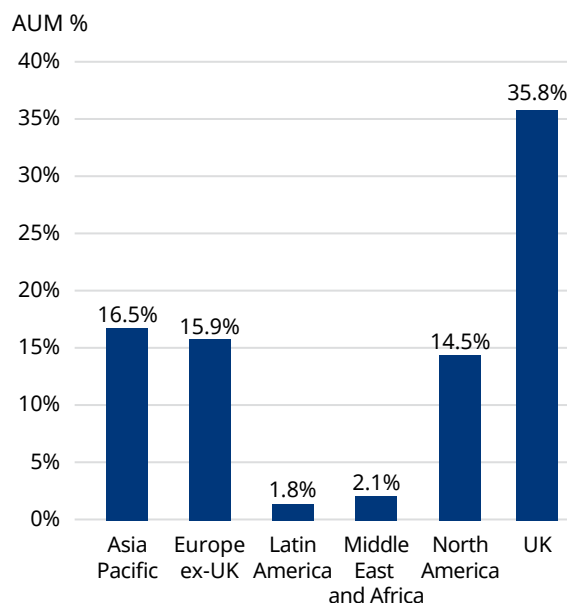
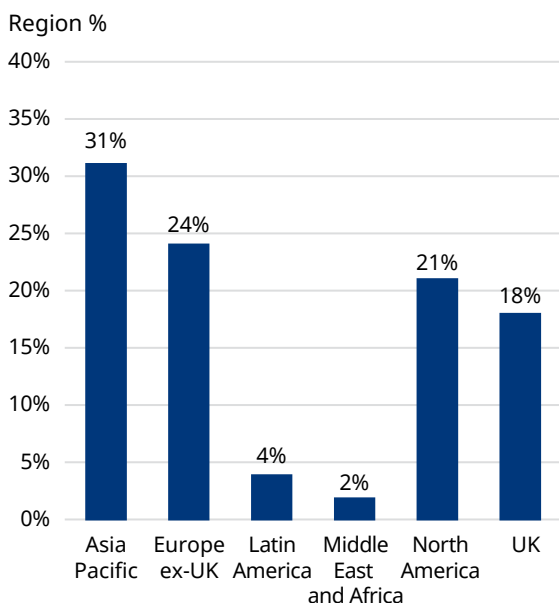
These lessons feed into the evolution of our engagement model and approach, across Schroders Capital businesses, and allow us to develop product that resonate with our investors, investee companies, communities, regulators and the wider society.

## Engagement activity vs. AUM footprint

We set out below the percentage of our overall engagement performed in each region alongside our AUM in these regions.

### 2022 Engagement by region

Excluding automated emails around voting season



Source: Schroders as at 31 December 2022.

Our engagements in Middle East and Africa and Latin America were roughly proportional to our AUM in these regions. There was a higher proportion of engagement versus AUM in Asia Pacific, Europe (excluding the UK), and North America. In these regions, the majority of engagement focused on climate change. On the other hand, the UK saw less engagement proportionally than AUM, with greater focus on governance and oversight than in other regions.

Our activity in the UK and Europe included engaging five pan-European supermarkets on four key focus areas related to the cost of living and access to nutrition, through the lens of balancing the interests of key stakeholders.

We asked the companies to ensure they are using a fair, socially responsible approach to balancing the needs of employees, customers and suppliers. We considered whether employees were paid a living wage, the management of their supply chain (including supply chain workers' pay and purchasing practices), and their commitments to make healthy options available and affordable to their customers. During our engagements, we were pleased to see examples of existing disclosures and commitments to review existing strategies. Where we have identified areas of weakness, we will continue to engage companies to make progress on the relevant objectives.

Meanwhile in the US, we contacted several companies in the retail and service sectors on paid sick and family leave policies in 2022. The objective of this

engagement was to understand the policies currently in place, and to encourage the companies who lacked these to make them available for all employees.

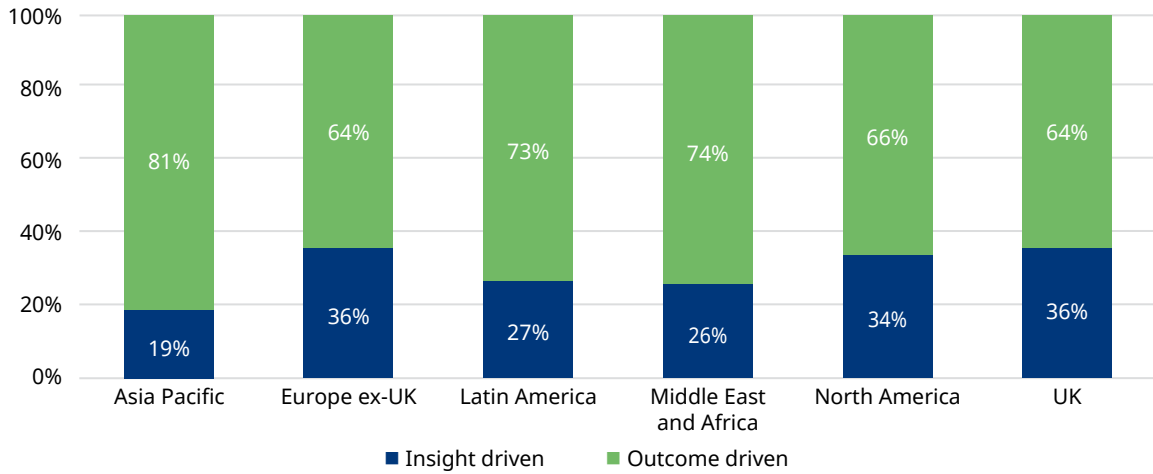
### Purpose of engagement by region

As mentioned above, our engagements tend to be either insights or outcomes-driven. In 2022, seven in ten engagements were outcomes-driven, excluding mass communications around voting season. Broadly speaking, more developed markets saw a higher prevalence of insights-driven discussions. Roughly a third of discussions were insights-driven in North America, Europe, and the UK. On the contrary, Latin America had seen the highest proportion of outcomes-driven discussions, with 81%. In Latin America and the Middle East and Africa, outcomes-driven discussions took place 73% and 74% of the time, respectively.

In developed markets, there are more regulatory frameworks concerning ESG issues, whether on climate change, board diversity, or adverse ESG impacts. As such, more discussions focus on investee preparedness for meeting regulatory requirements. Furthermore, with greater engagement history in developed markets, we are more likely to be monitoring how previous objectives are being met, and how material risks are evolving.

## Discussion topic type by region

Excluding mass communications around voting season



Source: Schroders as at 31 December 2022.

Climate engagements dominated across all regions. The Middle East and Africa, and North America, saw the greatest focus on climate change at 79% and 59% of discussions, respectively. This could be reflective of the limited regulatory environment on emissions in both regions, as well as the vast natural resources available. In Asia Pacific and Europe, just over half of discussions focused on climate change (55%).

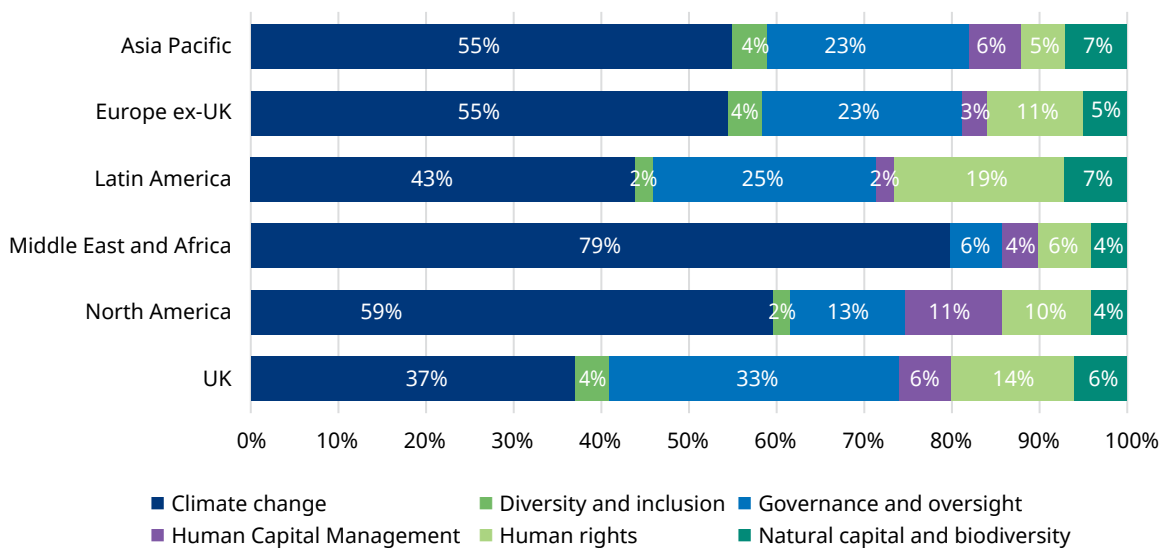
The UK saw the least focus on climate issues (37%), which may reflect the advanced regulatory environment and deep engagement history in the country on this topic. On the other hand, about a third

of engagements in the UK focused on governance issues, the highest of any region. This was driven by discussions on executive remuneration, including what is appropriate in a cost-of-living-crisis, and how ESG-linked compensation should work in practice.

All regions saw some focus on social issues, particularly human rights. The focus on human rights was greatest in Latin America (19%), followed by the UK (14%), Europe excluding the UK (11%), and North America (10%). The engagement topics differ greatly by region, with intense focus on worker rights and wages in developed markets, and especially the US.

## Engagement Blueprint theme by region

Excluding automated emails around voting season



Source: Schroders as at 31 December 2022.



## Further case studies detailing our engagement in line with our blueprint themes

### **Case Study: Plastic Use and Recycling at PepsiCo**

**Team:** Global and US Credit

**Company:** PepsiCo

**Sector:** Consumer Non-Cyclicals

**Region:** North America

**Blueprint theme:** Natural Capital and Biodiversity – Circular economy, pollution and waste

#### **Background**

Plastics overuse is having a detrimental impact on environmental ecosystems. For one, fossil fuels are used to produce new plastic, generating emissions and contributing to climate change. With increasing regulation aimed at restricting plastic consumption, such as single use plastic bans and recycling quotas, companies must increase the circularity of its plastic use to reduce the risk of regulatory non-compliance.

We began engaging with this snack and beverage corporation on plastic use reduction in 2021. At the time, a quarter of the company's emissions were from packaging, with 31% of packaging coming from new (non-recycled) plastic. While the company had targets to reduce new plastic use, the use of recycled plastics was below expectations at the time.

The overall objective of the past engagement was to gain more insight into the company's recycled plastics transition plan, and the cost associated with its roll out. The company was encouraged to set clear targets, particularly on recycling deposit return schemes, which would help the company increase recycled content in plastic packaging.

The company already had some track record of investing in alternative solutions. For instance, the PepsiCo Foundation had committed to invest \$65 million in global recycling partnership initiatives to elevate recycling rates and waste collection.

#### **Plastics engagement in 2022**

In July 2022, we followed up with the company to reiterate expectations on industry leadership when it comes to plastic packaging. We also asked in which regions the company implemented deposit return schemes to gain a better understanding of some of the potential barriers. The company responded by providing more information about how it evaluates reasons for supporting deposit return schemes. Specifically, the company reviews deposit return schemes proposals on a case-by-case basis, looking at a variety of factors that determine the effectiveness and performance of these systems.

Following this engagement, our confidence increased that PepsiCo was on track to meet its plastic reduction targets. As a result, we felt confident to purchase the company's recently issued green bond and will monitor the progress of the company's plastic reduction targets.

## Case Study: Climate Transition Plan at Metals and Mining Company

**Team:** Sustainable Investment

**Company:** Mining Company

**Sector:** Mining

**Region:** Australia

**Blueprint theme:** Climate Change – Climate alignment

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

### Background

Decarbonisation is a core pillar of the energy transition and a more sustainable economy. We have been engaging with this particular company on the climate transition since 2015, amongst other issues such as health and safety, remuneration, and human capital management.

In the past, we have sought greater disclosure on the climate transition and the company's exposure to coal, which was a major contributor to the company's emissions. In 2021, we asked for more robust emission reduction targets, enhanced net zero ambition, as well as for the company to produce a detailed climate transition plan.

### 2022 climate engagement

We engaged extensively with this company throughout the course of 2022 including two in-person meetings with the chair of the board and the CEO and a follow up call ahead of the AGM.

In May 2022, we co-signed a letter asking the company to enhance its climate change disclosures by participating in the 2022 Climate Disclosure Program (CDP) questionnaire. Insights from this questionnaire allow investors to assess each company's response to climate change and compare its performance against peers.

In June, the Active Ownership team met with the chair of the board and CEO to discuss the company's climate strategy and disclosures prior to the publication of the company's climate transition plan. It was evident that the company was striving to produce a 'best-in-class' transition plan that would demonstrate it was doing everything to decarbonise and that the leadership team were ready to engage and receive recommendations for improvement. A follow up call with the sustainability team took place in July to deep dive on transition plan best practice, which would inform how the company develops its plan.

Once the plan was published in September, a meeting took place with the chair of the board and CEO to give our feedback on both the plan and the company's climate strategy ahead of the AGM. It was evident that the company had taken on board our feedback especially where it concerned science-based targets and emission reduction pathways and was doing as much as it could to position itself as the leading mining company enabling the transition. As a result, we voted in line with management on its say on climate vote and are continuing to monitor and engage the company.

**Case Study:  
Remuneration at Shell**

**Team:** UK All Cap

**Company:** Shell

**Sector:** Oil and Gas

**Region:** UK

**Blueprint theme:** Governance and Oversight – Executive remuneration

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

**Remuneration 2022**

We met with the remuneration committee chair, chair of the board and head of investor relations regarding the renewal of the company's remuneration policy for 2023.

We wanted to see relative total shareholder returns (TSR) play a bigger role in the long-term incentive plan (LTIP). During this engagement, we also identified opportunities to improve the methodology to calculate relative returns – by expanding the peer group used for comparison. Finally, we explored whether cash flow metrics are suitable, as these metrics can sometimes incentivise investment in shorter life projects.

Our discussions on the company's revised remuneration policy are ongoing. We look forward to seeing our feedback considered and reflected in the future remuneration policy.

**Background**

We have been working with Shell to improve its management of material business issues since 2010. We have interacted with the company several times with some focus on governance and climate change. We widened our scope of engagement to focus on executive remuneration in 2022.

**Case Study:**  
**Managing the Energy Transition and Helping Consumers with the Cost of Living**

**Team:** UK All Cap, Global and Thematic Equities

**Company:** National Grid

**Sector:** Utilities

**Region:** UK

**Blueprint theme:** Climate Change – Climate alignment

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

decarbonise including submitting a 1.5 degree aligned net zero target to SBTi for verification demonstrating their long-term climate ambitions.

A meeting took place in April to understand the role it could play as a key energy provider to help reduce consumer energy costs over the next two years against the backdrop of the cost-of-living crisis. While the company already had an agreement with the regulator in place on a revenue cap, paying revenues in excess of the cap to consumers, National Grid further agreed to make payments to consumers sooner to tackle rising costs. This agreement applied to revenues from electricity interconnectors which are used to import cheaper, cleaner energy from European neighbours.

**Background**

We have been engaging National Grid on climate issues since 2010 to understand the challenges in managing electricity flows in the UK and how this can impact carbon emissions. In 2021, we contacted the company as part of the Net Zero Asset Manager Initiative. National Grid was requested to produce and publish detailed and costed climate transition plans. The company was also requested to report through common frameworks like Taskforce for Climate Disclosures (TCFD) and the CDP and to improve climate lobbying disclosures.

In May, we continued to discuss the scale, framework and best mechanisms for return of excess profitability on electricity interconnectors. We requested the company to publish this information and it responded in July by disclosing the quantum and mechanism for consumer rebate.

**Climate and Energy Infrastructure in 2022**

In 2022, we interacted with National Grid several times to understand the climate commitments they had set in more detail. We learned that the company was taking a number of steps to

The “energy trilemma” (balancing reliability, affordability and sustainability) was also a key topic when we were invited to discuss National Grid’s strategy and its key priorities with the full board of directors in July. This discussion included the consumer benefits of interconnector investment, National Grid’s proactive measures to mitigate rising energy bills (deferring regulatory revenues as well as returning refunds earlier) and the most cost-effective manner to plan for the requirements of the future electricity network.

## Case Study: Board Independence at Montana Aerospace

**Team:** European Small Cap

**Company:** Montana Aerospace

**Sector:** Industrials

**Region:** Europe ex-UK

**Blueprint theme:** Governance and Oversight – Boards and management

### Escalation:

Meeting with C-suite	X
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

### Background

Board independence is critical to maintaining discipline on board practices and governance processes. This is why we have a policy that non-controlled companies should have a majority of independent directors. With only one independent director on the board at Montana Aerospace, the overall objective was to push for board independence to increase to over 50%.

Our engagement on board independence with Montana Aerospace began in November 2021 shortly after the company's initial public offering (IPO). We sent an email encouraging more board independence.

### Board Independence 2022

In May, ahead of the company's AGM, we sent an email communicating support for votes on board composition. The company was in the early stages of listing, and we understood it would take time to implement greater independence. The company replied to this email, highlighting that it was beginning to focus on this issue.

The engagement continued into October, during a two-day company visit, where we held several conversations with the CEO, CFO and IR. We discussed the value of an independent board and what steps could be taken to improve composition, like working with a recruitment firm and increasing independence from the main shareholder.

The investment desk will continue monitoring and engaging on board composition with this company, recognising that newly listed companies may need some time and guidance on increasing board independence.

## Case Study: Improving ESG Strategy and reporting at Pepco

**Team: Emerging Markets Equity**

**Company: Pepco**

**Sector: Consumer Cyclicals**

**Region: UK**

**Blueprint theme: Natural Capital and Biodiversity – Circular economy, pollution and waste**

### Background

At the time of its IPO, ESG performance had not been a priority for Pepco. In 2021, we began engaging the company on the need for ESG oversight on the board and a dedicated ESG team within the company's management. We had also asked the company to improve practices and reporting on sustainable products and supply chains. Specifically, we had asked the company for:

- A wider ESG framework/strategy in upcoming reporting
- Detailed disclosure on Pepco's supply chain management and its approach to fast fashion

In 2022, Pepco had formed a new ESG team to take undertake ESG strategy and implementation.

### ESG strategy engagement 2022

In 2022, we had a call with Pepco's newly formed ESG team, in which we summarised our view on where the strategic focus should be for Pepco moving forward. This call was helpful to start an ongoing dialogue with Pepco regarding its ESG strategy and our expectations.

We asked Pepco to:

- Produce a sustainability report
- Improve supply chain disclosures
- Promote more recycling
- Consider the role for sustainable clothing lines made by eco-ware products

A few months after this call, Pepco set targets for the objectives we had outlined, including for 30% of its product range to be "better for planet" by 2025, addressing the concern on a lacking sustainable product range. The company also communicated plans to produce a sustainability report and acknowledged that further progress is needed on promoting recycling and improving supply chain disclosures.

We will continue to monitor the progress in addressing these objectives and will work to suggests further improvement to the company's ESG strategy and execution.

## Case Study: Climate Targets at UniCredit

**Team: UK and European Credit**

**Company: UniCredit**

**Sector: Financials**

**Region: Europe ex-UK**

**Blueprint theme: Climate Change – Climate alignment**

### Background

We first began engaging UniCredit on emissions reduction targets in 2019, as the company had not yet developed a coherent and public climate strategy at the time. We continued to engage the company over the coming years, as we wanted the company to publicly commit to carbon emission reduction.

In a 2021 meeting with UniCredit's CFO and sustainability team, we requested specific greenhouse gas reduction targets and more disclosure. Following this engagement, UniCredit provided additional information on its emissions reduction plans which led to it being eligible for inclusion in the Carbon for the Carbon Neutral Credit fund, deliberating that the company is eligible for inclusion in the fund.

### Climate Engagement in 2022

Throughout 2022, we continued to engage with the company on climate issues. We sent a letter asking for science-based interim targets on emissions reduction, using a recognised pathway. We also requested the company extend its net

zero commitments to financing raised through its investment banking advisory business. These objectives would help the company follow what we believe is best practice on the climate transition.

Following this letter, we spoke with the company's sustainability and IR teams where further guidance was provided on good practice for climate commitments. This included setting absolute emission reduction targets, getting SBTi validation, and widening the scope of financed emissions.

The call highlighted the company's effort to set appropriate targets, though some gaps remained on adhering to best practice. For example, the company was concerned about obtaining SBTi validation due to missing data.

Our engagement with UniCredit has resulted in increased investor confidence that the company's targets are robust and aligned with best practice. Towards the end of 2022, UniCredit issued a green bond that was included in two of our sustainability funds further, demonstrating the progress UniCredit is making on its climate commitments.

## Case Study: Sainsbury's and the Cost-of-Living Crisis

**Team:** Value

**Company:** Sainsbury's

**Sector:** Consumer Non-cyclicals

**Region:** UK

**Blueprint theme:** Human Rights – Customers and consumers

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

### Background

We have long-standing engagement history with Sainsbury's, beginning in 2003. These engagements have covered various topics, including climate change, sustainable proteins, and corporate governance

### Living Wage engagement 2022

In 2022, we engaged with Sainsbury's on issues related to the cost of living, as macroeconomic trends placed pressure on household budgets. We sought to better understand the company's approach in supporting its employees and customers during this period.

In Spring, ShareAction tabled a resolution calling for Sainsbury's to pay a living wage by 2023. This would mean getting accreditation from the Living Wage Foundation, which calculates a "Real Living Wage" rate based on cost of living estimates, for all its employees and contractors.

Ahead of making a vote decision we sought to engage with both Sainsbury's and ShareAction. This led to a call with the company in June, in which we discussed disclosure around contractors and how fair pay feeds into its assessments to choose contractors. We noted at this time that following a recent pay increase, Sainsbury's was already paying wages in line with the Real Living Wage.

After this call and based on our analysis of Sainsbury's track record and future ambitions, we decided not to support the resolution. We believed

we could make better progress through continued individual engagement with the company given its track record as a sector leader on human capital management issues, particularly since there was no existing precedent for a large UK retailer in this scenario.

We have continued ongoing dialogue with Sainsbury's around the rising cost of living crisis and the need to balance stakeholder interests. In August, we sent a letter highlighting the key areas where we would welcome a discussion with the company. These key areas and our requests were:

- Workers – encouraging the company to continue to pay in line with real living wage and encouraging disclosure of contractor data and commitment to consider living wage in contracts with third parties
- Suppliers – ensuring undue cost pressures are not placed onto suppliers and that Sainsbury's maintains a strong responsible sourcing programme
- Customers – understanding initiatives to allow for the provision of affordable healthy and nutritious food

We received a detailed response from Sainsbury's, but as we wanted to gain further understanding, we also had a meeting in November. This allowed us go into more depth on the key areas where we would like to see improvement from the company. We followed up from this meeting to reiterate these requests covering workers, suppliers, and customers.

We are pleased the company has continued to act in a way which fairly balances stakeholder interests. For example, it continues to be one of the highest paying supermarkets and has continued to pay wages in line with the real living wage, announcing in January 2023 a further pay increase for colleagues as well as extensive free food programmes.

We look forward to continued dialogue and action in line with our engagement asks through 2023.



## Case Study: Board independence at Mitsubishi Estate

**Team: Sustainable Investment**

**Company: Mitsubishi Estate**

**Sector: Real Estate**

**Region: Japan**

**Blueprint theme: Governance and Oversight – Board independence**

### Background

We have been engaging with this company since 2019, focussing mainly on governance topics, such as the level of independent representation, as well as gender diversity on the board. We have also had engagements on the company's carbon footprint.

The main objective of this engagement was to understand the strategy the company has in place to increase the independent representation of directors on the board.

### Engagement in 2022

Post the company's AGM in 2022, we had a general governance meeting, in which we discussed the

key issues raised from the AGM. One of these topics was our vote against the re-election of a director on the audit committee.

In the most recent AGM, we voted against this director, because we considered them to be non-independent due to their prior affiliation as a major lender. During our conversation, the company clarified that the affiliation with the highlighted company had ended more than a decade ago, but due to the lack of available information in English, this detail was not picked up.

We noted this clarification and confirmed that it will likely influence how we vote at the next AGM.

## Case Study: ESG risk mitigation at a seafood fast food restaurant

**Team: Schroders Capital – Private Equity**

**Company: Seafood fast-food chain**

**Sector: Consumer Cyclical**

**Region: US**

**Blueprint theme: Governance and Oversight – Purpose, strategy, and capital allocations**

### Background

Our private equity desk, which is part of our private markets division, was considering investing in a Nashville-based operator of seafood-themed fast-food restaurants, which aim to provide high quality, freshly prepared seafood at a value price point. The company owns and operates 55% of its total units, with the rest operating as franchises.

During our due diligence stage, we had identified two opportunities for the company to further develop its current ESG strategy. The first was that it sells predominately one species of fish. This could lead to unsustainable sourcing practices. The second was the higher than the industry standard employee turnover rates, despite paying above industry average hourly wages, in an industry where labour relations are a material ESG matter.

### Engagement in 2022

Further into the due diligence process, we took the opportunity to convey how the company could enhance its overall ESG strategy. This led to multiple calls, a virtual management meeting, and multiple external industry reference calls. During these calls, we were able to find more information on different topics like employee turnover rates and a more sustainable fish offering.

We were encouraged to see progress on these issues from the company, including the continuation of a career development program via certifications and a management training program. The company is also improving its sustainable sourcing practices, by having its third party supplier inspection program validated by the company's quality assurance team. Given this progress, we feel comfortable to continue investing in the company and will continue to engage to see further progress on material ESG issues.

## **Case Study: Energy Transition at a Petroleum Storage Operator**

**Team: Schroders Capital – Infrastructure Equity**

**Company: Project Lime**

**Sector: Infrastructure**

**Region: France**

**Blueprint theme: Climate Change – Climate alignment**

### **Background**

Project Lime is a leading crude oil and refined products storage operator in France and north-west Europe. Its assets allow the storage of crude oil and refined products at Le Havre import terminal and its transportation to be processed to refineries in Normandy, to then be distributed in the main consumption areas.

Project Lime storage sites are also connected to the French pipeline network to supply refined products to the Paris and Val de Loire regions, and pipeline networks in central Europe to supply jet fuel and road fuel. The company also owns local distribution depots in the Paris region, near Orléans and in the region of Bordeaux.

The investment desk felt this company needs to be prepared for the future energy transition and should consider its activities in anticipation of structural changes affecting its core market. For one, Fit-for-55 measures set by the European Commission aim to reduce greenhouse gas emissions by 50% in 2030. As such the consumption of petroleum products should heavily decline in the long term as part of the ban on the sale of thermic cars from 2030/35 onwards in France. In turn, the need for petroleum storage solutions will also decline.

### **Engagement in 2022**

With the other co-shareholders, we engaged on a new roadmap to bolster the French energy transition while remaining focused on the company's strength and DNA: logistics for the supply of energy.

During 2022, we were in regular discussions with management on this topic during board meetings and dedicated committees, where we learned more about new projects the company is undertaking. In addition, with the support of its shareholders, the management initiated discussions with local and national authorities around the implementation of three energy transition projects (including sustainable aviation fuel). Aiming at decarbonising the activities of its clients and counterparties.

We are highly committed to the development of these projects. These new developments represent approximately €200m of investment, which would enable it to transform into an energy transition pioneer, while remaining committed to the energy security of supply of the country.

**Case Study:**  
**Driving the formalisation of a venture capital manager's ESG approach**

**Team:** Private Equity, Schroders Capital

**Company:** French venture capital manager

**Sector:** Venture Capital

**Region:** Europe

**Blueprint theme:** Governance and Oversight – transparency and reporting

**Background**

This general partner (GP) is a European venture capital fund manager, founded by entrepreneurs in 2012. The fund focuses on Software as a Service (SaaS), e-learning, logistics, mobility and the Internet of Things.

In January 2022, we invested through a fund, acquiring a stake through the secondary market, making us one of its largest limited partners of the GP.

The main objective of this engagement was for the GP to further develop a formal ESG's strategy and fund implementation plan.

**Engagement in 2022**

During the due diligence process it was agreed that the GP would further formalise its ESG

policy and approach, integrating the guidance we provided. Over 2022, this led to multiple interactions in which industry best practice resources and our opinion were shared. This included minimum ESG policy characteristics and key industry initiatives.

The GP responded in a timely manner, hired a consultant and delivered its first ESG policy and joined the UN Principles for Responsible Investment (UNPRI). It also developed a strategy that would give them a competitive advantage in its peer group by prioritising a sustainability theme in its portfolio.

We were satisfied with these first results and will continue to regularly engage on the next steps, with calls already scheduled for 2023.

**Case Study:  
Encouraging Healthy Diets at Carrefour**

**Team:** Value

**Company:** Carrefour

**Sector:** Consumer Non-cyclicals

**Region:** Europe ex-UK

**Blueprint theme:** Human Rights – Customers and consumers

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

As a first step, we sent the company a letter in August 2022 asking several questions about how the company plans to ensure that its food offerings support a healthier population, and how it is using its influence as a supermarket to promote healthier diets in the population. Following this, we had a call with the company's investor relations team where we discussed the company's strategy and our recommendation of more focused and firm commitments on healthier diets. We then provided a written follow up from our meeting highlighting our desire for to see commitments and results with specific time frames, including on responsible selling of unhealthy snacks and alcohol.

**Background**

We have been engaging with Carrefour for more than a decade, focussing on its approach to Corporate Social Responsibility and sustainability. Overtime, we have also engaged on topics such as governance, access to nutrition, and the environment. We continued to engage with the company on a broad range of material sustainability issues into 2022.

In parallel, in March, we met with the company in collaboration with ShareAction's Healthy Markets Initiative which aims to improve people's health by increasing access to affordable, healthy food. During the meeting we emphasised our desire for the company to consider the accessibility of healthy and nutritious products both from a pricing and availability perspective, and for it to expand the setting of measurable targets with transparent methodology that is aligned with other retailers.

**Healthy diets in 2022**

In 2022, we engaged Carrefour on access to nutrition. As a large grocery retailer, the company has a big role to play in helping populations adopt healthier diets. This was particularly important in the economic climate of 2022, with affordability of nutritious food a top consideration for consumers.

We will continue to monitor Carrefour's progress on healthy diets and leverage wider initiatives to ensure supermarkets are enabling healthy lives. We are encouraged by the fact that the company has set eight timebound objectives on five different pillars around health and product quality. We look forward to seeing the company's progress on this topic.

# Principle 10

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

## Our approach to collaborative engagement

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

We review collaborative engagements on a case-by-case basis to ensure that the objectives of such engagements are aligned with our priorities. Collaborative engagements are typically considered where our discussions with management have failed to achieve the desired outcome or where Schroders owns a small stake in the company. Schroders joins collaborative engagements initiated by others in the industry if we believe they will encourage an outcome that will help our clients meet their long term financial goals in line with our fiduciary responsibilities.

As a result of the potential for collaborative engagement to breach competition and market conduct rules it is subject to additional controls. A group delegated by our internal Corporate Responsibility Committee must sign-off any collaborative engagements. We often conduct collaborative engagements through industry bodies or formal investor networks that have established procedures for conducting collaborative engagements in way that complies with our legal and regulatory obligations.

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

## Industry involvement

At Schroders, we support and collaborate with several industry groups, organisations and initiatives that aim to facilitate collaborative engagements among industry participants. We believe we have a particular role to play in sharing our expertise on different areas, supporting best practice but also learning from others. We have a long-standing commitment to support and collaborate with several industry groups, organisations and initiatives to promote well-functioning financial markets.

Our key stakeholders in this regard include exchanges, regulators and international and regional trade associations. For example, Schroders is member of trade bodies such as the Investment Association in the UK and to other trade bodies globally.

Through our involvement in industry, we share our insights to support the development of policy recommendations, share best practice and build coalitions of like-minded market participants to advocate for better functioning markets. We consider this to be key in improving responsible investment standards across sectors, establishing a consistent dialogue with companies, and in promoting the ongoing development and recognition of sustainability and ESG within the investment industry. A full list of organisations and initiatives of which Schroders is a member or signatory is available on our website<sup>41</sup>.

## Collaborative engagement

### Climate change

As part of the Institutional Investors Group on Climate Change (IIGCC), we wrote to a North American bank to follow up on our discussion in 2021 on Net Zero expectations of banks. The bank has not made progress against the objectives we set or committed to a timeframe. The purpose of our letter was to remind the company of our request and to emphasise their urgency. Schroders has also engaged this bank a number of times on a one-to-one basis.

We also co-signed a letter coordinated by the IIGCC on climate lobbying. The letter was sent to all European CA100+ companies that do not yet publicly commit to undertake and publish a review of climate lobbying policies and activities. The letter asked companies to deliver on what investors have set out in the CA100+ benchmark and signals support for those companies looking to disclose further information on lobbying activities and trade association membership. Following letters, we had separate group calls with each of the companies, where we gathered more information about climate lobbying practices.

In 2022 we joined a group of investors as part of the PRI sovereign engagement program. The aim of this program is that through engagement, global investors reduce their exposure to risks associated with a failure to rapidly transition to a net zero global economy.

<sup>41</sup> <https://www.schroders.com/en/sustainability/active-ownership/industry-involvement/>

Every year, the Carbon Disclosure Project leads a collaborative engagement with all companies who fail to respond to the request to complete their climate, forest, and/or water surveys. In 2022, we co-signed a letter asking companies that have consistently failed or declined to participate in previous CDP surveys to participate in the 2022 CDP questionnaires. 1,317 companies were contacted as part of this campaign – this included 99 of Schroder's holdings contacted with requests for climate-related disclosure. Companies that were contacted as part of the campaign were 2.3x more likely to disclose to the CDP.

### Natural Capital and Biodiversity

We participated in a collaborative engagement through WWF and the Emerging Market Investor Alliance on Deforestation. We are members of the WWF and Emerging Market Investor Alliance Pilot on Deforestation, through which we have invited six companies to pilot WWF's new toolkit on deforestation risk assessments for financial institutions. We are involved in reviewing the output and suggesting improvements to WWF toolkit.

As part of a multi-year FAIRR collaborative engagement on sustainable proteins, we met with Conagra to understand its progress to date on protein diversification, its long-term ambitions to diversify its product portfolio as part of its climate strategy, and whether the company is adopting demand-side as well as supply-side interventions to increase sales of plant-based products. This was part of a multi-year FAIRR collaborative engagement on sustainable proteins, where Conagra has been identified as a leader relative to its peers.

### Human Rights

Schroders is a lead investor endorsing the UN PRI's Advance initiative. Advance is a stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society. As a lead investor, we have committed to leading on engagements with two companies and supporting engagements at another three companies. We have also committed to respecting human rights in our group human rights statement and outlining our due diligence approach in our Modern Slavery Statement.

In 2022, we continued to engage as lead investor with a UK hospitality company as part of the 'Find It, Fix It, Prevent It' project. This is an investor led project to identify modern slavery risk in investee companies, improve governance and policies to mitigate the

risk, and report on modern slavery in line with best practice. We also signed onto a new collaborative engagement led by CCLA. This engagement aimed to ask firms to address concerns of modern slavery in their UK agricultural supply chains. This was done by calling for retailers and firms in and directly sourcing from the UK agricultural supply chain to protect migrant seasonal workers from paying recruitment fees leaving them in danger of debt bondage.

We joined a collaborative investor call, coordinated by ICCR, with McDonalds on its beef and pork antibiotic policies. This followed a joint letter we sent to the board on the same topic.

We signed a collaborative letter with FAIRR, asking a number of questions to animal pharmaceutical companies about their policies around antimicrobial resistance and antibiotics.

We are part of the WBA's collaborative initiative on ethical AI, participating in engagements on the topic with Meta.

### Human Capital Management

In 2022, we joined a call led by the Workforce Disclosure Initiative (WDI) with a company to review their response to the WDI and its disclosure scores.

### Corporate Governance

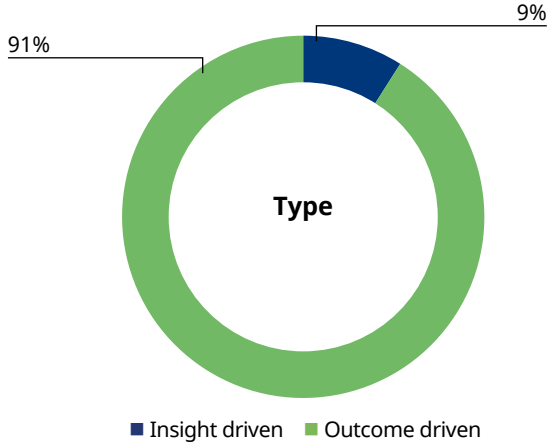
We supported the letter to be sent by the Investor Forum expressing its members' concerns about the performance of management at a large UK listed company, in particular its attempted acquisition of a target company at what we thought was too high a price, poor underlying performance and poor oversight by the board in allowing prolonged investor concerns to continue.

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

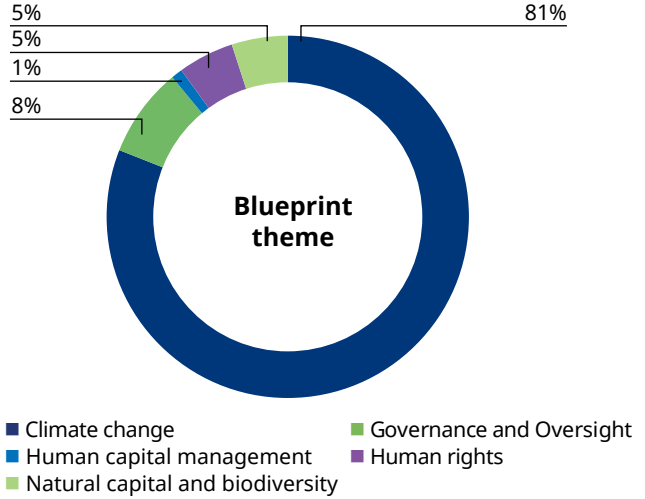
### Collaborative engagement activity in 2022

In 2022, there were 144 collaborative engagements, largely focused on outcomes-driven discussions covering environmental issues.

#### Collaborative engagements: discussion topic type

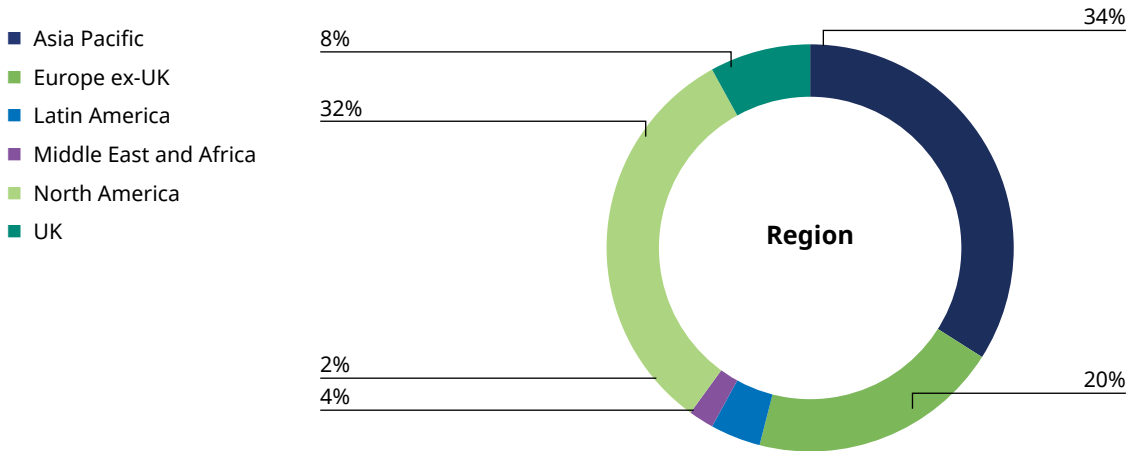


#### Collaborative engagements by Blueprint theme



Source: Schroders as at 31 December 2022.

#### Collaborative engagements by region



Source: Schroders as at 31 December 2022.

**Case Study:**  
**Increasing ESG Transparency in Insurance Linked Securities**

**Team: Schroders Capital – Insurance Linked Securities**

**Company: General ILS assets class engagement**

**Sector: Insurance Linked Securities**

**Region: Insurance Linked Securities**

In 2022, we formed an ILS ESG working group initially consisting of Zurich-based asset managers for which ESG is of strategic relevance, in order to improve the ILS market's capability to analyse re-insurance companies' capital flows with respect to covered risks (lines of business) and ultimately beneficiaries (personal, commercial, industrial).

This working group identified common ESG data needs of the ILS industry, with the ultimate aim of establishing a commonly accepted reporting standard.

The working group met on several occasions and drafted documents that were sent to relevant stakeholders like insurance brokers and the dealer community. Each member of the Zurich ILS working group individually reached out to market participants to launch the dialogue and gather interest in joining this conversation.

In the future, we would like to consult as many market participants as possible, to establish a standardised reporting framework that is broadly supported. In a next step, a round table discussion will be organised to discuss feedback received so far.

We look forward to engaging with the ILS community to address common weaknesses in the asset class. We believe this collaboration with peers helps to increase overall transparency in the risks that we underwrite. We believe this is the first time that the ILS asset manager community has tried to work together towards a common goal of improving ESG transparency in the ILS market.



**Case Study:  
Modern Slavery**

**Team: Sustainable Investment**

**Company: Hospitality company**

**Sector: Consumer Cyclicals**

**Region: UK**

**Blueprint theme: Human Rights – Workers**

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

**Background**

We began engaging with this UK company on labour issues in 2019. This was part of a mass engagement of FTSE100 companies over its scoring in the Business & Human Rights Resource Centre's third annual assessment of transparency statements under the UK Modern Slavery Act. Over the last few years, the company has shown progress by providing more disclosure on modern slavery and we have continued to engage to shape this progress.

**Modern Slavery in 2022**

In 2022, we continued to engage with this UK hospitality company in our role as lead investor for engagement as part of the 'Find It, Fix It, Prevent It' initiative. This is an investor-led project to identify modern slavery risk in investee companies, improve

governance and policies to mitigate the risk, and report on modern slavery in line with best practice.

We acknowledged during a meeting in March that the company appears to have strong policies in place regarding modern slavery, aligned with international best practice, and is making progress to map its supply chain beyond Tier 1 suppliers. We encouraged the company to think about outcomes focussed reporting as it reviews its ESG strategy moving forward, as well as increasing disclosure around purchasing practices. Finally, we sought to understand how the practices apply in the company's Middle Eastern joint venture.

We continued develop our engagement later in 2022, following the company publishing its annual modern slavery statement. During a meeting with sustainability and investor relations, we took the opportunity to encourage the company to improve transparency around the effectiveness and outcomes of its work on modern slavery, as well as to improve its transparency for its international (German and Middle Eastern) operations.

We were encouraged to see the company's new modern slavery statement, which includes more in-depth information of the supply chain due diligence the company undertakes, such as a more detailed whistleblowing risk assessment policy. We will continue our engagement as part of the initiative in the future and will continue to develop our individual relationship with the company.

### Case Study: How Supermarkets are Helping with the Cost of Living

In light of rising inflation and increased pressure on household budgets, we contacted our major UK and European supermarket holdings to understand their strategy to address the cost-of-living crisis. We asked how companies balance stakeholder needs to adequately consider workers, supply chains, and customers. The questions covered topics like living wages, impacts of rising prices, and policies for contract workers.

After sending the questionnaires, we held multiple meetings with the companies to discuss their policies in detail. The main objective was to ensure the companies use a fair, socially responsible approach to balance the needs of their employees, customers and suppliers.

To amplify this engagement, we launched a podcast series<sup>42</sup> focusing on the topic of living

wages and highlighting the need for multi-stakeholder engagement. In this four part series, we spoke with various experts on living wages, including the Living Wage Foundation<sup>42</sup>, Business Fights Poverty<sup>43</sup> and Shift<sup>44</sup>. These podcasts enabled us to raise awareness of the key issues related to living wages and how they fit more broadly into good human capital management practices. This was further explained in our thought leadership blog post<sup>45</sup> on how supporting workers brings business and investment benefits.

We will continue to engage supermarkets on the cost of living. We acknowledge the recent pay increases that some of the supermarkets have implemented following the start of this mass engagement.

### Case Study: Institutional Investors Group on Climate Change and the Net Zero Asset Managers Alliance

We are a signatory of the Institutional Investors Group on Climate Change (IIGCC), who in turn are a founding partner of the Net Zero Asset Managers initiative (NZAM). This group of international 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 degrees Celsius.

It is an initiative designed to mobilise action by the asset management industry that demonstrates leading practice in driving the transition to net zero and delivers the ambitious action and investment strategies that will be necessary to achieve the goal of net zero emissions. It also provides a forum to share best practice and overcome barriers to aligning investments to that net zero goal.

Our commitment in the Net Zero Asset Managers alliance is to implement the Climate Action Transition Plan (CTAP). The CTAP outlines how we will meet our public commitments on climate change. The overall objective from an investment stewardship perspective is to engage around 1000 priority companies on temperature alignment and net zero by 2030.

As part of this engagement, we outlined four climate expectations we expect large and medium sized companies to adopt, to align their business models with the transition to a net zero economy:

- Commit to decarbonise business models toward net zero by mid-century
- Set long, medium and short-term targets covering scope 1, 2 and relevant scope 3 emissions
- Publish a detailed transition plan explaining how it will deliver that transition and meet those targets
- Publish its performance and progress annually

In 2022, we made robust progress toward meeting our CTAP objectives by engaging with 517 priority companies across a range of sectors and geographies. This engagement was undertaken by the central sustainable investment team and the investment desks. In 2023, we will continue engaging with the existing priority companies. We will also increase the scope of the program to cover 100 more priority companies.

<sup>42</sup> <https://www.schroders.com/en/insights/economics/how-can-we-tackle-living-wages-a-sustainability-conversation/>

<sup>43</sup> <https://www.schroders.com/en/insights/economics/how-can-we-tackle-living-wages-episode-two/>

<sup>44</sup> <https://www.schroders.com/en/insights/watchlisten/how-can-we-tackle-living-wages-episode-four/>

<sup>45</sup> <https://www.schroders.com/en/insights/economics/how-supporting-workers-brings-business-and-investment-benefits2/>

### Case Study: PRI Sovereign Engagement on Climate Change

In 2022, we joined a group of investors as part of the Principles for Responsible Investing (PRI) sovereign engagement program. This collaborative engagement focused on supporting governments' net zero transitions.

As part of this work, the Australian government was engaged on climate policy action, following the introduction of the Climate Change Act. The engagement considered several official policies and documents, including the Climate Change Act, 2022 Emission Projections, and the First Annual Climate Statement.

This collaborative engagement involved several initial engagements with the Australian Office

of Financial Management and the Treasury in 2022. Several other government agencies and departments will be involved in the future and meetings are planned with the:

- Department of Climate Change, Energy, the Environment and Water
- Climate Change Authority
- Reserve Bank of Australia

We look forward to our continued collaboration as part of this PRI working group, to encourage more robust policy action in Australia and in other countries.

# Principle 11

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

### Our approach to escalation

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. We identify a number of methods to escalate our engagements below; these may take place in any order or frequency depending on the nature of the engagement. We do not aim to engage with every company in which we invest, nor with respect to every engagement theme.

Escalation for us means extending or otherwise stepping up our engagement. We describe this in more detail below. Whilst going public with our concerns is still a tool we use rarely given our preference to engage with holdings privately, in 2022 we did take steps to escalate our engagement efforts through the advance disclosure of our voting position

on shareholder resolutions at a number of companies where we had an engagement history including:

- Amazon on workers' rights<sup>46</sup>
- Alphabet and Meta on digital rights<sup>47</sup>
- Shell, Chevron and ExxonMobil on climate change<sup>48</sup>

In recognition that the advanced disclosure of voting positions on resolutions is something our clients are increasingly interested in and that this is viewed as good practice, we will seek to increase the number of resolutions we provide this for ahead of an AGM into 2023.

### Our escalation process

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



Source: Schroders as at 31 December 2022.

<sup>46</sup> <https://www.schroders.com/en/insights/economics/amazon-workers-rights-how-we-will-vote-at-2022-agm/>

<sup>47</sup> <https://www.schroders.com/en/insights/economics/google-facebook-how-we-are-acting-to-protect-digital-rights/>

<sup>48</sup> <https://www.schroders.com/en-us/us/individual/insights/shell-chevron-exxonmobil-how-were-voting-at-oil-and-gas-agms/>

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

Where our escalation process has proved unsuccessful in delivering the changes requested, we may pursue the option to sell our position in a company. Where issues remain unresolved, our portfolio managers may take the view that investors' interests are best served through divestment.

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

Escalated issues are usually ones which we have engaged with an issuer already, however new issues could arise that could merit escalation on account of their severity. These issues may be identified by our research analysts and portfolio managers as part of their ongoing risk management and research responsibilities.

At Schroders, we aim to implement a consistent escalation approach across our investment desks and Sustainable Investment team, we ensure this consistency via communication and coordination internally. Nevertheless, expectations of companies and the thresholds for escalation may vary depending on factors affecting the investee companies, including regional and sectoral expectations. For example, the threshold for escalation on board independence may be higher in Japan compared to the UK where standards are stricter.

In the case of private assets, early divestment is more difficult and rarely in the interests of investors, especially in our private debt businesses. This is why most engagement takes place during the due diligence phase. However, in our real estate and private equity businesses, we are more likely to be able to exert our influence through majority control, a position on the board or a closer relationship with the management team.

**Case Study:  
Understanding Amazon’s Human Capital Management Practices and  
Improving Disclosure**

**Team: Sustainable Investment**

**Company: Amazon**

**Sector: Consumer Cyclical**

**Region: US**

**Blueprint theme: Human Capital Management – Health, safety, and wellbeing**

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	X
Submit resolutions	
Abstain or vote against	X
Divest	

**Background**

We have been engaging Amazon since 2015. In the past, engagements focussed on pushing for greater disclosure on culture and turnover rates. We are pleased that Amazon has improved disclosure, and now reports on injury rates and lost time training. However, we are continuing to encourage the company to consider disclosing a more in-depth breakdown of health and safety turnover statistics, such as by employee type.

**Human Capital Management in 2022**

Health and safety issues are important to avoid employee injury, and other knock-on effects such as poor morale, high turn-over, and legal and reputational issues.

We have encouraged the company to increase its transparency around contractor health and safety

data. In April 2022, we raised this point with the company’s ESG engagement team and followed up specifying our requests. We asked to see increased analysis of the root cause of safety issues, and increased disclosure around the difference between part-time, seasonal and contract workers. We discussed these topics again with the company during a meeting in October 2022.

We wrote to the company ahead of its annual general meeting (AGM) in May 2022 and went public with our concerns by pre-declaring our voting intentions on its workforce issues ahead of the 2022 AGM. This led to us supporting three different shareholder proposals that were related to workers. We will continue to engage with Amazon to strive for more disclosure on workplace safety.

In addition to discussing worker health and safety, we met with Amazon to discuss its approach to paid sick and family leave for its US-based employees. The company clarified its policies, which follow federal and state regulations, and allow employees to accrue paid time off on rates based on hours worked and tenure at the company. We view this as good practice.

We have also sought to collaborate with other investors during 2022 to engage with Amazon. In November we signed a collaborative letter to the board, reiterating the investor requests for company action on freedom of association. We look forward to continued dialogue with Amazon on these important topics in 2023.

**Case Study:  
Digital Rights at Meta**

**Team: Sustainable Investment**

**Company: Meta**

**Sector: Technology**

**Region: North America**

**Blueprint theme: Human Rights – Customers and communities**

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	X
Submit resolutions	
Abstain or vote against	X
Divest	

**Background**

The safety of users’ online experience is a material risk at Meta. Our engagement with Meta has been developing since 2018, when we engaged on General Data Protection Regulation (GDPR) issues facing the company. Our first call with the company was in August 2018. From then, our engagement has focussed on Meta’s content moderation policies and practices.

**Digital Rights in 2022**

In spring 2022 we pre-declared our intention to vote in support of five resolutions at Meta’s AGM. These resolutions covered a variety of issues related to digital rights, such as reports on community standards enforcement, child sexual exploitation online and user risk on Metaverse projects.

Our engagement continued throughout the year; we wrote to the company in July to outline a number of questions regarding digital rights, and participated in a group investor call with a number of subject matter experts at Meta in September.

Following this, we met with a leader in the product policy team in November to better understand the company’s efforts and progress in mitigating harm from its platforms; we are generally pleased with the company’s willingness to engage on this topic. The company was able to clarify for us that there is an integrity review process for new product launches and we encouraged it to conduct further research in order to understand the concentration of harm on the platform. We have continued to encourage Meta to disclose prevalence metrics (percent of times someone sees something that is harmful) broken down by language or geography.

Separate to this engagement, we signed a letter in September asking Meta to clarify how it considers, develops and deploys artificial intelligence (AI). The letter was sent in collaboration with the World Benchmark Alliance and Collective Impact Coalition. The investor group held a call in November with Meta’s director responsible for AI and the vice president of civil rights, in which we gained more insight into the company’s plans to build board competence on AI and how it works cross-functionally to monitor AI.

We have also been collaborating with a group of investors to engage the company on corporate governance, particularly around board structure. As part of this group, we signed a collaborative letter to the lead independent director (LID) outlining our requests in July, and had a group meeting with the LID in September 2022.

We appreciate Meta’s willingness to engage and acknowledge the initial steps it has taken to mitigate harmful content, but we will continue to engage to encourage the company to increase the level of disclosure on safety metrics and clarify how its AI principles are implemented.

**Case Study:  
Climate Transition at Large North American Bank**

**Team: Sustainable Investment, and Global and Thematic Equities**

**Company: North American bank**

**Sector: Financials**

**Region: North America**

**Blueprint theme: Climate Change – Climate alignment**

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	
Submit resolutions	
Abstain or vote against	X
Divest	

**Background**

We have been engaging with this North American bank on the net zero transition since 2021. These engagements have taken place both bilaterally and collaboratively with other institutional investors via the Institutional Investors Group on Climate Change (IIGCC).

Our engagements in 2021 covered issues including setting emissions reduction targets, its underwriting approach and lending policies for high-emitting sectors, and climate reporting and disclosure.

**Net Zero Engagement in 2022**

Throughout the course of 2022, we engaged with this bank several times. Engagement included a continuation of our collaboration with other asset managers and asset owners as part of the IIGCC banking initiative, through a joint letter in February to reiterate our net zero expectations in line with our engagements in 2021. The letter was followed by a group call with the company in March, where the bank provided an update on its recent progress in setting Scope 3 financed emissions targets. We had the opportunity during this call to encourage more robust lending policies and targets covering the bank's financed emissions.

In April, ahead of the bank's AGM, we met with the company's chair to further understand their progress on climate change. This engagement informed our approach to key votes including a shareholder resolution asking the bank to introduce a "Say on Climate" vote, a shareholder resolution asking the bank to cease financing new fossil fuel supply and a vote on the chair of the board's tenure. While the bank had made some progress against our expectations – for example, by disclosing financed emissions for two sectors, setting interim emission reduction targets for two sectors, and by clarifying its lending approach to thermal coal – we were concerned by the pace of progress being made to address the climate-related financial risks faced by the bank and its clients. For this reason, we decided to vote against the reappointment of the chair of the board in the 2022 AGM and support the resolution asking for a future "say on climate" vote. We did not support the resolution asking the bank to cease financing new fossil fuel supply, as our engagement gave us an understanding of the steps the bank's lending approach and we felt that this resolution did not take into the complexities associated with the global energy transition and the role that fossil fuel companies play.

Towards the end of the year, we held a meeting with the company to reflect on the AGM and the bank's progress on net zero. During the discussion, we shared our views on best practice for the banking industry and how the bank could tailor this to its own strategy and operations. We emphasised the importance of greater disclosure of the bank's activities to support its clients' transition to net zero.

Overall, we are encouraged by the bank's initial progress on its decarbonisation journey as well as its willingness to engage with us on a regular basis into 2023.



**Case Study:  
Pre-declaring Votes for Oil and Gas Companies**

**Team: Sustainable Investment**

**Company: Chevron, ExxonMobil and Shell**

**Sector: Energy**

**Region: North America, Europe**

**Blueprint theme: Climate Change – Climate alignment**

**Escalation:**

Meeting with C-suite	
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	X
Go public with concerns	X
Submit resolutions	
Abstain or vote against	X
Divest	

**Background**

A robust decarbonisation trajectory at large oil and gas companies is critical to achieving net zero ambitions. We have a long history of engaging with such companies on their transition plans, given the considerable contribution these companies can make to emissions reduction, through their own operations and the products they sell.

We have been engaging Shell since 2009, with a large proportion of discussions focused on climate change. In 2021, we sent a letter to the chair of the board and CEO setting out our net zero expectations. This letter requested:

- An ambition to achieve net zero emissions by 2050 or sooner
- A detailed transition plan setting out how the company intends to meet its emission targets
- A robust approach towards a just transition

Following this, we had a meeting with the chair of the board to discuss a number of climate-related issues including scope 3 emissions and low carbon technologies and we encouraged the company to hasten and increase low carbon investments.

Our climate-related engagement with ExxonMobil dates back to 2015 and our dialogue with Chevron began in the last two years. Like shell, we sent both companies a letter in 2021 outlining our net zero expectations.

**Pre-declaring climate votes in 2022**

In 2022, we wanted to see more ambition and transparency from Chevron, Shell and ExxonMobil in their climate transition plans. We voted in favour of shareholder resolutions seeking to ensure the companies set more ambitious targets to achieve net zero greenhouse gas emissions by 2050 or sooner across all scopes of the business.

In May, we pre-declared our votes ahead of the upcoming annual general meetings, allowing us to clearly communicate our expectations and create greater transparency for our stakeholders. These votes reflect our aspiration for these companies to show more ambition and transparency in their transition to net zero.

In December, we followed up with these companies to request further dialogue on their climate transition plans. We will continue to engage these companies throughout 2023 to monitor their progress against the targets they have set as well as their transition plans.

**Case Study:**  
**Executive Remuneration at Capita**

**Team: Sustainable Investment**

**Company: Business process outsourcing company**

**Sector: Professional & Commercial Services**

**Region: UK**

**Blueprint theme: Governance and Oversight – Executive remuneration**

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	
Divest	

Living Wage accredited employer in 2021 and maintaining its pay discipline during the pandemic with the CEO receiving no bonus in 2019 and 2020. In 2021, the CEO received the same percentage salary increase as the workforce, and his first salary increase since being appointed in 2017.

In 2021, the remuneration committee of the board approved a bonus payment to the CEO of 25%, which was lower than those to senior management. However, at the time, the company had not paid back furlough payments from the government it had received in 2021.

**Repaying furlough support in 2022**

After a series of meetings, emails and calls, we agreed with the company to support the remuneration report after it agreed to publicly commit to repay furlough support by the government by the end of the first half of 2023. We will continue to monitor its repayment of furlough monies in 2023 and look forward to future dialogue on material business issues.

**Background**

We have been engaging this processing and outsourcing company since 2016, when we started seeing some shortcomings around financial management. When we first started engaging, there had been turnover in management and a push for a more strategic company vision.

The company had since made positive strides to improve the business, including becoming a Real

## Case Study: German Carmakers on Climate Lobbying

**Team: Sustainable Investment**

**Sector: Consumer Cyclical**

**Region: Developed Europe**

**Blueprint theme: Climate Change – Climate alignment**

**Escalation:**

Meeting with C-suite	X
Contact NEDs or Chair	X
Express concern via company advisers or brokers	
Collaborate with other investors	
Go public with concerns	
Submit resolutions	
Abstain or vote against	X
Divest	

### Background

Many companies globally have committed to set net zero targets in line with the Paris Agreement but a number of these continue to actively lobby against stronger climate policies. Their lobbying activity clashes with the climate pledges and commitments they are making which undermines the legitimacy of decarbonisation commitments.

We began engaging two German carmakers on climate change in 2021, focusing on their emission reduction ambitions and publishing climate transition plans.

### Climate lobbying in 2022

In 2022, we co-signed a letter coordinated by the Institutional Investors Group on Climate Change (IIGCC). This letter was sent to all European CA100+ companies that do not yet publicly commit to undertake and publish a review of climate lobbying policies and activities. The letter asked companies to deliver on what investors have set out in the CA100+ benchmark and signals support for those companies looking to disclose further information on lobbying activities and trade association membership.

Following these letters we had separate group calls with each of the companies, where we gathered more information about climate lobbying practices. The first company actively responded to investor requests, presenting the same group of investors with a concept paper for undertaking and publishing a review of climate lobbying policies. The company was keen to receive feedback, to produce a best-in-practice report. The presentation included a detailed timeline for publication. We were pleased that the company was taking appropriate steps to manage this issue. As a result, IIGCC agreed not to escalate the issue through co-filing a resolution.

The second company's approach was less encouraging. While it did disclose its trade association memberships, we felt the company had an opportunity to improve disclosure on how those associations' lobbying goals and activities align with its own climate goals. After the initial group call, we felt that the progress by the company was slower compared to the first company and so it was decided that we would support the filing of a shareholder resolution on this issue. This shareholder resolution embedded a commitment to annually disclose its climate policy engagement and governance into the sustainability reporting cycle. The filing was led by Sweden's pensions AP7 and the Church of England Pensions Board, with us and other investors co-filing.

Unfortunately, the company rejected the shareholder proposal meaning it did not make it to the AGM ballot.

Despite this disappointing approach to investor requests, we intend to continue to seek engagement with the company in 2023.

# Principle 12

Signatories actively exercise their rights and responsibilities.



**Tim Goodman**

Head of Corporate Governance

The issue of engagement and voting has never been higher on both our and our clients' agendas. Schroders believes that it should pay attention to the impact its investments make on the returns that we generate for our clients and their ultimate beneficiaries and to the wider positive impact on society we can encourage through our dialogue with investee companies.

We increased the size of the corporate governance team during 2022, which sits within the wider active ownership team, at Schroders. This has enabled us to help deepen our support for the engagement work we do alongside and in conjunction with our investment teams. It has also helped us to deepen our analysis of the most important voting decisions we make. As a result we were able to conduct more proactive work on governance, including our director dialogue and remuneration committee chair events, described elsewhere in this report, writing to our investee companies in advance of the 2022 proxy-season with our views of the most important issues in their markets and globally, and hosting a well-attended meeting for fellow investors at the US Council of Institutional Investors' autumn 2022 conference where we moderated a panel on the stewardship issues around executive remuneration.

## Voting processes

The votes we cast on behalf of clients are critical to our ability to push for positive changes that create value. How we use our influence over the companies in which we invest is a vital component of our role as active managers. Although most companies only have one shareholder meeting each year, our analysis of, and dialogue with companies takes place all year round. Our corporate governance analysts, within the Sustainable Investment team, centrally co-ordinate our voting activity to ensure consistency of approach across geographies and funds. In exceptional circumstances we may very occasionally vote differently at the same meeting, if consensus on how to vote cannot be achieved across investment desks.

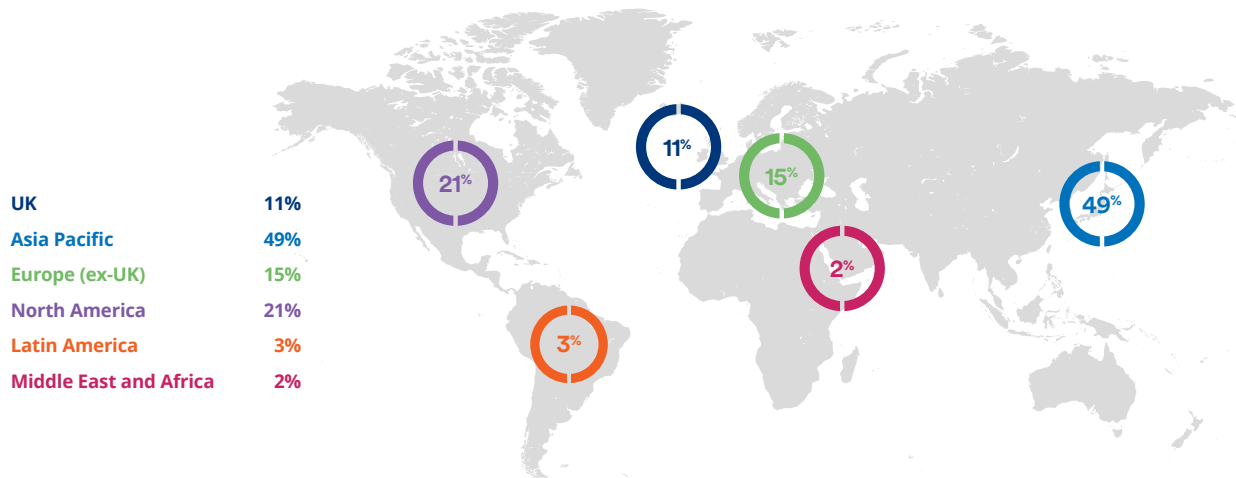
While we set global best practice expectations, our corporate governance team splits responsibility for voting regionally. This is to ensure that local governance codes and our evolving expectations for different markets are incorporated into our approach and to effectively build and maintain relationships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

As active investors, we recognise our responsibility to make considered use of voting rights. It is, therefore, our policy to vote all shares at all meetings globally, except where there are onerous restrictions, for example, share blocking. In 2022, we voted 97% of meetings we were eligible to vote. In a small number of cases, we may abstain where mitigating circumstances apply, for example, where a company has taken substantive steps to address issues. Our preference is to support or oppose management and 'abstain' is rarely applied. Abstentions count for approximately 1% of our total voting instructions. This includes instances where we do not support a proposal but there is no other valid vote option.

We follow strict auditable procedures to ensure the correct set up of accounts where we have been given voting authority. A check is completed to ensure the custodian has confirmed the set up and that voting ballots are feeding through to our proxy voting environment, currently provided by ISS. We complete a master account list check twice a year to ensure ballots are being received as expected.

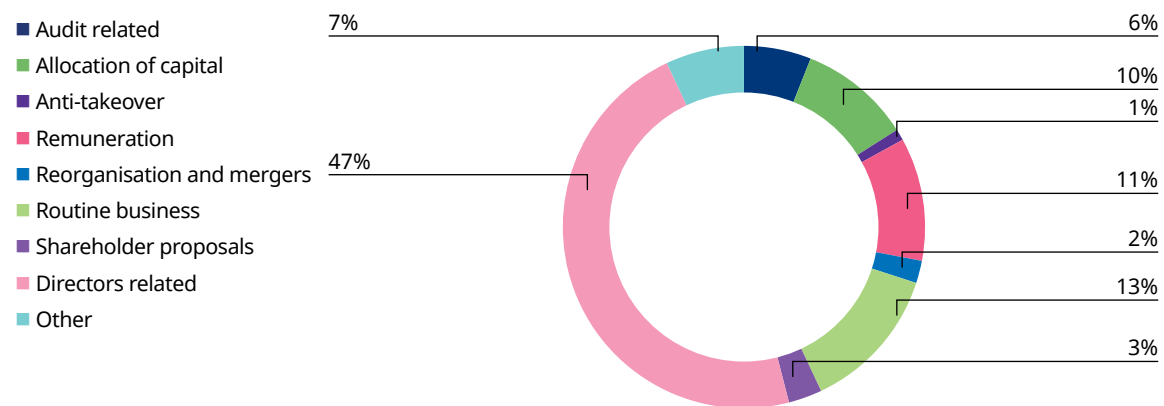
## Schroders voting activity in 2022

### The global footprint of our voting in 2022



Source: Schroders as at 31 December 2022.

### 2022 breakdown of resolutions voted on by category



Source: Schroders as at 31 December 2022.

We currently use the services of the proxy voting agency Institutional Shareholder Services (ISS) and have developed our own instructions for ISS to use to deliver draft proxy votes to the companies we invest. All proxy vote instructions in all markets are submitted using the ISS global voting platform. ISS carry out the individual processing of vote instructions with the custodians and/or company/company agents. For holdings of less than 0.5% of share capital we have implemented custom instructions that reflect our voting guidelines<sup>49</sup> and is administered by our proxy voting provider. These instructions mean that most resolutions are automatically voted at these companies, with the corporate governance analysts focusing their activity on the more nuanced or contentious resolutions. These instructions are updated at least annually to reflect regional specific governance trends and are ratified by our regional corporate governance committee members,

comprising analysts, portfolio managers and the corporate governance analyst who covers the region. We vote on both shareholder and board sponsored resolutions. We may attend shareholder meetings to submit our votes in person.

As we explained under Principle 7, given our focus as an active manager on ESG integration and stewardship, we believe it is in our clients' best interests for them to give voting discretion to Schroders as we consider our in-house team of experts, working alongside our investment teams, are best placed to engage with companies and to make voting decisions. We believe that the power of our voice during the whole year is underpinned by these voting rights.

We do not lend stock.

<sup>49</sup> <https://prod.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf>

### **Merck Kgaa – Case Study Vote Against our Guidelines at a large German Healthcare company**

Our voting guidelines recommended a vote against the reappointment of the external auditor, at a large German Healthcare company, where its tenure exceeds 10 years. Our proxy voting adviser does not collect information about whether a tender process has been conducted. In this case, after engagement with the company, we confirmed that Merck was conducting a tender process and have a new auditor proposed for FY 2023. We were therefore comfortable to vote for the ratification of the existing auditor on this occasion.

### **Australia and New Zealand Banking Group Limited – Case Study Vote Against our Guidelines/Against ISS / Against the Board Recommendations at a large Australian Bank**

We voted against the board recommendations and both our proxy provider's standard policy and its draft recommendations based on our guidelines at this large Australian Bank for the election of its directors. The votes against several directors were warranted as we believed that a proposed acquisition would be value destructive, and we believe the Board did not appropriately carry out their duties in protecting and advancing shareholders' interests.

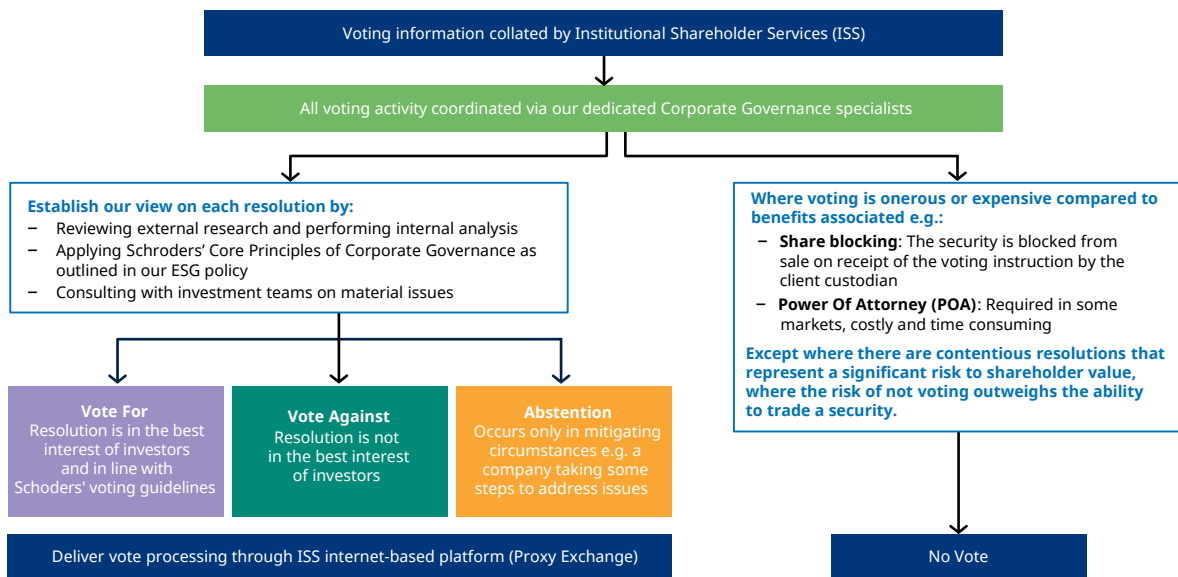
### **Orica Ltd – Case Study Vote Against our Guidelines/Against ISS / Against the Board Recommendations at a large Australian industrial Company**

We voted against the board recommendations and both our proxy adviser's standard policy and its draft recommendations based our guidelines at this large Australian industrial company for the election of its directors. As long-standing directors, we believed there should be a level of accountability for the significant erosion in operating earnings, large write-downs and decrease in economic value over the past decade. Previous management were not held accountable for poor decisions and execution. Moreover, remuneration did not reflect shareholder outcomes. We therefore voted against several directors.

### **Conflict Policy Escalation at a UK bank**

We placed a vote against our proxy adviser's standard policy and voted for the remuneration report and policy at a large multinational bank at its 2022 annual shareholder meeting. We followed the escalation process under our conflicts policy in order to do so. We had engaged with the company in October 2021, making clear our expectations in order to support the remuneration committee's proposals. If we are not satisfied with the progress next year, then we may escalate to a vote against.

## Global voting process at Schroders



Source: Schroders as at 31 December 2022.

## Voting guidelines

The overriding principle governing our approach to voting is to act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we will vote against resolutions. We will always disclose a rationale for our decisions in these instances and, as mentioned under Principles 6 and 9, these are reported publicly on our website<sup>50</sup> on a monthly basis.

Our corporate governance analysts assess proposals, applying our voting guidelines as to each agenda item, taking account of the local market standards, our research and experience of the company from engagement and other sources and other factors such as its size. Our guidelines set out our global expectations on a variety of topics, including shareholder resolutions. However, all are subject to the overriding principle that we will vote to enhance returns for clients and act in the best interests of clients.

The main principles of our voting guidelines<sup>51</sup> include the following:

- **Strategy, performance, transparency and integrity:** Companies must produce adequate returns for shareholders over the long term. Companies must also have due regard for other stakeholders including lenders, employees, communities, customers, suppliers, regulators and the environment in order to have viable business models that create long-term value. Companies must communicate clearly with investors and other stakeholders

- **Boards and management:** The boards of the companies in which our clients' monies are invested should consider and review, amongst other things, the strategic direction, the quality of leadership and management, risk management, relationships with stakeholders, the internal controls, the operating performance and viability of those companies. Above all, they should be focused on the long-term sustainable generation of value. Board members must be competent and have relevant expertise, and boards should consider the independence, diversity and balance of the board. The process for selecting, refreshing and retaining board members and executive management should be transparent, robust and rigorous. Board evaluations should be conducted regularly to ensure the board comprises a blend of the required attributes, is structured and working effectively
- **Capital:** Companies should have efficient balance sheets that minimise the cost of capital, with an appropriate level of gearing which recognises the significant risks attaching to debt across the cycle. Where companies cannot or will not use capital efficiently, they should consider returning capital to shareholders: this capital may then be allocated to investments earning an appropriate return. We would expect companies to limit their issuances without pre-emptive rights to a maximum of 10%, where the company has a good track record of capital allocation, 20%. Companies should provide particularly strong arguments to justify the introduction of equity shares with special voting rights, golden shares or other split capital structures, as we will tend not to support them

<sup>50</sup> <https://vds.issgovernance.com/vds#/MTAwMzE=>

<sup>51</sup> <https://prod.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf>

- **Executive remuneration:** In considering the pay arrangements of senior executives at companies, we are concerned with the structure of total remuneration and to ensure that potential rewards are aligned with sustainable long-term returns to shareholders. We recognise the value of high-calibre executives. However, this does not justify unwarranted transfers of value to executives. It follows that in particular where individuals have not performed to the expected standards, their continuation in the role should be reviewed and, if necessary, they should be removed from their position. We consider each pay package on a case-by-case basis by looking at a number of factors. These include, but are not limited to: the company's long-term performance and delivery of its strategy, executive share ownership, pay for performance alignment, excessive dilution for shareholders, fixed to variable pay ratio, termination awards and an appropriate choice and stretch to performance metrics
- **Environmental and social performance and resolutions:** We examine E&S performance and resolutions on a case-by-case basis with reference to the following factors:
  - Is the resolution aligned to our Engagement Blueprint?
  - Is the resolution the best way to address the issue?
  - Does the resolution add value to what the company is already doing?
  - Does the resolution have the potential to cause unintended damaging consequences?
  - In this process we will consider:
    - Materiality and saliency
    - Transparency
    - Asymmetric knowledge
    - Alignment with evolving ESG best practice
    - Evidence of policy implementation and progress
    - Responsible conduct
    - Client expectations

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

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

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

**Is the resolution the best way to address the issue?**

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

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

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

**Does the resolution have the potential to cause unintended damaging consequences?**

This considers if the proposal, if implemented, could have the potential to cause unintended consequences of a significant level to the company's stakeholders, taking into consideration a range of contextual factors, including cost, sector, geography, and economic climate.



- **Climate:** We use our influence as investors through engagement and voting to push companies to prepare and demonstrate the efforts they take to address key climate risks. We will consider voting against directors at companies where we feel that climate change is a major risk and the boards cannot demonstrate publicly that they are preparing sufficiently for it
- **UN Global Compact (UNGC) violations:**  
As UNGC signatories we are committed to ensuring companies align their operations and strategies to the UNGC's ten universally accepted principles. Our holistic approach goes beyond the ten principles and incorporates a broader range of issues. That analysis also informs our engagement with companies; where we consider companies' business practices may be unsustainable we regularly engage management teams and board members to better understand their plans, and to promote more responsible behaviour, and if we believe that companies are not taking sufficient action or the action taken is not appropriate will consider voting against individual directors

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

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

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

Beyond such regional differences, individual funds do not set their own voting guidelines. When it comes to voting decisions, we try to achieve consensus across all relevant funds and vote in line with our firm-wide approach which allows some case-by-case variation as a result of engagement or specific company circumstances.

## Shareholder resolutions

Although shareholder resolutions represent a small share of the votes we cast every year (approximately 3% in 2022), they have been increasingly attracting attention. They can be used to ask management to act on ESG issues; areas not typically captured by resolutions proposed by the board. However, 2022 saw the continued trend of board sponsored "say-on-climate" proposals.

Shareholder resolutions come in many shapes and sizes. They can reflect specific campaign goals or political priorities that may not be obviously aligned to the directors' or shareholders' fiduciary responsibilities or a company's strategic goals. As a result, the best course of action is often not clear cut. Sometimes, shareholder resolutions require management teams to take concrete steps.

For Schroders, the decision on how to vote on any type of resolution will depend on the materiality or saliency of the issue and what we consider is in our clients' best interests. With this principle in mind, we assess whether a shareholder resolution is realistic, measurable and meaningful. Generally, we will vote in favour of a shareholder resolution if there is evidence of controversies that have not been adequately addressed. We will usually vote against a shareholder resolution (and thus normally in favour of the board's recommendation) if we consider that the resolution is too prescriptive and requests a change in an unrealistically short timeframe or where the company is making sufficient progress toward the goals we have identified or it is already following good practice. Given the increased focus on ESG matters from our clients, we are more likely to support shareholder proposals to encourage more action by companies on material or salient issues as part of our engagement strategy.

Although we did not submit a shareholder resolution in 2022, we did co-file a climate-related proposal that the company refused to add to its shareholder meeting agenda. We voted in favour of 73% of resolutions submitted by other shareholders. Our detailed voting statistics for 2022, including how we have voted in regards to shareholder resolutions, are provided at the end of this section.

We supported 70% of climate resolutions in 2022. We also welcomed the opportunity to vote on boards' "say-on-climate" resolutions. However, we took the view that to vote in favour of these proposals, we needed to be supportive of the detail of the company's climate change strategy. Where we were unable to do so, we voted against such proposals. While taking a considered approach to climate resolutions proposed by boards or shareholders, we also plan to monitor companies and expect to vote against the re-election of targeted directors at companies whose response to the climate crisis is particularly insufficient.



### **Yousif Ebeed**

Corporate Governance Analyst

We continue to see a variety of shareholder proposals filed at companies across all markets, ranging from, shareholder special meeting rights, to political spending and lobbying, mainly in the US. There was a slight decline in governance-related shareholder proposals, notwithstanding that companies that effectively address shareholder concerns around environmental and social issues are likely to be better governed than those that don't.

### **Client reporting**

It is our policy to disclose our voting activity publicly. On a monthly basis, we produce our voting report which details how votes were cast, including votes against boards' recommendations and abstentions. As mentioned above, we classify votes against boards' recommendations as being significant and so publish the rationale behind these decisions. These reports are available on our website<sup>52</sup>.

Institutional clients with segregated accounts also receive tailored reports which include their individual voting record and detailed information on the progress of company engagements that are ongoing.

### **Use of proxy research**

In 2022, we voted against our proxy adviser's recommendation for 6% of resolutions.

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

### **Why do we vote against the recommendations of company boards?**

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

Such votes may follow an engagement and be part of our escalation process. If they do, we are likely to inform companies of our reasons to vote against the board's recommendation before the meeting. However, as our clients' expectations to be more forceful in our engagement have increased, we now sometimes vote against the board's recommendation to initiate our engagement and signal our discontent and our engagement will continue by contacting the company, sometimes after the meeting has taken place.

Where there have been ongoing and significant areas of concerns with a company's performance we may vote against the election or re-election of directors. When we vote against the board's recommendations, we classify the vote as significant and will disclose the reason for doing so to the company and the public.

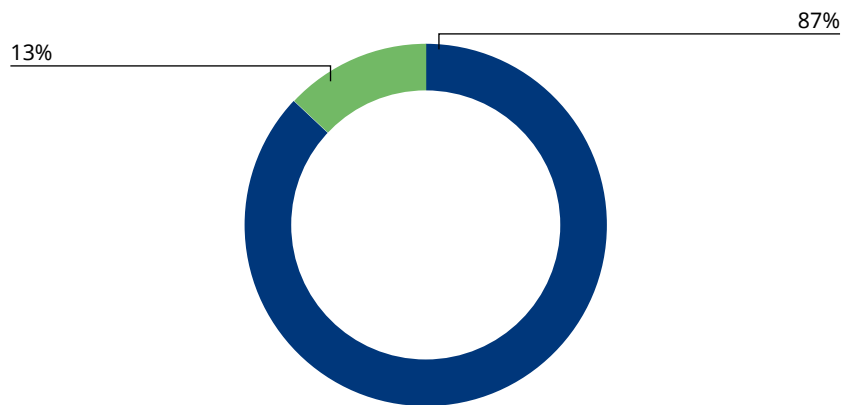
In 2022, we voted against the board's recommendations on approximately 13% of resolutions across a variety of topics. The chart on the next page shows this split.

<sup>52</sup> <https://vds.issgovernance.com/vds/#/MTAwMzE=>

## Annual Report 2022

- With management
- Against management

Meetings 7,280  
Resolutions 74,948



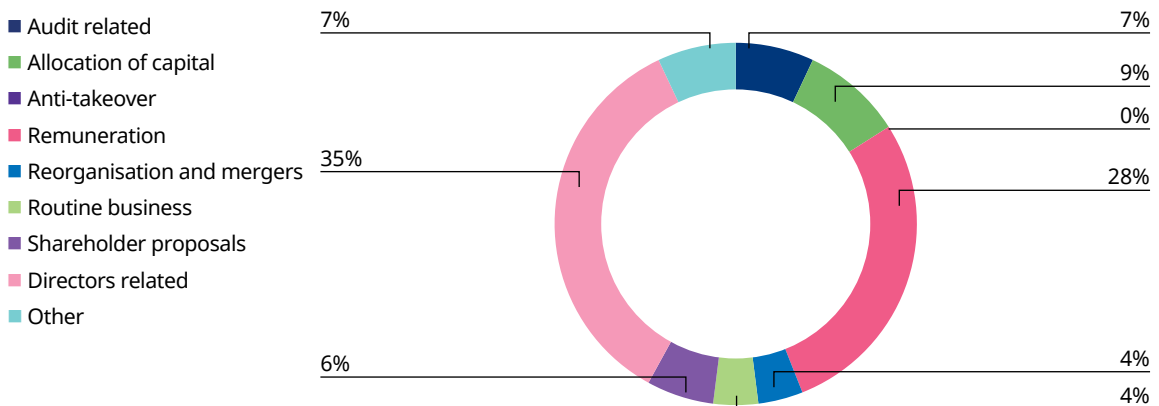
Source: Schroders as at 31 December 2022.

## Voting activity 2018–2022

Year	Meetings	Resolutions	% of resolutions voted with the board	% of resolutions + abstentions against the board
2022	7,280	74,948	87%	13%
2021	7,492	78,637	87%	12%
2020	6,518	68,992	87%	13%
2019	5,876	61,156	87%	13%
2018	5,227	56,510	86%	14%

Source: Schroders as at 31 December 2022.

## 2022 breakdown of resolutions voted against the board's recommendations



Source: Schroders as at 31 December 2022.

## Review of company meetings

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

A regular regional specific Corporate Governance Committee meeting is held which is attended by both the corporate governance experts from the Sustainable Investment team and members of our investment teams. The purpose of these meetings is to reflect on significant votes across the quarter and create escalation plans where relevant, discuss regional trends and confirm agreement across desks for any mass engagement topics (ie engagement with many or all investee companies in the region on a widely occurring or systemic concern) and to consider updates to our voting guidelines and approach.

There are four regional committees: UK, Europe, US and the rest of the world (which is focused on Asia). This splits reflects the regional expertise of our governance team and each committee is chaired by the corresponding expert.

Every committee meeting starts with a review of the voting activity since the last meeting, highlighting companies which received significant dissent and discussing ongoing or upcoming engagements. But beyond that, the content of the discussion varies slightly. The content includes: expected trends for the year, analysis of individual companies and plans for, or results of engagement, discussion of possible updates to voting guidelines.

In addition, each year we conduct a post-proxy season review, reflecting on global governance trends, which helps us to identify engagement priorities ahead of the next year. We publish the findings in our sustainability report. They are set out below.

## AGM season review

Just as the world began to recover from the impact of the Covid-19 pandemic, other challenges reared their head in 2022, including; Ukraine-Russia conflict, rising inflation and global economic slowdown. As a result, it was another unique 2022 AGM season. Here is a brief summary of the regional trends we saw this year.

**UK:** The UK proxy season was marked by a continuation of a number of themes.

Despite increasing our requirements for board diversity in relation to gender and ethnicity, as a result of boards evolving we did not vote against many company chairs for lack of diversity. Our engagement focus is increasingly on company workforces and fairer representation of gender and ethnicities throughout organisations.

On pay, we pushed back on executive pay that we thought unfairly rewarded executives for the temporary bounce back as pandemic restrictions eased. We are encouraging boards to show pay restraint towards the higher paid in their workforces in order to provide more funds to protect lower paid workers from inflationary pressures. We also expect other initiatives to offer support to the workforce, particularly lower paid employees, in difficult times.

**US:** The story of this year's US AGM season was one of increased votes against director compensation. We voted against 46% of management say-on-pay proposals this year, up from 23% in 2021.

This reflects a wider trend of record levels of shareholder dissent, resulting in the highest number of failed say-on-pay proposals since their introduction. This was mostly due to record increases to CEO pay across both the S&P 500 and Russell 3000.

We have also continued to see a variety of shareholder proposals filed at companies, ranging from: special shareholder meeting rights, to political spending and lobbying. Worryingly, there has also been an increase in anti-ESG proposals; however, support for these has remained low as other investors seem to share our view that they are likely to be damaging to long-term value.

**EUROPE:** Navigating around longer board terms. The 2022 AGM season saw an increasing number of investors turn to the discharge resolution to escalate concerns against board composition, where available. This approach helps overcome the issue of longer board terms in Europe which means each director is not always subject to annual election. Whilst traditionally used as a mechanism to sign off the work of the board for the year, the discharge votes can prove a useful alternative for expressing other concerns such as board independence, diversity, refreshment and accountability for environmental and social issues.

We have continued to see an increase in the adoption of ESG linked remuneration. We seek to encourage stretching targets for performance that has the potential to lead to improvement in long-term performance.

As such; we do not expect variable awards (bonuses or LTIPs) to be paid for 'business as usual'; be it for ESG or for other targets.

**ASIA:** In China, the battle for greater disclosure continues. Often times, we will see amendments to company articles of association that lack sufficient information; related-party transactions where amounts and/or related parties are not fully disclosed; and pay plans with no clearly disclosed performance conditions attached.

In Japan, we have seen some improvement to the levels of independent representation on company boards, following the launch of the Prime Market that mandates compliance with the Japan Corporate Governance Code. Whilst there has been some improvement to gender diversity at board level (63% of companies had at least one female director in 2022, compared with 52% in 2021), it continues to lag behind most other developed markets.

## Fixed income

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

We are cognisant that our provision of time-limited capital (versus the permanent capital of the equity market), provides regular opportunities for our voice to be heard as debt is re-financed in the corporate bond market.

This network, along with the standing of our Fixed Income franchise (occupying 10%+ market share in some products), allows us an opportunity to influence the terms on which bonds are issued in many cases, including not only pricing but also discussions around terms and conditions including green and social aspects in the case of green, social, or sustainable bonds. Corporate actions during the life of a bond may also offer us an opportunity to exercise oversight as bondholders.

## Using our influence

We continued to vote in favour at several Bondholder events to consent to a proposal to replace the existing LIBOR interest basis with a Compounded Daily SONIA interest basis, we have consented for all events where this proposal was put forward.

We believe whilst synthetic LIBOR has been set up to make sure older Mortgage Backed Securities have an ongoing floating rate coupon index, wherever possible it is a better solution to change the bonds' coupon index to SONIA. It is therefore, in our opinion, in our clients' best interest to agree to these changes.

Examples in 2022 include: Great Hall Mortgages, Ludgate Funding, Newgate Funding Plc, Paragon Mortgages, Southern Pacific Financing, Uropa Securities.

## Protecting the value of our clients' bond investments

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

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

## Seeking clarity over information provided to bondholders

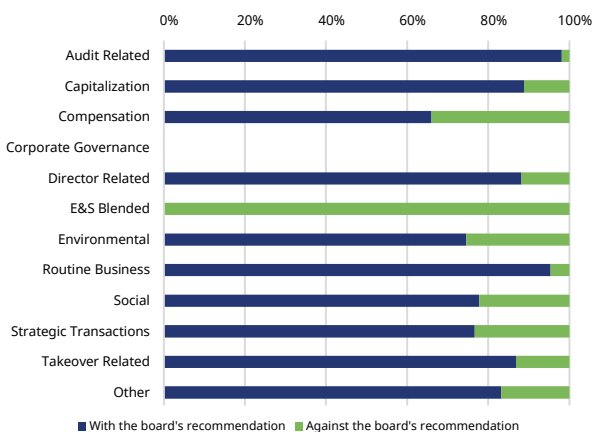
Bond documentation in the green bond space has achieved greater standardisation in recent years. We believe that the main terms in bond documentation have been converging to a common standard. We welcome this as this convergence is beneficial for the market and can encourage greater investor participation.

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

## Granular voting statistics

### Asia Pacific resolutions 2022

#### Balance between votes for or against the board



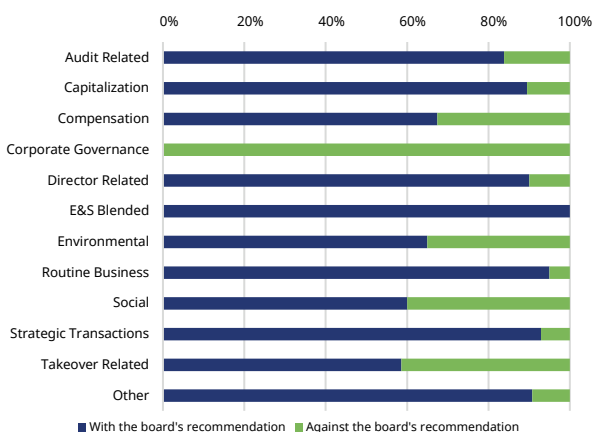
Source: Schroders as at 31 December 2022.

#### Number of abstain, no votes, and total votes

Resolution Category	Abstain	No vote	Total votes
Audit Related	9	3	1051
Capitalisation	0	19	3135
Compensation	0	1	2942
Corporate Governance	0	0	0
Director Related	145	34	12493
E&S Blended	0	0	1
Environmental	0	0	67
Routine Business	3	19	4813
Social	0	0	36
Strategic Transactions	0	4	1466
Takeover Related	0	0	38
Other	1	11	3298

### Europe ex UK resolutions 2022

#### Balance between votes for or against the board



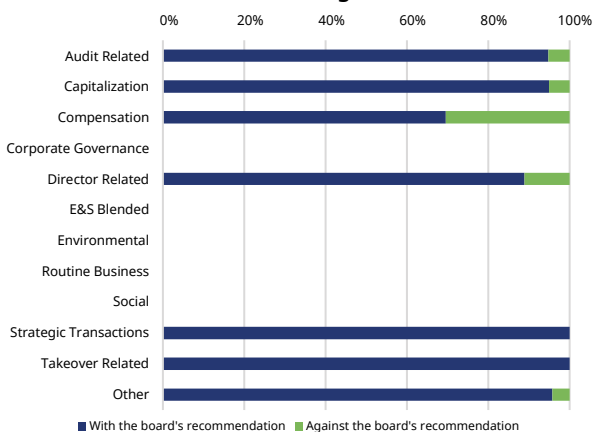
Source: Schroders as at 31 December 2022.

#### Number of abstain, uninstructed, and total votes

Resolution Category	Abstain	Uninstructed	Total votes
Audit Related	11	190	1056
Capitalisation	0	183	1285
Compensation	1	430	2425
Corporate Governance	0	0	1
Director Related	26	1393	6817
E&S Blended	0	2	39
Environmental	0	16	20
Routine Business	5	789	2993
Social	0	1	30
Strategic Transactions	0	15	85
Takeover Related	0	0	29
Other	0	91	682

### Latin America resolutions 2022

#### Balance between votes for or against the board



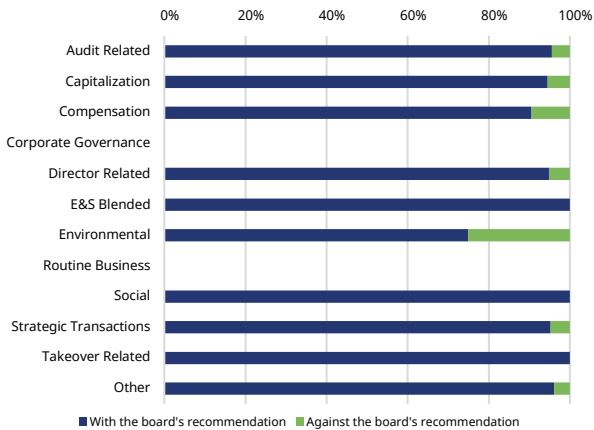
Source: Schroders as at 31 December 2022.

#### Number of abstain, no votes, and total votes

Resolution Category	Abstain	No vote	Total votes
Audit Related	4	1	57
Capitalisation	0	1	59
Compensation	0	2	151
Corporate Governance	0	0	0
Director Related	380	70	1159
E&S Blended	0	0	0
Environmental	0	0	0
Routine Business	0	0	0
Social	0	0	0
Strategic Transactions	0	7	36
Takeover Related	0	0	1
Other	1	21	792

## Middle East and Africa resolutions 2022

### Balance between votes for or against the board



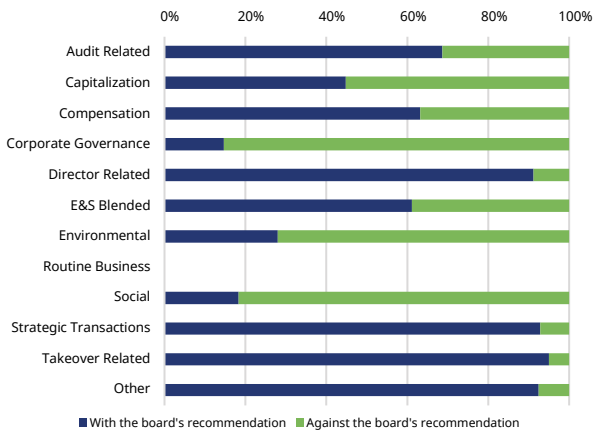
Source: Schroders as at 31 December 2022.

### Number of abstain, no votes, and total votes

Resolution Category	Abstain	No vote	Total votes
Audit Related	0	8	113
Capitalisation	0	2	146
Compensation	0	8	440
Corporate Governance	0	0	0
Director Related	204	15	814
E&S Blended	0	0	1
Environmental	0	0	4
Routine Business	0	0	0
Social	0	7	10
Strategic Transactions	0	1	63
Takeover Related	0	0	1
Other	0	47	419

## North America resolutions 2022

### Balance between votes for or against the board



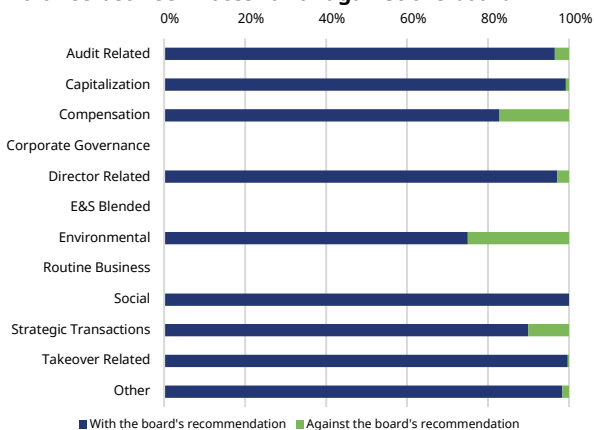
Source: Schroders as at 31 December 2022.

### Number of abstain, uninstructed, and total votes

Resolution Category	Abstain	Uninstructed	Total votes
Audit Related	0	15	1369
Capitalisation	0	2	618
Compensation	1	21	1725
Corporate Governance	0	2	109
Director Related	6	126	10715
E&S Blended	0	1	36
Environmental	0	3	75
Routine Business	0	0	0
Social	0	4	208
Strategic Transactions	0	1	56
Takeover Related	0	1	120
Other	0	3	688

## UK resolutions 2022

### Balance between votes for or against the board



Source: Schroders as at 31 December 2022.

### Number of abstain, no votes, and total votes

Resolution Category	Abstain	Uninstructed	Total votes
Audit Related	0	10	1126
Capitalisation	0	10	2143
Compensation	1	9	804
Corporate Governance	0	0	0
Director Related	4	37	4066
E&S Blended	0	0	0
Environmental	0	0	24
Routine Business	0	0	0
Social	0	0	199
Strategic Transactions	0	0	100
Takeover Related	0	1	352
Other	1	19	1201



# Appendix 1

## List of acronyms

<b>ACF</b>	Association of Charitable Foundations
<b>AIGCC</b>	Asia Investor Group on Climate Change
<b>ACGA</b>	Asian Corporate Governance Association
<b>ACRPC</b>	Asset Class Risk and Performance Committee
<b>AGM</b>	Annual General Meeting
<b>AUM</b>	Assets Under Management
<b>BARC</b>	Board Audit and Risk Committee
<b>CDP</b>	Carbon Disclosure Project
<b>CG</b>	Corporate Governance
<b>CR</b>	Corporate Responsibility
<b>CTAP</b>	Climate Transition Action Plan
<b>CVAR</b>	Carbon Value at Risk
<b>DIU</b>	Data Insights Unit
<b>EFAMA</b>	European Fund and Asset Management Association
<b>EMEA</b>	Europe, Middle East, and Africa
<b>EMS</b>	Environmental Management System
<b>ESG</b>	Environmental, Social, Governance
<b>EuroSIF</b>	European Sustainable Investment Forum
<b>FAIRR</b>	Farm Animal Investment Risk and Return
<b>FCA</b>	Financial Conduct Authority
<b>FinDatEx</b>	Financial Data Exchange Templates
<b>FRC</b>	Financial Reporting Council
<b>GAIA</b>	Global Alternative Investor Access
<b>GBP</b>	Green Bond Principles
<b>GDP</b>	Gross Domestic Product
<b>GMC</b>	Group Management Committee
<b>GP</b>	General Partner
<b>GRESB</b>	Global Real Estate Sustainability Benchmark
<b>HKGFA</b>	Hong Kong Green Finance Association
<b>HRIA</b>	Human Rights Impact Assessment
<b>IAG</b>	Investor Advisory Group
<b>IBE</b>	Institute of Business Ethics
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>ICAEW</b>	Institute of Chartered Accountants in England and Wales
<b>ICGN</b>	International Corporate Governance Network
<b>IEA</b>	International Energy Agency
<b>IIGCC</b>	Institutional Investors Group on Climate Change
<b>ILAAP</b>	Internal Liquidity Adequacy Assessment Process
<b>ILS</b>	Insurance-Linked Securities
<b>ISAE</b>	International Standard on Assurance Engagements

<b>ISS</b>	Institutional Shareholder Services
<b>IVIS</b>	Institutional Voting Information Services
<b>LST</b>	Liquidity Stress Testing
<b>LTIP</b>	Long-Term Incentive Plan
<b>MiFID</b>	Markets in Financial Instruments Directive
<b>MUSE</b>	Municipal US Sustainability Explorer
<b>NGO</b>	Non-governmental organisation
<b>PLSA</b>	Pensions and Lifetime Savings Association
<b>PRA</b>	Prudential Regulation Authority
<b>RFP</b>	Request for proposal
<b>SBTi</b>	Science Based Target initiative
<b>SDG</b>	Sustainable Development Goal
<b>SDS</b>	Sustainable Development Scenario
<b>SFDR</b>	Sustainable Finance Disclosures Regulation
<b>SteerCo</b>	Steering Committee
<b>TCFD</b>	Task Force on Climate-Related Disclosures
<b>TNFD</b>	Taskforce for Nature Related Financial Disclosures
<b>TPI</b>	Transition Pathway Initiative
<b>UN PRI</b>	United Nations Principles for Responsible Investment
<b>UNGC</b>	United Nations Global Compact



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