ENGAGEMENT BLUEPRINT

Our vision for active ownership in private markets

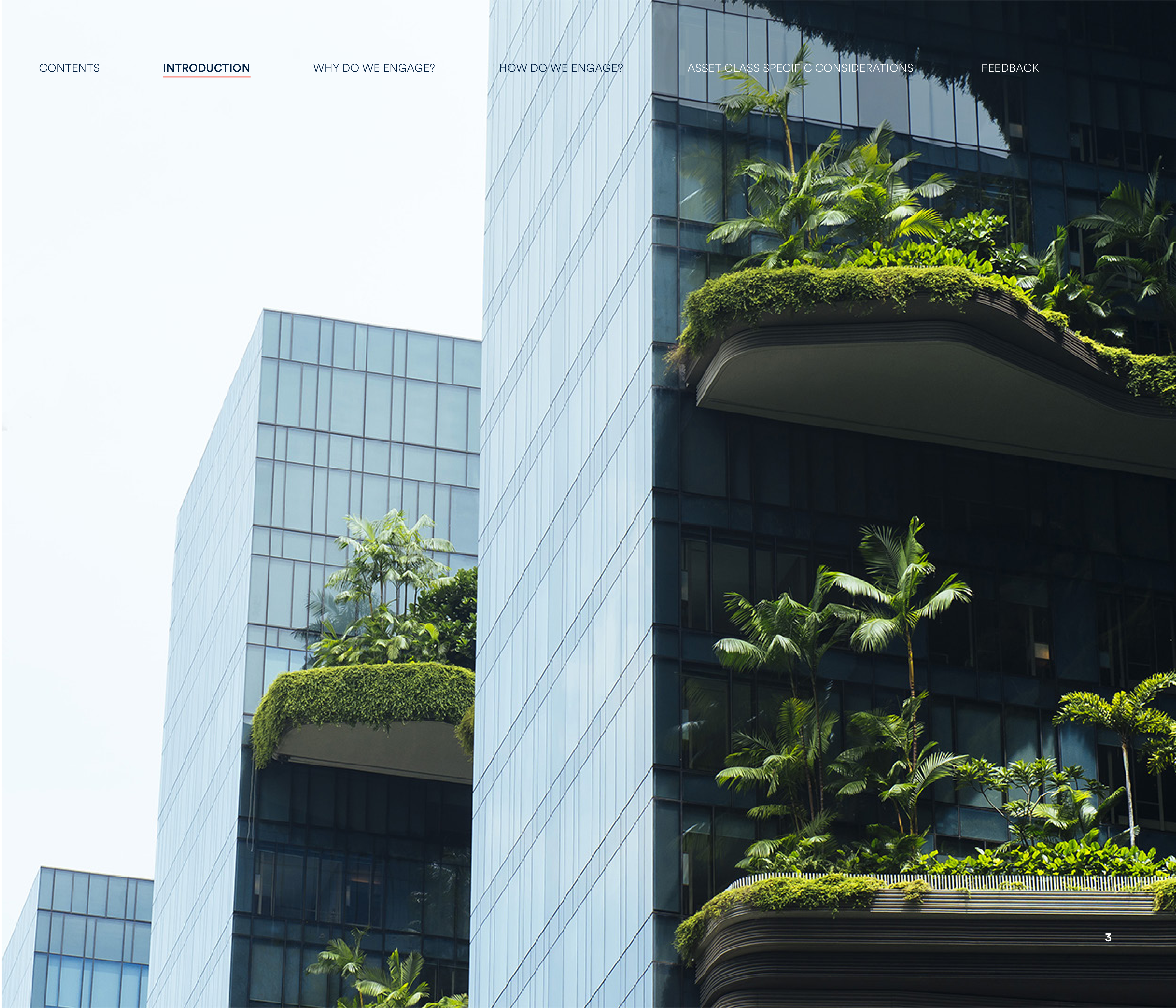
January 2024

This document is intended to be for information purposes only and it is not intended as promotional material in any respect.

Schroders capital

Contents

Introduction



Schroders Capital is the private assets investment division of Schroders Group. We are a leading investor focused on the evolving needs of its clients, of the businesses and projects it invests in, and of society. We provide investors with an institutional route to category-leading, specialised private assets investment teams globally, building positive change for all our stakeholders. With over 300 investment professionals in 26 locations around the world and $94bn[1] in assets under management (AUM), Schroders Capital combines deeply specialised and local teams, with the strength, scale, and resources of a global institutional platform with a 200-year heritage. As an investment business founded on performance, innovation and integrity, Schroders Capital seeks to put sustainability and impact at the heart of its operations and activities.

[1] Schroders Capital 2023. AUM as at 30 September 2023 including dry powder.

Schroders Capital encompasses private equity, private debt and credit alternatives, real estate and infrastructure. Our Solutions business, which designs and delivers bespoke mandates, leverages our broad asset class knowledge and our sustainability and impact (S&I) expertise.

Our breadth means we can invest in companies, real assets or pools of assets, either directly or indirectly. In real estate for instance, we predominantly acquire and manage buildings, but also invest indirectly through fund structures and via external managers for attractive yet niche specialist sectors.

This Engagement Blueprint seeks to apply the Schroders Engagement Blueprint to private assets and reflects the same engagement priority themes of climate change, natural capital and biodiversity, human capital management, human rights, diversity and inclusion, and governance.

While the guiding principles of why and how we engage are consistent across Schroders, the distinct nature of private assets places active ownership at the heart of our value creation and sustainable and impact strategies in private assets. Our expertise in actively managing these assets means we can build and deliver positive – and tangible – outcomes alongside long-term financial performance.

This Engagement Blueprint seeks to demonstrate:

1. Our engagement priorities
2. How differing engagement practices are governed and structured consistently
3. How and why the engagement approach differs by asset class, and
4. Our future ambitions.

Private Equity

- Buyout
- Private Equity
- VC & Growth
- Secondaries

Sustainability

Institutional Solutions

Wealth Solutions

Impact

Private debt and credit alternatives

- Real Asset Credit
- Structured & Corporate Credit
- Specialty Finance
- Impact Lending
- Opportunistic Credit

Real Estate

- Living & Hospitality
- Future Workplaces
- Ecommerce & Logistics

Infrastructure

- Renewables
- Essential Infrastructure

Navigating this document

The first section of this document intends to set out our broad approach to active ownership across Schroders Capital. While the guiding principles behind active ownership and engagement are the same across the Schroders Capital platform, the implementation and execution of engagement is specialist to the idiosyncrasies of each asset class.

The second half of this document describes in more specific detail the nuances for active ownership and engagement by asset class pillar and the underlying asset classes. We encourage readers to look to these sections for asset class specific information.

Why do we engage?

At Schroders Capital, our ambition is to provide excellent investment performance to clients through active management and responsible stewardship. In private assets, active ownership and stakeholder engagement is fundamental to our regular business activity acting as a responsible manager of the assets, particularly where we invest directly in our real estate and infrastructure businesses. The nature of our engagement and active ownership as well as its intended outcomes differ from one asset to the other to meet this essential goal.

It is our belief that better management of sustainability factors can improve returns; for example, through discovering new sources of growth and/or reducing risks such as increasing resilience to ongoing political and regulatory changes. A growing evidence base shows the benefits of enhanced sustainability profiles in private markets, such as more stable returns in private equity[2], and enhanced occupier appeal and reduced operating expenses for early sustainability movers in real estate[3]. We regard the concept of active ownership and acts of engagement as an important component of our fiduciary duty and responsibilities as asset managers.

Private assets investment strategies have distinct characteristics including typically longer investment horizons, the provision of capital for tangible assets and a greater ability to operate and enhance our assets. These features can provide us with an opportunity to build operational and financial value from origination to exit along all the different steps of our investment process.

[2] Does Sustainability Affect Private Equity Asset Class? by Claudio Zara :: SSRN

[3] Implementing ESG in Private Real Estate Portfolios: The Case of U.S. and Pan-Europe Core Fund Managers: Journal of Sustainable Real Estate: Vol 2, No 1 (tandfonline.com)

Our active selection, management and monitoring of assets over the long-term means we proactively engage with key stakeholders throughout the investment life cycle. By doing this, we can mitigate investment risks and optimise portfolios to capture future growth potential leading to enhanced financial and sustainability performance.

We can add value by screening, assessing and capturing the right investment opportunities and improving the profile of our investments over their lifetimes, either directly or indirectly, through the boards and management of our assets. This requires extensive sector expertise, a strong footprint on the ground, entrepreneurial spirit, and a long-term lens.

At Schroders Capital, we seek to deliver S&I investment at scale. For our sustainable investing strategies, our focus is to improve our assets' sustainability practices and characteristics. For our impact-driven strategies, it means contributing our financial and non-financial support to enhance impact through products and services in line with the strategy's theory of change. We account for the progress made in achieving this ambition in our Annual Sustainability and impact report which is available on our website.

How do we engage?

Scope of our approach

As an active investment manager, with over 300 investment professionals around the world[4], we believe that we are well placed to engage thoughtfully and constructively with our investments. While recognising the unique nature of each asset class and distinct investment practices, we have sought to identify and ensure a common approach and set of engagement priorities across Schroders Capital. Our expertise enables us to understand the sustainability and impact challenges and opportunities at local and global levels, and push for positive change.

We commit time and resources to ensure that the assets we select and invest in are managed in a sustainable way, seek to proactively influence behaviour, and where impact-driven strategies are involved, deliver against the impact targets that have been set. Engagement can act as a mechanism for influence. We might seek to engage on a broad range of topics and scenarios, depending on the asset class and our position as an investor. For example, we might seek to understand how an investee is adapting to climate risks, such as setting targets and implementing carbon reduction initiatives.

Our teams collaborate to identify areas that warrant discussion with investees or assets and key stakeholders. We often make a concerted effort to engage with our counterparts in the pre-investment, investment and post-investment phases on the sustainability and impact matters we feel most relevant and appropriate. In addition, we note that specific strategies at Schroders Capital may have a higher engagement level when directly operating and managing assets or engaging in impact-driven strategies.

[4] Schroders Capital Sustainability and Impact report 2022.

We can consider many factors when deciding when and what the desired outcomes should be for our engagement activities, such as the asset class, sector, region, our role as an investor and respective contribution, investees or asset needs, and the product investment goals in terms of sustainability or impact. Depending on these factors, objectives can entail one or a few of the following:

- ***Transparency:*** for example, we may start our engagements by encouraging the disclosure of relevant environmental, social and governance (ESG) and impact key performance indicators (KPIs), and we engage with market participants to influence and drive higher disclosure standards where these are currently absent or limited.
- ***Governance and oversight:*** for example, we may encourage further integration of sustainability and impact considerations into decision-making and alignment with our expectations and market best practices, and we may support practical implementation by sharing our expertise, frameworks and lessons learned.
- ***Strategy and action:*** for example, we may encourage the setting of targets, the implementation of new sustainability and impact initiatives or even the appointment sustainability and impact specialists. We then support and track progress against those action plans over time.

Prioritisation of engagement activity differs depending on the nature of the asset class, the fund priorities and our level of control. However, generally we consider several factors including the materiality of our exposure to the individual asset or investment, the exact nature of our relationship, whether there have been controversies, or we are aware of particular sustainability issues, and whether the investee or asset is not progressing against the set sustainability and impact targets.

Active ownership in practice

There are a number of different methods we can use within Schroders Capital to practise active ownership throughout the investment lifecycle. Where we have the power and rights to influence, which often differs by asset class and strategies, we may use one or a few of the following stages of the investment lifecycle as points of interaction and influence:

Origination

Screening and selection: we can consider sustainability and impact from the outset of our investment process. This can include negative and positive selection criteria such as UN Sustainable Development Goal alignment, or high impact or innovation potential and we may make data requests as part of this initial screening.

Pre-investment

In-depth due diligence and analysis: for several strategies we complete sustainability and impact assessment scorecards ahead of investment to identify future areas for engagement or intervention. These can be regularly reviewed and used to measure and monitor progress during the post-investment phase of our investments. Because of the long-term horizons of many of our investments, especially in indirect and buy-and-hold private debt strategies, it is during the pre-investment and due diligence stage that we often can have the most influence.

Contracting: in certain private equity and debt strategies, we can incorporate certain sustainability and impact criteria into deal documentation. We can set out our intent, as well as agreed targets and action plans, including binding commitments, and the renewal of our financing in the future. It is also during this stage where, in certain asset classes, we may begin to engage with wider stakeholders such as service providers around their ESG credentials.

Post-investment

Ongoing monitoring and engagement dialogue: we seek to have regular dialogue with our investees, assets and stakeholders to understand challenges, communicate our expectations and to discuss progress. The nature of this dialogue differs by asset class and strategies and can be in addition to regular reporting and monitoring activities. For example, there may be frequent interactions where we are effectively responsible for delivering the sustainability plan, such as for real estate investments in collaboration with tenants, external property managers, planning authorities and investment teams.

Governance and holding our investments to account: our degree of involvement and influence in the governance of our investments depends on the nature of the investment. Where we have direct equity investments we may sit on the board of our holding and have voting seats, in others we may have advisory seats.

In addition to engagement throughout the investment lifecycle, often we conduct ongoing strategic engagement in collaboration with the wider industry. Our approach here is to collaborate with other market stakeholders, such as investment managers, broker communities, industry bodies or standards setters, to influence wider market practice on sustainability and impact.

Escalation in private assets

We seek to set objectives for sustainability and impact as it relates to our engagement activities which we believe are realistic and achievable within a reasonable timeframe given the nature of the asset class and its investment horizon. Often in our direct real assets business, where a Schroders Capital-managed fund has direct control of the asset, we recognise that situations requiring escalation apply differently. We often have greater means to directly remediate any concerns through our strong, and in instances contractual, relationships with property managers, tenants, suppliers and other stakeholders.

We recognise that in some cases, for example where we do not have direct control of an asset, our attempts to influence through dialogue and other primary methods of engagement may prove challenging.

Our preference is to ensure we start the investment lifecycle with a strong sustainability foundation, through conducting robust screening and pre-investment due diligence. Given opportunities for exit may be limited, our due diligence is often about identifying investments and assets that already meet expectations or have the potential to improve to meet our sustainability and impact expectations through active ownership. It is essential that we have strong relationships, built upon trust, with our value chain partners to influence positive change.

We do, however, recognise that there are methods of escalation available within private markets, depending on the asset class and nature of our relationship, and we may seek to apply them in cases we deem appropriate. This can include when we have been unable to achieve progress towards our engagement objectives.

The methods and application of escalation are unique to the nature of the investment and its asset class, and not all will apply in each case, for example:

- **Limit future funding:** In private debt, we may review the sustainability and impact assessments and seek to limit funding provided to the borrower in future debt raising, which may occur as a phased approach and is always sought to be done in a way that is in the best interest of our clients.
- **External collaboration:** We may seek to collaborate with other managers; for example, in our insurance-linked securities (ILS) business we have formed a working group with other ILS managers to enhance transparency and best practices in the sector.
- **Externally voice our concerns:** We may also raise our concerns through trade associations and ESG data and peer benchmarking organisations; for example, seeking to influence industry standards for real estate and private equity.
- **Exercise voting rights:** In limited cases, for some of our equity investments, we may seek to include some ESG criteria on the agenda at shareholder meetings and exercise our voting rights to register our concerns.
- **Divestment or exiting a relationship:** Where it is possible, for example when we invest through third-party funds, we may seek to divest, and in severe cases, where contractual protections have been taken, we may also consider taking legal enforcement action.

Setting engagement priorities

We focus on sustainability and impact issues which we determine to be material and relevant to the long-term value of our investments and assets. When material and relevant in the context (for example considering jurisdictional differences), we believe that addressing these factors can drive improved financial performance for our clients and deliver sustainability and impact outcomes. The governance structure and management quality that oversee these factors are also a focus for our engagement discussions.

Identifying thematic priorities

We identify six broad sustainability themes for our engagement but our focus on each theme differs depending on the exposures and impacts of different asset types and the outcomes we have prioritised. Across the majority of our Schroders Capital asset classes transparency and governance, and climate change are identified as the highest priority themes for engagement over the next one to three years. In certain cases, for real assets, we also identify natural capital and biodiversity, and human rights as important themes for our forward-looking engagement activities. We recognise that not all six themes may apply for each asset class. We explain how the following thematic areas are prioritised and approached in the specific asset classes in the asset class specific considerations section of this document.

- **Transparency and governance**
- **Climate change**
- **Natural capital and biodiversity**
- **Human rights**
- **Human capital management**
- **Diversity and inclusion**

Transparency and governance

We believe it is essential that strong governance policies and practices are in place to ensure that businesses act in the best interest of shareholders and other key stakeholders, in order to drive long-term sustainable value creation. We also recognise that, in most cases, to see progress and performance on other material ESG issues, strong governance structures should be in place first.

Many private markets investments, be it businesses, asset and fund managers or risk and credit originators, are still formalising their approach to sustainability and impact, data collection and reporting. We prioritise the development of comprehensive reporting systems at the start of most of our engagement processes. We share our expertise by providing tools and guidance to our investees and partners as their sustainable business practices mature.

Where we invest indirectly, such as in other funds, our focus is often on ensuring that we influence the sustainability policies and practices of those funds. One example of this may be working with another manager to implement an ESG integration policy or encouraging a manager to provide fund level reporting on their own ESG and engagement activities.

Where market standards are not yet established, such as in certain private debt and asset based-finance markets, our focus is on ensuring that we engage with other market participants, influencing and building a consensus on industry-relevant sustainability disclosures and reporting requirements. An example of this may be working with key market participants to enhance data collection and data disclosures in certain sectors; for example, our involvement in the ESG Data Convergence Initiative of private equity stakeholders.

Climate change

We believe that companies urgently need to transform their business and operating models to collectively support efforts to avoid the most catastrophic effects of climate change on people, the planet and to adapt to future temperature rises. As a long-term active investor, we seek constructive and collaborative engagement that is dedicated to supporting the climate transition to protect and enhance value.

We should be able to avoid the worst impacts of climate change if we manage to limit long run temperature rises to around 1.5 degrees Celsius above pre-industrial levels[5]. We could achieve this by reducing emissions to “net” zero by 2050. This means reducing emissions to an absolute minimum and finding ways to counterbalance them (including the outright removal of greenhouse gases from the atmosphere).

Governments are taking action. By the end of COP27, the annual United Nations Climate Change Conference, 169 countries had submitted new or updated climate plans. The final agreement also committed countries to deforestation and methane targets, and to phase-down coal power and phase-out “inefficient” fossil fuel subsidies[6].

We engage with investees, assets and relevant stakeholders as a way of encouraging positive change that we believe can future proof our investments and help to generate returns for our clients. In many cases for private assets, we seek to improve the quality and level of disclosure of emissions data in order to better understand potential risks and how these can be appropriately priced and mitigated. When we directly manage a real asset, we seek to ensure we are considering how we can reduce the impact of the asset on climate change and at the same time ensure we are building in climate resilience.

[5] https://www.climatewatchdata.org/2020-ndc-tracker
[6] https://www.un.org/en/climatechange/cop26

Natural capital and biodiversity

The benefits that nature provides often go unpriced, resulting in their excess use. This is one of the reasons we are seeing ecosystem decline and degradation as well as rising ecological scarcity. In 2022 the World Economic Forum (WEF) identified biodiversity loss as one of the top three most severe risks on a global scale over the next 10 years[7]. The WEF estimates some $44 trillion of economic value generation, over 50% of global GDP, is somewhat or highly dependent on nature[8]. The potential economic impacts of inaction are large: the World Bank estimates that a partial ecosystem collapse could cost 2.3% of global GDP (or $2.7 trillion) per year by 2030.

In practical terms this could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Sectors such as agriculture, food and marine, which are heavily reliant on ecosystems that are either not valued or undervalued currently, may see company valuations affected when these are eventually valued appropriately. Furthermore, regulatory and policy pressures, which could have direct revenue impacts, are already beginning to build and crystalise.

We engage to encourage our investments and assets to adopt good practices to avoid the degradation of natural capital, including the loss of biodiversity and limiting of pollution and waste.

[7] https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf
[8] https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

Human rights

All businesses have the potential to impinge on the rights that are inherent to us as human beings[9]. There is increasing recognition of the role that businesses can and should play to respect human rights and exert their influence on their value chain. Businesses involved in human rights controversies face higher operational, legal and financial risks, and can suffer damages to their reputation. Respect for human rights is also an important foundation in building resilient supply chains and forging business stability.

The global standard for preventing and addressing the risk of human rights abuses is the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the UN Human Rights Council in 2011[10]. The Guiding Principles provide operational clarity for the two human rights principles that are championed by the UN Global Compacts[11], and help businesses adhere to the OECD's Guidelines for Multinational Enterprises, as well as the increasing number of national and sub-national laws and regulations related to human rights. This responsibility to protect human rights applies across operations and to all business relationships, including those throughout a value chain.

Our engagement encourages the implementation of the Guiding Principles. This means that investees and other relevant stakeholders should formally commit to respect human rights, carry out effective human rights due diligence, and provide access to effective remedy for any victims of human rights abuses. We also encourage our investments and stakeholders to strive to respect the inherent rights we have as human beings and enhance the positive impact we can help create throughout the value chain by considering the impacts on workers in the supply chain, local communities, and customers and consumers.

[9] The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.
[10] Other UN instruments elaborate further on the rights of indigenous peoples, women, national or ethnic, religious and linguistic minorities, children, persons with disabilities and migrant workers and their families.
[11] The human rights principles championed by the UN Global Compacts are Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.

Human capital management

Human capital management refers to how a business acts with respect to people working within its direct operations and includes the practices to recruit, retain and develop human capital. We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage[12] and that effective human capital management is essential to drive innovation and long-term value creation[13]. We also recognise a number of links between high standards of human capital management and a company's ability to address one or more of the UN's Sustainable Development Goals.

While the theme of human capital management may be less relevant to our investments in real assets and certain debt instruments, we view it as relevant for our holding in companies or investments through third-party managers. Through our engagement we seek to encourage our investments to act responsibly with respect to the people working within the direct operations, including practices of recruitment, retention and development of human capital.

[12] https://hbr.org/2007/03/maximizing-your-return-on-people
[13] https://www.icgn.org/sites/default/files/2021-05/5. Viewpoint Human Capital Management.pdf

Diversity and inclusion

We believe that organisations should strive to promote diversity and inclusion throughout their value chains. Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction[14]. Inclusion is what allows diversity to thrive.

We encourage investees and other relevant stakeholders to consider diversity broadly. While we recognise that there are significant regional differences in diversity and inclusion definitions and expectations, in national laws, diversity characteristics commonly include: race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation[15].

Our engagement on diversity and inclusion differs depending on the type of investment. When we are investing in companies, we may encourage them to create diverse and inclusive organisations across multiple dimensions. We apply a similar approach to our engagement with external managers when investing through third-party funds on their internal diversity and inclusion policies. Where relevant, we also consider and engage on the inclusivity of products and services, such as financial inclusion.

[14] https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case
[15] https://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_BDE_EN/lang--en/index.htm

Our themes are underpinned by additional cross-cutting thematic priorities, such as the "Just Transition", which recognises the social dimension of the transition to a resilient and low-carbon economy. We seek to reflect this interconnectedness in our approach to engagements; for example, at a corporate level collaborating with the Impact Investing Institute to develop its Just Transition Criteria.

Beyond the commonalities in our approach to active ownership in private assets, many unique differences occur which depend on the specific private asset class. We seek to highlight some of these nuances in the section below.

Asset class specific considerations

Private equity

Private equity investors are often well positioned to align to S&I investing principles and create positive impact due to their long-term investment horizons and their ability to engage closely and strategically with portfolio companies. Our private equity business provides investors with access to a broad range of private equity investment opportunities across buyout, growth, and venture capital investments, focusing on lower and mid-market companies, which we consider the most attractive parts of the market. Our team participates in direct investments, co-investments, secondaries, and primary fund investments globally, working with managers across healthcare, technology, consumer services, business services and industrials sectors. We primarily invest in Europe, the US, India and China.

BlueOrchard, a member of the Schroders Group, offers dedicated private equity impact investing strategies in emerging and frontier markets. While much of the approach below also applies to our approach to engagement in our BlueOrchard private equity strategies, our general approach to engagement at BlueOrchard is set out under the private debt section of this document.

How do we define active ownership?

It is important to make the distinction between our engagements that are intended to support and drive normal value creation, and when we engage specifically for sustainability and impact, which of course also overlaps with value creation. The majority of our private equity investments are alongside general partners, who actively manage funds and co-investments, and our approach to engagement reflects this.

Key themes:

- Transparency and governance
- Climate change

Example desired short/mid-term actions[16]:

Transparency and governance

- Implementation of an ESG investment policy
- Disclosure of core ESG performance indicators

Climate change

- Reporting of emissions data

Key stakeholders for engagement:

- General partners
- Management teams of direct investment companies

What is our current approach?

Throughout our private equity due diligence and investment monitoring process, we might seek to emphasise the importance of responsible investing and encourage our partners to adopt institutional-standard responsible investing practices. These can include proactive and regular disclosure of all relevant and material ESG risks, as well as ESG performance. Sustainability is integrated throughout the investment process from the pre-investment selection, investment due diligence, execution, and post-investment monitoring of investments. Engagement takes place where we identify that further ESG impact is feasible.

We often prioritise our engagements based on consideration of both the size of our investments and the magnitude of our influence. We consider factors such as if we were an early backer in our investments as we view this as also contributing to the amount of influence we may have. Joining General Partners' advisory board is another tool that we use to influence sustainability and impact practices.

[16] Not all actions will apply to all our investments as much of our engagement is approached individually. The actions pursued will depend on a number of factors such as type of investment, materiality, and opportunity for change.

We can also assess the investment through our sustainability and impactscorecard framework[17]. For a general partner, this might include assessing Principles of Responsible Investing (PRI) signatory status and other ESG-related governance indicators. For a direct or co-investment this includes looking at underlying sustainability indicators in areas such as corporate governance, climate change and workforce practices.

Our engagements can take a number of forms including in-person meeting with either general partners or directly with companies, telephone conversations, sending letters or emails, and attending annual general meetings (AGMs). Engagements take place throughout the investment process; for example, we may request disclosure of sustainability and impact data as part of our initial investment due diligence and integrate sustainability criteria into the deal documentation, and then continue to encourage improved sustainability and impact practices over the course of our investment.

Often the first step for engagement is to request and encourage improved sustainability disclosure and the implementation of general sustainability policies. This reflects the continuing challenge we see around a lack of credible and relevant sustainability data in private equity investments as well as our position in the value chain (as we often invest through general partners). We may also engage in response to specific controversies that a holding may be facing. In our impact-driven funds we often go beyond this, and engage on topics specific to the impact investment case of the underlying company that the general partner is invested in.

How will this evolve in the future?

While we track and record individual engagement activities, our ambition is to undertake more engagement at scale, particularly as it relates to company specific engagement through general partners, while continuing our engagement at the general partner level.

[17] Schroders Capital RISE (Raising Impact, Sustainability and Engagement) Framework encompasses four proprietary assessment frameworks for direct/co-investments and funds.

Private debt and credit alternatives

Schroders Capital's private debt and credit alternatives platform provides financing and insurance solutions to a wide range of mid-market projects and businesses across multiple sectors globally. We offer a continuum of income streams with diversified portfolios across liquid alternative credit, securitised products and asset-based finance, infrastructure and real estate debt, private debt and uncorrelated insurance-linked strategies. We invest globally across developed, but also emerging and frontier markets as part of BlueOrchard's impact investing strategies.

How do we define active ownership?

We believe it is important to understand how sustainability and impact risks and opportunities are being appropriately considered and managed in our investments. This means that active ownership and engagement are often essential components of the screening and due diligence phase of our private debt engagement process; given the nature of the asset class, we recognise that there may be less opportunity to engage and influence once we have made an investment decision.

Key themes:

- Transparency and governance
- Climate change
- Human rights
- Diversity and inclusion

Example desired short/mid-term actions[18]:

Transparency and governance

- Implementation of an ESG investment policy
- Disclosure of core ESG performance indicators
- Increased look-through of ESG data for transactions

Climate change

- Disclosure of asset-level emissions data where possible

Human rights

- Increase provision of financial services to historically excluded populations

Diversity and inclusion

- Increase data capture for gender and excluded populations
- Increase the number of women on the board and management teams

Key stakeholders for engagement:

- Borrowers and transaction sponsors
- Underlying beneficiaries
- Management boards of special purpose vehicles (SPVs)
- Broker and dealer communities
- Third party fund managers
- Industry bodies
- Peers
- Investors

[18] Not all actions will apply to all our investments as much of our engagement is approached individually. The actions pursued will depend on a number of factors such as type of investment, materiality, and opportunity for change.

What is our current approach?

We recognise that it is often not possible to access all of the necessary sustainability information and data we need to fully understand and assess related risks. The first step to our engagement is often therefore to engage with counterparties in order to plug these sustainability data gaps in our ESG assessment frameworks. We may then follow up for further information on specific topics if these are flagged during our assessment framework phase on an ongoing basis. For private debt investments and when relevant, we may then re-engage when the debt is coming up for refinancing or maturity.

BlueOrchard

BlueOrchard, a member of the Schroders Group, aims to deliver measurable positive social and environmental outcomes alongside financial returns. It was founded in 2001 as the world's first commercial manager of microfinance debt investments and is now the largest one in the world. We have built a distinct track record in offering premium impact investment solutions across multiple asset classes and themes with a core expertise in private debt, sustainable infrastructure debt, and emerging market impact bonds. We also have equity investments through BlueOrchard, and the approach set out below applies generally across our asset class investments.

In our BlueOrchard business we view engagement as the way to maximise impact. We have an impact intent that is clearly defined in the investment strategy, and engagement is essential to ensure we uphold this and can maximise the positive impact of our investments. In this context, BlueOrchard has an Engagement Approach that outlines the company's engagement with investees and other stakeholders, such as investees' end-clients, other investors, and industry bodies and working groups. It covers all asset classes, including investments in public and private assets.

We identify three tiers for engagement: firstly, the most widespread activity we undertake is through the use of ESG questionnaires and the promotion of disclosure of information; secondly, we do 'capacity building engagements' which could be in the form of group training sessions; and finally, we may undertake intensive engagements such as providing technical assistance around ESG practices with consultants and one-on -one training sessions. We aim to focus on the areas of sustainability where we believe there to be the biggest gaps in practices. Thematic priorities for engagement with investees/issuers can vary and depend on the respective impact theme and materiality of certain issues, among other factors. However, a central priority for engagement is always the investees' ESG performance and capabilities. Any gaps or shortcomings related to an ESG topic identified during the due diligence or ESG assessment will result in an engagement with the investee to address and overcome the identified issue.

Insurance-linked securities (ILS)

Our ILS business offers access to the full spectrum of life and non-life strategies. Our purpose is to deliver uncorrelated returns to our investors over the long term, while at the same time building bridges between the insurance and the capital markets by providing protection against catastrophic events. Schroders Capital ILS investments aim to positively impact the underlying beneficiaries of the insurance protection we provide to help rebuild after large natural catastrophes or other events hit.

We engage actively due to the nature of the asset and see that successful engagement can ultimately enable us to increase our investments. Our discussions take place with counterparties, which could be either corporate clients, re/insurance companies or international organisations. The nature of the counterparty affects how we engage; for example, there is often more existing disclosure from corporate clients and primary insurance companies but, information can be opaquer for reinsurance or retrocession clients.

This is what we seek to address through engagement. We monitor our engagements by tracking the degree of information we receive back from counterparties and note that there is increasing awareness and momentum in the industry, resulting in improved disclosures.

We engage with the ILS community to address weaknesses, to avoid greenwashing, and to increase overall transparency in the risks that we underwrite. We also engage with our peers as we believe that a joint approach means better leverage to achieve these goals.

To improve the ILS market's capability to analyse reinsurance companies' capital flows with respect to covered risks (lines of business) and ultimately beneficiaries (personal, commercial, industrial), we have formed an ILS ESG working group. Initially this consists of Zurich-based ILS asset managers for which ESG is of strategic relevance. This working group has identified common data needs of the ILS industry as far as ESG is concerned, with the ultimate goal to establish a commonly accepted reporting standard. We note that this industry engagement is starting to bear fruit with improved disclosures and is expanding to include ILS managers with an ESG focus from other countries.

Securitised products and asset-based finance

The securitised products and asset-based finance team focuses on the full spectrum of public securities to private alternative investments via a range of open-ended and closed-ended funds and separate single investor mandates. With a focus on the consumer (including through housing debt and asset-based consumer debt), the team has examined social practices, fit for purpose loans and fair collection for decades. The consideration and integration of ESG factors into our cashflow analysis incorporates an assessment of both the quality of the collateral, the responsibility of the lending and the sustainability of the cash flows. We utilise a scorecard system to assess eligible assets whereby securitised assets are ranked across ESG factors using proprietary sector specific scorecards. The factors are largely objective, using quantitative, data-oriented measures or information from engagement with borrowers and issuers. Scorecard results are subsequently added to the overall assessment of the assets from a credit and valuation perspective.

Securitised markets and the markets for private financing are less standardised with respect to ESG metrics; there is no third-party scoring, and information and reporting is non-standard. This requires engagement to:

- Derive information to understand where sub-sectors and companies are in their evolution.
- Partner and make progress together through transparency.
- Assess social, environmental or alignment characteristics to reward and incentivise or more correctly risk price for externalities.
- Identify those more likely to achieve levels of governance, social policy or environmental advantage that are aligned with our own standards, particularly where the market has not correctly differentiated.

Australian private debt

Schroders Capital's Australian private debt business seeks to offer strong risk-adjusted returns versus other mature markets. We look to take advantage of the illiquidity and complexity premiums within an environment that offers strong structural protections, such as covenants and security. The team aims to support businesses that recognise the importance of sustainability, have a social conscience, and strong governance principles, and often we need to gather this information through engagement.

Because there is no liquid secondary market, engagement is often essential during the pre-investment stage to ensure we fully understand the relevant sustainability risks and how they are being managed. We engage as part of the due diligence phase to help fill information gaps in our ESG questionnaires. We recognise that we are a relatively small player in the market, and so seek to increase our influence by engaging with the wider industry to raise sustainability standards.

Infrastructure debt

Our infrastructure debt team invests in essential infrastructure which consists of a broad group of infrastructure assets, focusing on long economic life and long-term cashflow visibility. We consider and monitor a range of factors using proprietary ESG and impact assessment and reporting tools over the lifecycle of an investment. By integrating these ESG considerations into our investment process, we expect to see stronger long-term risk-adjusted returns.

Similarly to our other debt business, the majority of our engagement takes place in the pre-investment phase, and, while we review the sustainability progress of our investments on an annual basis, it is unlikely we would engage post-investment unless issues arise during the term of the loan. Given our business is focused on Europe, where there is often strong regulation in place for infrastructure, a key part of our engagement is through ensuring that loan covenants have a provision to follow the regulation. We may also include some relevant sustainability KPIs in sustainability-linked loans. As part of our investment due diligence, we may also engage to request sustainability disclosure; for example, on specific environmental data points.

Real estate debt

The real estate debt team was established in 2020 to complement Schroders' real estate offering, to provide a comprehensive service to clients across the complete range of risk and return investing throughout the real estate debt spectrum. ESG is embedded in our underwriting and investment approval process. Every loan opportunity is screened against exclusion criteria and assessed for ESG risks and opportunities. Once a loan has progressed to the assessment phase, the deal team will complete an ESG scorecard. This is a proprietary measurement tool designed to transparently and objectively measure the relative ESG profile of each investment opportunity.

Engagement is often most relevant during the pre-investment phase, as the loan covenants set out within the loan agreement will specify the required behaviour from the borrower, which reflects both the borrowers' business plan and local regulations. We seek to engage on two-levels. Firstly, on the borrower themselves (typically a financial institution, property company or family office), which includes a review of their sustainability policies and environmental management systems, and internal culture.

Secondly, we may engage at the property level (although this would still take place with the borrower), on issues such as the building environment (including energy efficiency and improvement) and tenant engagement and well-being.

How will this evolve in the future?

A key challenge we note across the different private debt asset classes is the lack of standardised disclosures, which can increase the difficulty of engagement as we are less able to form an initial view on sustainability performance. There also still often remains a lack of sustainability understanding amongst issuers. Across a number of our private debt asset classes, we seek to address this through wider industry engagement to drive standard-setting and consensus on sustainability data, and we will continue to develop our role in the industry in the future.

Real estate

We have a long history of managing real estate and are one of Europe's largest real estate managers with investments across the UK, Europe and Asia. The majority of our portfolio comprises directly managed buildings and we also invest indirectly with external managers. We seek to deliver performance for clients through a global platform of real estate professionals enabling us to source and actively manage opportunities. Our focus is operational excellence which we apply with a hospitality mindset meaning that we manage our buildings to optimise revenue and value potential today and in the future. As real estate investors, it is also our responsibility to identify, understand, and manage positive and negative environmental, social, and economic impacts as well as delivering resilient long-term investment returns. Therefore, sustainability and impact are integral elements of our investment process throughout the investment lifecycle.

A significant aspect of our investment process seeks to address the carbon impact of our activities on the planet given the built environment is responsible for c.40% of global carbon emissions[19]. Recent global events, including the COVID-19 pandemic, have highlighted the critical role that real estate can have on communities, individuals, tenants, and employees who work, live, and play in our buildings. Our in-house expertise and local presence mean that we can drive physical change and meaningfully support tenant behaviours and reduce the risk to asset performance, including valuation changes and stranding, while also reducing the impact of buildings on the environment.

How do we define active ownership?

We act as active and responsible managers of our directly managed real estate investments. We hold the role as landlord or owner of buildings under our management and aim to understand and improve how each building delivers the needs of its users and beneficiaries through the value chain. We consider that by managing each building as its own business (our operational excellence), asset value should be optimised.

[19] In 2020 the buildings and construction sector accounted for 37% of energy-related CO2 emissions, according to the Global Alliance for Buildings and Construction.

We act as a responsible owner and seek to influence our service providers and partners in the value chain to do the same. Active ownership of directly managed assets involves ongoing engagement with a broad range of stakeholders across the lifecycle of an asset including tenants, suppliers, community, regulators, industry and environment.

Engagement is a more conventional concept in the fewer instances where we do not have direct control of the asset we invest in; for example, in niche-sector third-party funds in our solutions business, as well as in our real estate debt business (as outlined in the private debt section).

Key themes:

- Transparency and governance (responsible management)
- Climate change
- Biodiversity and natural capital
- Human rights (community relations)
- Human capital management

Example desired short/mid-term actions[20]:

Transparency and governance

- Ensure understanding of current and expected legislation and proactively manage legislative compliance for sustainability
- Improve understanding of evolving landscape of global reporting standards and their application to real estate

Climate change

- Introduce energy efficiency improvement measures such as building management systems, LED lighting, solar panels, technical building and net zero carbon audits and performance assessments
- Increase the use of renewables for landlord procured energy
- Improve understanding of physical risks and potential adaptation requirements

Human rights

- Seek wider opportunities for supporting provision of amenities for local communities
- Ensure compliance with human rights and modern slavery legislation in both our directly managed buildings, as well as with our principal suppliers

[20] Not all actions will apply to all our investments as much of our engagement is approached individually. The actions pursued will depend on a number of factors such as type of investment, materiality, and opportunity for change.

Key stakeholders for engagement:

- Property and building managers
- Tenants
- Refurbishment and development service providers
- Third-party fund managers
- Local communities
- Suppliers
- Industry and peers
- Regulators and government bodies

What is our current approach?

Our active management approach in direct real estate is integral across the investment lifecycle from acquisition due diligence, through asset and property management, to refurbishment and developments. Our approach to indirect real estate involves engaging with external fund managers to understand how they incorporate sustainability considerations and risks into their fund management processes. In practice this means that we engage with a range of third parties regularly, including property managers, developers, tenants, third party fund managers and government bodies. Engagement therefore occurs frequently and takes many forms and may include a disclosure request, a one-to-one conversation, or a site visit.

As an example, during the investment lifecycle of a directly held asset, we engage with tenants throughout their occupancy. At the start of occupation, we aim to include terms in the lease which seek to address sustainability collaboration and standards. We may then engage to help tenants understand fit-out and operational opportunities and continue the dialogue on an ongoing basis.

We may also take action through capital contributions to support improvements such as updating cooling systems. Furthermore, we regularly engage with property managers on their sustainability standards and include standards and key performance indicators in contracts.

In the case of indirect real estate, we conduct regular ESG surveys which can help identify areas for improvement in a fund's sustainability practices in line with our expectations of external managers. If issues are identified, we work with the manager over the course of 12 months to influence change. If we do not see change, we may then seek to limit further investment with that manager.

Engagement with industry bodies and standards setters on sustainability issues is a key part of our approach to active ownership in real estate.

How will this evolve in the future?

A key challenge, particularly for our direct real estate investments, is determining what is considered a a sustainability or impact-related engagement versus acting as a responsible manager of the assets. This is because much of our day-to-day activity is responsible management and involves engaging with a wide range of stakeholders for all properties.

We believe it is important to drive greater awareness in the market around the specific nature of engagement and active ownership in direct real estate particularly. We will continue to work to improve how we communicate our engagement activities and outcomes externally.

Infrastructure

Schroders Capital infrastructure equity team combines the capabilities that have grown within Schroders over the years, and the track record of Schroders Greencoat (which was acquired in 2022). With a history of investing in the energy transition, Schroders Greencoat has very strong relationships in the industry and has established a longstanding reputation for trustworthiness.

We invest in renewables, but also in essential infrastructure. This can include digital transformation – in assets such as telecom towers or fibre-optic cable, and the energy transition – mobility, environmental and social infrastructure.

By focusing on best practice management of ESG issues across all aspects of our business, we aim to create value for all stakeholders – not only investors and shareholders, but also the local communities surrounding the assets we invest in and manage. We also continue to improve the ESG performance of our supply chain.

How do we define active ownership?

For the majority of our infrastructure investments through our Schroders Greencoat business we are the sole equity owner, and for many of our other investments we still represent a significant proportion of the ownership of the asset. This means that our position can vary from having control of the asset, to acting as shareholder with varying degrees of rights.

That said, for almost all of our investments, almost no material decision can be made without our consent. In essence what we are trying to do is act as a responsible owner ourselves and influence our partners in the value chain to do the same, and engagement may in fact be most relevant as a concept in the few instances where we do not ultimately have control of the asset.

Key themes:

- Transparency and governance
- Climate change
- Natural capital and biodiversity
- Human capital management
- Human rights (community relations)

Example desired short/mid-term actions[21]:

Transparency and governance

- Comply with relevant standards for environmental management systems
- Applying the Schroders Greencoat Good Governance Framework, in line with the applicable ESG policy
- Disclosure of core ESG performance indicators

Climate change

- Disclosure of emissions data
- Promotion of climate action plans or commitments

Natural capital and biodiversity

- Managing the impact and/or improvements to local habitats to protect the biodiversity in the affected area

Human capital management

- Implementing good practice including occupational, and public health and safety measures

Human rights

- Ensure operating asset companies meet modern salary reporting requirements
- Encourage measures to support local communities

[21] Not all actions will apply to all our investments as much of our engagement is approached individually. The actions pursued will depend on a number of factors such as type of investment, materiality, and opportunity for change.

Key stakeholders for engagement:

- SPV or investee companies' management boards
- Operations managers
- Third-party service providers
- Suppliers
- Local communities
- Asset managers

What is our current approach?

Our approach to integrating and engaging on sustainability factors falls intotwo categories: pre-investment and ongoing management.

Generally, we are buying assets that are already operating, and as such we conduct due diligence around sustainability factors before making an investment. This involves rigorously assessing the asset's sustainability policies and practices. If risks are identified, we will engage with SPV boards, operation managers, asset managers and any relevant third-party service providers in order to address them. This may take place before an investment is made, or post-acquisition. In the case of joint ventures, board representation enables us to play a direct and active role in monitoring, assessing and ensuring strong governance.

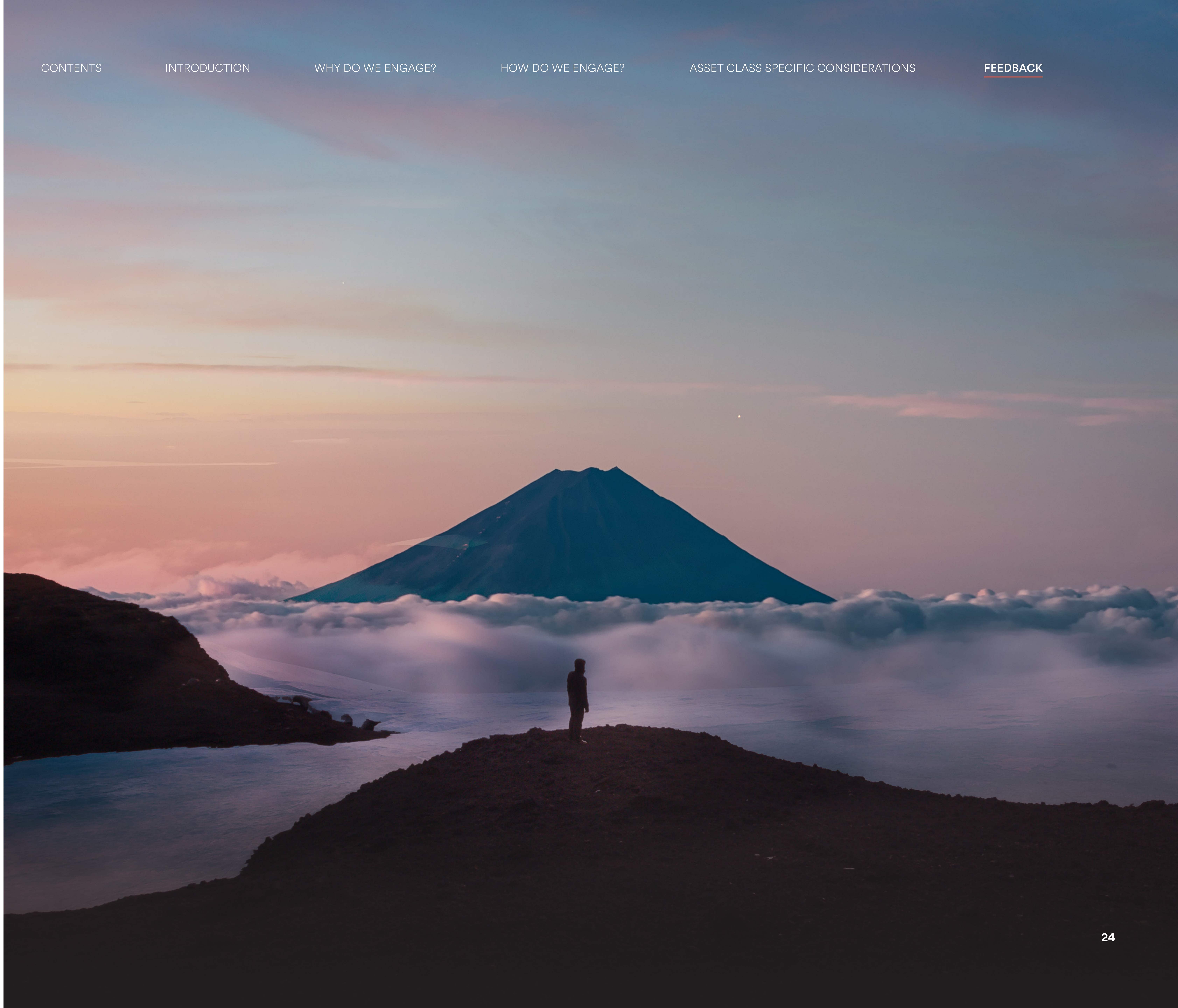
During the ongoing management of our investments, we monitor and assess sustainability practices, including around health and safety and decent work, environmental issues and community relations. Associated with this we actively engage with operations managers and relevant third parties and seek to engage with and support local communities. Additionally, at Schroders Greencoat, a representative can sit on the board of each operating asset company, which allows us to play a direct and active role in monitoring, assessing and influencing the financial, operational and sustainability performance of the investments we manage and ensuring strong governance.

Given our position in the value chain, we may also engage with supply chain partners, or with wider stakeholder groups. In addition, Schroders Greencoat has joined the Solar Stewardship Initiative, working with consultancy DNV to build a supplier monitoring program.

How will this evolve in the future?

A key challenge for our Schroders Greencoat business is distinguishing between a sustainability or impact-related engagement and a regular business activity in which we act as a responsible owner. As such our approach will likely evolve so that we consider and develop our engagements further with third parties. This can include improving the practices of operators and influencing during the pre-investment stage.

Feedback



We believe that engagement should be a two-way street. We welcome companies, investees, clients and our wider stakeholders contacting us about relevant issues and providing feedback on what we have set out in this document.

We also acknowledge that Schroders plc is on a similar journey to many of our investee companies regarding progressing our own ESG priorities and we explain our own approach as a public company in our Corporate Responsibility Report and Annual Report. We aim to be responsive to stakeholders looking to engage with us.

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