

An aerial photograph of a dense green forest. In the center, there is a dark, irregularly shaped pond. A small, forested island is situated in the middle of the pond. The surrounding forest is thick and vibrant green, with some areas showing lighter green or yellowish patches, possibly due to sunlight or different tree species.

**Our path
to net zero**

Schroders

**Climate
Transition
Action Plan
2021**

Contents

01 Our transition plan: a summary	2
– Schrodgers' climate action timeline	
02 Context: the scale of the challenge	5
03 Transitioning our clients' investments	8
– How we measure investment exposure	
– Our commitment to realign our clients' assets	
– Active ownership	
– Products and solutions	
04 Transitioning our operations	24
– Our operational emissions reductions targets	
– Climate neutral operations and the role of carbon offsetting	
Appendices	28
– Governance framework for climate-related issues	
– Climate-related initiatives and memberships	

Foreword

Our purpose is to provide excellent investment performance to our 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.

The commitments set out in this Climate Transition Action Plan reflect our purpose. We have a responsibility to manage the capital our clients entrust to us and to protect it from the risks that climate change poses to support investment performance for the longer term. We seek value in the potential opportunities created and aim to develop investment strategies that will help our clients to meet their own investment and climate goals. By doing so, we will play our role in driving decarbonisation in the real economy.

We have built on years of climate research, risk analysis and action to establish a robust view of our current emissions, on which our transition plan builds. Its publication fulfils a commitment we made when our Group Chief Executive wrote to all FTSE 350 companies in January 2021 calling on them to produce and publish detailed, costed transition plans by the end of the year.

Governance and climate reporting

Our response to climate-related challenges forms an integral part of our business strategy, with overall responsibility for the delivery of that strategy sitting with the Group Chief Executive. The Board Audit and Risk Committee reviews the key risks impacting the business quarterly, one of which is climate change. This Committee provides an update to the Board after each meeting. There are a number of other committees and working groups across the business to oversee, manage and implement our climate change strategy. See Appendix 1 for a summary governance framework for climate-related issues. We will continue to report annually on the progress against our climate transition goals, aligned with our Taskforce for Climate-related Financial Disclosures (TCFD) reporting.

Baseline data

The data and targets in this document represent our current position and we will disclose our progress and any changes to the underlying assumptions each year, alongside our other climate-related reporting. We have recently submitted our baseline emissions data and targets to the Science Based Targets initiative (SBTi). The detail of that data has not been included in this plan; we will publish it alongside other climate-related reporting once it has been externally validated.



“As a UK plc and a global investor, we have a fundamental role to play in decarbonising the economy”

Schroders' commitment to climate action goes back decades, as the timeline on page 4 of this report shows. We have accelerated investment in our own internal capabilities to help us measure and manage climate risks and to push companies to transition. I also firmly believe in the power of transparency and external accountability.

That is why I wrote to all FTSE 350 companies in January this year, calling on them to produce and publish detailed transition plans – a process that I also committed we would undertake ourselves. The publication of this Climate Transition Action Plan reflects our own commitment to action.

As both a UK plc and a global investor, we have a fundamental role to play in decarbonising the economy; we have set out the pathway to net zero for our own business operations, but we are also

able to encourage other large companies to plan and execute their own transitions and support our clients to adapt their portfolios.

Decarbonising our business operations will be an important contribution but as this report shows, our Scope 3 financed emissions from our investments are the largest part of our carbon footprint by far. That is where we have both a responsibility and a unique opportunity to make a meaningful difference.

We are committed to using our voice and influence to help deliver that transition in companies and assets in which we invest. That commitment is reflected in our decisions to join the Net Zero Asset Manager initiative and to submit a target to the Science Based Targets initiative (SBTi).

Tackling climate change requires huge structural shifts in societies and economies – a source of both value creation and destruction across industries, companies and investment portfolios. That is why I regard action on climate to be both a civil responsibility and a duty to protect the investments we manage against the risks that disruption will cause.

The challenge ahead is immense. We will face risks and opportunities, the magnitude and timing of which cannot be predicted precisely. Re-aligning the global economy, which has been built on carbon intensive foundations for centuries, to a net zero alternative in less than a generation will demand human ingenuity on a scale as yet unseen.

However, I am optimistic that by channelling capital into sustainable and durable businesses, we can play a fundamental role in revealing the creativity and unlocking the solutions we need to safeguard our future.

Peter Harrison
Group Chief Executive

01 Our transition plan: a summary

Our transition plan: a summary

As a business and an investor, we recognise that we have a responsibility to make sure we are on the journey to net zero and that we are delivering investment performance for our clients over the longer term by contributing to a sustainable future. That's why we've made a number of commitments to accelerate our progress on managing climate risk and achieving net zero by 2050 or sooner, spanning both the investments we manage and our operations. This action plan outlines how we will deliver that transition. The financed emissions from the investments we manage are around 6,000 times greater¹ than those from our own business operations, which is why the plan focuses on the former.

Engagement

For the next decade, we expect to focus on working with the companies and assets in which we are invested to help them transition. There are two ways we can realign the portfolios we manage to a net zero pathway; reallocate investments from high- to

low-carbon sectors, or engage companies to decarbonise their business models. In many ways the former is easier, but does little to reduce real world emissions and limits our ability to navigate the transition to our clients' maximum benefit as valuations and circumstances change. Today, companies representing less than one-fifth of the value of global equity markets have established the demanding decarbonisation plans that will be needed, covering just one-twentieth of their emissions. We cannot build the diversified portfolios our clients expect without the remaining companies setting similar goals.

Engagement can be slow and challenging but we believe in the importance of engaging with the companies that are facing the most pressure to decarbonise. We believe that this will create more value for our clients over the long term. We expect to engage at least 1,000 companies over the next eight years, through multi-year and intense engagement programmes reflecting the circumstances and progress of each company.

The goals we submitted to the Science Based Targets initiative require us to reduce the temperature alignment of our clients' portfolios from 2.9°C currently, to 2.2°C in 2030 and then 1.5°C in 2040. That pathway would require the share of companies with Paris-aligned targets to increase from under 20% to 60% over the next eight years, reaching 100% a decade later. This will require a large amount of effort through our engagement, portfolio construction and the products we are developing focused on climate solutions.

Product strategy

We recognise a growing awareness and demand from many of our clients for climate-focused products. Institutional investors may face their own pressures to deliver decarbonisation, and end investors increasingly care about the climate impact of their portfolios. We have recognised and responded to this demand for a number of years, with a growing range of climate-focused products. We continue to expand the options for clients to invest in climate solutions, benefiting from the

growth in those markets. Our climate solutions framework is designed to help our clients tackle the climate challenge, whether reducing carbon emissions or actively contributing to environmental solutions.

Operations

Greenhouse gas emissions from our own business operations represent a fraction of those from our clients' investments. However, we believe in leading by example and applying high standards in terms of managing and reducing our direct climate impact. We have set science-based targets for the near term, will encourage our supply chain to do the same, and will continue to be climate neutral for our operations as we transition to net zero.

1. Based on 2019 Scope 1 and 2 emissions of investee companies (mandatory in-scope asset classes for SBTi), which represented 62% of AUM) compared to Schroders' own Scope 1 and 2 emissions

Our path to net zero



1.5°C

science-based pathway

Net Zero

by 2050 or sooner



Transitioning our clients' investments to deliver value over the longer term



Transitioning our operations Our operational emissions reduction targets



Measure exposure and realign portfolios

Invest in our leading proprietary tools and data
(see page 9)

- Align portfolios to 2.2°C by 2030 and 1.5°C by 2040
(see page 11)



Track and hold companies to account

Identify companies on which to focus our engagement efforts
(see page 17)

- Apply our climate engagement and escalation framework
(see page 16)

- Take action against companies that do not make progress
(see pages 18 - 20)



Take a solutions approach to net zero

Continue to study our clients' evolving priorities
(see page 21)

- Continue developing climate-focused products and solutions
(see page 22)

- Allow clients to connect their capital to real world emissions reductions, focusing initially on natural capital solutions
(see page 23)



Reduce emissions from direct operations 46% by 2030 from a 2019 base year
(see page 26)



Increase annual sourcing of renewable electricity to 100% by 2025
(see page 26)

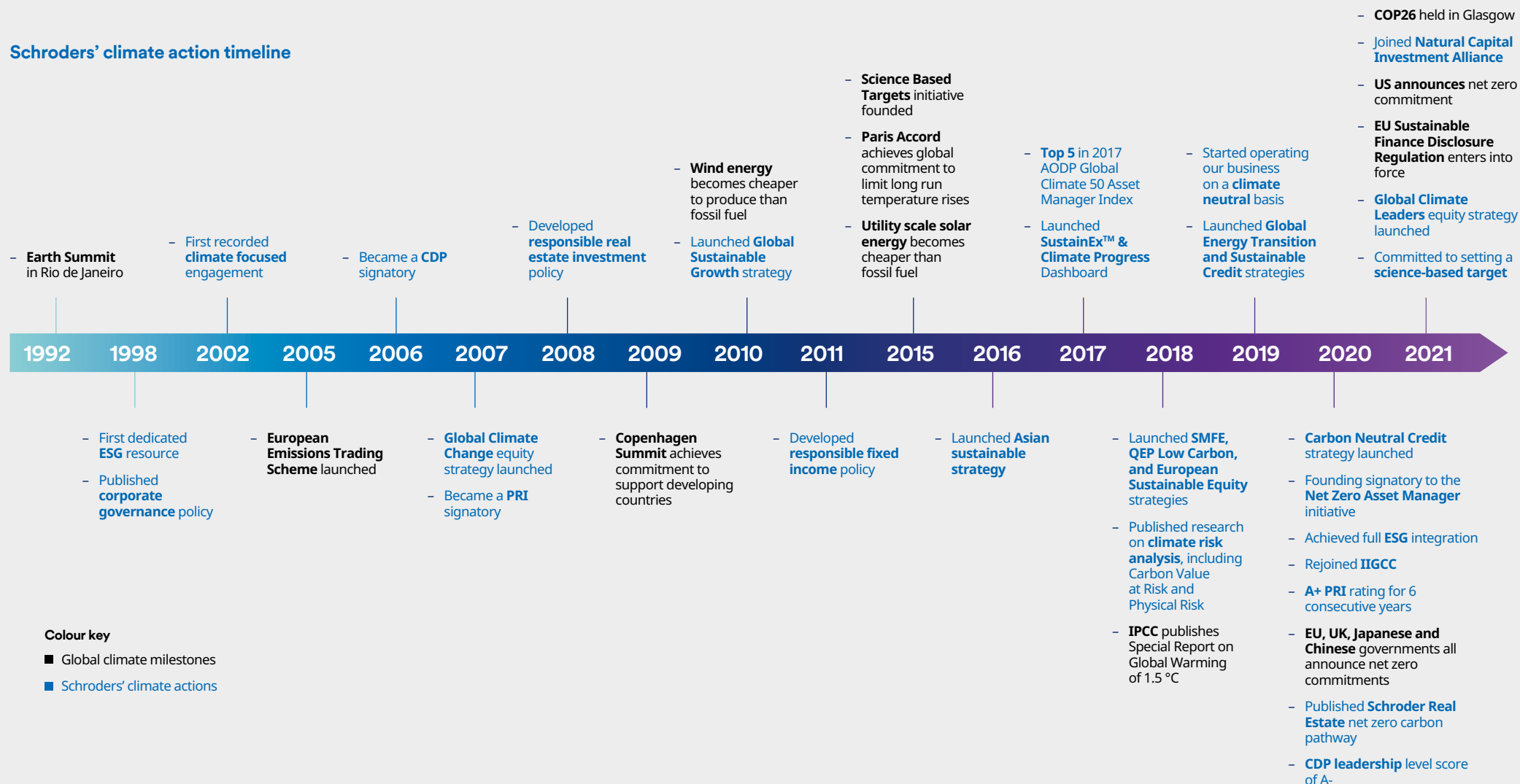


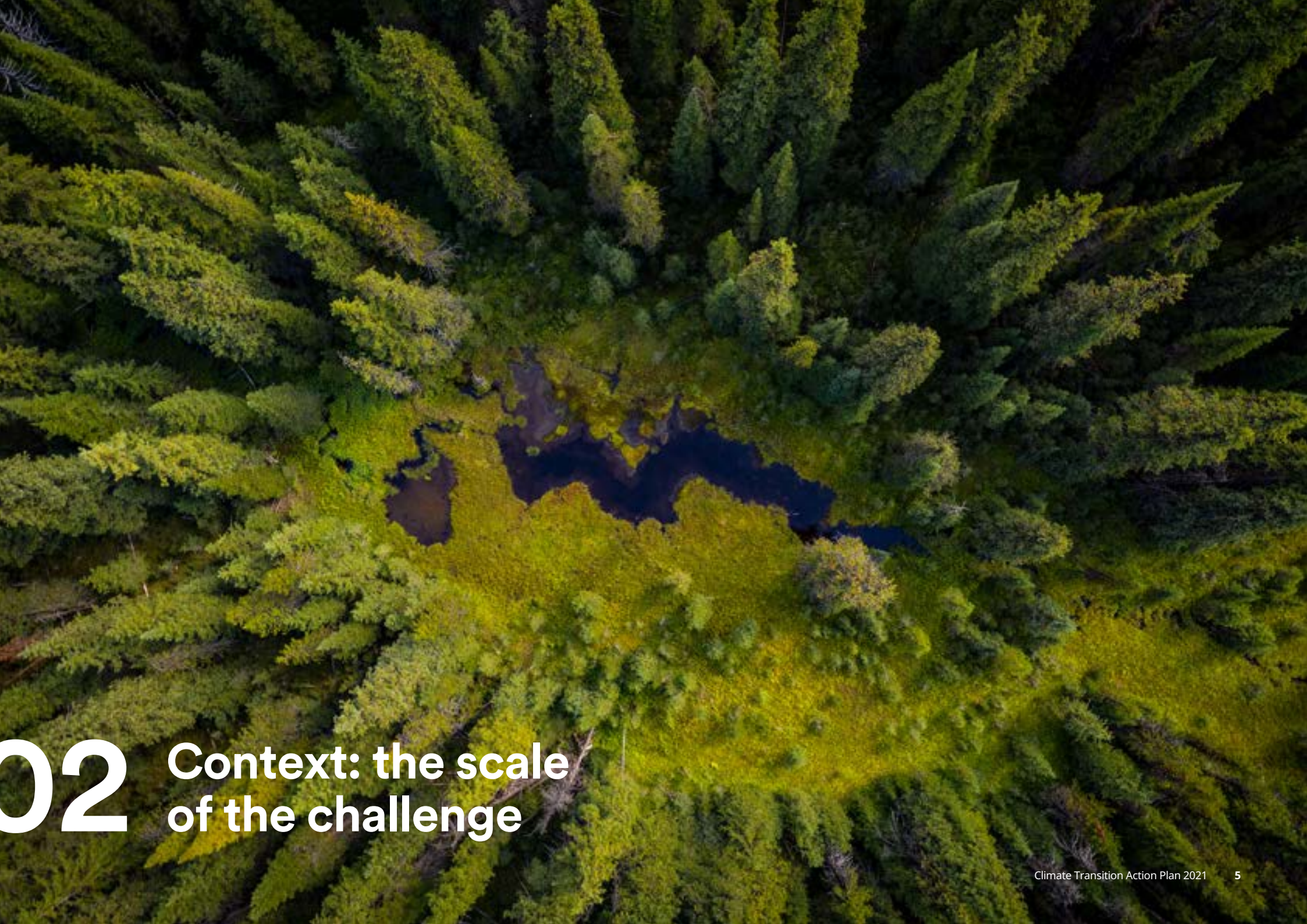
Reduce absolute business travel emissions 50% by 2030 from a 2019 base year
(see page 27)



Engage suppliers so that 67% (by emissions) will have science-based targets by 2026
(see page 26)

Schroders' climate action timeline



An aerial photograph of a dense forest. The trees are mostly evergreens, with some deciduous trees showing yellow and orange foliage. A small, dark, irregularly shaped pond is visible in the center of the image. The lighting is bright, creating a high-contrast scene.

02 Context: the scale of the challenge

02 Context: the scale of the challenge

The carbon economy

The global economy has been built on carbon intensive foundations over centuries. Since the industrial revolution, the global economy has grown in lockstep with rising greenhouse gas (GHG) emissions. Industrial development, playing out over centuries, has seen global carbon emissions from fossil fuel use rise to around 40 billion tonnes each year². Meeting net zero goals will demand a reversal of the carbonising impact of that journey in under a generation.

After years of prevarication, the commitment of governments globally has hardened quickly. National governments representing over 80% of global GDP have committed to decarbonising their economies³. Five years ago, under 10% of the world's governments, on any basis, had made similar commitments.

Against that backdrop, we believe that every economy, industry and company will need to plot a net zero path to remain competitive.

Huge quantities of capital will be withdrawn from sectors that contribute to the challenge and reinvested in those that will accelerate transition; the International Energy Agency (IEA) calculates that global clean energy investment will need to triple to USD 4 trillion annually by 2030⁴.

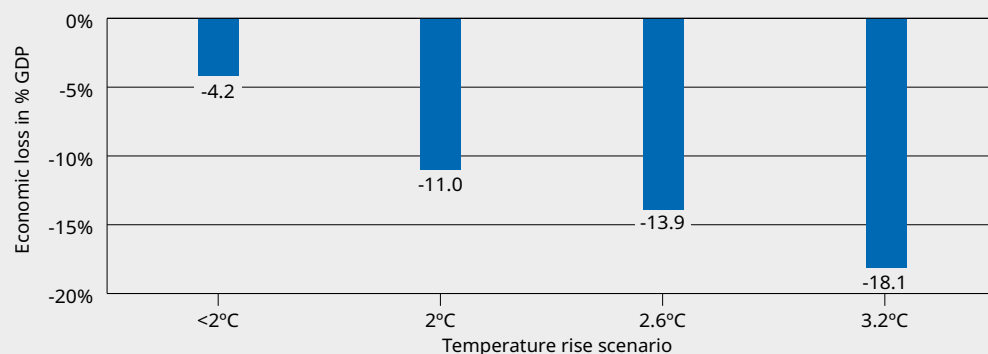
Every sector of the economy has become directly or indirectly tied to the energy complex – every industry will be impacted. Even those industries with superficially limited exposure to carbon emissions invariably have significant exposure through their value chains; Scope 3 emissions dwarf direct emissions in many industries.

Macro-economic risk

Our economics team analysed the implications of a climate transition for potential economic growth in major economies (see below), and the financial markets of those economies, looking at the potential resulting impacts on long run economic growth to expected financial market returns. We concluded that long run returns will be materially different with climate impact taken into account.

Potential global economic impact of climate change by mid-century

Climate transition will have a significant impact on GDP. This chart shows the estimated impact of different climate scenarios on long-term economic growth



Source: SwissRe Institute

- <https://ourworldindata.org/co2-emissions>
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf
- <https://www.iea.org/reports/net-zero-by-2050>



About the Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change. It was adopted at COP 21 in Paris on 12 December 2015 and came into force on 4 November 2016. The goal is to limit global warming to well below 2°C, and to aim for 1.5°C, compared to pre-industrial levels.

What action is needed to achieve this long-term goal? Limiting temperature rises to 1.5-2.0°C above pre-industrial levels will require rapid and sustained declines in annual greenhouse gas emissions. The Intergovernmental Panel on Climate Change (IPCC) has estimated that emissions will need to reach net zero around 2050, assuming limited reliance on carbon removal technologies beyond that time frame.

02 Context: the scale of the challenge

The implications for asset managers

As an industry we have significant exposure to climate related risk through our clients' investments and an ability to influence outcomes. Around one in five of the dollars invested in the global real economy is controlled by the asset management industry⁵. Collectively we have an opportunity and responsibility to push those investments to transition. Working with portfolio companies to adapt toward a net zero global economy will be vital to both protect the value of investments and meet global climate goals.

The asset management industry is at the centre of the monumental reallocation of capital and value that a climate transition will demand. Portfolios will be impacted, whether or not asset managers or their clients choose to prioritise the issue.

Tackling climate change will reshape industries and force massive reallocation of capital across the global economy.

Our industry's role as capital allocators in climate transition is increasingly clear to policy makers, investors and civil society. As a result, asset owners

and asset managers are not only facing a rising volume of climate regulation but also higher expectations from society as a whole.

The importance of active asset management

Less than one fifth of the world's 2,000 largest public companies have committed to meet net zero targets, too few to build diversified portfolios for our clients, and far too few to drive the global transition scientific consensus demands⁶. The key challenge is to engage and encourage companies to establish net zero targets and understand their plans for their delivery.

Absolute emission reductions are critical for real world climate action. However, we are concerned that absolute or relative emission targets for investment portfolios can create an unhelpful focus on investment exclusions, potentially leading to valuation discrepancies, and the risk of pulling capital and scrutiny away from the areas of financial markets where change is needed most. That is why we believe it is best practice both for client and planetary outcomes to use a temperature alignment methodology.

The overwhelming majority of low carbon passive funds focus on increasing exposure to companies with low carbon footprints. We believe that this way of investing avoids the real challenge and opportunity to drive transition.

Understanding both the ways carbon exposure will impact earnings and the extent to which those impacts are reflected in valuations will become increasingly important. As active managers, we are well placed to tread a path through the tensions of increasing exposure to low carbon business models and decarbonisation commitments on the one hand, and valuations and investment performance on the other.

Focusing on opportunities

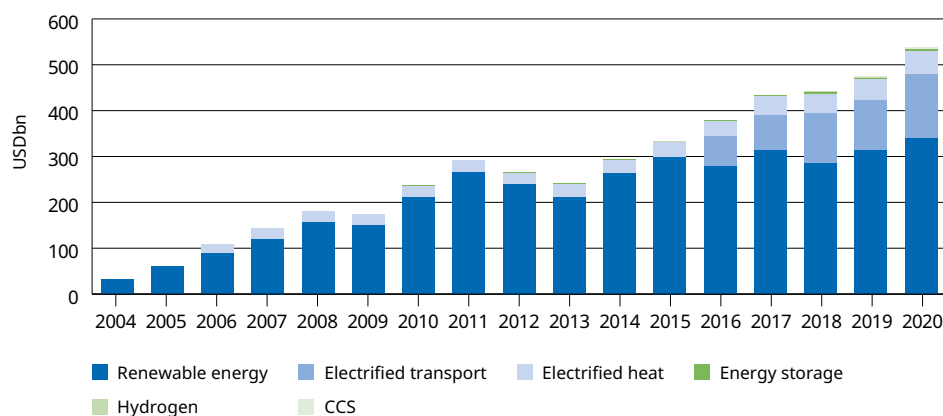
The transition will demand significant investment in clean technologies, benefitting from the withdrawal of capital from high emission activities. The graph below shows annual global investment in energy transition technologies, which has grown at a compound rate of close to 20% since the early years

of this century⁷, providing the tailwind that has made clean energy sectors among the best-performing over that period.

The transition will also require new types of investment, connecting investment capital to technologies able to deliver real world emission reductions. Many conventional investment products have limited impact on those emissions reductions; while they can provide investors with exposure to more forward thinking and better prepared companies, investment in many climate-focused funds do little to stimulate additional emissions savings.

We recognise the scale of disruption our industry faces and are prepared to meet it head on. Climate change is no longer a discrete theme isolated to corners of the asset management industry or selected investment strategies. Every portfolio is exposed to the risks and opportunities climate transition presents.

Global energy transition investment



Source: BloombergNEF

5. Global asset management industry assets under management (AUM) represent US\$103 trillion according to BCG. The market value of all global assets equates to around US\$550 trillion, based on research by Basilco and Johnsen.
6. <https://www.forbes.com/sites/dishashetty/2021/03/24/a-fifth-of-worlds-largest-companies-committed-to-net-zero-target/?sh=673f1dcc662f>
7. <https://about.bnef.com/blog/energy-transition-investment-hit-500-billion-in-2020-for-first-time/>



03 Transitioning our clients' investments

“The transition to a net zero economy is a transformational shift and as an asset manager we are in a pivotal position between asset owners and asset creators. The need to transition is urgent.

Our superpower is the ability to influence, so engaging with the businesses who are the ultimate producers of many of the carbon problems that we face today is a priority.

Peter Harrison
Group Chief Executive

Our lens

Maria Teresa Zappia, Chief Impact & Blended Finance Officer, Deputy CEO, BlueOrchard

Will the transition to net zero punish people in some areas of the world more than others?

“The importance of equity and fairness runs through the climate agenda. Unless the costs and benefits are shared, a global commitment to faster action will be difficult. Both BlueOrchard and Schroders are represented on the G7 Impact Taskforce, determined to achieve a “just transition”. For us, this means

combining climate action with fair socio-economic distribution and giving impacted communities a voice. What that means is that as we seek a transition to a greener future, we must do so while accounting for the impact on all people and communities.”

Just transition

We recognise that in transitioning to a sustainable economy we must ensure that the benefits are shared widely, reducing inequality and ensuring we protect those people at risk of being left behind. That means we will:

- Invest for a just transition: ensure our investment analysis includes the impact of the transition on key stakeholders, including employees, suppliers, customers and broader society
- Fund a just transition: create new products that help move capital towards areas that need the most support
- Engage for a just transition: encourage the companies in which we invest to support job creation and retraining for the green economy

03 Transitioning our clients' investments

The importance of financed emissions

The largest part of our exposure to carbon emissions comes from the investments we manage for our clients. This is also where the greatest challenges and opportunities lie, and therefore the main focus of our climate transition plan is on that investment exposure. We are under no illusions about the scale of the challenge. Our financed emissions – the indirect exposure to carbon we have through the investments we make – equated to 39 million tonnes of CO₂e in 2019, based on mandatory in-scope asset classes for SBTi, which represented 62% of our AUM. If we were to extrapolate and estimate this for our full AUM, it could equate to 63 million tonnes of CO₂e⁸.

That volume of emissions implies significant exposure and influence; it is greater than the emissions of American Airlines (59Mt)⁹, or the national emissions of Singapore (67Mt) or Ireland (62Mt)¹⁰.

Our financed emissions transition strategy

To deliver the transition in our clients' assets we are focusing on three key elements:

1. Measurement and realignment of portfolios – understanding their exposure and progress of the challenge means investing in our industry leading tools and data sets and a robust approach to realigning our investments delivered through active investment management.
2. Active ownership – driving change in the majority of companies which have yet to reach net zero emissions, by holding those committed to doing so accountable for their progress and working with those that have not yet committed to transition to do so.
3. Products and solutions – supporting our clients to allocate capital to climate solutions and better-placed portfolios, by continuing to enhance reporting, expanding our range of climate-focused investment products and by developing tailored solutions that allow our clients to invest in assets that will support the climate transition.

We recognise that these steps will not take us all the way to a net zero business model, but they are a necessary step. Over time, the importance of realigning portfolios away from companies that

have little ambition or possibility to decarbonise, and towards those which are on track to do so, will become increasingly important.

How we measure our investment exposure

We believe that the value of the investments we manage is unavoidably tied to the ability of those underlying assets to decarbonise in line with the global economy, avoiding the penalties and headwinds facing those businesses and assets which move too slowly or not at all.

As the energy infrastructure on which the global economy is built is fundamentally reshaped, measuring the investment consequences is a complex problem to which there are no simple answers. The analysis and tools we have developed are designed to help our investment teams tackle those thorny questions and we will continue to invest in further research and modelling in this area.

How we assess climate risk

In recent years, we have developed several tools to assess the risks and opportunities created by decarbonisation towards the commitments in the Paris Agreement. That analysis gauges the potential exposures of individual companies to the investment risks and opportunities a climate transition will impose:

- **Carbon Value at Risk** – the impact of higher carbon prices on companies' cash earnings, modelling the impacts of higher supply chain and operating costs, assuming higher prices and consequently lower demand in each sector
- **Physical risk** – the cost to companies of insuring against the expected damage physical climate change poses to companies' assets over their remaining lives
- **Stranded asset risk** – the costs to fossil fuel producers of lower demand for fossil fuels
- **Climate growth** – the value impacts of higher or lower demand for products and services that will grow more or less quickly under a climate transition

Using those models, we estimate that 10-20% of the value of major indices could be at risk under a Paris-aligned, below 2°C transition.

Climate Progress Dashboard

We launched the Climate Progress Dashboard in 2017 to help Schroders' analysts, fund managers and clients track climate action.

The Climate Progress Dashboard monitors change indicators across the four categories that have the most influence on limiting global temperature rises: political change, business and finance, technology solutions and entrenched industry (i.e. fossil fuel use).

It estimates the long-run rise in temperatures implied by efforts in each area, providing a bird's eye view of the speed and scale of climate action across the spectrum of areas that will need to change. It provides a more complete view than any indicator in isolation.

Although the aggregated implied temperature rise shown by the Climate Progress Dashboard has been tracking down since it was launched, the picture it shows underlines urgency for action and change.

Political change	Business and finance	Technology solution	Entrenched industry
Political ambition 2.4°C	Corporate planning 3.1°C	Electric vehicles 2.0°C	Oil & gas investment 1.7°C
Public concern 2.8°C	Climate finance 5.5°C	Renewable capacity 3.2°C	Fossil fuel reserves 4.6°C
Political action 2.7°C	Carbon prices 1.6°C	CCS capacity 4.9°C	Fossil fuel production 5.3°C
Aggregate implied temperature rise 3.3°C			

This snapshot of the Climate Progress Dashboard shows the figures as of September 2021.
<https://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/>

8. Based on 2019 Scope 1 and 2 emissions of investee companies.

9. MSCI

10. World Resources Institute (WRI)

03 Transitioning our clients' investments

SustainEx™

Reflecting the growing focus on sustainable investment across Schroders, we have developed SustainEx™ as a common measure of portfolio sustainability across the majority of the public assets we manage.

SustainEx™ is our proprietary tool which provides investment teams with an estimate of the potential social or environmental impact that an issuer may create. It is also used to help assess the estimated sustainability of portfolios, including in the context of our Sustainable fund range.

The central role of the costs of carbon in that analysis means that carbon risks are examined across portfolios particularly those of sustainable funds managed to relevant commitments.

In total, carbon represents around 45% of the total impacts included in the SustainEx™ model, spanning Scope 1, 2 and 3 emissions, as well as avoided emissions benefits.



“As guardians of our clients’ capital, we strive to protect them from financial and non-financial risks; the economic, political and environmental damage caused by the effects of climate change is an inescapable truth we all must face. Whilst many companies in our clients’ portfolios do not yet operate on a net zero basis, we are witnessing a growing number announcing emissions reduction targets consistent with a pathway to net zero. When companies undertake such transformational work together it can create sustainable value for shareholders and, as long-term investors, this is what we want to see.”

Charles Prideaux
Global Head of Investment

Our lens

Andrew Howard,
Global Head of Sustainable Investment

How can investors feel confident about their portfolios when there is wide discrepancy in corporate reporting globally?

“Investing sustainably requires a fundamental shift in how companies are viewed and valued. We have invested heavily in a number of proprietary tools that are designed to calculate climate risk or the carbon impact of companies and portfolios. By utilising these tools across all of our portfolios and teams, we aim to have a consistent picture of our clients’ assets, enabling evaluation and comparison. We continue to lend our voice, experience and expertise in this area to support industry initiatives as well as in our ongoing company engagements to strive towards global standards in reporting.”

03 Transitioning our clients' investments

Our commitment to realign our clients' assets

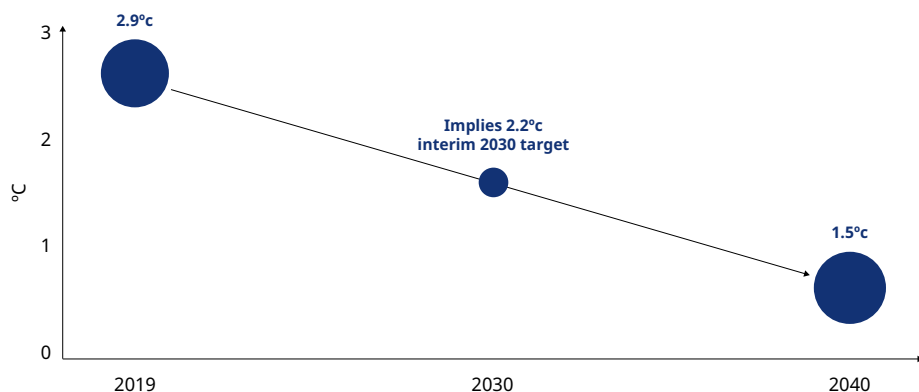
We have used the CDP-WWF temperature rating methodology¹¹, required for SBTi analysis, to assess the current temperature alignment of the assets we manage. That methodology applies to companies (equity and credit securities) only, which represent close to two-thirds of the assets we manage, therefore we have focused our reporting on those investments.

On that basis, the assets we manage are in aggregate, currently aligned to a 2.9°C pathway. We are committed to ensuring that by 2040 those assets will be aligned to a 1.5°C pathway, which approximates to a net zero 2050 trajectory.

Portfolio emission intensity primarily reflects managers' sector allocation decisions, rather than companies' efforts to reduce their emissions relative to peers. Meeting intensity targets could therefore be achieved fairly easily, by enforcing limits on investments teams' exposures to more carbon intensive sectors, but those limits are unlikely to prove in the interests of our clients and do little to drive reductions in real world emissions.

We have chosen to base our climate transition plan on temperature alignment rather than absolute emissions targets. Despite this, our strategy is likely to result in significant emissions reductions as we align Schroders' clients' portfolios to a 1.5°C pathway by 2040 (see below), with an interim 2.2°C target. By developing new climate-focused products and re-aligning portfolios to reflect climate risks, we intend to further accelerate the reduction in group-wide emissions, recognising that outcomes will rely on our clients' investment decisions and are uncertain.

Straight line transition from baseline to 1.5°C over two decades



11. CDP-WWF temperature rating methodology is an open source methodology which translates targets into a single, intuitive metric. This allows the global temperature rise associated with corporate ambition to be compared. <https://www.cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology>

Enabling analysis of individual portfolios

We have developed measures to allow analysts, fund managers and our risk teams to track the pace of transition in individual portfolios.

We recognise that funds must be assessed over time rather than from quarter to quarter. We intend to assess portfolio progress over rolling three-year periods, consistent with the two to three year period over which we have found engagements typically bear fruit, to ensure investment teams are able to manage the transition thoughtfully, as valuations of better placed companies rise and fall.



The Schroders Temperature Rating Model (above) estimates the potential forward-looking environmental impact of our investing activities. Specifically, this model calculates the implied temperature pathway for a snapshot of our investment holdings.

03 Transitioning our clients' investments

Challenges of building net zero aligned portfolios

Measures of climate exposure provide an important starting point and baseline; the extent to which businesses are transitioning towards decarbonisation is equally important in determining the risks they face.

Company decarbonisation categories

We categorise companies in four groups:

1. Already achieved net zero business models
2. Committed to reach net zero in future
3. Able to transition but not yet committed
4. No viable pathway to transition¹²

Currently the first and fourth groups are very small. There are not many companies that have evolved to a net zero business model, although there are very few companies incapable of doing so.

The vast majority of companies fall in the middle categories; those able to transition and which have announced commitments to transition and those which have not yet done so.

As the chart opposite shows, we expect the proportion of companies in each category will change over time as more companies achieve net zero or make firm commitments to do so.

Against that backdrop, it is currently not possible for large, global asset managers to build diversified portfolios of assets that have already reached net zero emissions. Rather, we must ensure that the portfolios we manage comprise assets that are on and stay on that pathway.

We have seen a rapid increase in the number of global companies with commitments to SBTi, particularly from 2018 to 2021, with a corresponding surge in the value of such companies as a share of market capitalisation (see graph opposite, below).

Calculating the profile of our transition

Our commitments, underpinned by the actions described in this report, put us on a pathway to net zero emissions by 2050. Following our decarbonisation pathway means ensuring the assets we invest on behalf of our clients are themselves committed to transition, so we will be rightly called on to demonstrate the assumptions we have used to calculate how we will meet our commitments.

Today, companies representing under 20% of the value of the MSCI ACWI index, a leading global equity benchmark, have committed to emission reductions at a pace consistent with a 1.5°C long run temperature rise. Those companies represent over 10% of the total emissions of all companies in that benchmark. As a diversified, global asset manager the picture is similar across our own holdings. That current picture of the corporate landscape stands in sharp contrast to a future in which all companies will need to align their business models and value chains to a net zero economy.

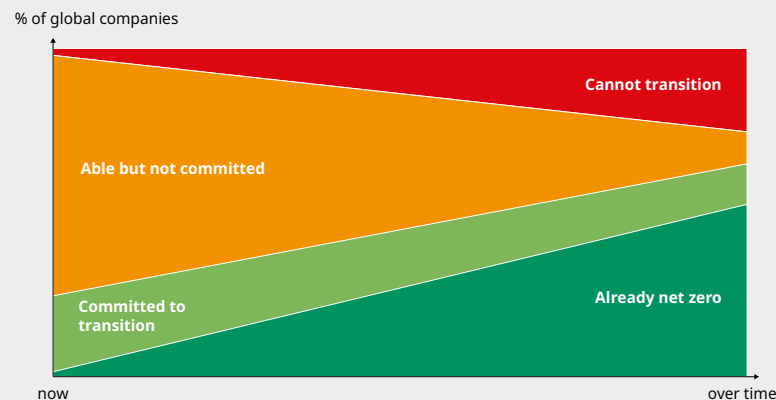
Closing that gap is critical, both to protect the value of the assets we manage for our clients and to deliver the emissions cuts global climate security requires. Companies in the MSCI ACWI benchmark directly contribute around one-quarter of global GHG emissions, but their business models and value chains embed much higher emissions.

Our strategy focuses on driving change in the companies and assets in which we invest. By aiming that, by 2040, the investments we manage are on track to cut their emissions to net zero levels by 2050, our financed emissions will fall over coming decades.

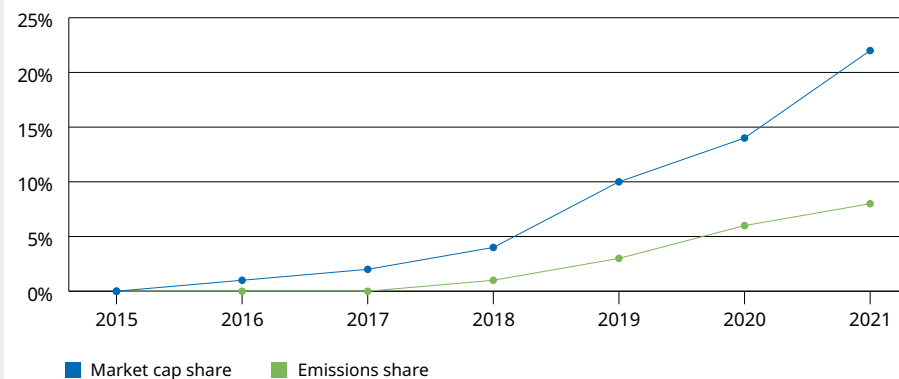
That fall will not be linear. Working with portfolio companies to commit to and then deliver decarbonisation will result in falling emissions, but the pace of that decline is unavoidably slower than simply divesting companies with high emissions today. While slower and less amenable to attention grabbing headlines, we have a responsibility to push for change, support companies on their journey and to hold them accountable if they fall short. Our focus is on dealing with the problem, not avoiding it.

Committed to climate transition

Illustrative view of the current and prospective share of global companies according to their climate commitments



Number and value of global companies with SBTi targets or commitments



12. Based on the threats they face, their organic cash generation and the timeframe over which their asset bases can change.

03 Transitioning our clients' investments

Our lens

Charlotte Jacques,
Head of Sustainability and Impact Investment,
Real Estate

The real estate sector has one of the highest carbon footprints of any sector, how can clients invest confidently in this asset class?

At Schroders we believe it's our responsibility to understand and reduce emissions across the building lifecycle. Real estate, both residential and commercial, is widely considered to be responsible for c.40% of global carbon emissions¹³. This includes operational carbon from daily use of buildings, as well as embodied carbon from construction.

Recognising the scale of impact we made a Net Zero Carbon Commitment in 2019¹⁴ and issued our Real Estate Net Zero Pathway in 2020. In 2021 we have been working on new operational energy and carbon targets starting with our directly invested portfolios. We have a net zero ambition aligned to the Paris Agreement aim to limit warming to 1.5°C.

We need to show investors the actions being taken to decarbonise to inform their investment decisions. An active carbon strategy should reduce obsolescence, protect from increasing regulation and support investment performance for the longer term.

Our approach to temperature alignment

We have used the approach prescribed by the SBTi to assess the alignment of our clients' portfolios to long run temperature outcomes¹⁵.

In simplified terms, that methodology looks at the targets companies have set to reduce Scope 1, 2 and 3 emissions over short, medium and long-term horizons. Weighting targets by current levels of emissions in each category, it calculates the pace of emissions reduction implied by each company's plans and compares each projected reduction rate to the global declines needed to meet long run temperature rises. By comparing companies' reduction targets with the reduction pace needed for long run temperature outcomes, alignment for each company can be inferred.

We also recognise that the SBTi approach is one of many that have been developed. Those different methodologies are superficially similar but can reach very different conclusions for the same companies. Temperature alignment scores calculated by different research methodologies for the same companies can bear little correlation with each other.

We recognise the value and importance of using temperature alignment methodologies, however it is important to understand that they have limitations when comparing investment opportunities for our clients.



13. International Energy Association.
14. Details of the Better Buildings Partnership Climate Change Commitment including the commitment wording, signatories, and the BBP Net Zero Carbon Framework guidance can be found at <https://www.betterbuildingspartnership.co.uk/node/8777>.

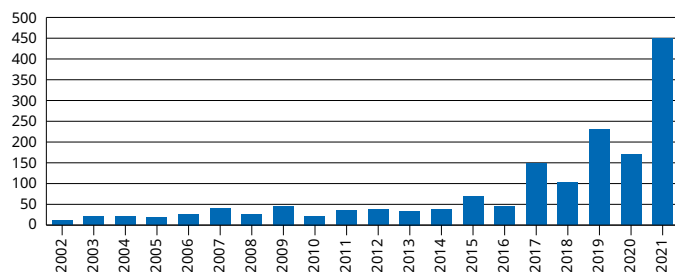
15. Further details of the finance sector methodology are available [here](#).

Active ownership

We have a long history of engagement and voting on climate related issues in connection with portfolio companies. We undertook our first recorded engagement on climate topics in 2002, since when the scale and breadth of our engagement has risen significantly (see below, top). Similarly, as the number of climate related shareholder resolutions submitted to companies' AGMs has risen, our voting has followed suit (see below, bottom).

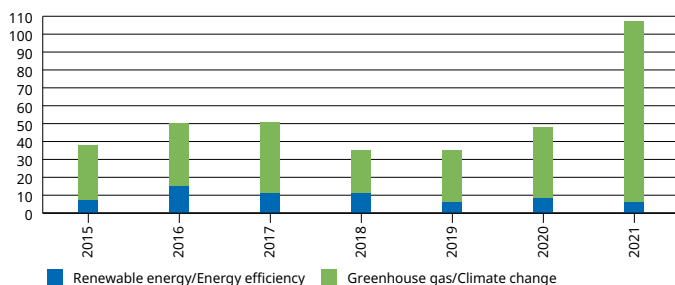
Our climate change efforts reflect our long standing commitment to active ownership. As responsible investors and guardians of our clients' assets, we seek to actively influence corporate behaviour so that the companies we invest in are managed in a sustainable way. Engaging and working with them to transition their business models to decarbonise in line with a net zero or 1.5°C pathway is an important step in supporting those businesses to adapt and thrive.

Number of climate focused engagements



Note: 2021 includes climate focused engagements to 30 September 2021

Number of climate-related resolutions on which we have voted



Source: Schroders

Our lens

Kimberly Lewis,
Head of Active Ownership

Surely divestment is the only way to make portfolio companies transition quickly to low carbon business models?

"Divestment vs engagement was a very popular argument a few years ago; the truth is that we have moved on from binary debate. Clients often use divestment to signal public disapproval or to align with their values but we know that by remaining invested and actively engaging we can drive sustainable change and enhance the value of the companies we invest in. We have a responsibility to take an active approach to our investments to ensure our clients' capital is protected and used responsibly."

Net Zero letter to FTSE 350

In January 2021, our Group Chief Executive wrote to all FTSE 350 companies, urging them to publish detailed transition plans for how they intend to transition their businesses towards net zero emissions by 2050.

At the time, around one-sixth of the companies he wrote to had committed to decarbonisation in line with the goals laid out in the Paris Agreement, through science-based targets.

Over nine months later, this number has doubled, with around one-third of the companies we contacted now having set, or committed to set, a science-based target.

Net Zero letters to selected CA100+ companies

In September 2021, we wrote to the Chairs of over 80 companies in Europe and North America that are key to driving the transition towards net zero. These were selected from the list of companies included in the CA100+ Net-Zero Company Benchmark.

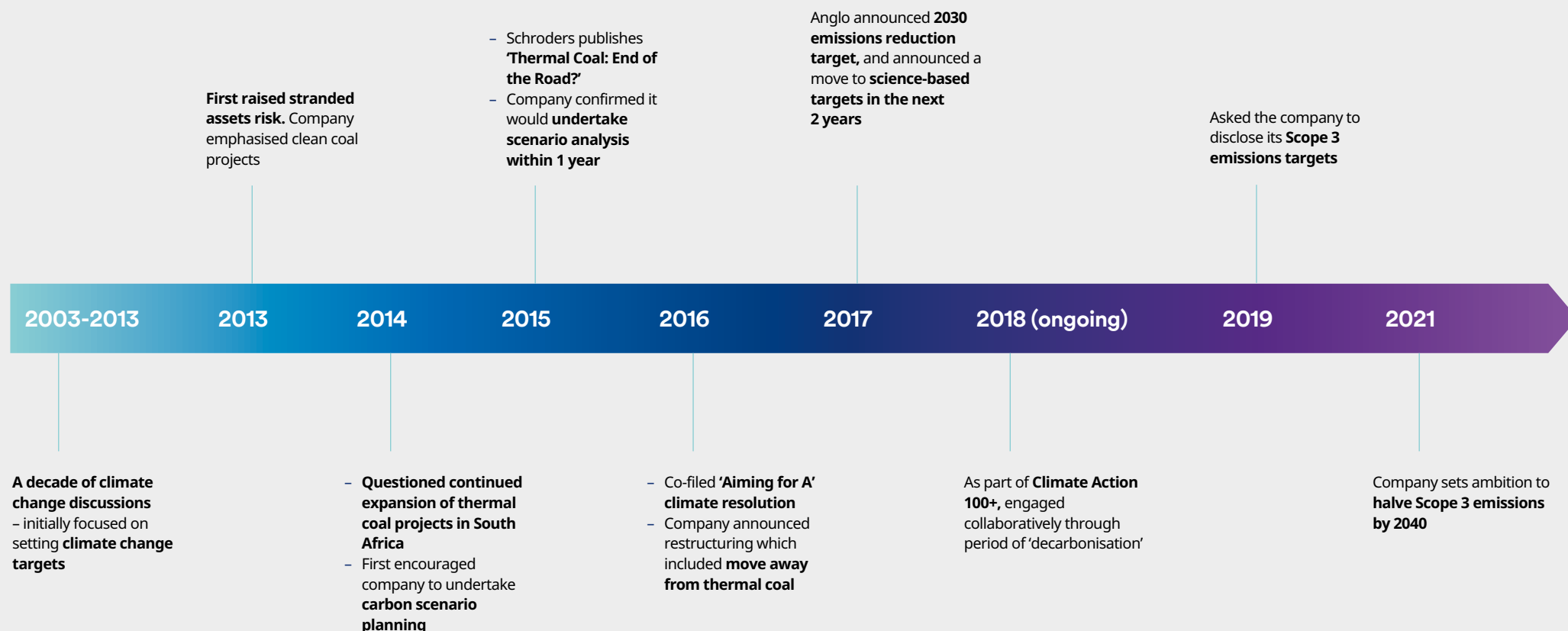
- We urged companies that had not already done so to set a 2050 net zero ambition, along with short, medium and long-term targets covering Scope 1, 2 and most relevant Scope 3 emissions.
- We asked companies that had set a net zero ambition covering only operational (Scope 1 and 2) emissions to widen the scope of their net zero ambition and targets to include relevant Scope 3 emissions.
- We encouraged companies that had already set an ambition covering Scope 1, 2 and relevant Scope 3 emissions to continue to develop their interim targets and transition plan.

We will continue to communicate our climate expectations to companies as part of our climate engagement and escalation framework.

03 Transitioning our clients' investments

Case Study: Anglo American

Our longstanding engagement with Anglo American is one example of the tangible changes that deep engagement with company management over a sustained period of years can achieve, especially in slow moving and entrenched sectors. Over the course of 18 years, our conversations have focused on clear articulation of our expectations and we have monitored the company's ongoing progress against objectives. We have utilised a range of levers available to investors including co-filing a shareholder resolution and collaborated with other investors where beneficial to the engagement. We are encouraged to see the firm's recent ambition to halve Scope 3 emissions by 2040.



See our Sustainable Investment reports for more examples of climate engagements in practice.

03 Transitioning our clients' investments

Climate engagement and escalation framework

Our climate engagement and escalation framework sets out how we will use our influence as investors to help drive the transition to a low carbon economy.

Our climate engagement and escalation framework is made up of five key elements:



We recognise that smaller companies face greater resource and financial constraints than larger companies. As a general rule, we consider the largest 80% of companies we hold via public equity or corporate bonds as in scope of our formal engagement and escalation framework (by market cap or enterprise value). We plan to include other types of issuers (e.g. sovereigns) in the future.

03 Transitioning our clients' investments

1. Climate expectations

We have identified 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 they will deliver that transition and meet those targets
- Publish their performance and progress annually

In addition, we expect such companies to report annually on their climate-related risks, and the steps they are taking to manage these risks. We believe we will be more successful if we work with other investors and collaborative initiatives, and have deliberately described expectations that are aligned with those of collaborative initiatives such as CA100+ and IIGCC.

2. Company prioritisation and selection

We invest in listed equity and corporate bonds of around 6,000 companies. It is therefore important that we focus our engagement efforts where we are best placed to make an impact – generally these are companies that are making the biggest contribution to our Scope 3 financed emissions from our investments or those in which our investment and influence is greatest.

We expect to focus our climate engagement efforts on around 1,000 priority companies through to 2030. We will review our company prioritisation and selection on an annual basis.

10%

We estimate that a modest engagement success rate of 10% of companies against our first two climate expectations will put us on track for our 2030 near term temperature target.

How we prioritise our engagements:



03 Transitioning our clients' investments

3. Monitoring progress

We use a data-driven approach to help us prioritise and select companies, monitor progress against our expectations at scale (where suitable data exists), and measure the impact of our engagements.

Our climate dashboard and proprietary tools allow us to track the pace of change at a company and fund or desk level. We use the same tools to track progress in our own operations (see pages 26 to 29).

We track company performance using a range of objective metrics, including information on:

- **Ambition: Does the company want to reduce its emissions?** e.g. climate commitments, emissions targets
- **Organisation: Has the company made changes to its organisation to facilitate transition?** e.g. board member responsibility, remuneration
- **Action: Is the company taking tangible action to reduce emissions?** e.g. climate policies, renewable energy use

- **Progress: Is the company delivering meaningful progress to decarbonising its business model?** e.g. declining emissions intensity, changes in absolute emissions

To enable us to comprehensively assess the companies in which we invest, we have developed objective indicators in each of these categories. We combine them to gauge the overall performance of companies or portfolios across that range of dimensions.

For priority companies, we may also conduct supplementary research, for example to verify data points and to understand the details of a company's transition plan.

4. Voting policy

As the number of climate-related resolutions has risen, we have refined and adapted our voting principles in this area. In line with best practice we have adopted a "support or explain" approach to environmental and social resolutions, aiming to vote in favour of these resolutions where they align with our sustainability ambitions. Most of these resolutions are submitted by shareholders.

Shareholder resolutions – These are proposals submitted by investors for a vote at the company's Annual General Meeting. Although they represent only a small share of votes we cast, the number of shareholder resolutions has increased over recent years.

So far this year, climate-related shareholder resolutions have represented over a quarter of shareholder resolutions at companies we own, covering a range of topics from greenhouse gas emissions targets to climate lobbying.

We will continue to support appropriate shareholder resolutions that we believe will help push companies to transition and align with our key climate expectations.

Say on Climate resolutions – During 2021, we have seen a new type of proposal from management teams on AGM agendas, asking shareholders to approve a company's climate targets, policy or transition plan. While these votes are typically advisory only, some companies have pledged to give investors a Say on Climate at regular intervals.

To date, we have generally been supportive of companies' proposals but have voted against plans where we do not believe the emissions reduction targets to be stretching enough.

From 2022, we will not support Say on Climate proposals where we believe the company has not made sufficient progress against our key climate expectations.

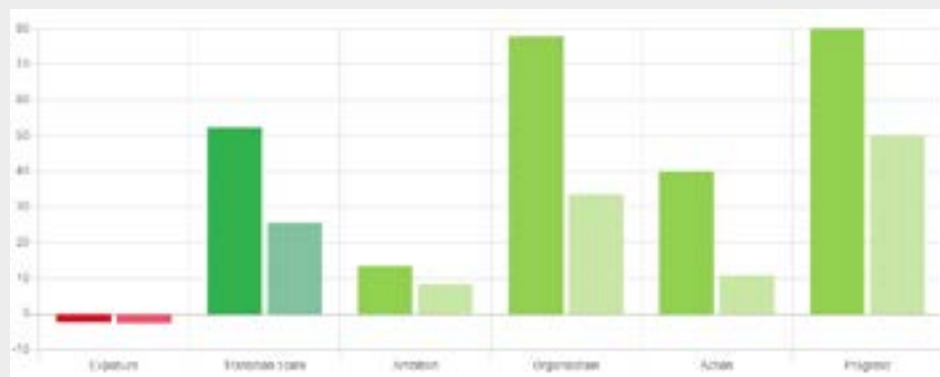
Votes against boards. We believe it is important to hold boards to account on climate issues, particularly in those sectors most exposed to climate-related risks, plus those that represent a disproportionate future impact on climate change. If we rely solely on shareholder or Say on Climate resolutions, we will not have the opportunity to vote on climate issues for all companies.

From 2022, we plan to vote against board members in companies we consider to be the most exposed climate laggards.

There are a number of different ways to vote against board members – for example, we could vote against the board chair, entire board, members responsible for climate change or certain committees. The approach will vary depending on the region, nature of the climate issue, and individual circumstances of the company.

Climate Transition Tool

We are developing tools to help us track company progress along those dimensions and will continue to develop and refine those tools over time.



03 Transitioning our clients' investments

5. Escalation practice

The final element of our framework is our escalation practice. These are the steps we take against companies not making progress on our objectives within a certain amount of time.



Escalation timeline



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

03 Transitioning our clients' investments

Assessing the impact of engagement

Building on our experience with climate engagement over the last two decades, we have developed a comprehensive engagement plan across our managed portfolios. That plan encompasses several layers of action (see pages 16 to 19).

We have established our best estimates of the likelihood that a given engagement programme will successfully result in a commitment by a company to transition towards net zero business models. We also estimate that some companies will be unlikely ever to transition.

As a result, every year companies will leave the focus list, reflecting either success or failure, and will be replaced by others. In total, we expect to actively and intensively engage with at least 1,000 companies through this programme by 2030. We will also make our transition expectations clear to other companies. While pushing companies to establish commitments is a necessary first step, tracking their progress and holding them accountable for delivery will be just as important.

To deliver our engagement plan, we have significantly increased the scale and capacity of the teams responsible for engaging with those companies. We have expanded our Sustainable Investment team by approximately half during 2021, more than doubling the number of people focused on engagement activities. In addition, investment teams are focused on driving the active ownership agenda, with dedicated sustainable investment professionals across the business and increased ownership by analysts and fund managers.

Exclusions and divestment

Exclusions do not feature heavily in our climate transition plan. We recognise the existential threat facing fossil fuel producers and coal industries in particular, and continue to adapt our investment policies to reflect that threat. We will publish an updated exclusion policy early in 2022, to incorporate coal exclusions. While highly exposed to climate pressures, coal miners represent under 0.2% of the value of global equity markets – albeit coal is more important to some economies and societies – and their exclusion from portfolios we manage makes limited difference to our aggregate exposure. Nor does it drive global emissions downward, given the evidence that those assets typically continue to operate, albeit without the scrutiny of public market investors.

Policy and stakeholder engagement

We will continue to support industry initiatives and contribute our perspectives and experience to formal and informal policy consultations.

We engage with policy makers, trade associations and civil society with the goal of directly or indirectly influencing public policy on climate-related issues.

We regularly voice our proposals and concerns in written statements, formal and informal meetings and consultation responses. Addressees include UK and EU institutions, national and EU Parliamentarians, ESMA, national regulators and ministries. We engage both directly and through trade associations (EFAMA, the Investment Association, SIFMA, ALFI, etc.) and other initiatives (UKSIF, CFRF, AIGCC, IRSG, HKGFA). For example:

- We are an investor member of the CDP (previously Carbon Disclosure Project) and a member of the Institutional Investor Group on Climate Change
- We have contributed to the UK's plans to green the UK financial services system, and develop a Roadmap to Sustainable Investing, including introducing mandatory climate disclosures, through responding to consultations directly, as well as through engagement with related initiatives such as that convened by the Green Finance Institute
- We responded to consultations by regulators in the US, Singapore and Hong Kong and engaged with policy makers around the world

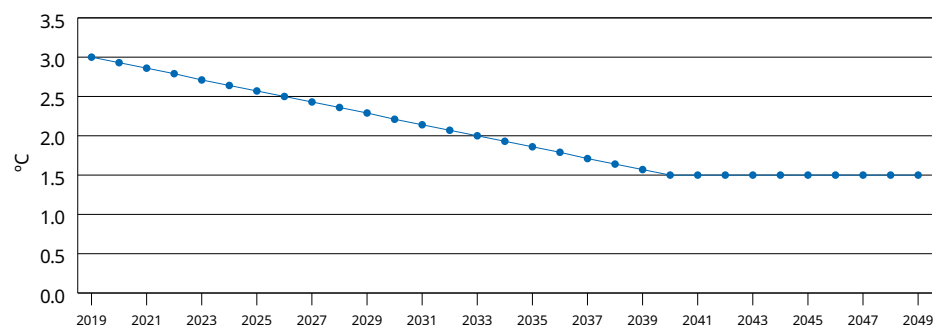
- We have organised educational events for non-executive directors focusing on climate risks and opportunities, the pressures facing the businesses for which they have oversight and the steps we believe they will need to take

Recently, our focus has been on:

- requirements for companies to provide key information to assess climate risk (non-financial reporting);
- legislative provisions encouraging financial institutions to focus on climate change, and in particular that asset managers promote engagement among the companies in which they invest and among their clients;
 - developing UK sustainability disclosure requirements and investment labels (including transition)
- integrating sustainability in financial advice and ensuring investors have access to sustainable investments;
- policy initiatives regarding ESG ratings and rating providers;
- sustainable corporate governance;
- binding emissions targets and emissions pricing schemes; and
- carbon pricing.

We also support and actively engage with a range of climate change-related initiatives, memberships and organisations to help lead progress towards a net zero future (see Appendix 2).

Our temperature alignment commitment



03 Transitioning our clients' investments

Products and solutions

Investors are becoming increasingly aware of the impact of climate risks on their portfolios. The evolving regulatory environment, along with the improving economics of climate solutions and building evidence that political leaders will take action, is increasing demand for climate solutions that help decarbonise investors' portfolios whilst maximising risk-adjusted returns.

We have engaged with clients extensively to help build their understanding of the risks and opportunities climate change presents, and measures to help them manage those impacts.

Understanding our clients' priorities

We regularly survey investors to gauge their appetite and understanding of sustainable investing and ESG (environment, social and governance) issues. Over series of studies, we've witnessed the appeal of sustainable investing grow.

In our most recent Global Investor Study¹⁶, which explores the behaviours and attitudes of more than 23,000 investors around the world, over half of the respondents said that environmental issues are "much more" or "more" important than before the pandemic.

It's clear that the individual investor has a role to play, and many of our institutional clients themselves face growing regulatory or stakeholder pressure to assess the climate risks to which their portfolios are exposed and the efforts they make to manage those risks.

A growing market for climate-aware investment products

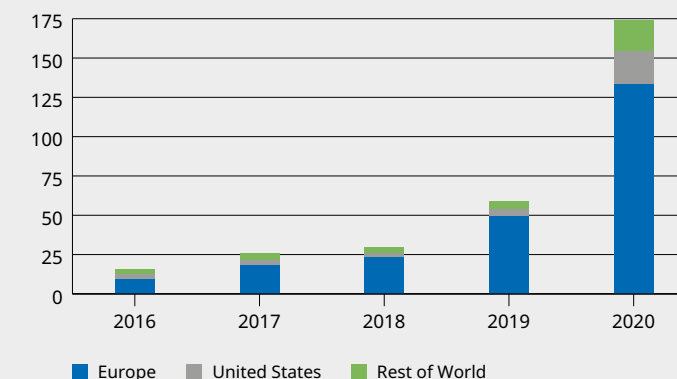
Market data supports the findings of our own investor surveys, showing a significant growth in climate-focused products (see right). The number of climate-aware products has accelerated rapidly across all regions globally and across product categories.

"Investors are becoming increasingly sophisticated in their understanding of ESG and we hear directly from clients, both from institutional and retail channels, that climate change is an increasing priority for them. Over the course of four consecutive years, our institutional investor survey found that investors' concerns that investing sustainably may hamper performance have declined. The demand for low carbon investing is here and growing."

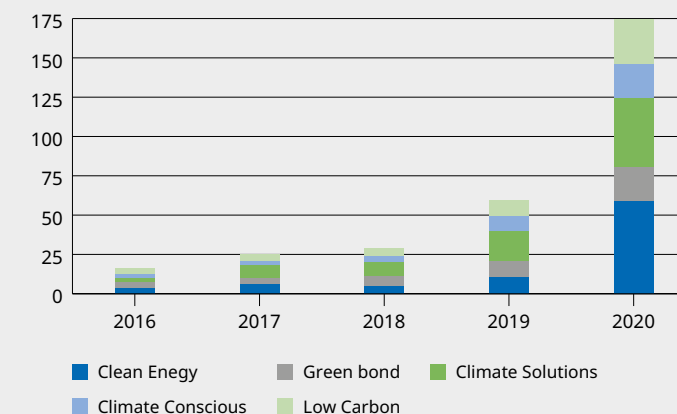
Lieven Debruyne
Global Head of Distribution

Climate-aware funds by region and by category

Assets (USD Billion)



Assets (USD Billion)



Source: MorningStar

As the implications of climate change are becoming better understood, investors are beginning to consider the impact that it will have on their investment portfolios. New climate-related risks and opportunities are emerging and this has led to an increase in the demand for climate-aware funds globally, with Europe being the largest driver of this increase.

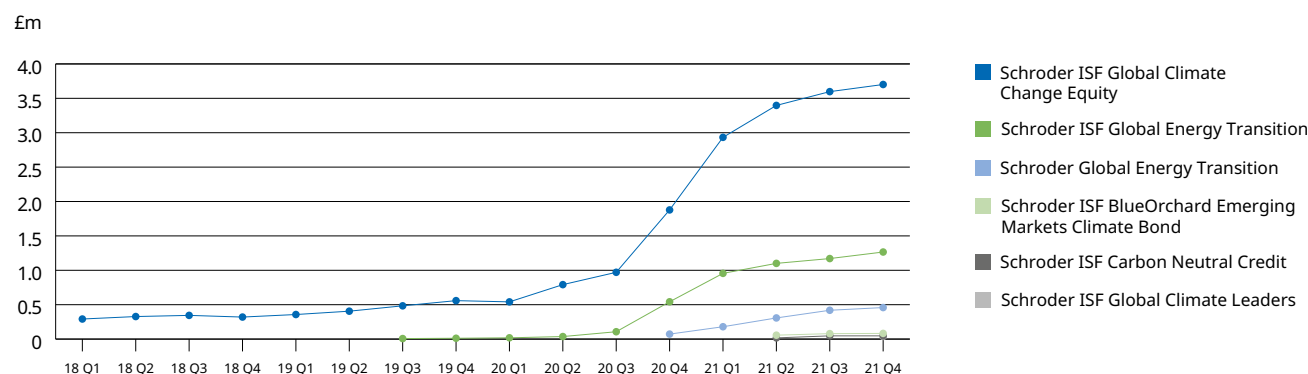
16. <https://www.schroders.com/en/insights/global-investor-study/2021-findings/sustainability-report/#sc-art-5>

03 Transitioning our clients' investments

Our product strategy for climate

We are expanding the options for our clients to invest in climate solutions, benefitting from the growth underway in those markets. We launched the Global Climate Change (GCC) fund in 2007 and since then have launched a range of investment vehicles focusing on a range of climate-focused investment strategies. While we will continue to focus on developing climate-focused investment options for our clients, we cannot be sure of the extent to which they will choose to invest in them. As a result, delivery of our transition plan is not tied to their future growth.

Growth in AUM in selected climate focused funds



Source: Schroders

We have established a climate solutions framework that is designed to help our clients tackle the climate challenge, whether reducing carbon emissions or actively contributing to environmental solutions. To do this we divide our climate solutions framework into three phases:

Investor objectives	Mitigating exposure to climate risks	Contributing to environmental solutions	
Phases	Phase 1: Climate transition Managing the impacts of decarbonisation. Through analysis of: <ul style="list-style-type: none"> Carbon emissions Carbon intensity Carbon VaR Temperature alignment 	Phase 2: Climate mitigation Solutions contributing to mitigate climate change risk. <ul style="list-style-type: none"> Solar, wind, hydro, nuclear Energy storage Sustainable transport Energy infrastructure Green buildings Waste management 	Phase 3: Carbon capture <ul style="list-style-type: none"> Forestry/timber store Direct air capture Ocean capture Soil sequestration Mineralisation
Our proprietary tools	SustainEx™ and Carbon VaR	ThemEx ¹⁷ (Environment)	Natural Capital Research
Fund ranges	Sustainable Fund Range	Impact Goals Range	Bespoke Solutions

Our lens

How would you characterise the attitude of our wealth management clients towards climate?

“The investment industry is at a tipping point; the push to a net zero future is an opportunity to drive the transition to a fairer, sustainable economy, to deliver what our clients really want and to drive business growth. 42% of our UK clients are seeking portfolios with a sustainable or impact focus, according to our latest client survey. They want us to deliver both strong financial performance and positive impact and our credibility rests on the outcomes that we deliver.”

Kate Rogers,
Head of Sustainability, Wealth

17. ThemEx tool currently under development

03 Transitioning our clients' investments

Phase 1: Climate transition

In this phase we target companies who are actively transitioning to a low-carbon business model. While these companies may not be directly contributing to solutions, they are reducing their exposure to carbon.

Phase 2: Climate mitigation

Our climate mitigation portfolios have specific objectives to contribute to environmental solutions. We assess this by measuring the alignment of the portfolio companies' products and services to climate-related Sustainable Development Goals (SDGs).

Phase 3: Carbon capture

This phase deals with an integral but often overlooked aspect of climate solutions – natural capital assets (for example woodlands, oceans and mangroves), which are the biggest and most efficient way of capturing and storing carbon. Through our partnership with Natural Capital Research, we can analyse natural capital assets and identify the best way to maximise carbon capture and sequestration. Investing in natural capital assets can help our clients offset or reduce their carbon exposure but also represents a potential new source of returns through the carbon credits these assets can generate.

Climate-related fund ranges

Sustainable Range: Our Sustainable range comprises strategies that aim to achieve their investment objective alongside delivering a better impact on society compared to a relevant benchmark.

Impact Goals Range: Our Impact Goals strategies have the dual aim of delivering risk-adjusted returns whilst seeking to contribute positively to the solutions needed to solve societal and environmental challenges.

Innovation in natural capital

We recognise that while expanding our range of climate-focused investment products helps many of our clients to meet their own investment goals, a growing number of institutional and retail investors are looking for more innovative investment solutions that connect their investment more concretely to emissions savings. As a result, we are working with several large institutional investors around the world to develop investment solutions, focusing on emissions sinks through forestry assets and the carbon offsets they yield.

In November 2021, we joined the Natural Capital Investment Alliance (NCIA), which aims to accelerate the development of Natural Capital as a mainstream investment theme. NCIA was created by His Royal Highness, the Prince of Wales, as part of his Sustainable Markets Initiative (SMI) launched at Davos in 2020. Its members have plans to launch, or have launched, investment products aligned to Natural Capital themes. These encompass strategies such as direct investments in sustainable forestry and land management.

Our lens

“Investing for a low carbon economy has become a fundamental growth driver for our industry and it is revolutionising the investment solutions we build for our clients. Many conventional investment products have limited impact on reducing emissions and so the opportunity to evolve and develop innovative products in both the private and public markets is very exciting for us and for our clients.”

Carolina Minio Paluello,
Global Head of Product, Solutions & Quant



About Natural Capital Research

Natural capital describes aspects of nature that provide important ecosystem services such as carbon (CO₂) sequestration, soil erosion protection, flood risk reduction, habitats for wildlife, pollination services and spaces for recreation and wellbeing. The combination of soils, species, communities, habitats and landscapes which provide these important ecosystem services are often called 'assets'.

In 2021, we announced a strategic partnership with Natural Capital Research (NCR), along with Oxford Sciences Innovation (OSI). NCR is a data-led science-based organisation which specialises in measuring natural capital assets globally.

Using leading modelling and data techniques, NCR enables landowners, utility companies and corporates to map the natural capital provided by their landholdings. These include assets important for carbon storage and carbon sequestration.

Earlier this year, NCR launched NatCap Map, a tool to map natural capital assets. NCR's services provide scientifically rigorous research which can be used to develop net zero carbon strategies. Through this innovative partnership, we will leverage NCR's mapping tool to strengthen our solutions approach and support clients as they seek to pursue net zero portfolios.

04 Transitioning our operations

“We apply the same values and standards that we demand of the companies we invest in to how we run our own business. Setting ambitious targets is not only the right thing to do but also helps create efficiencies in our operations and engages our people to be part of the solution.”

Richard Keers
Chief Financial Officer

Our lens

Can we really make a difference towards climate goals by decarbonising our own operations?

“We realise that the greenhouse gas emissions associated with our own operations are dwarfed by the emissions we finance through our investments. However we want to, and need to, walk the talk. If every organisation focuses on decarbonising the emissions it can directly control and influencing those in its value chain, the whole system will change. Everyone can play a part in contributing to our climate goals and we want to help lead the way.

Madeleine Cobb
Head of Corporate Sustainability

Facts

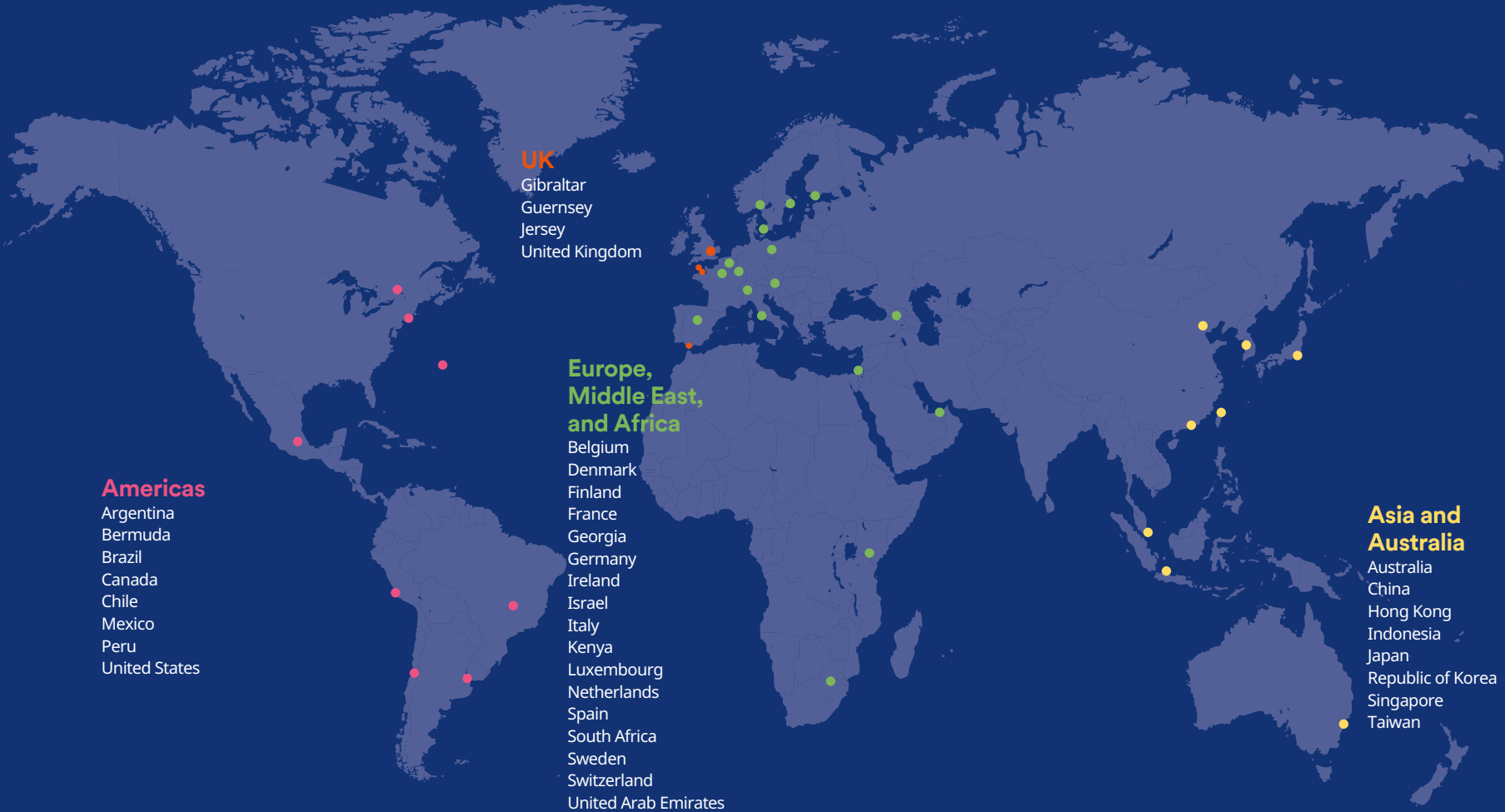
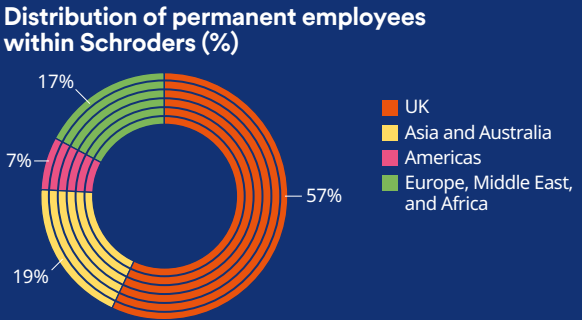
- We will reduce absolute Scope 1 and Scope 2 (location-based) greenhouse gas emissions **46%** by 2030 from a 2019 base year
- We will increase annual sourcing of renewable electricity to **100%** by 2025¹⁸
- We will reduce absolute business travel greenhouse gas emissions **50%** by 2030 from a 2019 base year
- We will work with our suppliers so that **67%** of suppliers by emissions will have science-based targets by 2026
- Our business has been operating on a **climate-neutral** basis since 2019

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

05 Transitioning our operations

Our global operations

We have more than 5,200 permanent employees in more than 70 offices in 37 countries around the world. A full list of our locations can be found [here](#). We also rely on a global network of more than 7,000 external service providers for goods and services to supplement our own infrastructure and investment management capabilities.¹⁹



19. Data as at June 2021

05 Transitioning our operations

As an investment manager, we do not cause large environmental impacts through our own operations. Even so, we believe that as a company committed to sustainability we should minimise our operational footprint and lead by example through ambitious targets and actions.

Data and the Science Based Targets initiative

After becoming a founding member of the Net Zero Asset Managers initiative in 2020, we committed to setting science-based targets and have recently submitted our data and targets to the SBTi for official validation.

The SBTi process has underscored the importance of having accurate and robust data, processes and systems. During 2021, we carried out a full screening and inventory across all relevant greenhouse gas emissions scopes and categories as defined by the Greenhouse Gas Protocol, some of which we collected for the first time. We have an environmental accounting tool for our global operations, which captures and tracks data across energy, transport, waste, water and paper use. This software allows us to query and analyse the data and to track progress in order that we can take action where needed. Our operational greenhouse gas emissions data goes through an annual verification process by a third party in line with AA1000AS (2008) Type 2 assessment, moderate assurance level.

Once the SBTi validation and verification process is complete, we will publish our re-stated 2019 base year data. Transparency and disclosure are important to us and this data, along with our progress to date, will be in Schroders Plc Annual Report and Accounts, Task Force on Climate-related Financial Disclosures (TCFD) report and annual CDP climate change questionnaire, where we achieved a leadership level score of A- in our most recent (2021) response.

Our operational emissions reductions targets

Through the SBTi process we have set new operational greenhouse gas emissions targets, against a base year of 2019, aligning with our ambition to limit global warming to 1.5°C and reach science-based net zero emissions.

Our new near-term targets are to:



Reduce absolute business travel greenhouse gas emissions

50% by 2030
from a 2019 base year



Work with our suppliers so that

67% of suppliers
by emissions, will have science-based targets by 2026

Our operational Scope 3 value chain emissions (not including our financed emissions) are almost 40 times larger than our Scope 1 and Scope 2 emissions. About 98% of these operational Scope 3 emissions come from business travel and suppliers. We have therefore chosen to set additional targets for these areas. These are to:



Reduce absolute Scope 1 and Scope 2 (location-based) greenhouse gas emissions

46% by 2030
from a 2019 base year



Increase annual sourcing of renewable electricity to

100% by 2025²⁰

Our ambition is to demonstrate leading practice when it comes to reducing the environmental impact of our business. As such, we constantly review opportunities to improve our environmental performance and in the process engage our people and suppliers to support our climate goals. Our plan over the next decade will focus on:

- implementing environmental management systems across our office locations;
- reducing energy consumption in our properties and fleet;
- increasing the renewable power we use;
- minimising business travel; and
- encouraging and supporting our suppliers to set science-based emissions reduction targets.

Our actions to reduce the impact from our operational activities

Implement environmental management systems

In order to actively manage our environmental impacts and to drive continual improvements, we are working towards certifying our largest office sites to the ISO 14001 Environmental Management System (EMS) standard. We will also align our smaller office locations with these EMS principles and procedures. ISO 14001 helps businesses minimise their environmental impact by addressing all site level risks and setting appropriate targets. We will be audited internally and externally every year to maintain our certification, holding us to account against our site level targets. In 2020, our global headquarters in London was certified and in 2021 our New York and Hong Kong offices have achieved certification.

Reduce energy consumption in our properties and fleet

With new targets to meet, we are drawing up site-specific net zero action plans. These will include energy efficiency measures, building on known and emerging good practice, and will take advantage of new technologies.

We are developing sustainability site selection criteria to apply to new offices, to ensure that the environmental credentials of buildings are considered in an office site selection process. We are also developing green lease clauses to require data provision and green electricity procurement. We will review our existing office leases for opportunities to align with this criteria.

We have a modest fleet of around 70 leased cars across the world. Some of these vehicles are

already hybrid or fully electric and as the lease periods come up for renewal, we're supporting the switch to low or zero emission cars.

Increase renewable power

In 2019 we joined RE100, a global initiative bringing together the world's most influential businesses to help accelerate the transition towards zero carbon electricity grids. We have committed to only sourcing renewable electricity across our global office locations by 2025. As we look to electrify our buildings to reduce the use of fuel sources, including gas, our renewable electricity plan will become even more important. Site level action plans are being developed to look at the opportunities to install onsite renewables, switch to green electricity tariffs or buy Renewable Energy Certificates.

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

05 Transitioning our operations

Our actions to reduce the impact from our value chain emissions

Minimise business travel

Although the COVID-19 pandemic demonstrated how well our IT and video-conferencing tools supported virtual meetings, there will remain a certain level of travel required to meet with our clients and collaborate with colleagues face-to-face. However, we don't want to return to pre-COVID travel levels and we're aiming to cut our business travel emissions in half by 2030, from a 2019 base year.

We are reviewing our Travel Policy and will introduce minimum requirements for air travel and encourage more sustainable transport methods where appropriate. This target will need to be supported by all of our employees, so we will consult in the different regions to help with the implementation.

In recent years we have invested in communication technologies, so that employees can meet and collaborate effectively online. To support the continued success of these and other cloud-based systems, we are developing further online training and communications campaigns to support users in adapting to remote working.

Engage with suppliers

For emissions outside of our direct control, we need others to join the net zero journey with us. By understanding our supplier base, we can target and engage with the suppliers that contribute the most to the greenhouse gas emissions from the goods and services we procure. We will establish their existing sustainability commitments and support them in setting a science-based target. In addition, we will embed science-based targets into our supply chain risk and oversight processes including supplier onboarding.

Climate-neutral operations and the role of carbon offsetting

Our primary focus is on our decarbonisation plan. We have set science-based targets for 2030, which will result in absolute emissions reductions, and we will look to align with the SBTi's net zero standard for financial institutions, planned for 2022. We also believe that, as we go through our transition process, there is a role for carbon offsetting: buying carbon credits equivalent to our carbon footprint to avoid or remove emissions somewhere else. This is both to compensate for emissions that will still be released on our transition pathway and to neutralise residual emissions for net zero.

There is a limited carbon budget to prevent global warming of 1.5°C above pre-industrial levels and carbon offsetting helps preserve and extend this budget. The voluntary carbon market helps direct financing to climate action projects in emerging and developing economies and these often have additional benefits such as biodiversity protection, pollution prevention, public health improvements and job creation. Carbon credits also support investment into the innovation required to lower the cost of emerging climate technologies.

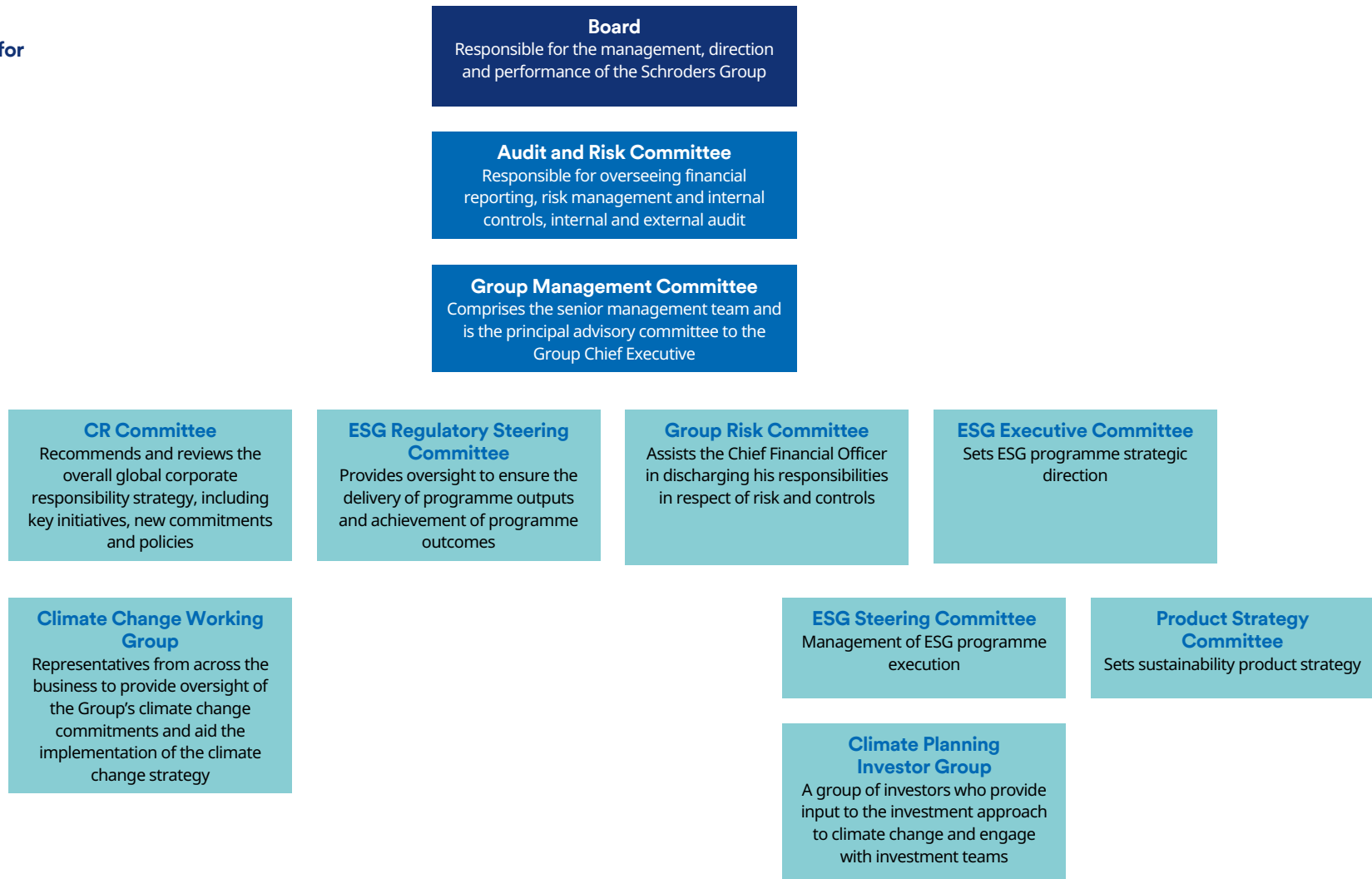


Since 2019, we have been operating our business on a climate-neutral basis. This means we have offset our Scope 1, Scope 2 and reported operational Scope 3 emissions. We work with ClimateCare on our offset programme and in 2020 our project portfolio included three forest protection and reforestation projects. ClimateCare's projects are certified to an International Carbon Reduction and Offset Alliance approved international certification standard and have passed their proprietary enhanced due-diligence process.

As the voluntary carbon market continues to grow and develop, we will seek to adopt the Oxford Principles for Net Zero Aligned Carbon Offsetting to help support the integrity of our approach. As well as adhering to current best practice in sustainable development integrity and transparency, over time we shall increase our proportion of carbon removal projects over emissions reduction projects and support the longer-term development of the net zero offset market.

Appendix 1

Governance framework for climate-related issues



Appendix 2

Climate-related initiatives and memberships

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

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

Appendix 2 continued

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



EST. 1804

Schroder Investment Management Limited

1 London Wall Place, London EC2Y 5AU, United Kingdom

T +44 (0) 20 7658 6000

 [schroders.com](https://www.schroders.com)

 @schroders

Important Information: The views and opinions contained herein are those of the named authors and Sustainable Investment team, and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

Schroders uses SustainEx™ to estimate the net impact 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. SustainEx score is determined by Schroder's proprietary tool SustainEx.

The success of any quantitative ESG research model depends largely upon the effectiveness of the investment team's quantitative model. A quantitative model, such as the risk and other models used by the investment team requires adherence to a systematic, disciplined process. The team's ability to monitor and, if necessary, adjust its quantitative model could be adversely affected by various factors including incorrect or outdated market and other data inputs. Factors that affect a security's value can change over time, and these changes may not be reflected in the quantitative model. In addition, factors used in quantitative analysis and the weight placed on those factors may not be predictive of a security's value. No investment strategy, technique or model can guarantee future results or eliminate the risk of loss of principal.

This material is intended to be for information purposes only. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide and should not be relied on for accounting, legal or tax advice, or investment

recommendations. Reliance should not be placed on the views and information in this document when taking individual investment and/or strategic decisions. Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. All investments involve risks including the risk of possible loss of principal. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. Some information quoted was obtained from external sources we consider to be reliable. No responsibility can be accepted for errors of fact obtained from third parties, and this data may change with market conditions. This does not exclude any duty or liability that Schroders has to its customers under any regulatory system. Regions/sectors shown for illustrative purposes only and should not be viewed as a recommendation to buy/sell. The opinions in this document include some forecasted views. We believe we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee than any forecasts or opinions will be realised. These views and opinions may change. Any data has been sourced by us and is provided without any warranties of any kind. It should be independently verified before further publication or use. Third party data is owned or licenced by the data provider and may not be reproduced, extracted or used for any other purpose without the data provider's consent. Neither we, nor the data provider, will have any liability in connection with the third party data. To the extent that you are in North America, this content is issued by Schroder Investment Management North America Inc., 7 Bryant Park, New York NY 10018-3706, a wholly owned subsidiary of Schroders plc. Registered as an investment adviser with the SEC, CRD Number 105820, and registered as a Portfolio Manager in Canada, NRD Number 12130.