Schroders

Schroders Group Climate Change Position Statement

July 2023

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Introduction

As an active investment manager we make decisions every day on behalf of savers and investors around the world. We make these choices carefully and deliberately – because they affect the financial future of our clients investments and they impact the wider world. We are responsible for £737.5 billion[1] of our clients assets who trust us to deliver sustainable returns.

The threats and consequences of climate change are defining our era. Addressing them requires huge structural shifts in societies and economies, which is a source of both value creation and destruction across industries, companies and investment portfolios. We are committed to managing these changes to protect and create value for our clients, through assessing climate risks and decarbonising the portfolios we manage. We will also continue to develop innovative products and solutions to support our clients' own climate goals. By doing so, and through the actions we are taking to reduce emissions directly in our control, we can make an important contribution to global climate goals.

Scope

This policy statement sets out Schroders' ('the Group' 'our' or 'we') position for its entities and staff in relation to the investments we manage and our own operations with regards to environmental management, climate change mitigation and adaptation.

Our commitment

We intend to lead the transition to a low-carbon economy through our investment activities and the action that we take within our own operations. We were a founding member of the Net Zero Asset Manager's initiative and were among the first 20 financial institutions and, at the time, the largest investment manager by assets under management (AUM) globally to have its goals formally validated by the Science-Based Targets initiative. These targets will align us to a 1.5°C emissions reduction pathway by 2040 and help us reach net zero across our value chain by 2050, or sooner.

We have built on years of climate research, risk analysis, proprietary tool development and action to understand and manage the risks and opportunities posed by climate change. We have made a number of commitments to accelerate our progress on managing climate risk and achieving net zero by 2050 or sooner, spanning both our operations and the investments we manage. In December 2021, we published our Climate Transition Action Plan, which outlines how we will:

– Measure exposure and realign our clients' investment portfolios

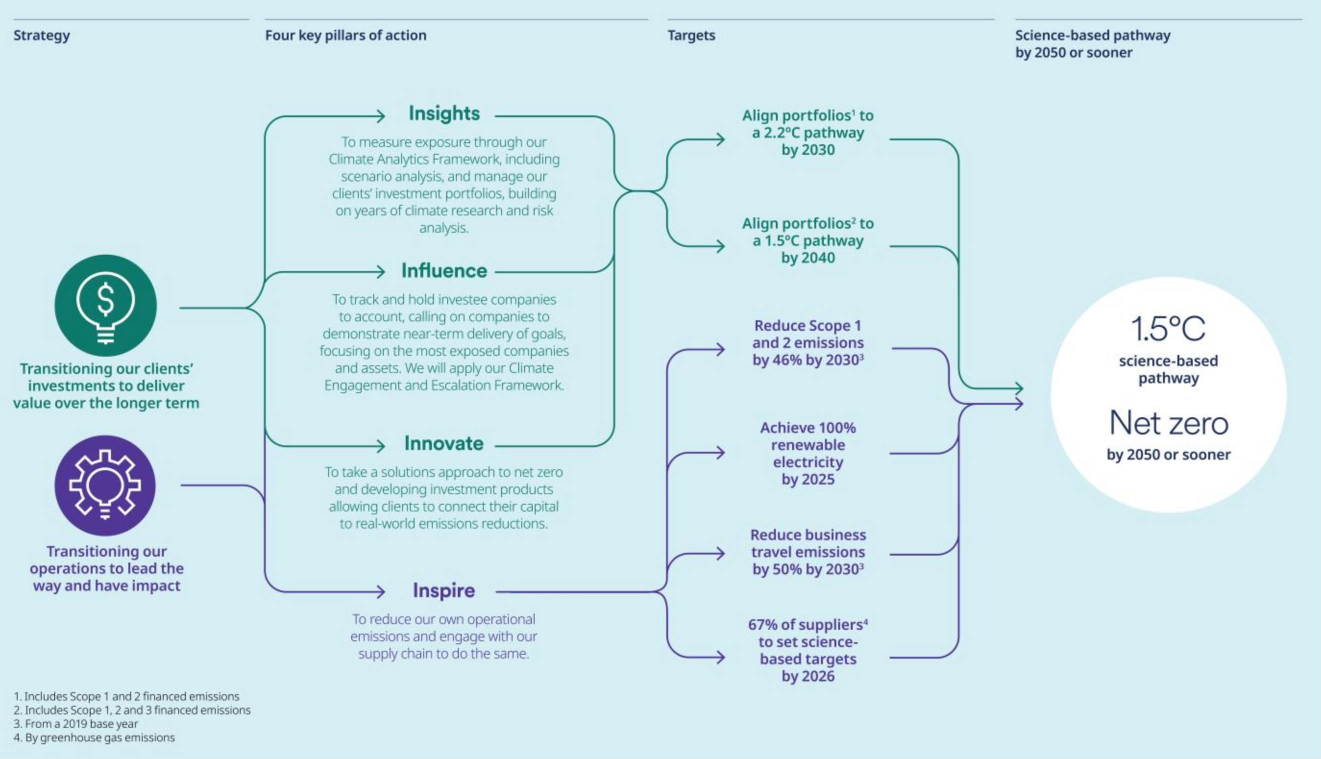
– Track and hold investee companies to account

– Take a solutions approach to net zero

– Transition our own operations to net zero by setting ambitious science-based targets

[1]Assets Under Management as at 31 December 2022.

Our climate change strategy



How we act

The investments we manage

We recognise that the vast majority of our greenhouse gas (GHG) emissions exposure comes from the investments we manage on behalf of our clients. These are more than 5,000 times greater[2] than those from our own business operations. In 2022, the temperature alignment of our in-scope[3] asset classes reduced from 2.8°C in 2021 to 2.6°C.[4]

How we manage the climate risks within our portfolios and influence the transition of the companies in which we invest to a sustainable future will be integral to ensuring Schroders' continued success. Over the next decade our decarbonisation strategy, outlined in our Climate Transition Action Plan, will focus on the following key elements:

– **Measure exposure through our Climate Risk Toolkit**

To identify climate-related risks and opportunities within our investment portfolios, we have extensively built up our resources and models to help our analysts and fund managers better understand the threat climate change poses to investments. Our Climate Risk Toolkit focuses on the assessment of these risks. Bottom-up investment climate analysis provides multiple lenses of physical and transition risk assessment to support analysis of climate-related risks and opportunities ahead of investment decisions. For example, Carbon Value at Risk helps investors to understand the impact of carbon prices on the companies we invest. Using climate scenario analysis, the Sustainable Investment team can work with fund managers and analysts to estimate the exposure of our holdings to physical and transition climate risks under a range of outcomes and to engage with the most at-risk companies.

[2]Based on 2022 Scope 1 and 2 emissions of investee companies (mandatory in-scope asset classes for SBTi), compared to Schroders' own Scope 1 and 2 emissions.

[3]Current in-scope asset classes for SBTi, which represent more than 60% of our AUM, encompass listed equities (common and preferred stock), corporate bonds, real estate investment trusts (REITs) and exchange-traded funds (ETFs).

[4]Based on the CDP-WWF temperature rating methodology and includes Scope 1 and 2 financed emissions.

– **Use our voice and influence to track and hold investee companies to account**

We believe that engaging with the most material carbon emitters in our portfolios, tracking their progress and holding them to account, is the best approach for us to make an impact. We believe that divestment should be used as a final step in an escalation strategy when companies do not take action to transition. We do not believe that divestment is the best starting point for investors to decarbonise portfolios.

Our Engagement Blueprint describes where we plan to focus our active ownership efforts. It is a compass to guide our commitment to creating value by driving transition and change. We have identified five climate expectations that we believe large and medium companies need to adopt to align their business models with the transition to a net zero economy. Our Climate Transition Action Plan and Climate Report 2022 outline our Climate Engagement and Escalation Framework. Beyond engagement, we use the voice afforded by the votes we cast on behalf our clients to drive change in portfolio companies. Where we consider that resolutions will advance our engagement goals, we will typically support them.

Private asset investment strategies provide capital for tangible assets and typically include longer investment horizons. These characteristics allow us to more directly and proactively engage with key stakeholders throughout the investment lifecycle to both mitigate risks relating to climate change and to enhance the assets' performance.

– **Take a solutions approach to net zero**

We understand that our clients are all at different stages of their net zero transition journey. This is why we are building out our three-tiered approach to our climate solutions, expanding the options available to our clients and ensuring we provide products that look to reduce carbon emissions and contribute to environmental or nature-based solutions. Our net zero solutions are not limited to public market offerings. Across private assets we have launched strategies such as Climate+, a multi-private asset impact portfolio targeting negative carbon emissions, and Schroders Greencoat provides exposure to the renewable energy infrastructure market.

A solutions approach to net zero

These solutions invest in companies who are actively transitioning to a lower carbon business model and are reducing their exposure to GHG emissions.

Comprises strategies from our Sustainable Thematic range such as Carbon Neutral Credit, Global Climate Change and Global Climate Leaders.

We do this by investing in companies that have products and services that actively contribute to specific climate-related outcomes through technological development and innovation.

Includes strategies from both our Sustainable Thematic and Impact Driven ranges such as Global Energy Transition and BlueOrchard Emerging Market Climate Bond.

We recognise the important role natural capital will play in mitigating climate risk. We focus on analysing natural capital assets and identify the best way to maximise carbon capture and sequestration.

Comprises our investment in natcap research and Akaria Natural Capital where our aim is to provide access to conservation projects through high-quality carbon credits that benefit local communities.

Our own operations

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

Our operational climate change strategy is to:

– **Implement and expand our Environmental Management System**

We are certifying our largest office sites to the ISO 14001 Environmental Management System (EMS) standard to address all site-level risks and set appropriate targets. In 2022, we have continued to certify our largest offices to the ISO 14001 EMS standard, with certified buildings covering 76% of our building-related Scope 1 and 2 emissions.

We will align our smaller office locations with these EMS principles and procedures. The intended outcomes of the EMS are to:

– Operate in line with all local, regional and national environmental regulations and legislation

– Help protect the environment and prevent pollution

– Seek actions to continually improve our EMS and enhance environmental performance

– **Reduce energy consumption in our properties and fleet**

Target: *To reduce absolute Scope 1 and 2 (location-based) emissions by 46% by 2030 from a 2019 base year*

We are developing site-specific net zero action plans in order to meet our emissions reduction targets. These will include further energy efficiency measures, building on best practice, and will take advantage of emerging technologies. We have committed to transition our company car fleet to hybrid or fully electric by 2025 (with a strong preference for fully electric unless impractical) with the aim of being fully electric by 2030. In 2022, 56% of our fleet was hybrid or electric. In 2022, our total Scope 1 and 2 GHG emissions decreased by 34% from the 2019 base year and decreased by 24% compared to 2021.

– **Increase renewable power use**

Target: *To increase annual sourcing of renewable electricity to 100% by 2025*

Site-level action plans are being developed to look at the opportunities to install onsite renewables, switch to green electricity tariffs or buy Renewable Energy Certificates. We review our approach annually to align with the recommendation and criteria set by RE100. In 2022, we increased the annual sourcing of renewable electricity to 95% compared to 84% in 2021.

– **Reduce business travel**

Target: *To reduce absolute Scope 3 business travel emissions by 50% by 2030 from a 2019 base year*

Our Travel Policy encourages business travel to be kept to a minimum by requiring a clearly defined business purpose for each journey. It also promotes more sustainable transport methods where appropriate. So that our employees can meet and collaborate effectively online, we will continue to invest in communication technologies. In 2022, our business travel GHG emissions have decreased by 60% from the 2019 base year.

– **Encourage and support suppliers to set targets**

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

We review our business critical suppliers annually for attestation with our Supplier Code of Conduct. This requires suppliers to have environmental policies and processes in place. We will include a minimum standards review when tendering for goods and services. New suppliers over a minimum spend threshold or with whom we make contractual commitments beyond 2026 are asked to commit to setting a science-based target by 2026. We are working collaboratively with our incumbent suppliers, providing guidance and support to help them navigate the process of measuring their carbon footprint and setting a science-based target. Should an incumbent supplier repeatedly fail to make a commitment, despite our support, we will reassess the relationship. In 2022, 25% of our suppliers in scope (by GHG emissions) have set a science-based target.

Climate neutral operations and the role of carbon offsetting

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

Since 2019, we have been operating our business on a climate neutral basis and will continue to do so in the future. This means we have offset our Scope 1, 2 and reported operational Scope 3 emissions in partnership with Climate Impact Partners. This includes all Scope 3 category emissions (except supplier and financed emissions where we have engagement targets). As a result of these actions, we have met and exceeded the requirements of Climate Impact Partners' CarbonNeutral® company certification. In 2022, we expanded our global offsetting project portfolio to support our future offsetting needs.

As the voluntary carbon market continues to grow and develop, we will seek to adopt the Oxford Principles for Net Zero Aligned Carbon Offsetting to help support the ongoing integrity of our approach. Over time we will increase the proportion of carbon removal projects in our portfolio, over emissions reduction projects, and support the longer-term development of the net zero offset market. 55% of our current portfolio are removal projects.

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

How we govern our actions

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

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

Our Group Sustainability and Impact (GSI) Committee advises and assists the Group Chief Executive, who chairs the Committee, in discharging his responsibilities regarding sustainability and impact. Our climate and nature-related targets are monitored by the GSI Committee, with progress reported to the Board.

Rewarding climate performance

The strategic importance of climate-related issues is reflected in our remuneration structures. For a number of years, our executive Directors have had sustainability-related measures included within their annual bonus scorecard.

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

In addition to continuing to include sustainability measures in the executive Directors annual bonus scorecard, from 2022 our commitment to climate action was also reflected in our Long-Term Incentive Plan (LTIP). The 2022 LTIP incorporated a climate metric relating to the percentage of renewable electricity used across our global offices. For the 2023 grant, the climate measure will evolve towards the temperature alignment of our assets under management (AUM) to the target net zero pathway. This change to a quantitative, investment focused metric, aligns to our interim target of aligning our portfolios to 2.2ºC by 2030, on the way to 1.5ºC by 2040. In order to achieve payout from either climate metric (2022 and 2023 LTIP), we must also maintain a leadership position on climate change in every year of performance measurement, as assessed independently by CDP.

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

The awareness and training we provide

The achievement of our goals and commitments relies on the support and actions of our employees. We engage colleagues by:

– Keeping them updated on our strategy and initiatives via our intranet site, website and in-person/online sustainability forums

– Providing training for all employees, for example we launched the 'Sustainability Curriculum' in March 2023, with content developed by our internal experts to introduce key sustainability concepts, along with more technical resources that cover research themes, models and processes used to engage our clients

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

– Providing opportunities for participation through local or global campaigns and competitions

Our advocacy

We support and actively engage with a range of climate change-related initiatives, memberships and organisations to help deliver our climate change strategy. These include CDP, Climate Action 100+, the Institutional Investors Group on Climate Change, Race to Zero, RE100 and the Science-Based Targets initiative. For a list of our climate-related initiatives and memberships and summary of our engagement, please see Appendix 3 of our Climate Report 2022.

Our reporting and transparency

We believe in the power of corporate transparency and accountability to help drive action across the economy. On behalf of our clients, we hold the companies we invest in to account. We also believe in leading by example and seek to report and disclose our own progress as transparently as possible. We align our reporting to the Task Force on Climate-related Financial Disclosures (TCFD) and publish an annual climate report at the same time as our Annual Report and Accounts. This includes progress against our targets and full greenhouse gas emissions data. We also respond to the annual CDP climate change questionnaire, which we achieved a leadership level score of A for our most recent (2022) response (for year end 2021). This top ranking was achieved by only 2% of the nearly 15,000 companies scored by CDP.[5]

Please see below for further detail on our climate report, climate transition action plan as well as published research on this topic:

External reports and documents

- Climate Report 2022
- Climate Transition Action Plan 2021
- Environmental, Social and Governance Policy for Listed Assets
- Engagement Blueprint
- Schroders Capital Sustainability & Impact Report 2022
- Group Nature and Biodiversity Position Statement
- Plan for Nature
- Schroders' sustainability website
- Schroders' quarterly and annual Sustainable Investment Reports
- Schroders' Supplier Code of Conduct

Key insights articles

- Three ways to tell if a company is a genuine climate leader
- What Italy's Po drought told us about the impacts of climate change
- The Inflation Reduction Act explained: the most important climate bill in US history?
- True engagement will move the dial on climate targets
- Q&A: how we've engaged with European banks over climate change

For employees

- Sustainability at Schroders intranet site
- Global Travel Policy

This Group Climate Change Position Statement is reviewed on an annual basis and communicated to all internal and external stakeholders and interested parties.

Peter Harrison

Group Chief Executive

18 July 2023

[5] https://www.cdp.net/en/companies/companies-scores.