

PLAN FOR NATURE

Harnessing the power of investment
to accelerate a nature positive future

Schroders

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Introduction

PRIORITISING NATURE ALONGSIDE THE CLIMATE TRANSITION

The world has woken up to the vital role that nature plays in supporting our economy and society. With more than half of our global GDP dependent on the natural world,¹ we believe that the reality is stark: nature risk is fast becoming an integral factor to investment risk and returns. That's why we regard the consideration of nature risk to be part of our fiduciary duty to clients.

At the same time, preserving and restoring nature can make a powerful contribution to efforts to mitigate climate change. And there is a social dimension too: unless efforts to protect nature create positive social impacts for local citizens and indigenous communities, they won't be sustainable over the medium to long term.

The direction of travel for businesses is clearer than ever: our global economy must become not just net zero, but also nature positive – and one is dependent on the other.

As a leading active investment manager, Schroders has an important role to play. We make investment decisions every day on behalf of savers and investors around the world, and make these choices carefully and deliberately, because they may affect the financial future of our clients and impact the wider world.

That's why we are setting out our ambition on nature: we want to harness the power of investment to accelerate a nature positive future. We believe this has the potential to drive better investment returns for our clients over time.

This document captures how we're taking action to achieve this ambition – in our own business and in partnership with some of our clients and other stakeholders in the industry, and beyond. We want to demonstrate our approach, our progress to date, and our future priorities.

We want to take a united approach right across our business to affect change just as we do to deliver our science-based targets on climate. That includes embedding our approach through the investment insights we develop, the influence we can have on companies and offering innovative financial solutions to our clients.

¹[World Economic Forum](#), 2018

OUR AMBITION

Harnessing the power of investment to accelerate a nature positive future

Large-scale investment is needed to halt and reverse nature loss, which is not only having a significant impact on our climate and the way we live, but also putting trillions of dollars of value at stake.² Without urgent action, we risk extensive, sudden, and irreversible changes to the fabric of our economy and wider society. As a result, nature risk is becoming an integral factor to investment risk – while it also provides significant opportunities to invest in solutions.

 What is natural capital?

We're determined to harness the power of investment to accelerate a nature positive future. We will do that in three key ways:

Insights: developing our understanding and analysis to identify the exposure to nature risk companies and assets have.

Influence: engaging with and influencing companies to reduce their exposure to nature risk and their impacts on nature.

Innovation: offering investment solutions in public and private markets that channel capital to protect and restore nature and deliver long-term returns.

All of this will only happen at the scale and pace required if we can come together with clients, governments and civil society groups to drive change and collective action.

Our [Nature and Biodiversity Position Statement](#) offers more detail on our investment and operational commitments and approach towards a nature positive future.



²World Economic Forum, 2018

³Schroders 2022



Taking system-wide action

One of the big challenges is how to rapidly scale the deployment of capital for nature. That will require the whole system to work together.

We play an active role in coalitions central to driving the change needed across the system. These include [the Taskforce on Nature-related Financial Disclosures \(TNFD\)](#), [Science Based Targets for Nature \(SBTN\)](#), as a [signatory of the Finance for Biodiversity Pledge](#) and the Business for Nature [Make it Mandatory](#) statement and we joined the [Natural Capital Investment Alliance \(NCIA\)](#) at COP26. Launched by King Charles III, it comprises 15 leading asset managers who will each launch, or has launched, investment products aligned to natural capital themes, with the aim of mobilising more than US \$10 billion by the end of 2022.⁴

We will share our own learnings through collaboration with experts in the field, contributing to these broader collective efforts as well as through direct policy engagement.



“As an industry, we now need to find entirely new ways of mobilising capital, innovating how we deploy money towards outcomes that benefit the climate, biodiversity and communities around the world.

As NCIA members, we will be working to help drive this shift in the financial system, which is critical to scale finance for the activities that can ultimately build towards a just, nature-positive economy.”

Dame Elizabeth Corley, Chair, Schroders plc



⁴NCIA, 2022

Developing our understanding and analysis to identify the exposure to nature risk companies and assets have

When it comes to protecting and restoring nature, investors, governments and non-governmental organisations are all pointing to the same key issue: we don't currently have sufficiently robust or comprehensive data and tools to measure our impact on nature as precisely as we would like.

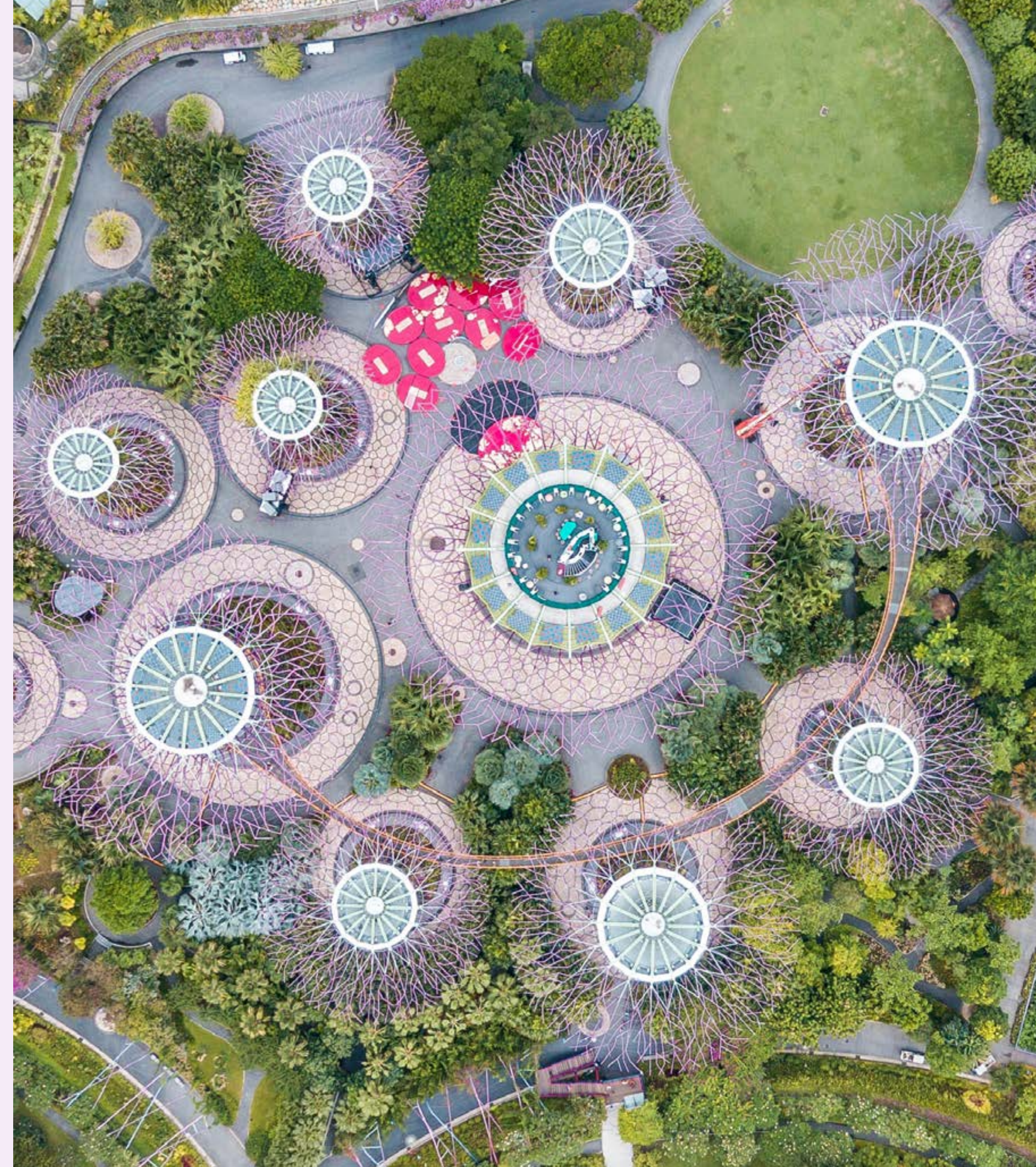
Measurement and analysis is critical to building an understanding of the exposures and impacts of investments we make and portfolios we manage. Insight is necessary to manage, and invest in, natural capital at scale.

We have invested heavily in developing the understanding and analysis that can help build a robust picture of our collective impact on nature – for our clients and wider society.



“Because we don’t quantify the benefits of nature, we risk overlooking them altogether. Until we can measure our impact on nature, we’re not going to be able to answer to our clients, business won’t be able to report on it, and regulators around the world aren’t going to be satisfied. There’s a well-known saying in management that ‘what gets measured gets managed’ – a cliché, perhaps, but frighteningly accurate in the case of nature.”

Peter Harrison, Group Chief Executive Officer



BREAKING DOWN THE SCIENTIFIC BARRIERS THAT PREVENT ACTION ON NATURE

In 2021, we invested in natural capital thought leaders, natcap research (NCR), alongside Oxford Sciences Innovation.

NCR has developed a natural capital mapping tool, NatCapMap, that enables landowners and investors to create a baseline for biodiversity, ESG and net zero carbon strategies. The tool uses world-leading science, modelling and datasets to measure the current value of natural capital based on its benefits; how to enhance the natural capital to maximise value; and providing reporting to track progress.

Since it was launched in the UK in 2021, we and other organisations have used the tool in a number of high profile and successful projects.

Our investment has also helped to scale mapping technologies beyond the UK and from September 2022, NatCapMap has been available to an international audience.



MEASURING THE IMPACT OF COMPANY OPERATIONS ON NATURE

The unsustainable impact of company operations on nature represents a threat to company resilience and, because of that, an investment risk. We have developed industry-leading models that provide our investors with insights into chosen metrics around nature risk, alongside more established ESG markers, like carbon and social indicators.

One such model, SustainEx™*, is a framework that estimates the potential social and environmental costs that both companies and countries may impose, as well as the benefits they may provide, which are often not recognised within current economic and regulatory frameworks. SustainEx™ goes beyond typical approaches to measuring such risks, which often focus on a few, discrete indicators of company performance.

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

OUR PROGRESS

BUILDING A VIEW OF COMPANIES' COMMITMENTS AND ACTIONS TO END DEFORESTATION

With around 80% of biodiversity on land residing in forests, credible action on nature must start with ending deforestation.⁵

Companies face increasing physical, regulatory, operational and reputational risks from deforestation, so it's critical that we understand how these risks may impact portfolios.

We have built a scorecard that measures companies' exposure to, and management of, forest-related risks. The aim is to develop a greater understanding of how company action can be improved, something Schroders is pursuing via our active engagement strategy.

The scorecard focuses on five key dimensions: deforestation commitments and policies; company governance; supply chain mapping and traceability; no-deforestation certification and targets; and disclosure.

⁵World Economic Forum, 2021



OUR PRIORITIES



1. Continue to evolve our own methodologies and our partnership activities to make our tools increasingly robust, comprehensive and actionable. That is critical to our ability to report on and – where possible – evidence positive impact, which underpins the difference we make alongside clients and the returns we can generate.



2. Apply our research and tools right across the business. For instance, modelling from NCR can be used to plan and report on new natural capital funds, as well as those of BlueOrchard, a leading global impact investment manager and part of Schroders. We're also exploring ways to take this insight to renewable infrastructure manager Greencoat Capital, a recent Schroders acquisition, to model the natural capital exposure associated with their solar portfolio.



3. Share our learnings through client education and external stakeholder and policy engagement, to build collective expertise on natural capital as an asset class and grow support for new solutions.

Engaging with and influencing companies to reduce their exposure to nature risk

Biodiversity loss has been identified as one of the top three most severe risks to economic value over the next ten years,⁶ with some US \$44 trillion of economic value generation dependent on nature.⁷

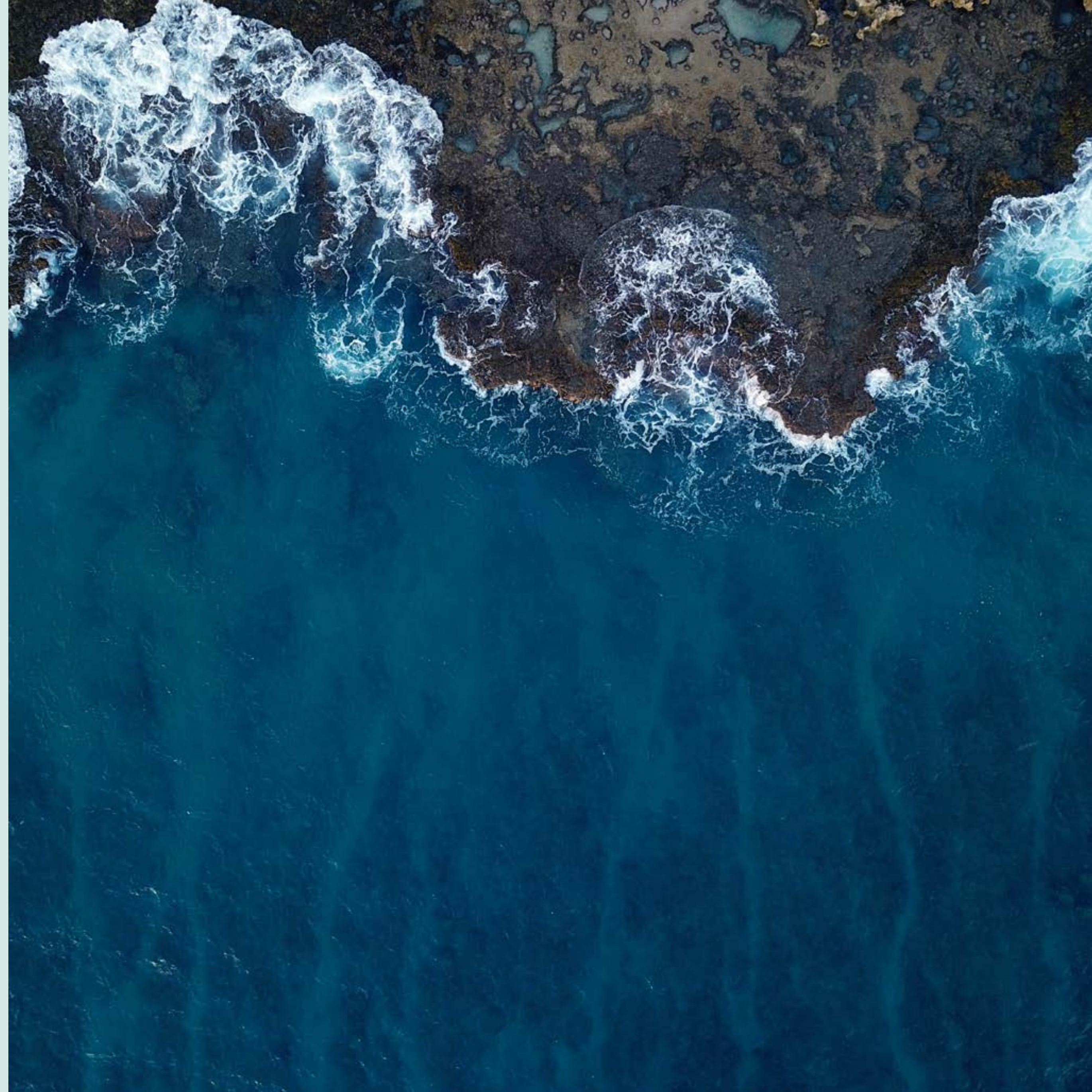
We can play a key role in addressing nature risks in our clients' portfolios, by pursuing a more nature positive economy. We can do this by seeking to influence the many companies whose operations and value chains impact or are dependent on nature. As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we have a distinct opportunity to engage constructively with company management teams and support them to transform their business models to a more sustainable footing.

To maximise our impact, we have made nature central to our engagement strategy. Since 2018, we have engaged more than 200 companies on the topic, helping them understand nature-related risks and opportunities, and the need to take action.⁸

⁶[The Global Risks Report, 2022](#)

⁷[New Nature Economy Report, 2020](#)

⁸[Schroders, 2021 \(p.48\)](#)



OUR PROGRESS

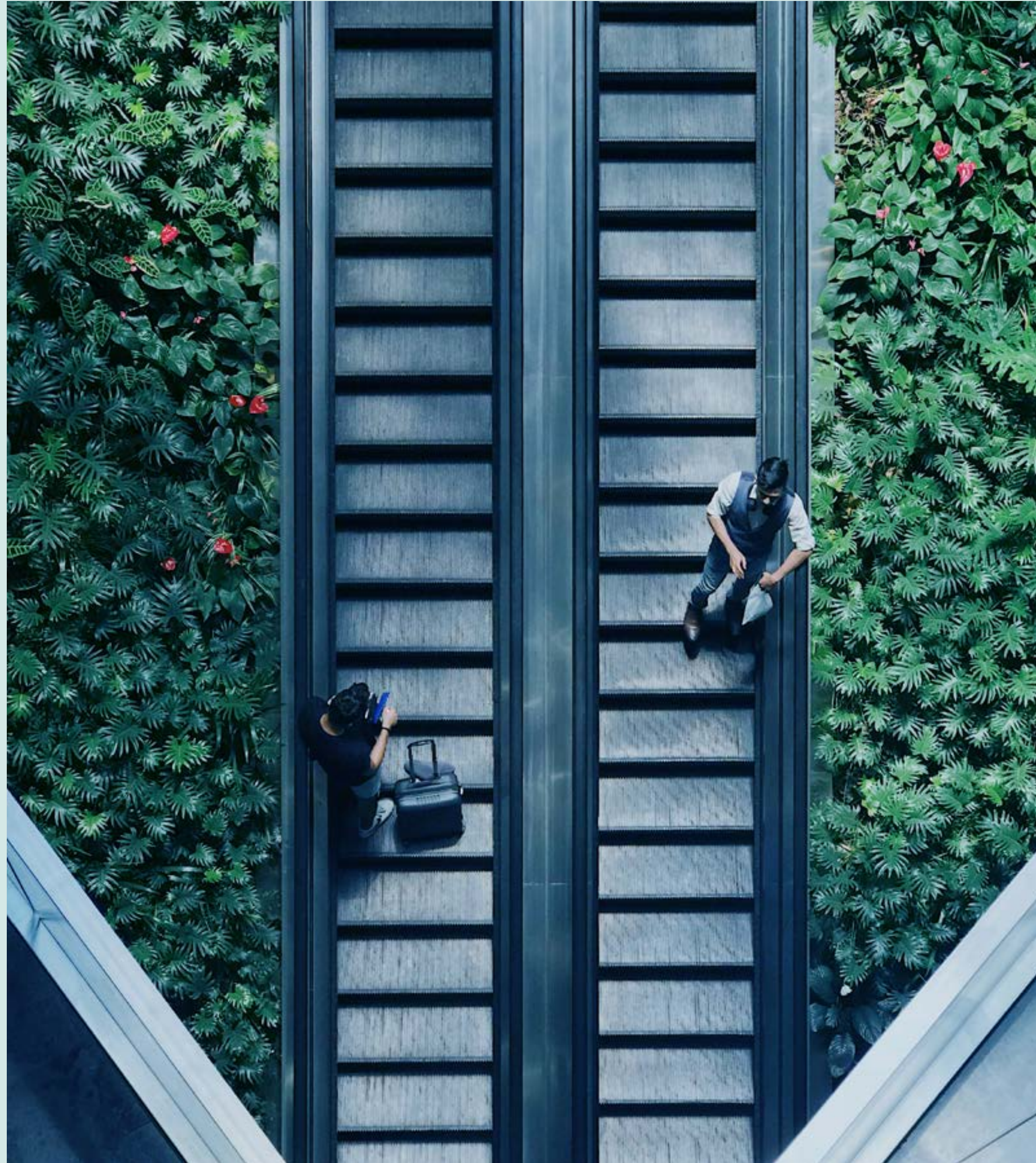
MAKING NATURAL CAPITAL CENTRAL TO OUR ACTIVE ENGAGEMENT

In 2022, we published the Schroders Engagement Blueprint, which places biodiversity and natural capital as one of six priority engagement themes in our approach to active ownership.

We will engage with companies on four key natural capital and biodiversity issues faced by the companies in which we invest:

1. Nature-related risk and management
2. Circular economy, pollution and waste
3. Sustainable food and water
4. Deforestation

The Blueprint won Environmental Finance's ESG Engagement Initiative of the Year⁹ for its holistic approach to ESG, and supports engagement objectives for fund managers and analysts across our equities and fixed income desks. These objectives also form part of fund managers' and analysts' personal performance goals.



⁹Environmental Finance, 2022

ELIMINATING COMMODITY-DRIVEN DEFORESTATION

We believe that ending commodity-driven deforestation in the companies held in the investment portfolios we manage is crucial to addressing the systemic financial market risks associated with climate change, nature loss and food security concerns. It is also in the best long-term interests of our clients and their beneficiaries. Political focus on the topic is rising and we expect growing pressure on companies to reduce their nature impacts.

As a signatory of the *Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation*¹⁰ we joined world leaders and leading financial institutions in committing to eliminate agricultural commodity-driven deforestation by 2025. Together, signatories represent US \$8.7 trillion¹⁰ in assets and we call on other financial institutions to join the pledge.

Since COP26, we have implemented our internal deforestation scorecard to engage 20 priority companies and to inform our broader strategy. We are rolling out a targeted engagement programme for a wider set of companies. We believe these companies should significantly strengthen their commitments and action to eliminate commodity-driven deforestation by 2025, and promote and preserve their financial wellbeing.

¹⁰UNFCCC, 2021

OUR PROGRESS

PRIORITISING A JUST TRANSITION ON THE ROAD TO NATURE POSITIVE

Local communities and indigenous people are essential in protecting and restoring nature.¹¹ Unless natural climate solutions create positive social impacts for local citizens and communities, they won't be sustainable.

We are a founding member of the [Just Transition Finance Challenge](#) to rally more public and private capital into investments that support a just transition to net zero.

And we have developed an internal toolkit that focuses on how to engage with companies that operate in high risk or conflict-affected areas, to assess their approach to human rights.



OUR PRIORITIES



1. Track companies' progress on deforestation, and measure the outcomes of our engagement on biodiversity and natural capital, through at least annual reviews against engagement objectives.



2. Develop our engagement approach as the understanding of the issues and market best practice evolves, to ensure we are pushing for change in the right areas.



3. Deepen our focus on engagement for a just transition: at the intersection of human rights risks, social impact and transition towards a net zero and nature positive future.

¹¹IPCC, 2019

INNOVATION

Offering investment solutions to protect and restore nature and deliver long-term returns

Nature loss has the capacity to threaten the durability of long-term portfolio returns. So, new investment vehicles are needed to direct capital to companies or projects with the potential to positively impact nature by protecting and restoring nature.

A growing number of our clients want to invest in both public and private companies that are driving the transition towards systems that will meet the demands of a growing population, while reducing the negative impact on our natural ecosystems.

At the same time, new nature-based investment products should help support a consistent pipeline of good quality, credible projects for investment – and the partnerships needed to source and deliver them. This is a significant opportunity for carbon sequestration or capture – a key part of building towards net zero portfolios for clients.

Furthermore, this investment opportunity exists on a mammoth scale. Research estimates that US \$722-967 billion is required each year to reverse the decline in biodiversity by 2030.¹² Financial institutions have a crucial role to play in filling this gap, and can tap into vast opportunities across existing industries and new sectors.

¹²KPMG Demystifying Natural Capital and Biodiversity, December 2021



OUR PROGRESS

DEVELOPING AND SCALING THEMATIC FUNDS ON FOOD SYSTEMS, CIRCULAR ECONOMY AND ENERGY TRANSITION

We are launching strategies that aim to maximise investment opportunities and minimise risks as we drive nature positive outcomes.

In October 2021, we launched a global sustainable food and water strategy, which aims to provide capital growth by investing in companies worldwide that are associated with and driving change towards a more sustainable food and water system. Of the investments to date, around 60% within the strategy are related to tackling nature loss.

In July 2022, we launched a strategy focused on the circular economy. It aims to invest in companies that are moving away from the consumption of finite resources and the “take-make-waste” model, towards a system that designs out waste and pollution, keeps products and materials in use and regenerates natural systems.



ACCELERATING INVESTMENT IN NATURAL CLIMATE SOLUTIONS



We have partnered with leading conservation organisation Conservation International to launch Akaria Natural Capital, one of the first dedicated natural capital impact investment managers in Singapore.

Akaria Natural Capital will initially deploy capital towards 15 to 20 high quality natural climate solutions projects across South East Asia over five years.

Delivering on the social imperatives around nature action is fundamental to this partnership, to ensure these investments work for people, as well as places. Each project will be assessed in terms of its ability to generate long-term positive environmental benefits, as well as social impacts for indigenous people and communities.

“Nature-based solutions hold exceptional promise, but it will take sustained investment to unleash that potential at scale. This initiative sends a powerful message to the financial services industry. Generating healthy returns, protecting nature and supporting community development need not be mutually exclusive goals. We’re grateful to Schrodgers for their commitment to building a replicable model for others to adopt.”

Dr M Sanjayan, Chief Executive Conservation International

HARNESSING THE EXPERTISE OF BLUEORCHARD AND PARTNERS FOR SOCIAL IMPACT ALONGSIDE CLIMATE AND NATURE PERFORMANCE

BlueOrchard is a leading global impact investor within the Schroders Group. It specialises in raising and deploying capital to achieve positive social impact and climate and environmental outcomes, while providing attractive returns for investors.

BlueOrchard focuses on emerging and frontier markets, managing public and private funds in bespoke blended finance structures aimed at climate mitigation and adaptation.

Estimates indicate that annual climate adaptation costs in emerging economies could reach \$300bn in 2030¹³. So there is both significant economic value at risk as well as investment opportunities where private finance can step in and help address adaptation measures and improve climate resilience.

BlueOrchard has successfully enabled almost 40 million people in 26 countries to access [climate risk insurance](#) since its first strategy in this field in 2017. In August 2022, BlueOrchard expanded its climate insurance footprint, launching a strategy that aims to invest in companies along the climate insurance value chain that are able to disrupt and improve the resilience of populations and small companies to changing climatic conditions.

Natural capital is also an integral pillar of BlueOrchard’s climate finance solutions. We recently won two mandates – with UK workplace pensions and investment provider Cushon and as partners to the [Luxembourg Ministry of Finance](#) – which include impact through sustainable forestry, the protection of water and biodiversity.



OUR PRIORITIES



1. Continue to roll out thematic funds, building on what we learn. In 2023 we plan to launch a new strategy focused on biodiversity and funds through BlueOrchard aimed at the intersection of climate, nature and social impact.



2. Deliver on the potential of Akaria Natural Capital, starting to generate quality natural climate solutions projects across South East Asia.



3. Explore and deliver further models for investing directly into natural climate solutions and broader nature-based solutions internationally.

¹³2030: United Nations Environment Programme – Adaptation Gap Report, 2020

OUR BUSINESS OPERATIONS

Creating a more sustainable way of operating

LEADING BY EXAMPLE IN OUR BUSINESS OPERATIONS

As a large corporate with a global footprint, we are aware of our own impact on nature. We are working towards reducing our environmental impact and also, where possible, enhancing the environments in which we operate.

Our strategy is focused on reducing our environmental impact by cutting greenhouse gas emissions across our operations and engaging with our supply chain to do the same. We have set out our comprehensive path to net zero in our [Climate Transition Plan](#). For example, through certifying our largest office sites to the ISO 14001 Environmental Management System standard, we can address site-level risks and set appropriate targets.

This also extends to the partners we work with – our Supplier Code of Conduct requires suppliers to have environmental policies in place such as reducing greenhouse gas emissions, reducing the consumption of natural resources and effective waste management.

For our private assets business, Schroders Capital, we must appropriately manage the local environmental impacts of the operation and maintenance of the physical assets we manage to ensure that they are successful for the long term. For example, biodiversity and ecosystems are managed in accordance with planning and environmental obligations, including preservation of habitats and mitigation of any potential negative impacts. Habitat management initiatives include hedgerow and tree planting, placement of bat and bird boxes, installation of beehives and managing and restoring peatland.

Since 2019, we have been operating our business on a climate neutral basis and will continue to do so. Our current global offsetting project portfolio includes six projects, five of which (69% by volume) are nature-based solutions projects. These forest protection and reforestation projects protect and enhance biodiversity by reducing or removing emissions through nature conservation.

Our Nature and Biodiversity Position Statement offers more detail on our investment and operational commitments and approach towards a nature positive future.



SUMMARY

Schroders' Plan for Nature

The continual and uncontrolled depletion of nature poses major risks to the global economy, communities, companies and investment portfolios. So, it's critical we seek to mitigate the nature risk embedded in portfolios by directing capital wherever possible towards areas that target nature positive outcomes.

Our ambition is to harness the power of investment to accelerate a nature positive future. We believe this will not only mitigate nature risk, but will create real investment potential for our clients.

We're determined to use our whole business to develop new ideas for how to manage our nature-related impacts and exposures, allocate capital towards nature, mainstream the market rapidly and create real impact. That's how we can accelerate positive change while providing excellent investment performance.



INSIGHTS

1. Continue to evolve our own methodologies and our partnership activities to make our tools increasingly robust, comprehensive and actionable.
2. Apply our research and tools right across the business.
3. Share our learning through client education and external stakeholder and policy engagement.



INFLUENCE

1. Track companies' progress on deforestation and measure the outcomes of our engagement on biodiversity and natural capital.
2. Develop our engagement approach as the understanding of the issues and market best practice evolves.
3. Deepen our focus on engagement for a just transition.



INNOVATION

1. Continue to roll out thematic funds, building on what we learn.
2. Deliver on the potential of Akaria Natural Capital, and explore and deliver further models for investing in nature-based solutions.
3. Explore and deliver further models for investing directly natural climate solutions and share what we learn to support the development of further natural capital vehicles across the industry.

OUR BUSINESS OPERATIONS

1. Continue to manage our global operations responsibly, through the roll out of environmental management systems.
2. Build on best practice in our private assets business in managing local environmental impacts of the operation and maintenance of our physical assets to ensure that they are successful for the long term.
3. Maintain our climate neutral status by investing in and retiring nature-based carbon offsets as we transition to net zero.



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