

SUSTAINABILITY & IMPACT REPORT

December 2022

Marketing material.

Schroders
capital



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FOREWORD





The private markets investment division of Schroders Group, Schroders Capital is a leading investor focused on the evolving needs of its clients, of the businesses and projects it invests in, and of society. We provide investors with an institutional route to category-leading, specialised investment teams globally, building positive change for all stakeholders.

As an investment business founded on performance, innovation, and integrity, we are acutely aware of our responsibility to put Sustainable and Impact (S&I) investing practices at the heart of our activities.





With this report we aim to describe how our activities in private markets have performed in terms of delivering long-term impact.

Although this is an immense task, we have achieved multiple milestones on our S&I journey:

We have concentrated our innovation efforts on products that focus on S&I outcomes with robust criteria, performance management, and monitoring and reporting processes.

We can create and execute bespoke investment solutions that integrate S&I across a range of multi-private assets investment strategies tackling topics like energy transition, economic growth, and social inclusion.

We have launched an ambitious plan to ensure that the shared vision and values of Schroders Capital can be concretely transformed into a practical implementation roadmap for S&I investing.

We have developed a joined-up S&I policy that embeds S&I in our investment process across all our business segments.

We have significantly invested in our investment teams and sustainability experts to ensure we have a comprehensive toolkit and skill set to innovatively address S&I.

In addition, we intend to remain at the forefront of industry engagement through our contribution in several Schroders Group’s initiatives, including:



For more on these and other initiatives, see Chapter 1.

While recognizing progress made, we accept that we are at the beginning of a long journey.

We have deliberately decided to go beyond minimum compliance and regulatory requirements whenever possible.

As sustainable investment practices are increasingly entering the political arena, we also believe that transparency and disclosure towards our investors have become an even more critical fiduciary responsibility.

We have learned that aspirations are not enough unless key performance indicators have been set and are monitored for the entire duration of our investments. In addition, reliable and relevant measurements are dependent on continuous engagement with the businesses and projects we invest in.

We have been rigorous in stating our objectives but also in sharing when we have had challenges in achieving them.

Against this backdrop, our inaugural S&I Report sets out to achieve 4 objectives:





As long-term investors and private markets specialists, we want to turn sustainability risks and challenges into investment opportunities. As we do this, we work closely with our investors, teams, and the projects we invest in, to deliver financial returns and sustainable outcomes.

With sector, product, and S&I specific skills, a deep pool of investors and capital, and an appetite for long-horizon investing, we will continue to invest in opportunities that create long-term value for our stakeholders, society, and the environment.

“

Achieving sustainability and impact in private assets is part of what we want to deliver to our clients as we believe this is key to long-term impactful financial performance and we have decided that this is a defining characteristic of Schroders Capital.

”



Georg Wunderlin
Global Head of Private Assets

“

When BlueOrchard was added to the Schroders Capital team it was clear that the potential was much bigger than just leveraging BlueOrchard’s emerging market and sectoral expertise. The impact investing DNA in BlueOrchard was soon seen as a terrific opportunity to deep-dive into sustainability and impact solutions across the entire Schroders Capital portfolio.

”



Maria Teresa Zappia
Head of Sustainability and Impact

“

The central element of our strategy in sustainability and impact investing is scale. We are humble about what we know today and how we can make a positive impact but as we keep developing our offering we are focusing on the idea that incremental changes on a large-scale add up to big impact for our investors.

”



Marc Micoud
Head of Private Assets Strategy



A BUSINESS WITH SUSTAINABILITY AND IMPACT AT ITS CORE

1





WHAT WE DO

With over 300 investment professionals in 26 locations around the world and \$88bn¹ in total assets under management (AUM), Schroders Capital is a leading private assets manager combining deeply specialised and localized teams with the strength, scale, and resources of a global institutional platform with a 200-year heritage.

Our teams on the ground are entrepreneurial, inter-disciplinary, and free to pursue the most attractive opportunities in their respective sectors and geographies while benefitting from Schroders Group's scale, resources, and processes in structuring, executing, and generating private assets investments.

For the **businesses and projects** we invest in, this specialism means we can earn our place as a partner of choice. We have deep local and sectoral expertise, the ability to add operational value, and an entrepreneurial mindset. Our scale and stability reinforce our reputation for reliability, resilience, and trust.

For **investors**, our specialism unlocks access to investment teams on the ground, and attractive opportunities. We can also leverage complexity premiums, understand and anticipate changing industries and markets. Private markets investors want to allocate at scale with ease and confidence under the stability and capabilities of a trusted institutional steward of their capital.

A GLOBAL PERSPECTIVE WITH A DEEP UNDERSTANDING OF LOCAL PRIVATE MARKETS



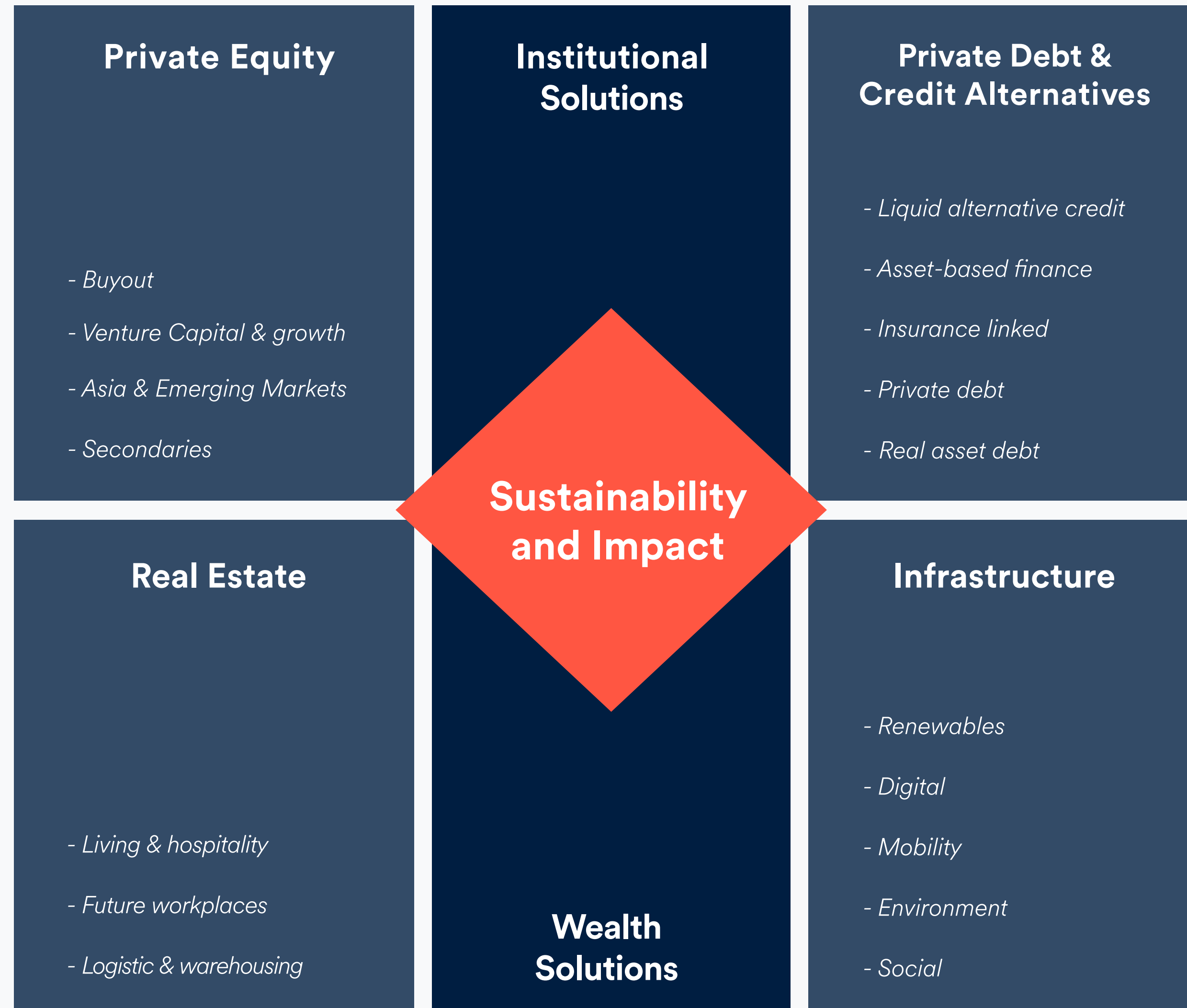
¹AUM and other committed capital as at June 2022.

Our offering sits across four business segments:

Private Equity, Private Debt and Credit Alternatives, Real Estate and Infrastructure, and two transversal capabilities that enable us to combine investment blocks into bespoke solutions for both institutional and individual clients, while accessing an extensive range of S&I investing opportunities.

We add value by improving investments over their lifetimes through operational value creation. This requires sector expertise, a deep footprint on the ground, entrepreneurial spirit, and a long-term investment horizon. It is, in our view, the only route to deliver a financial return alongside positive social and environmental outcomes.

AN INSTITUTIONAL ROUTE TO CATEGORY-LEADING, SPECIALISED INVESTMENT TEAMS



WITH INVESTMENTS IN OVER 110 MARKETS ACROSS DEVELOPED, EMERGING AND FRONTIER MARKETS, HOW WE INVEST MATTERS

c. \$75bn

invested in
36 developed
markets²

c. \$6bn

invested in 80
emerging and
frontier markets³



² As of 30 June 2022.
³ Ibid.

OUR AMBITION IN SUSTAINABLE AND IMPACT INVESTING

Our ambition is to continue developing innovative ways to capture S&I investing opportunities at scale across a comprehensive range of sustainability challenges.

In doing so, we aim to deliver the entire spectrum of risk-reward and S&I investment opportunities across asset classes and consolidate our position as an industry leader.

In practice this means:

- Getting closer to the assets we manage to maximise the potential long-term impact of our investments on the planet and its inhabitants
- Continuously innovating with our clients and all stakeholders
- Achieving scale by adapting industry leading ideas, principles and models for deployment across private asset portfolios
- Building a network of entrepreneurial and interdisciplinary investment teams with extensive expertise in S&I

What do we mean by sustainable & impact investing?

As we move towards a world which is progressively pricing in both positive and negative externalities, it is becoming ever more critical to understand, assess, monitor, report on, and enhance the impact of our investment activities on the planet and its inhabitants.

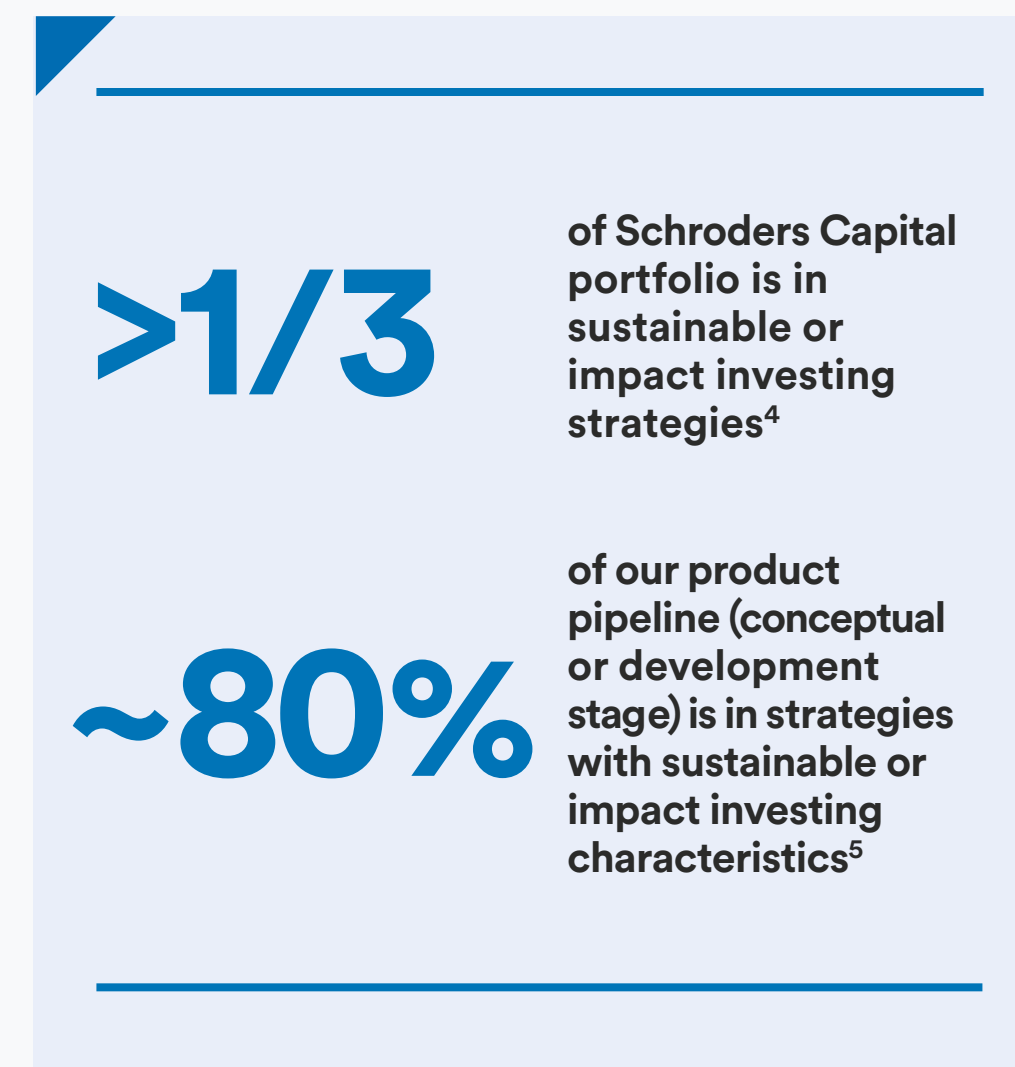
Our conviction is that S&I investing can play a critical role in resolving environmental and social challenges, in addition to generating financial returns. This is especially the case in private markets where we typically have a greater ability to operate and enhance the assets we are investing in and where a longer investment horizon can enable long-term changes.

We fully integrate environmental, social and governance (ESG) factors into our investment process to identify the issues that can impact an asset’s risk and return profile.

While being ambitious, we are mindful that S&I investing is a complex and ever-moving challenge. At Schroders Capital, we are focused on transparency, robust data collection, stewardship, monitoring, and continuous improvement in how we measure outcomes.

To do so, we adopt Schroders Group’ Sustainability Accreditation Framework, which is performed and renewed by Schroders’ central Sustainability Investment team on an annual basis. This annual accreditation entails a thorough review of all ESG processes and tools across our business lines to ensure these are rigorous and fit for purpose as our offering evolves.

In addition to ESG integration and engagement, we have a forward-looking Global Sustainable and Impact Product Framework, which captures our current offerings and pipeline opportunities, across the entire spectrum of risk-reward and S&I objectives. This encompasses sector-specific, multi-private assets, and bespoke investment solutions.



⁴As of 30 June 2022.
⁵Ibid.



We have an extensive product offering that meets S&I criteria, leveraging the extensive experience of BlueOrchard, the impact investing arm of Schroders Capital.

OUR GLOBAL SUSTAINABLE AND IMPACT PRODUCT FRAMEWORK

| | Sustainable Driven | Sustainable Thematic | Impact Driven |
|----------------------------------|--|--|--|
| Aim | Financial returns through investments in sustainable products/services, with sustainable practices or on an improving trajectory | Financial returns through investments that contribute to societal or environmental goals | Intent to generate a positive & measurable societal or environmental impact, alongside financial returns |
| Outcome | Holdings with sustainability as a key part of their business practices or improving | Holdings which are aligned to a specific sustainability theme | Holdings which deliver intentional and measurable impact |
| Measurement | Portfolio-level ESG assessment, or ESG score, either absolute or relative to benchmark | Holdings-level alignment to relevant theme | Holdings-level alignment to Schroders' proprietary Impact framework |
| ← ESG Integration & Engagement → | | | |

OUR APPROACH TO SUSTAINABLE & IMPACT INVESTING

Schroders Capital aims to implement a consistent assessment of sustainability risks and opportunities across its investment processes.

This overarching approach guides our practices. This ensures that S&I are gradually embedded in all the relevant steps of the investment process, from the formulation of strategic intent, to origination and structuring, portfolio management, impact at exit, and verification. It draws on market best practices, principally the Operating Principles for Impact Management (Impact Principles)⁶, to which we are a signatory for our Impact-driven strategies⁷.

Each new product's S&I characteristics are classified in terms of low, medium, and high S&I potential, and must be approved by Schroders Capital's Product Development Committee (PDC). The potential is assessed and targets are set, measured, and monitored during the entire life of the investment strategy.

While each investment team has developed tools and techniques specific to their investment areas, all follow shared standards and practices.

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

- Intent:**
We strive to ensure that S&I considerations are well represented in the investment objectives and complement the achievement of financial returns.
- Contribution:**
Our S&I investment process seeks to contribute positively through a range of strategies and themes including climate mitigation and adaptation, financial inclusion, healthcare, sustainable cities, innovation, job creation and economic growth. Active ownership and engagement expand our principles and their implementation across the entire value chain of intermediaries and stakeholders with whom we work.
- Measurement:**
Transparency and disclosure are fundamental to our approach. We collect S&I metrics to measure the effectiveness of our investments in achieving the goals we set for each strategy, theme, or sector. These also inform future investment decisions.

⁶Impact Principles can be found here: <https://www.impactprinciples.org/>
⁷Schroders plc. Signed in September 2022.

OUR OVERARCHING APPROACH IS INSPIRED BY MARKET BEST PRACTICES, INCLUDING THE IMPACT PRINCIPLES

| | | ESG Integration | Sustainable Investments | Impact Investments |
|--|---|---|---|---|
| Principle 1 Define objective | <ul style="list-style-type: none"> - Identify ESG risks material to the investment strategy - Identify sustainability characteristics material to the investment strategy - Define strategic impact objectives consistent with investment strategy |  |  |  |
| Principle 2 Manage objective | <ul style="list-style-type: none"> - Manage ESG risk on a portfolio basis - Manage sustainability characteristics at portfolio level and align staff incentives with sustainability characteristics - Manage strategic impact on a portfolio basis and align staff incentives with impact achievement |  |  |  |
| Principle 3 Contribution | <ul style="list-style-type: none"> - Establish the manager's contribution to the achievement of sustainable characteristics and/or objectives - Establish the manager's contribution to the achievement of impact |  |  |  |
| Principle 4 Expected sustainability/impact | <ul style="list-style-type: none"> - Assess the expected sustainability characteristics of each investment, based on a systematic approach - Assess the expected impact of each investment, based on a systematic approach |  |  |  |
| Principle 5 Integrated ESG risks | <ul style="list-style-type: none"> - Assess, address, monitor potential ESG risks on financial performance for each investment - Engage with investees to seek their commitment to take actions to address potential ESG gaps |  |  |  |
| Principle 6 Monitor ESG and/or impact performance | <ul style="list-style-type: none"> - Monitor ESG risks for each investment - Monitor progress of each investment in achieving sustainable characteristics against expectations - Monitor progress of each investment in achieving impact objective against expectations |  |  |  |
| Principle 7 Sustain impact | <ul style="list-style-type: none"> - Conduct exits, considering the effect on sustainability characteristics of the investments - Conduct exits, considering the effect on sustained impact |  |  |  |
| Principle 8 Improve process | <ul style="list-style-type: none"> - Review and improve decisions and process based on ESG risks assessment and integration - Review, document and improve decisions and process based on the achievement of environmental or social characteristics and/or objectives - Review, document and improve decisions and process based on the achievement of impact and lessons learned |  |  |  |
| Principle 9 Transparency and external verification | <ul style="list-style-type: none"> - Internal accreditation from central Sustainability team - Publicly disclose environmental or social characteristics/objectives of strategy including performance against designed benchmark (relative) or pre-defined socio-environmental thresholds (absolute terms) - Publicly disclose alignment with the principles and provide regular independent verification of the extent of the alignment of the investment process to the principles |  |  |  |



OUR TEAMS AND CAPABILITIES

To deliver against our ambition, strategy and approaches, we have built exceptionally capable and experienced teams across our business propositions.

As Schroders Capital has grown in terms of specialisation, product offerings, and assets under management, we have built teams with varied and complementary experiences across our franchise.

680+

employees directly dedicated to Schroders Capital⁸

300+

investment professionals⁹

27+

dedicated S&I professionals¹⁰

⁸ Source: Schroders Capital Human Resources department, as of June 2022.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Source: Schroders Human Resources department, as of June 2022.

¹² Source: Schroders Capital Human Resources department, as of June 2022.

Our professionals are bound by a set of values that are key to delivering on our S&I objectives:

Diverse and Inclusive:

Our commitment to creating a truly inclusive culture is at the centre of our people strategy. Though we recognise that this is a continuing journey, we do not believe it is possible to meet the high standards set by our global client base without the breadth of thought and experience that comes from having a diverse workforce and leadership team.

45%

Female employees at Schroders Capital¹¹

23%

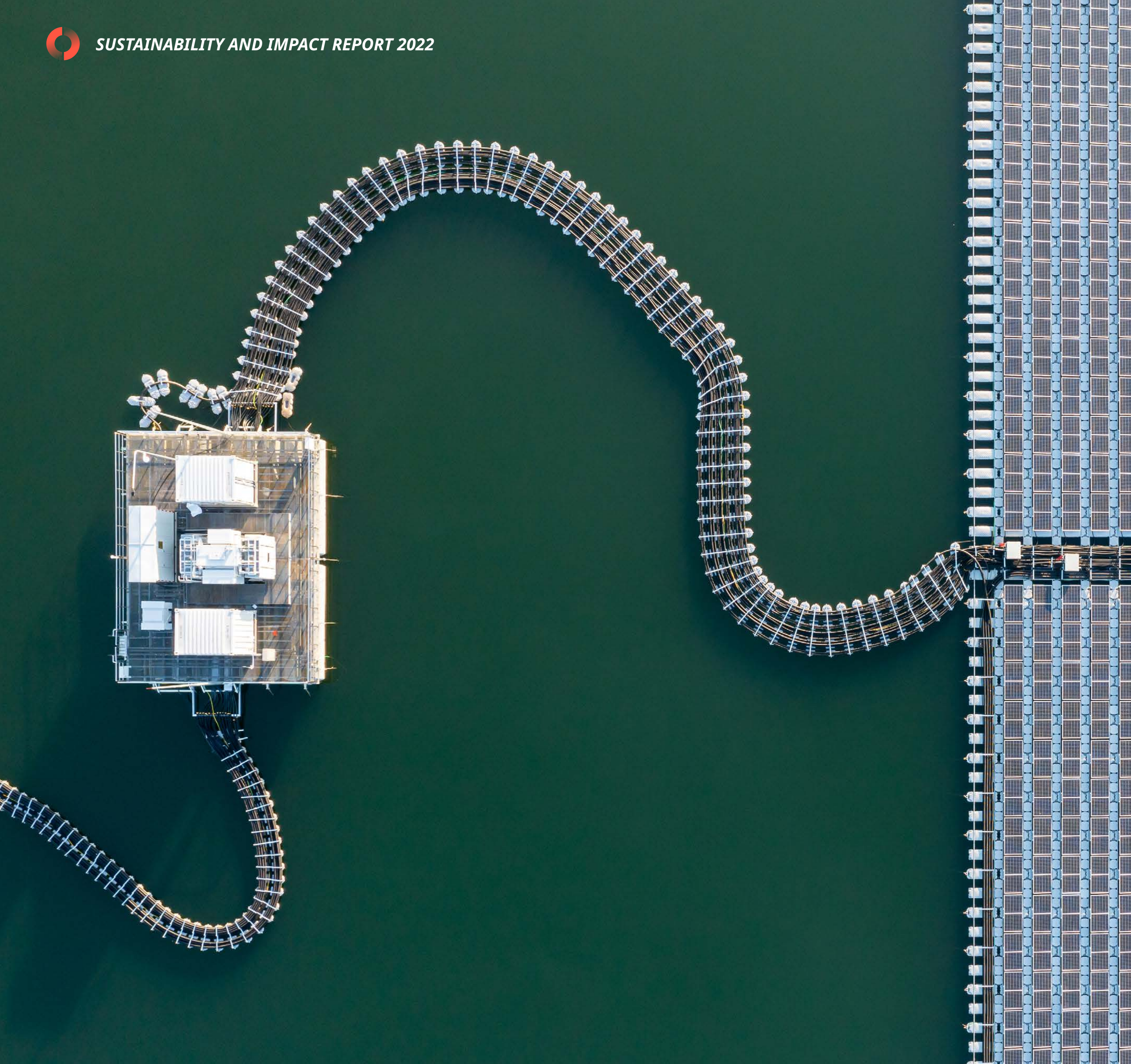
Female senior management at Schroders Capital¹²

Retaining talent:

High retention levels represent a committed and engaged workforce, which is aligned with Schroders' values and sustainability goals. Maintaining high levels of retention helps us nurture a long-term culture that cares about people and outcomes.

A culture of advocacy and knowledge-sharing:

We actively promote industry advocacy and engagement with regulators and industry bodies on S&I topics. This ensures that our voice is heard in shaping the future policy agenda and our key concerns around these topics are represented in our peer group.



**OUR PART IN
GLOBAL INITIATIVES**

Our alignment with key global initiatives is helping to influence countries and corporates alike.

Schroders Capital proactively participates in several key initiatives. We have selected six to highlight here.

**Initiative 1
Financial Reporting Council (FRC) Stewardship Code**

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries – leading to sustainable benefits for the economy, the environment, and society. The UK Stewardship Code 2020 sets high stewardship standards through 12 ‘apply and explain’ principles for those investing money on behalf of UK savers and pensioners. Exercising stewardship is part of how we manage investments for our clients.

The 12 principles are outlined on the right. For more details, please refer to the FRC website.

Purpose and governance

- 1 Purpose, strategy and culture
- 2 Governance, resources and incentives
- 3 Conflicts of interest
- 4 Promoting well-functioning markets
- 5 Review and assurance

Investment approach

- 6 Client and beneficiary needs
- 7 Stewardship, investment and ESG integration
- 8 Monitoring managers and service providers

Engagement

- 9 Engagement
- 10 Collaboration
- 11 Escalation

Exercising rights and responsibilities

- 12 Exercising rights and responsibilities

Initiatives 2 & 3
Net Zero Asset Manager & Science Based Target initiatives

The NZAM initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. Schroders became a founding member in 2020, underlining our intent to partner with investors and businesses towards that goal. We hope more of our peers across the industry follow suit. We are actively working on building tools and infrastructure to help our investment teams measure and manage the risks associated with the transition process and to track their alignment to a net zero pathway.

Science-based targets provide a defined path to reduce emissions in line with the goal of the 2015 Paris Agreement. More than 3,000

businesses around the world are already working with those targets. In 2021, Schroders joined the Science Based Targets initiative (SBTi), committing to align all our managed assets to a 1.5°C pathway by 2040, with an interim target of 2.2°C by 2030. In 2022, Schroders was among the first 20 financial institutions to have its goals formally validated by the initiative. The targets include Schroders’ own operations, as well as our ‘financed emissions’ – i.e., the emissions arising from the companies in which we invest. For more information about our journey, please see our [Climate Transition Action Plan \(CTAP\)](#) and [SBTi verification announcement](#).

Schroders Capital is developing commitments with clear targets, milestones, and timelines. As an example, the Real Estate team published its [Pathway to Net Zero Carbon by 2050](#) in December 2020.

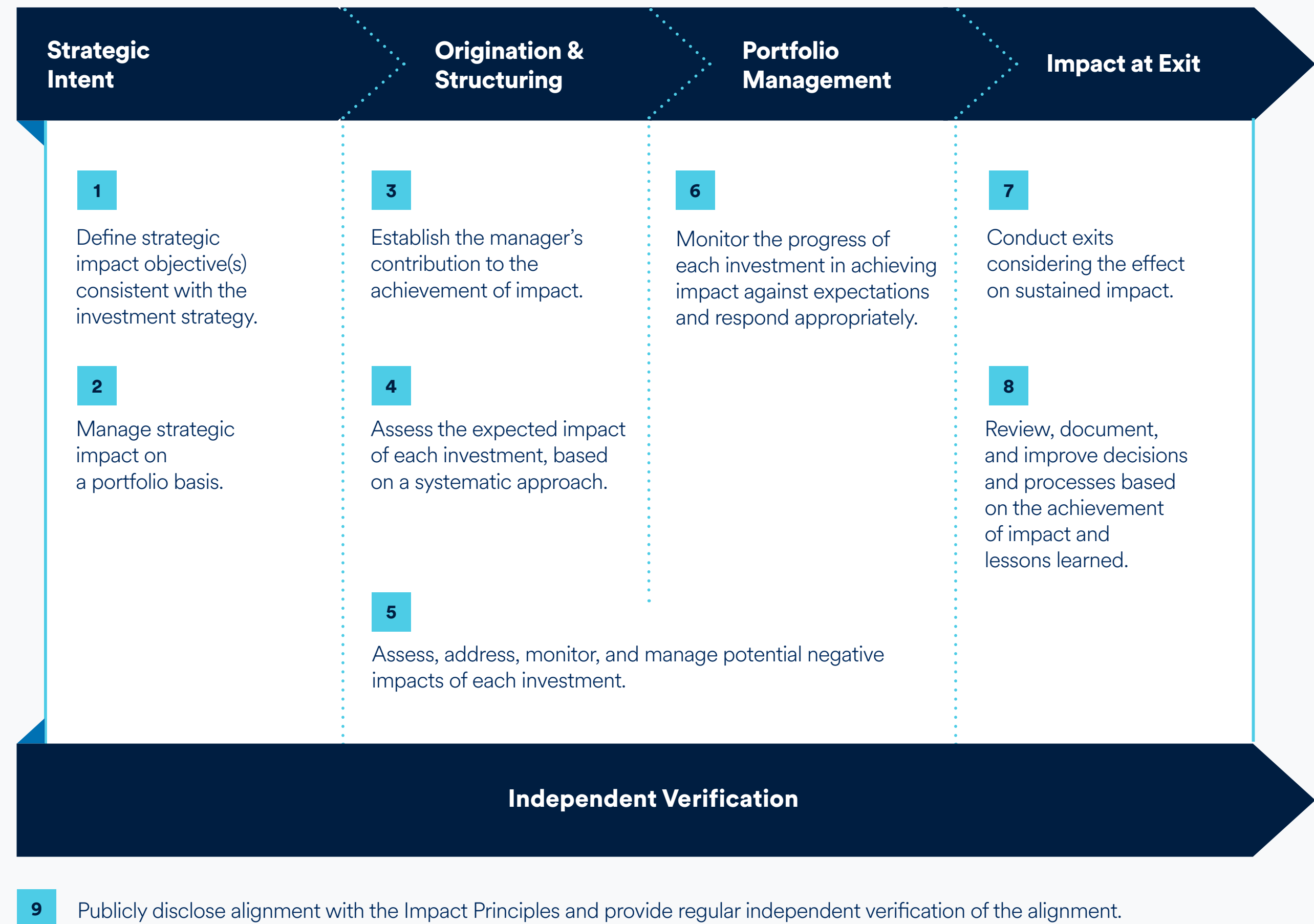


Initiative 4
Operating Principles for Impact Management (Impact Principles)

The Impact Principles are a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle.

The Impact Principles were launched in 2019 and may be adopted at different levels. For example, asset managers may decide to adopt the Impact Principles only for specific funds or vehicles they consider impact investments.

Our impact framework and its underlying components (such as the systematic impact scorecard to assess and monitor impact or the specific impact governance set up) are aligned to the 9 Impact Principles:



**Initiative 5
Sustainable Development Goals (SDGs)**

The 2030 Agenda for Sustainable Development, adopted by United Nations Member States in 2015, provided a shared blueprint for peace and prosperity for people and the planet. At its heart are the 17 Sustainable Development Goals, which are an urgent call for action by all countries to recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Schroders Capital aligns its portfolios with the SDGs in its periodic reporting, where relevant. See Chapter 2 of this report for further details.

**Initiative 6
Principles for Responsible Investment (PRI)**

The PRI is a United Nations-supported international network of investors that promotes the incorporation of ESG issues into investment practices. The goal of the six Principles for Responsible Investment is to understand the implications of sustainability for investors and to support signatories in incorporating these issues into their investment decision-making and ownership practices.

Schroders has been signatory since 2007 and submits yearly reporting at the Group level. The Schroders PRI reporting

includes parts of Schroders Capital such as the Private Equity, Real Estate or Securitised Products & Asset-based Finance teams. BlueOrchard reports separately due to the unique nature of its business.

Other initiatives

In addition to the above, Schroders Capital, through Schroders Group, adheres to and is a signatory to the following S&I frameworks and initiatives:

- **UN Global Compact Guidelines.**
- **Task Force on Climate-related Financial Disclosures.**
- **ESG Data Convergence Initiative.**



OUR SUSTAINABILITY AND IMPACT ROADMAP

Every year, Schroders Capital sets out and implements an action plan for the development of our S&I activities, which outlines key workstreams and deliverables with associated timelines.

The roadmap connects with broader initiatives at Schroders and provides a coherent framework to track progress.

Key target outcomes:

Channeling investments

Through a strategic approach, we seek to channel investments to businesses, assets, and enterprises to enable positive S&I outcomes.

Developing expertise

We continuously work to enhance the capabilities of the S&I team and become a centre of competence, both internally and externally. We also strive to improve our S&I management and measurement policies and processes.

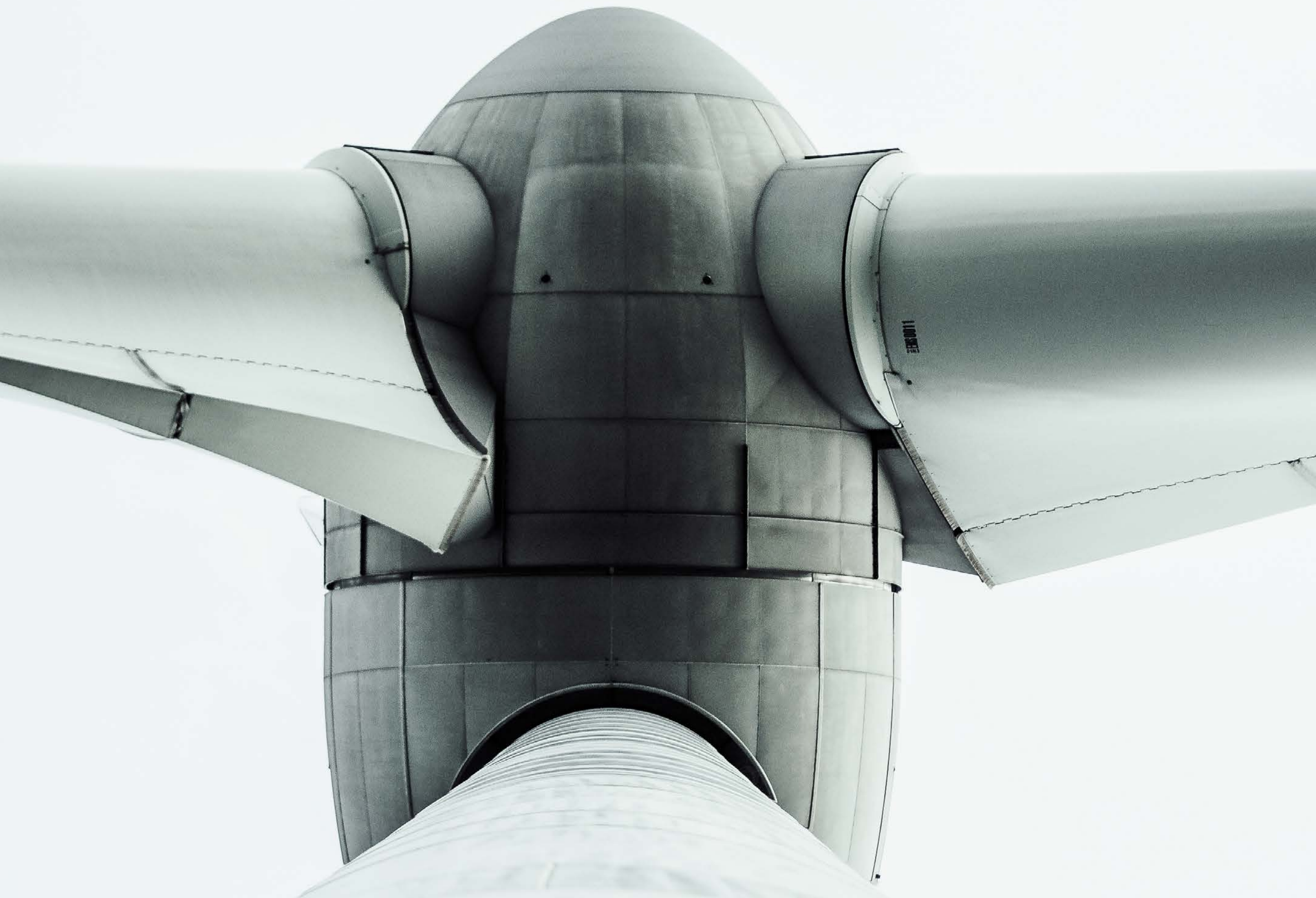
THE 2022 S&I ROADMAP HAS BEEN STRUCTURED AROUND EIGHT KEY PILLARS:



METHODOLOGIES, TOOLS AND GOVERNANCE

2





OUR APPROACH

We integrate environmental, social and governance (ESG) factors as part of our investment process to identify issues that can impact an asset's risk and return profile.

Schroders Capital adopts Schroders Group's Sustainability Accreditation Framework to assess how each business segment integrates ESG factors in its investment process, while accounting for different asset classes, investment strategies and investment universes. Schroders Capital first completed this Accreditation in 2020, and it is renewed on an annual basis by each private assets team.

This annual Accreditation entails a thorough review of ESG processes, tools and methodologies used to measure sustainability risks and opportunities and integrate them into the measurement of sustainability and financial returns, so as to ensure these are rigorous and fit for purpose as our offering evolves.

In addition to ESG integration, in 2022 we formally articulated the first [Schroders Capital Sustainability and Impact Policy](#) that describes our ambition, our approach to product classifications, and key governance arrangements and exclusions. This policy reflects common principles and ambitions but also the fact that private asset investments require specialised

sector-specific policies to best capture the risks and opportunities of different business models. We implement a wide range of negative screens and exclusions according to our S&I Policy, many of which are also built on exclusions implemented at Group level. Specific exclusion criteria are also added for specific mandates at the request of our clients.

We draw on different data sources to ensure that client views are reflected in the most accurate way possible and the investment portfolios we create are in line with their sustainability goals. We have developed a range of proprietary methodologies and tools to reflect the specific characteristics of private markets and to account for the different S&I practices within each industry where we operate.

All businesses have developed a proprietary ESG framework – including ESG scorecards and processes – that reflects the material ESG factors affecting the underlying assets. Where impact investing offerings are available, Schroders Capital has developed a complementary impact framework – including an impact scorecard and a full impact investing process – to account for key elements such as clear impact intent, contribution and measurement.

A selection of our proprietary tools is outlined on the right.

In addition to those tools, we undertake significant analytical work in partnership with Schroders’ Data Insights Unit. For example, we have geospatial mapping tools to identify deprived areas in the UK based on deprivation indices and have used these to select opportunities for our real estate impact strategy.

Please refer to our [sustainability and impact page](#) for more information and to some examples of our tools on the next page.

| Schroders Capital Business | ESG assessment framework | Impact assessment framework |
|---|---|---|
| Real Estate | Range of ESG scorecards developed for both direct and indirect real estate opportunities | Dedicated real estate Impact scorecard |
| Infrastructure | ESG scorecard developed for both equity and debt transactions | Private assets Impact scorecard |
| Private Equity | ESG assessments for both direct and indirect investment opportunities | Private assets Impact scorecard |
| Insurance-Linked Securities | ESG framework for the entire product offering | Product offering includes sustainability strategies only |
| Securitized Products & Asset-Based Finance | Range of ESG scorecards depending on the type of underlying securitized transactions (ABS, CLOs, etc.) | Product offering includes sustainability strategies only |
| BlueOrchard | Range of ESG scorecards including private debt, private equity, listed debt and sustainable infrastructure strategies | Range of Impact scorecards available across different impact themes |



**AN ESG ASSESSMENT FRAMEWORK
EXAMPLE: INFRASTRUCTURE DEBT**

Since 2019, we have used an assessment tool that allows us to measure the ESG quality of our projects.

Conceptual Basis

This tool is based on a proprietary analysis and has been designed to account for ESG information relating to each infrastructure project: the tool analyses both the ‘contribution to the sustainability transition’ and the ‘ESG risk’ of investments. The output is an ESG rating, calculated through the combination of the two.

Alignment to SDGs

We consider that investment into infrastructure assets can go beyond ESG compliance and move into the impact investing arena, with a clear objective to address the UN Sustainable Development Goals.

Infrastructure aims to be at the forefront of this movement by targeting sectors and projects with a positive social or economic impact. Therefore, before investing, we first analyse the contribution of the asset with a particular focus to the seven SDGs that are the most relevant for Infrastructure. Please see the icons on the right.

Sectoral and Asset-Level Analysis

Before investing, we also carry out an analysis of potential ESG risks and opportunities associated with the asset and underlying activities, at sector level. Based on the internationally recognised frameworks by the Sustainability Accounting Standard Board and British International Investment, the tool automatically generates, for each sector, the most material ESG risks and opportunities.

The ESG risk analysis is then conducted at asset level, based on a customised questionnaire generated by the tool, according to the investment sector. This questionnaire is completed with information collected from due diligence reports and interviews with the borrower, sponsor, advisor or target.

We assess to what extent the asset’s contribution is positive or negative for each SDG analysed.



AN ESG & IMPACT ASSESSMENT FRAMEWORK EXAMPLE: BLUEORCHARD

Context

Building on BlueOrchard’s 20+ year impact investing track-record, a new impact management and ESG framework called ‘B.Impact™’ was launched in 2020. B.Impact™ provides a holistic approach to manage and measure ESG risks and impact potential across asset classes and impact themes.

Focusing on the impact pillar, BlueOrchard’s proprietary Impact Scorecard is used to produce an impact rating for every investment and is aligned to the five dimensions of impact as defined by the Impact Management Project. These set out **what** the impact intent of the investment is, **how much** impact it aims to generate, **who** are the beneficiaries of the impact, the **investor’s contribution** to the projects, and the associated **impact risks**.

Alignment to SDGs






BlueOrchard’s SDG mapping and alignment methodology is an integral part of the B.Impact™ Framework. There are four steps to the SDG alignment process.

Embedding of the scorecard in business decisions

Both the impact and ESG assessments are fully embedded in the investment process and are core to the due diligence and monitoring and reporting stages.



BlueOrchard SDG framework

|  Clear intent and priorities |  Set targets |  Integrate assessment |  Measure and monitor |  Transparent reporting |
|---|--|--|--|--|
| <p>Top down Determine the main intent of the fund, defining:</p> <ol style="list-style-type: none"> 1. Key impact areas and target SDGs (i.e. core SDGs) 2. Material industry impact areas (i.e. aligned SDGs) 3. Approaches for claiming and measuring the above (e.g. % of women clients) | <p>Top down Depending on the fund impact strategy, define clear impact targets (yearly and for the life of the fund) per SDG claimed.</p> | <p>SDG management Manage SDG objectives, incorporating the fund impact strategy to meet targets into the investment guidelines.</p> <p>Depending on the strategy, follow the Impact Principles.</p> | <p>Bottom up For each investment, define and measure KPIs to be used to quantify contribution to the SDGs claimed (core and aligned).</p> | <ol style="list-style-type: none"> 1. Communicate and report on progress towards achieving targets to key stakeholders. 2. Develop a clear reporting schedule with defined KPIs. |



LEVERAGING TOOLS IN THE PUBLIC ASSETS SPACE

In addition to the tools developed specifically for private markets, we can leverage Schroders' proprietary tools designed for listed markets for parts of our portfolio that are more liquid and for bespoke investment solutions spanning across public and private markets.

A selection of these tools is highlighted below:

CONTEXT

CONTEXT provides a systematic framework for analysing a company's relationships with its stakeholders and the sustainability of its business model. It is designed to support our investors' understanding of the sustainability of companies' business models and profitability and provides wide-ranging data to support our teams' views.

SustainEx™

SustainEx™ provides an estimate of the potential societal and environmental impact that may be created by the companies in which

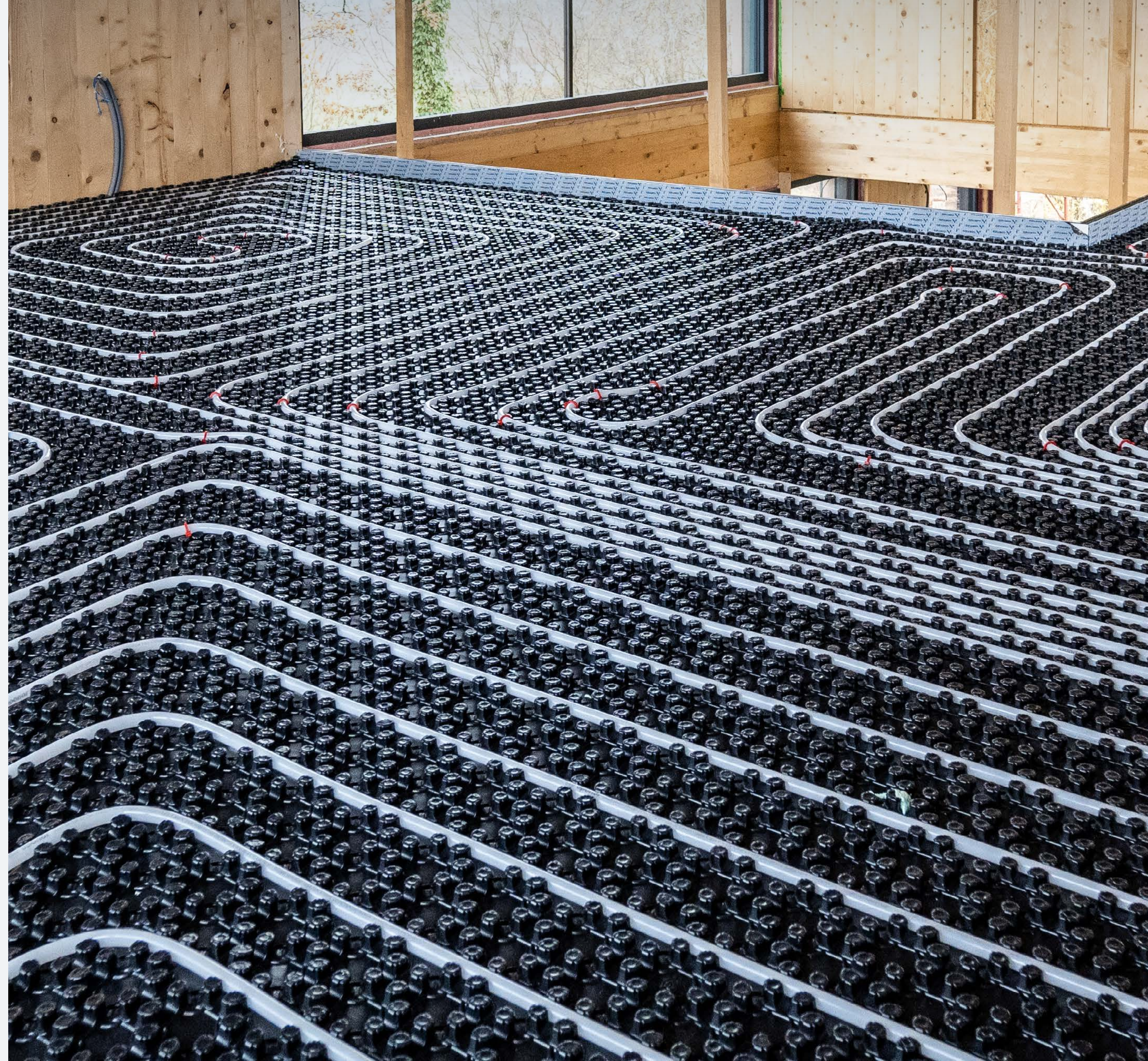
we invest, allowing our investors to assess ESG factors that might impact our clients' investments. SustainEx™ provides a measure of those impacts expressed as a notional percentage of revenues.

Climate Progress Dashboard

The 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 provides us and our clients with an objective, transparent and comprehensive view of global climate action.

Net Zero Dashboard

The Schroders Net Zero Dashboard measures investment activity alignment with our SBTi targets. It estimates the forward-looking environmental impact of our investing activities and specifically, it calculates both the implied temperature score and financed emissions for a snapshot of our investment holdings so investment teams can track the pace of transition in individual portfolios.





OUR VIEW OF STEWARDSHIP AND ENGAGEMENT

Schroders Capital has responsibilities as an investor and as guardian of our clients' assets. We commit time and resources to proactively influence corporate behaviour to ensure the companies we select and invest in are managed in a sustainable way.

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

Finally, engagement provides us with a unique opportunity to steer companies' interactions with their stakeholders, ensuring that the companies we invest in are treating their employees, customers, and communities in a sustainable and responsible way.

Various teams work together to identify areas that warrant discussion with companies or stakeholders. In addition, specific strategies at Schroders Capital may have a higher engagement level when directly operating and

managing assets. Please refer to the Schroders Stewardship Code document available on the FRC website for more details and illustrative case studies.

Our governance:

S&I is at the heart of our governance arrangements, both at the Group and at Schroders Capital level.

The key ways in which robust governance is ensured at Schroders Capital are:

Individual roles:

Appropriate individuals have been identified to drive the S&I agenda, with clear objectives. Sustainability heads have been appointed in most businesses and clear reporting lines and escalation channels have been established.

Functional roles:

Each function has a defined role in the S&I journey, from product development to legal and compliance, to data and technology. Private assets S&I teams have been established in relevant businesses. Key touchpoints have been identified and responsibilities articulated.

Working groups, forums and formal committees:

Relevant forums have been established to ensure a consistent, aligned approach to S&I matters and to ensure healthy discussion and debate before formal approvals. These working groups and committees exist at both the Schroders Capital level and within individual teams.

Link with Group governance:

Clear links with Group governance have been established, and to the extent possible, similar frameworks and approaches are being used, with recognition of our private assets focus.



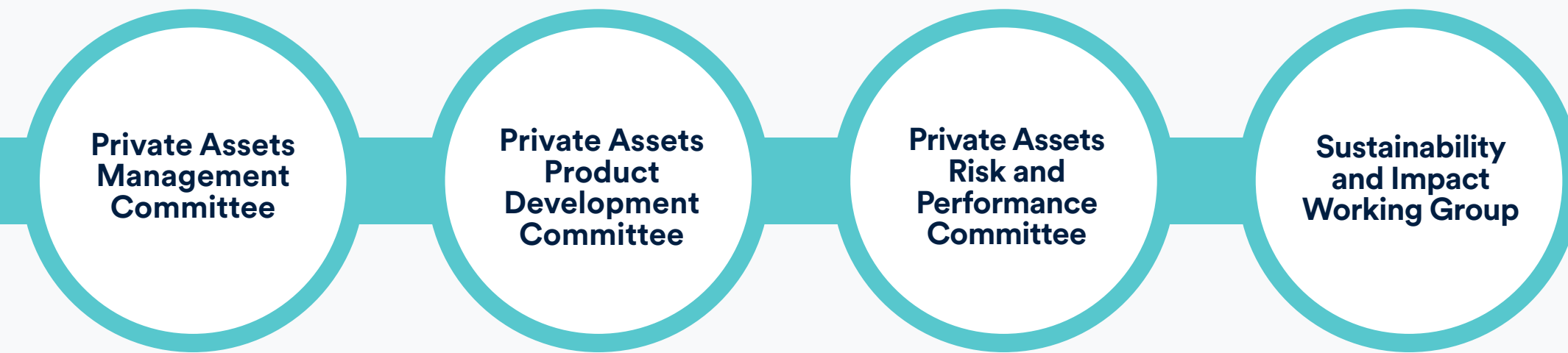
KEY SCHRODERS CAPITAL WORKING GROUPS, FORUMS, AND COMMITTEES

These are just some of our key working groups, forums, and committees with specific S&I responsibilities.

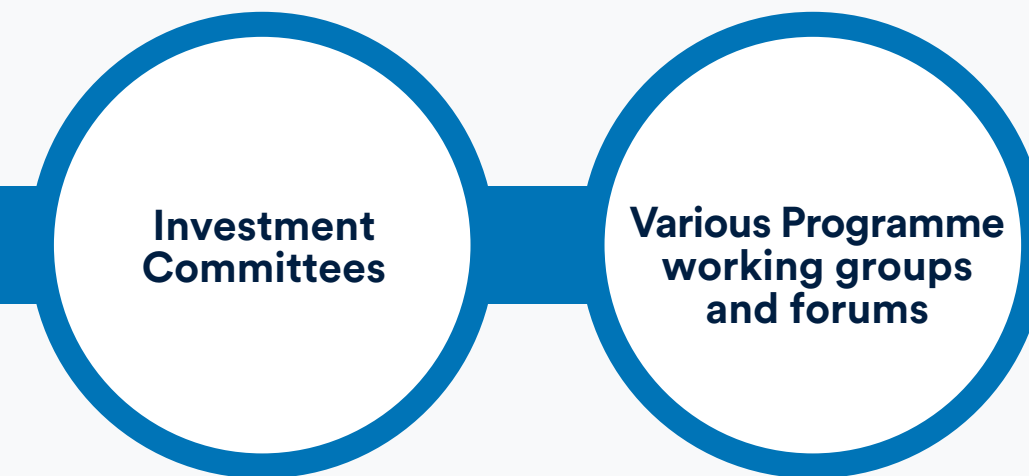
Schroders Group forums



Schroders Capital forums



Working Groups and Business specific forums



THE IMPACT WE MAKE

3



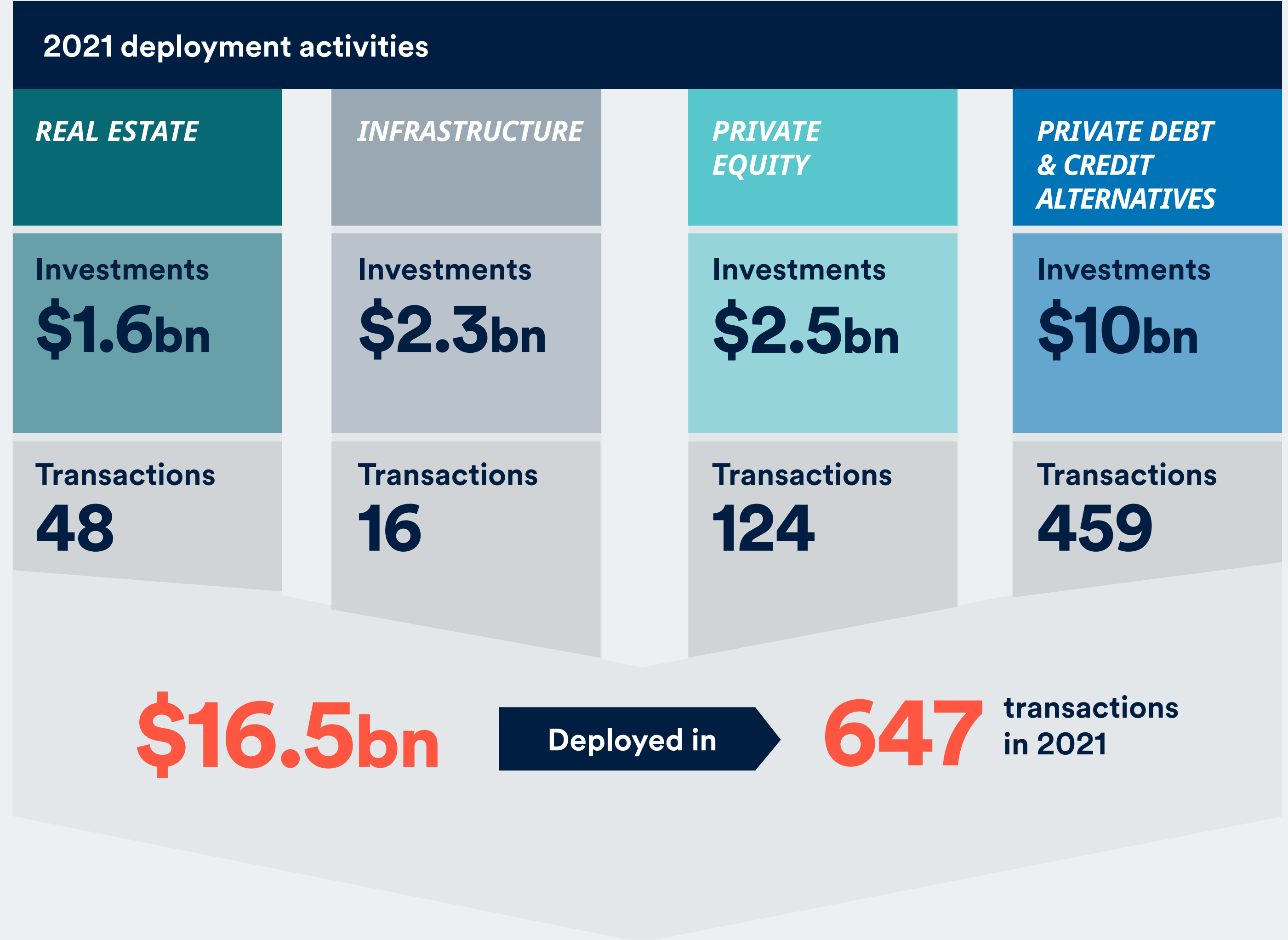
HOW WE INVEST MATTERS

We have deployed more than \$16 billion of new capital through 647¹³ investments across our business segments.

The long-term nature of our portfolios allows us to generate impact on a mid-to-long term basis across different sectors, asset classes, and investment solutions.

In this chapter we share the highlights of our S&I journey across our four business segments, and we showcase how each asset class can make an impact through concrete case studies.

¹³As of 31 December 2021, this excludes transactions from Schroders Capital's Securitised Products & Asset-Based Finance team.





REAL ESTATE

As one of the most important asset classes from a societal perspective, it is vital that we provide our clients with sustainable, solutions-led real estate exposure.

We have been managing real estate for over 50 years and are one of Europe's largest real estate managers. We are supported by over 250 dedicated employees on the ground in Europe (in Amsterdam, Frankfurt, Luxembourg, London and Manchester, Munich, Paris, Stockholm, Zurich) and Asia (in Hong Kong, Singapore, Shanghai).

We seek to deliver consistent performance for clients through a global platform of local real estate professionals allowing us to source and select best risk-weighted, S&I integrated investment opportunities. We achieve this by supporting tenants and their businesses with operational excellence, sustainability, and a hospitality mindset.

We focus our global real estate solutions in growth areas where we see substantial opportunities as the market landscape changes over time. This enables us to diversify clients' portfolios and find genuine alpha for them across three areas.

Living and hospitality

This includes hotels, senior living, and social housing.

Logistics and warehousing

This comprises self-storage facilities, convenience retail, mixed-use supermarket and residential buildings, strategic land, and multi-let industrial.

Future workplaces

We work with developers to ensure assets are attractive for the evolving demands of occupiers over the long term.

Our Sustainability and Impact journey

We manage our buildings to maximise revenue and value potential today and in the future. As real estate investors, it is also our responsibility to identify, understand, and manage positive and negative environmental, social, and economic impacts as well as delivering resilient long-term investment returns. With the built environment responsible for almost 40% of global carbon emissions, addressing the carbon impact of our activities on the planet is a significant element of our investment

process¹⁴. Recent global events, including the COVID-19 pandemic, have also highlighted the critical role that real estate can have on communities, individuals, tenants, and employees who work, live, and play in our buildings.

Although reducing emissions and creating Net Zero Pathways are high on the agenda for most investors, many lack the in-house expertise or local presence to drive physical change. This limits their ability to meaningfully change tenant behaviour and increases the risk that non-sustainable assets will get revalued or will be left stranded.

Investors are looking for partners that can enforce, monitor, and report against social and environmental objectives according to a pre-agreed impact framework that can be objectively audited. We believe a sustainable investment program should deliver long-term, resilient, and enhanced financial returns to investors, as well as cost savings for tenants through operational efficiencies and tangible positive impacts to local communities, the environment, and wider society.

Our sustainability approach, '[Real Estate with Impact](#)', is founded on three pillars: people, planet, and place. These

pillars are referenced to UN SDGs 8 (Decent Work and Economic Growth), 11 (Sustainable Cities and Communities), and 13 (Climate Action), which reflects the contribution of the built environment and our responsibilities as real estate investors.

This approach is integrated into the investment lifecycle across our strategies from acquisition due diligence, through active asset and property management, to refurbishments and developments. We evaluate our assets to understand their decarbonisation potential and map pathways to achieving net zero carbon emissions no later than 2050.

For further details on how we implement net zero for our real estate activities, please see our Net Zero Carbon Pathway [here](#).

Transparency of our actions and impact is important and we include sustainability in our product reporting. We have participated in the Global Real Estate Sustainability Benchmark (GRESB), the global standard for real estate funds and companies, since 2011.

5 funds with Five-star GRESB rating in 2022

64% of funds participated in the GRESB Real Estate Assessment (measured as % of direct assets)¹⁵

59% of funds have a carbon pathway aligned to achieving Net Zero Carbon no later than 2050 and Paris Climate Agreement goals (measured as % of direct assets)¹⁶

¹⁴In 2020 the buildings and construction sector accounted for 37% of energy-related CO2 emissions, according to the Global Alliance for Buildings and Construction.

¹⁵In 2022.

¹⁶Funds with a net zero carbon pathway aligned with the overarching goal of net zero CO2 emissions by 2050 at the latest, in line with the Paris Climate Agreement, with interim milestones in 2025 and 2030.

Developing high-quality homes for vulnerable adults in the United Kingdom

Objective

We invested in forward-funding developments of Social Supported Housing (SSH) in the UK, consisting of high-quality homes with bespoke modifications that meet the needs of vulnerable adults with additional physical and mental needs. Rents are paid by the UK government on long-term CPI-linked leases, providing secure income for investors.

We are deploying c. £200 million raised from a range of global institutional investors.

| | |
|------------------------------|----------------|
| Country | United Kingdom |
| Sector | Residential |
| First investment date | 2019 |



Sustainability and Impact

- Over 1,200 homes delivered, with over 60% delivered in some of the most deprived areas in the country
- Better positive social outcomes for vulnerable adults through the provision of homes for life close to their families
- Provision of appropriate and safe housing close to local amenities and social services
- Energy efficiencies and low/no maintenance through sustainable design and construction methods - this delivers operational cost savings and is designed to be net zero carbon by 2050
- Fiscal savings for the taxpayer as SSH is 55% cheaper than long-term NHS beds and other institutional settings¹⁷

¹⁷Funding Supported Housing for All, Mencap, 2018.

SDG alignment



Investing in resource-efficient logistics and light industrial assets in Europe

Objective

We invest in newly developed and income-producing logistics and light industrial assets in the Netherlands and Germany. The assets are close to Dutch and German hubs and along main transport corridors. We are investing €670 million raised from a mix of institutional European investors.

| | |
|------------------------------|-------------------------|
| Country | Netherlands and Germany |
| Sector | Industrial |
| First investment date | 2006 |



Sustainability and Impact

We aim to minimise the negative impact of our investments on the natural environment and have a positive impact where possible. More specifically:

- Buildings are optimised for energy efficiencies with solar panels installed where feasible, plus smart metering and monitoring systems installed
- Buildings are built and maintained using circular practices and innovations, including lower material waste in construction and optimised water consumption
- In order to achieve net zero carbon emissions no later than 2050, our fossil fuel energy consumption reduction plan is underway
- In order to increase biodiversity, minimise new land use and increase rainwater resilience, we will green outdoor space in our projects

SDG alignment





INFRASTRUCTURE

The world needs more infrastructure investment to address societal issues and help mitigate climate change – but it cannot be just any infrastructure. It must be sustainable, well managed, and with a holistic approach to stakeholder engagement and long-term investment.

Schroders Capital infrastructure equity team invests in essential infrastructure, notably in digital transformation - in assets such as telecom towers or fibre-optic cable, and the energy transition - via a range of initiatives, from sustainable mobility to wind power and solar projects.

With the acquisition of Greencoat Capital in April 2022, we have significantly expanded the breadth and depth of our investment capabilities in renewables. More than 80 investment, technical, and support professionals joined us, based in London, Dublin, Amsterdam, Dusseldorf, New York, and Chicago. They bring invaluable expertise and unmatched experience in renewable energy infrastructure management and enable us to have an in-depth understanding of our target markets and the investment opportunities within them.

The team has acquired and now operates over 200 assets, including wind turbines and solar panels, and has pioneered many investment products now established in the sector. With over 14 years of investing in the energy transition, the team has very strong relationships in the industry and has

established a longstanding reputation for trustworthiness. It is the market leader in the UK and Ireland, and since 2022, has built out its presence across the EU and the US.

Our Sustainability and Impact journey

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

We have also continued to improve the ESG performance of our supply chain. Schroders Greencoat commissioned consultants to help us build a robust supply chain framework which was rolled out in 2022. One of the key objectives is to better understand the ESG risks that our funds and investments face. In addition, Schroders Greencoat has joined the Solar Stewardship Initiative, working with consultancy DNV to build a supplier monitoring program.

As part of our commitment to continuous improvement and greater disclosure, we have been assessing the suitability of the GRESB Infrastructure benchmark for renewable energy infrastructure, using our solar investments as an example. This work resulted in several recommendations to improve ESG measurement and integration that were discussed with GRESB and should contribute to future improvements in the benchmark and industry standards.

As part of the Net Zero Asset Managers initiative, we are investing into assets that are accelerating the green transition.

32,500 jobs created and/or maintained¹⁸

3,200,000 tonnes of CO2 avoided¹⁹

¹⁸Total of jobs created and/or maintained by infrastructure equity investments made by Greencoat in 2021.
¹⁹In 2021.



Decarbonising the heating and agricultural sectors through low carbon greenhouses

Objective

Decarbonisation of the heating and agriculture sectors has so far been disappointingly slow despite their enormous carbon output. These pioneering greenhouses take a significant step towards reducing the carbon footprint of food production.

In 2021 Greencoat invested a total of £120 million to develop the largest heat pumps ever deployed in the UK. The structures rely on heat pump technology that makes use of waste heat from nearby water recycling centers and sewage works.

This reduces the carbon footprint by 75% compared to European equivalents, and increases food security in the UK.



Sustainability and Impact

- The greenhouses cover 29 hectares in total – the equivalent of 47 football pitches
- We work with Anglian Water which provides the source heat via two of its sites outside Norwich and Bury St. Edmunds. Around 360 permanent new jobs were created in the two regions, with a further 120 seasonal jobs
- The waste heat extracted from the water recycling centers displaces the conventional gas heating of commercial greenhouses
- New Combined Heat and Power (CHP) plants have been built to power the heat pumps, with the CO2 emissions generated by the CHP systems transferred into the greenhouses to accelerate plant growth further, thus recapturing a high proportion of the carbon

| | |
|------------------------|----------------------|
| Country | United Kingdom |
| Sector | Heating, Agriculture |
| Investment date | 2021 |

SDG alignment



Investing in the energy transition across Europe

Objective

BelEnergia is an Italian developer and operator of renewable energy. It produces electricity and gas from solar, wind and biomass. BelEnergia is a key Italian player in energy transition, participating in the European energy independence and promoting circular economy principles through its waste-to-energy activity. In July 2021, we committed €50 million to finance the growth of BelEnergia.

Since then, Schrodgers Capital's infrastructure equity team has signed two transactions on assets developed with BelEnergia. Namely, in May 2022, we closed the 49% acquisition (€9 million) of a 21MW wind farm in Southern Italy. In September 2022, Schrodgers Capital indirectly acquired a 70% share (€40 million) in the project company responsible for developing 121MW solar farms.

This deal was a rare opportunity to invest in a scalable platform where the company was looking for long-term capital to support ambition to become a significant European IPP. Several other projects are still under discussion in the solar (Spain and Italy) and biomethane (France and Italy) sectors.

We also partner up with top notch expert entrepreneurs in project scouting, project development, EPC, partnerships, negotiations, financing, and M&A industrial know-how.



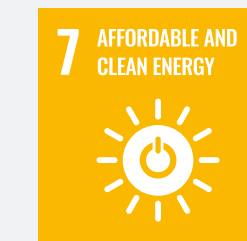
Sustainability and Impact

With its 1.4GW pipeline and the financial support of Schrodgers, BelEnergia aims to:

- Play a significant role in reducing European greenhouse gas emissions
- Actively develop its business in Italy, France, and Spain, always working very closely with all the local stakeholders in order to promote projects that supports social and economic developments of the concerned areas

| | |
|------------------------------|------------|
| Country | Italy |
| Sector | Renewables |
| First investment date | 2021 |

SDG alignment





PRIVATE EQUITY

Our private equity business provides investors with access to the attractive segments of this asset class from around the world.

Private equity investors are well positioned to align to S&I investing principles and create positive impact due to their long-term investment horizons and their ability to engage closely and strategically with portfolio companies.

We provide investors with access to a broad range of private equity investment opportunities across buyout, growth, and venture capital investments, focusing on what we consider the most attractive parts of the market. Besides targeting robust business models and supporting innovation and growth, we apply deep sector expertise to areas such as healthcare, technology, consumer services, business services, and industrials across Europe, North America, and Asia.

We have over 20 years of private equity investment experience, generating strong returns via transformational business ownership through multiple economic cycles. With a local servicing model and a dedicated client solutions team, our investors regard us as a long-term, trusted global partner.

Our team participates in direct investments, co-investments, secondaries, and primary fund investments globally, working with managers across all sectors and forms of private equity.

Our Sustainability and Impact journey

Throughout our private equity due diligence and investment monitoring process, we emphasise the importance of responsible investing and encourage our partners to adopt institutional-standard responsible investing practices. These include proactive and regular disclosure of all relevant and material ESG risks, as well as ESG performance.

Sustainability considerations are integrated and applied throughout the investment process and are key drivers of investment decisions. As a result, sustainability factors are assessed across the pre-investment selection, investment due diligence, execution, and post-investment monitoring of all investments. Proactively assessing these factors should lead to emphasizing investments with positive ESG elements, excluding investments that pose ESG risks, and engaging where further ESG impact is feasible.

The Private Equity S&I Committee oversees policy and practices in these areas. It meets quarterly, reports to the private equity business' executive management, and maintains close coordination with the private equity Investment Committee and Schroders Sustainability Team.

Our private equity decision making is rooted in our proprietary RISE Framework (Raising Impact, Sustainability & Engagement). This currently includes four tools that are applied to measure S&I performance for different investment strategies.²⁰

²⁰Please note that the tools can affect decision making differently depending on the investment strategy in question.

| | |
|---------------------|---|
| RISE Primary | A general partner ESG assessment that integrates the latest market standards, including PRI and the Institutional Limited Partners Association. It is consistently applied to all our primary investments by assessing the adoption and programming of S&I practices. |
| RISE SDG | The investment management team reviews all direct and co-investments to identify if the business model of the investment might positively contribute to one or more SDGs. |
| RISE Direct | This tool assesses and scores direct and co-investments on their ESG performance using a proprietary methodology that looks at multiple underlying indicators. It uses seven focus areas that consider the Sustainability Accounting Standards Board's Materiality Map and are further weighted by the deal team. The seven areas are climate change, conservation, workforce, DEI, community impact, transparency, and policies and practices. |
| RISE Impact | This is aimed at capturing the impact intent, contribution, and measurement framework for individual direct and co-investments. It uses the Impact Management Project's framework as guiding principles, while the SDGs are generally used as guiding impact themes. |

5 sectors in active investments²¹

72 countries in active investments²²

~5,800 companies in active investments²³

16/17 SDGs aligned²⁴

²¹Schroders Capital's private equity practice invests in companies in the healthcare, technology, consumer, business services, and industrials sectors. This figure includes active investments only.
²²Ibid.
²³Ibid.
²⁴Ibid.



Investing in the future of cancer treatment

Objective

The company we invested in develops therapies to treat cancer and various diseases by targeting protein imbalances. It does so by discovering and developing small molecules that target protein stability by degrading the protein targets (oncoproteins in case of cancer) responsible for the diseases. In doing so, the company helps to further develop the broader scientific field of targeted protein therapies. Potential pharma partners showed strong interest in the therapeutic potential of protein stability.

Cancer affects 12.7 million people per year and the patient population is expected to reach 26 million by 2030. Only 25-30% of known cellular proteins can be targeted by current inhibitor drugs, with the remaining 70-75% of proteins regarded as undruggable. At the time of investment, competition to the company was limited to a small group of pharma and biotech firms focused on protein degradation.

Schroders Capital invested in a \$82.6 million series B alongside multiple other investors including Third Rock Ventures and Eli Lilly.



Sustainability and Impact

- The company develops molecules that target 75–85% of disease-causing proteins beyond the reach of today’s therapies and seeks to target those early in their life cycle.

SDG alignment



| | |
|------------------------|---------------|
| Country | United States |
| Sector | Healthcare |
| Investment date | 2020 |

Investing in a global online marketplace for refurbished electronics

Objective

Founded in France in 2014, the company is a leading online marketplace for refurbished electronics, enabling circular economy within the electronics markets. Today it operates in more than 18 countries in Europe and North America.

During production and in-use, consumer electronics have a major environmental impact (4% of total CO2 emission globally). Refurbishing products - instead of buying new ones - will help to significantly limit the environmental impact of the sector. During due diligence Schroders Capital requested more details about the expected and actual avoided GHG emissions by refurbishing the products and assessed the ESG risks related to the sourcing of used products.

Schroders Capital invested in a \$510 million series D round alongside one of its core GPs.



Sustainability and Impact

- In buying refurbished electronics (ref. year 2019), the company’s customers have prevented 47,088 tons of CO2, the equivalent of 10,000 cars
- As an example:

| Study | New phone | Refurbished phone | Impact avoided |
|-------------------------|-----------|-------------------|--------------------------|
| CO ₂ emitted | 56 kg | 11 kg | 45 kg saved on average |
| Raw materials used | 44 kg | 4-10kg | 34-40kg saved on average |

| | |
|------------------------|------------------|
| Country | France |
| Sector | Circular Economy |
| Investment date | 2022 |

SDG alignment





BlueOrchard private equity

In addition to Schrodgers Capital’s private equity portfolio, **BlueOrchard** also offers dedicated private equity impact investing strategies in emerging and frontier markets.

BlueOrchard developed its private equity impact practice in 2016 and now manages two funds. Both strategies focus on climate adaptation and building resilience to climate change in a range of countries eligible for official development assistance.

In these innovative blended finance strategies, private equity investments are made along the insurance value chain to develop climate insurance for the most vulnerable communities. More than 40 million climate insurance beneficiaries have been reached by these strategies as of September 2022.²⁵

40 million

climate insurance beneficiaries in 13 countries

²⁵As of September 2022, this includes both debt and equity strategies.

Private Equity Case Studies

Investing in climate insurance for low income farmers in Nigeria

Objective

Nigeria is the largest economy and population in Africa (200 million in 2020, 400 million forecast by 2050) with low insurance penetration. Royal Exchange General Insurance Company is a subsidiary of Royal Exchange Plc, licensed by the National Insurance Commission to offer the full range of general and special risks insurance products. With 100 years in the Nigerian market, Royal Exchange General Insurance has an enviable reputation for reliability, integrity, professionalism, technical competence, and financial strength.

As part of a blended finance initiative, initiated by the German government and the German Development bank (KfW), BlueOrchard acquired a 39% equity stake in Royal Exchange. The proceeds help Royal Exchange General Insurance Company to spur growth by increasing the company’s risk capital and supporting its underwriting capacity in agriculture, hereby extending its outreach to low income farmers. This investment is key to protect the lives and livelihoods of poor and vulnerable people against the impacts of natural disasters in Nigeria. The objective is to enable more timely and reliable post-disaster response through use of climate and disaster risk finance and insurance solutions to help poor and vulnerable people recover more quickly.

| | |
|------------------------|-------------------|
| Country | Nigeria |
| Sector | General Insurance |
| Investment date | 2019 |



Sustainability and Impact

- \$6.4 million poor and vulnerable (income less than \$15 per day) MSMEs and households covered with climate insurance by 2023
- 377 job opportunities created by 2023
- 300 additional SME clients by 2023

SDG alignment





PRIVATE DEBT & CREDIT ALTERNATIVES

Schroders Capital’s private debt and credit alternatives platform provides financing and insurance solutions to a wide range of mid-market projects and businesses across multiple sectors globally. To investors, we offer alternative sources of secure income, diversification, and sustainable investments.

With 140 investment professionals around the world, we can provide access to a broad and deep credit universe where we see the most attractive opportunities while retaining the ability to flex according to market conditions.

We offer a continuum of income streams to meet investor needs with diversified portfolios across liquid alternative credit, asset-based finance, private debt, infrastructure and real estate debt, and uncorrelated insurance-linked strategies.

We have a history of S&I investing, partly founded on our long experience managing impact lending strategies, notably in microfinance. Leveraging this long track record, we are actively seeking innovative ways to capture societal and environmental investment opportunities.

Our specialist investment teams bring significant experience in their respective sectors and have built extensive investment networks across the globe to access and originate a broad range of transactions across the private credit spectrum and throughout the capital structure.

Our Sustainability and Impact journey

Our Securitised Products & Asset-Based Finance team has been serving institutional clients, including pensions and insurance companies for more than two decades. The Securitised Products & Asset-Based Finance team focuses on the full spectrum of public securities to private alternative investments via a range of open-ended and closed-ended funds and separate single investor mandates. The team has invested in excess of \$100 billion across a flexible best ideas platform. With a focus on the consumer (including through housing debt and asset-based consumer debt), the team has examined social practices, fit for purpose loans and fair collection for decades.

\$100bn

invested across our best ideas platform²⁶

²⁶As of 31 December 2021.

We regard ourselves as long-term stewards of our clients' capital and this philosophy naturally leads us to focus on the long-term risks and prospects for the assets in which we invest. We believe an in-depth understanding of collateral cash flow and the impact of structure is the foundation of generating returns in a market where size and complexity lead to exploitable inefficiency. Our approach is driven by risk adjusted cashflow comparisons across a wide range of potential economic outcomes. Incorporating the potential impact of externalities on asset values, assessing and mitigating physical and transition risks is key to a comprehensive risk-return analysis. This assessment structure is critical, as it provides the foundation with which we assess risk and the potential for cash flow variability. Our process is consistent across the continuum of our strategies, which range from more traditional, benchmarked securitised strategies, to private debt strategies.

Evaluating cashflows for their variability and incorporating all factors into the risk profile is key to sustainable value. Our practice integrates all factors into our Securitised Products & Asset-Based Finance investment process. The consideration and integration of environmental, social and governance (ESG) factors into our cashflow analysis incorporates an assessment of both the quality of the collateral, the responsibility of the lending and the sustainability of the cash flows. Our framework incorporates five principle pillars: lawfulness, fairness, purposefulness, contractual aspects and sustainability. As an owner of cashflows backed by repayments on financial contracts, and collateralised by assets, we are assessing

lending practices, asset quality, borrower protection and environmental impact on a specific pool of assets. Lending must have solid alignment with laws, be compliant with industry standard, be fair, and be fit-for purpose. The lending and management of assets must be free from principal-agent conflict. We also assess the impact of the lending and the asset footprint on the environment, as well as from climate change.

There are also some sectors and assets that have un-priceable risks, and certain sectors and assets within the lending and secured finance market that cannot meet minimum standards as, in some cases, elements of lending, collections, collateral value raise unacceptable ESG concerns.

We utilise a scorecard system to assess eligible assets whereby securitised assets are ranked across ESG factors using proprietary sector specific scorecards. The factors are largely objective, using quantitative, data-orientated measures or information from engagement with borrowers and issuers. Scorecards results are subsequently added to the overall assessment of the assets from a credit and valuation perspective.

Our assets often fulfil important access to capital, for example to first time home buyers, to students, or to victims of hurricanes.

Our **infrastructure debt** team invests in essential infrastructure which consists of a broad group of infrastructure assets, focusing on long economic life and long-term cashflow visibility.

46,540

jobs created and/or maintained²⁷

²⁷Source: Schroders AIDA, this figures includes infrastructure debt only, as of 31 December 2021.

Investing in high-speed railway in France

Objective

Rail is one of the most energy-efficient modes of transport, representing 9% of global traffic and only 3% of total transport energy use. This railway infrastructure company holds a 50-year concession creating a direct High Speed Line between Paris and Bordeaux and thus significantly decreasing the travel time between those two cities from 3 hours to approximately 2 hours.

The company also joined Act4Nature France, the programme managed by the French government agency responsible for biodiversity. Act4Nature invites companies to commit to 10 principles, and define and communicate biodiversity action plans across their whole value chain.

Schroders Capital managed investment vehicle invested in fixed-rate tranches that, due to the environmental commitments, earned green bond status once refinancing was complete.



Sustainability and Impact

- Since 2017, 65 million individuals have chosen to travel by train instead of using their cars or other means of transport
- The railway infrastructure company established two Carbon and Biodiversity taskforces to finance low carbon emission projects, improve knowledge on biodiversity, protect natural habitat and biodiversity, and increase public awareness locally
- It created a specific vehicle dedicated to mobility, social inclusion, access to housing and improving literacy rates in its footprint region and is currently supporting 18 local projects

SDG alignment



| | |
|------------------------|----------------|
| Country | France |
| Sector | Rail transport |
| Investment date | 2019 |

Our product range includes subsector, diversified investment opportunities that are split between investment grade and sub-investment grade. Our infrastructure debt team has invested in over 75+ European infrastructure companies in 11 countries²⁸ since inception.

We consider and monitor a range of factors using proprietary ESG and impact assessment and reporting tools over the lifecycle of an investment. By integrating these ESG considerations into our investment process, we expect to see stronger long-term risk-adjusted returns. We also utilise a detailed scorecard to analyse the most material sustainability considerations, monitor projects and companies throughout the lifecycle of our investment, and provide ongoing reporting that quantifies performance and the impact we are having.

Our S&I policy and practices reflect the experience and knowledge that we have built up in the infrastructure sector and the specific needs and considerations of infrastructure companies. More information can be found in the [Infrastructure Sustainability and Impact Policy](#).

In addition to Schroders Capital private debt infrastructure portfolio in Europe, we also have dedicated **impact investing infrastructure debt** strategies in emerging and frontier markets as part of **BlueOrchard**.

BlueOrchard focuses on renewable energy, energy infrastructure and efficiency, sustainable transportation, and digital infrastructure. By being involved in the growth of key sectors in emerging markets such as mobility, technology, and energy infrastructure, our investments have a positive impact.

²⁸Source: Schroders AIDA, as of 31 December 2021.
²⁹Source: BlueOrchard, as of 31 December 2021.

This finance helps climate change mitigation and social and economic development while also providing stable and resilient cash yields and greater diversification. With our leading impact platform, extensive network, and on-the-ground presence in emerging markets we can make a real difference in providing bespoke sustainable infrastructure debt opportunities to our investors.

Our **private debt impact investing** team aims to deliver measurable positive social and environmental outcomes alongside financial returns. It was founded in 2001 as the world's first commercial manager of microfinance debt investments and is now the largest one in the world.

We have built a distinct track record in offering premium impact investment solutions across multiple asset classes and themes with a core expertise in private debt, sustainable infrastructure debt, and emerging market impact bonds. Being an expert in innovative blended finance mandates, we are a trusted partner of leading development finance institutions worldwide. The team consists of experienced and versatile professionals in seven offices across four continents, enabling **BlueOrchard** to operate effectively in as many as 90 emerging and frontier markets²⁹.

We define a number of tangible benefits that we seek to achieve. Our main focus is on two key areas of impact investing:

Financial inclusion

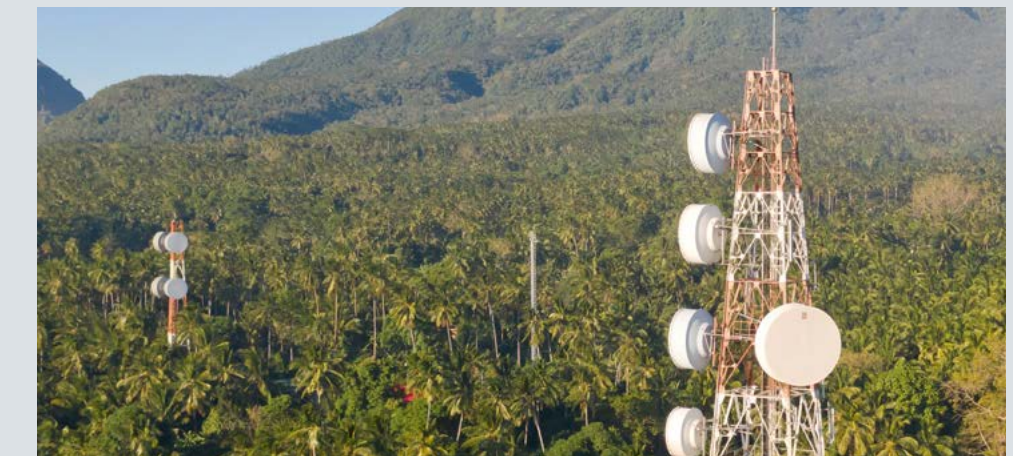
We support companies that provide access to financial and related products and services, access to education, female empowerment, and the provision of affordable products for underserved groups and to support job opportunities.

Improving the quality of the telecom infrastructure network in the Philippines

Objective

The Philippines' telecom infrastructure network is of poor quality and faces increasing local demand for data. The tower market is dominated by the two duopolistic Mobile Network Operators (MNOs), that until recently owned 100% of the tower sites in the country. Unable to face the growing demand and 26 high upfront investments required for new tower sites, the market is increasingly shifting towards an independent TowerCo model, supported by the Government. This has introduced a simplified permitting and licensing process to attract international telecom tower players.

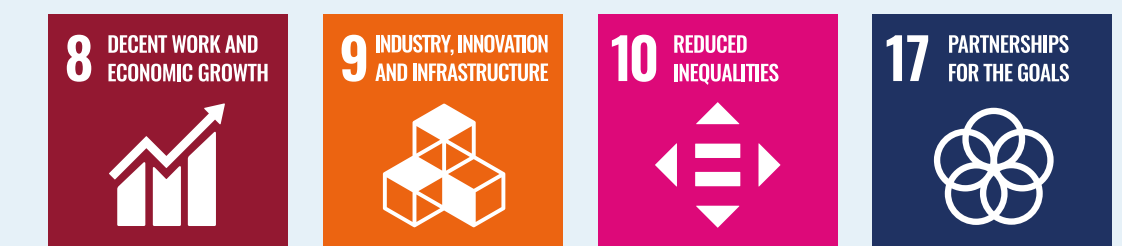
To date, only three TowerCos are fully licensed and have contracted with both leading MNOs for new sites. The telecom company financed by BlueOrchard is one of them.



Sustainability and Impact

- Financing the roll-out of an initial portfolio of 600 telecom towers, across the Philippines (growing to 2,000 towers over time)
- Each tower can service on average 4,000 households, taking the project outreach to a potential 8.6 million households with better internet coverage within the next 3 years

SDG alignment



| | |
|------------------------|--------------------|
| Country | Philippines |
| Sector | Telecommunications |
| Investment date | 2021 |

Climate finance

We support climate mitigation and adaptation initiatives, including sustainable infrastructure projects providing first access or improving network connectivity in remote areas, access to renewable energy or sustainable transport solutions.

The team uses proprietary ESG and impact management tools to track its progress on delivering enhanced social and environmental impact and financial returns for its investors and businesses. Our impact investing activities not only ensure that investments do not cause adverse impacts according to ESG investing criteria, but also aim to contribute positive and measurable social and environmental impacts across several areas. These include inclusive finance, gender equality, education finance, climate insurance, energy efficiency, renewable energy, affordable housing, health, and sustainable infrastructure.

Through the impact generated in these thematic areas, we currently contribute to 13 out of the 17 SDGs. The latest version of [BlueOrchard's Impact & ESG Framework](#) – also called B.Impact™ – was launched in 2020 and is fully aligned with the Impact Principles.

81%

female end clients³⁰

65%

rural end clients³¹

13/17

SDGs aligned³²

145 million

jobs created and/or maintained³³

³⁰Source: BOFS, BlueOrchard data management system, as of 31 December 2021.

³¹Ibid.

³²Ibid.

³³Ibid.

Financing the leading microfinance institution in Moldova

Objective

BlueOrchard finances the leading microfinance institution (MFI) in Moldova which offers a mix of financial and related products and services to Moldovan businesses and individuals nearly 20 years. It stands out as a responsible creditor, being the first MFI in Moldova to obtain a SMART certification. This recognition testifies its prudent, transparent and respectful treatment of clients, aligned with the Client Protection Principles and practices.

BlueOrchard has been a long-standing lender to the MFI with its first private debt loan issued in 2009. Since then, the MFI has demonstrated sound financial and social performance with adequate capital position, sufficient liquidity, strong profitability and growing outreach with adequate and affordable products for its end clients.



Sustainability and Impact

- 46,255 active borrowers across the country
- \$3,353 is the average loan size
- 44% of the borrowers are female clients and 64% of the loans are directed to Micro, Small and Medium Enterprises

SDG alignment



| | |
|------------------------|--------------------|
| Country | Moldova |
| Sector | Financial services |
| Investment date | 2022 |

Our pioneering **Insurance-linked Securities (ILS)** team has established itself as one of the most innovative ILS investors globally, offering access to the full spectrum of life and non-life strategies via a range of open- and closed-ended funds as well as tailored single investor mandates.

Our purpose is to deliver uncorrelated returns to our investors over the long term, while at the same time building bridges between the insurance and the capital markets by providing protection against catastrophic events. Interests between investors and protections buyers are aligned as investors only earn a return if disaster doesn't strike. By providing protection, we can help the global economy become more resilient against the increasing risk of extreme events, which have the potential to increase in frequency and severity because of climate change.

Schroders Capital ILS investments aim to positively impact the underlying beneficiaries of the insurance protection we provide to help rebuild after large natural catastrophes hit. The value that insurance generally offers to individuals, institutions and the economy is to provide a sense of security and peace of mind, encourage loss mitigation, increase prosperity, and generally make people more aware of the reality of risks and their consequences through information and pricing signals.

Insurance creates socio-economic benefits. At a simple level, ILS investing helps protect individuals and communities from the financial consequences of severe disruptions due to extreme events such as natural catastrophes, pandemics, and extreme mortality events. In addition to providing protection for developed economies, a growing segment of the asset

class covers risks in parts of the developing world with historically low private insurance coverage.

We engage with the ILS community to address weaknesses, to avoid greenwashing, and to increase overall transparency in the risks that we underwrite. We not only engage with our counterparties such as broker/dealers or cedants, but also with our peers as we believe that a joint approach means better leverage to achieve these goals.

1,732

projects invested within the ILS business³⁴

\$2.2bn+

one of world's largest cat bonds fund managers³⁵

³⁴Source: ILSOP, ILS system for financial data, as of 30 April 2022.
³⁵Ibid.

To improve the ILS market's capability to analyse reinsurance companies' capital flows with respect to covered risks (lines of business) and ultimately beneficiaries (personal, commercial, industrial), we have formed an ILS ESG working group initially consisting of Zurich-based ILS asset managers for which ESG is of strategic relevance.

This working group has identified common data needs of the ILS industry as far as ESG is concerned, with the ultimate goal to establish a commonly accepted reporting standard. Investment stewardship is core to us as a fiduciary and asset manager.

Funding humanitarian support through insurance-linked securities

Objective

Natural catastrophes are some of the most significant threats facing the world today, causing substantial losses, especially in vulnerable communities without access to a developed insurance market. Risk financing and insurance is an effective and reliable way to reduce the exposure of individuals, businesses and countries to financial shocks, enabling them to better absorb and recover from the economic burden of extreme events. The insurance sector has a pivotal role to play in facilitating mitigation and adaptation to natural catastrophes, including climate change. When suitably applied, insurance can become a crucial instrument to prepare for and withstand adverse events.

Schroders Capital invested in a transaction covering eruption for ten volcanoes in emerging economies across three continents. In case of a qualifying event, the transaction will provide the Danish Red Cross with financial aid to provide humanitarian support in impacted areas.



Sustainability and Impact

- The bond is designed to pay out quickly after an event when funds for humanitarian aid are most needed
- This transaction aims to contribute towards narrowing the protection gap and it might serve as proxy for future disaster risk financing transactions to pre-fund humanitarian aid

SDG alignment



| | |
|------------------------|---------------------------|
| Country | International |
| Sector | Disaster relief financing |
| Investment date | 2021 |

The **real estate debt** team was established in 2020 to complement Schroders' real estate offering and provide a comprehensive service to clients across the complete range of risk and return investing throughout the real estate debt spectrum. The team seeks to provide investors with attractive risk-adjusted returns from European and UK commercial real estate debt investments by originating underlying portfolios of commercial real estate loans.

Initial investment strategies comprise investment grade senior loans secured on core and core-plus property; stretch senior whole loans and pre-let development financing, secured on value-add and transitional properties; and mezzanine debt, development funding, and opportunistic whole loans.

ESG is embedded in our underwriting and investment approval process. Every loan opportunity is screened against exclusion criteria and assessed for ESG risks and opportunities. These are identified within the initial data capture. We recognise that many investors have concerns over specific activities to which they do not want their investment exposed and have adopted specific exclusion criteria to avoid investment in companies operating in those industries.

In addition to firm-wide restrictions, the real estate debt team's strategies also exclude nuclear weapons, fossil fuels, and tobacco. We also implement a wide range of negative screens that are considered during know-your-customer checks and tenant analysis.

Once a loan has progressed to the assessment phase, the deal team will complete an ESG Scorecard. This is a proprietary measurement tool designed to transparently and objectively measure the relative ESG performance of each investment opportunity.

Schroders Capital's **Australian private debt** business offers strong risk-adjusted returns versus other mature markets. We look to take advantage of the illiquidity and complexity premiums within an environment that offers strong structural protections in the form of covenants and security. The team has multi-sector skills and origination capabilities across infrastructure, real estate, leveraged and acquisition finance, and general corporate loans in senior and junior debt in direct lending and syndicated markets.

The team aims to support businesses that recognise the importance of sustainability, have a social conscience, and strong governance principles. Capital preservation is our primary focus, and the tenets of ESG – combined with the significant tools on offer to assess this risk – can give investors significant comfort that our interests and values are aligned throughout the investment life.

\$16+bn

deal execution experience in Australia since 2011³⁶

³⁶As of June 2022.

Financing the sustainable development of a mixed-use urban facility in the United Kingdom

Objective

Schroders Capital extended a three-year senior loan of £33 million to refinance a shopping centre, a 250,000 square foot mixed retail, office, leisure and healthcare facility, including the city's principal storey car park. The objective of the loan is to ensure the ongoing dominance and relevance of the shopping center in the city's retailing and commercial hierarchy, such that it continues to attract national and local/regional businesses, with an emphasis on ethical retail. The project will also improve the shopping environment and create an active landscape that provides the community with a place to live, work, relax and shop.

Moreover, Schroders Capital encourages best practice for tenants to optimise operational and embodied carbon during fit out and ongoing on-site recycling and waste management. More concrete objectives also include the improvement of the overall energy efficiency and EPC rating for areas below EPC C (approximately 15% of total floor space), and an ongoing quarterly ESG rating, with a more detailed annual review into the borrower

ESG questionnaire and business plan. In addition, a reinspection by lender-appointed building surveyor has been added to confirm that capital expenditure investment programme has been completed and support borrower with energy performance initiatives through approvals and possible additional lending.



Sustainability and Impact

- Borrower engagement has been positive. The borrower instructed the sustainability team to provide a sustainability report and audit and appointed a dedicated resource to manage sustainability at the center
- Borrower is looking at further capital investment to cover features such as installation of electric vehicle chargers and solar panels

SDG alignment



| | |
|------------------------|----------------|
| Country | United Kingdom |
| Sector | Retail |
| Investment date | 2022 |

CHALLENGES AND WAY FORWARD

4





HOW TO BEST MEET THE INDUSTRY'S ONGOING CHALLENGES

While we are proud of our achievements, we think it is our responsibility to focus on what we see as key challenges in terms of S&I and impact in private markets. As we have embarked on delivering on our S&I strategy, we have aimed at addressing and actively responding to these challenges.

Our conviction is that these challenges – which inform our immediate and long-term priorities – provide unique opportunities to further enhance our S&I approach and will lead to more sustainable investment practices and impactful outcomes.

To address many of them, we build partnerships with leading experts, participate in industry and sector-specific initiatives, and maintain a constructive dialogue with our clients, businesses, real assets, and projects. In addition, we continue to ensure our core investment teams and S&I specialists have the resources they need to further develop our policies, tools, and processes to keep up with the growing S&I needs of private markets and maintain a leadership position.

Challenge 1: S&I data



The quality of S&I data – in terms of availability, relevance, integrity, usability, and completeness – remains a concern for all private markets participants.

We are actively working on resolving these challenges by:

- Adopting consistent definitions across businesses and improving our data collection efforts
- Actively engaging with industry bodies and third parties to ensure that there is consensus on the materiality of data to seek from our portfolio companies
- Collaborating to develop a dataset that can supplement our internal data and enhance transparency in our key performance indicators

Our target is the construction of a private markets S&I database that can allow all parties, and in particular our investors and clients, to benchmark private assets managers' performance on S&I and link it to financial performance.

Challenge 2: Regulatory changes



As the volume of regulation rises across jurisdictions, market participants are tasked with managing an increasingly complex regulatory environment including the potential for regulatory divergence on certain key topics.

To address the regulatory changes, we have:

- Actively tracked the evolving requirements and how they apply to our portfolios and operations
- Worked across investment teams, legal, compliance and sustainability to address jointly key requirements and ensure that we can deliver on them
- Built significant legal and regulatory expertise via dedicated resources with extensive private markets transactional experience

Our ambition is to go beyond pure compliance and to create investment portfolios that can integrate S&I aspects and turn sustainability challenges into concrete investment opportunities.

Challenge 3: Know-how and resources

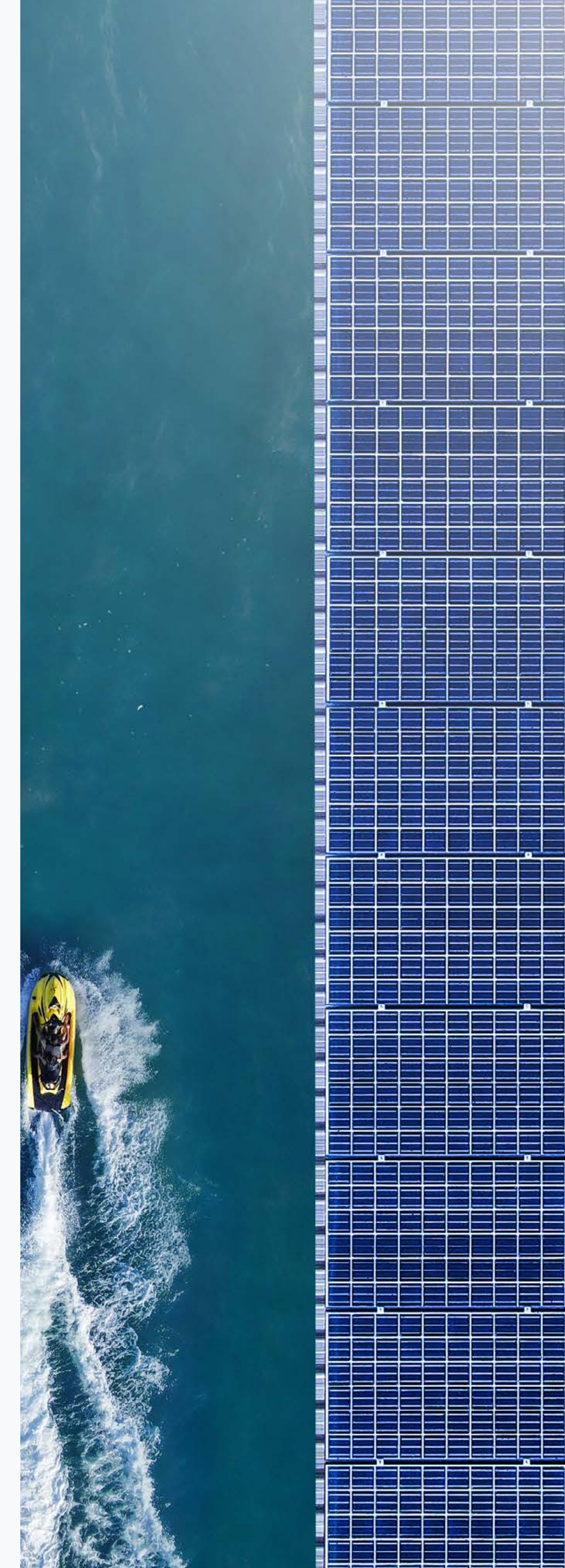


Sustainable and impact investing is a rapidly evolving and resource intensive space with new concepts, frameworks, methodologies and data capabilities emerging all the time. The science of the physical effects climate change and technologies such as hydrogen energy are also subject to continuous innovation and technical nuances that require specialist understanding.

To keep up with the S&I market needs we have:

- Assembled a strong team of S&I specialists who bring extensive knowledge to our investment and management practices. It includes dedicated practitioners from each business segment with a solid understanding of the mechanics of S&I across their respective investment activities
- Strengthened our capability through continuous training and recruitment
- Developed extensive opportunities to share successes and failures in achieving S&I objectives across Schroders Capital
- Benefited from external advice and counsel on issues where a broader industry response is required

We will continue to upgrade our resources and capabilities and contribute to industry initiatives as we believe the fast-growing pace of sustainability in private markets requires new forms of synergies and cooperation among private markets investors.





Challenge 4: Portfolio construction and engagement



Asset managers must satisfy multiple different considerations simultaneously: sustainability and impact, financial performance, regulatory classifications, alignment with international frameworks such as the SDGs, liquidity, and diversification.

For S&I strategies, we aim to address these challenges by embedding sustainability and impact in all stages of the investment process, proactively manage any trade-offs in terms of portfolio construction and portfolio diversification, and define a concrete engagement process as part of our portfolio construction activities.

Within S&I, we spend significant time filtering preferred investment opportunities, but also define how we can increase our positive impact as an investor during the life of our investments. We actively engage on the integration of climate considerations in partnership with our businesses and projects as we put into action our stewardship perspective and make this a cornerstone of our investment philosophy.

Our ultimate goal is to meet and exceed our clients' expectations by continuously pushing the boundaries of active engagement as we believe this is a unique lever we can use as private markets investors.

Challenge 5: Performance



With high levels of liquidity in key ESG sectors in certain markets, core financial performance might be challenging to achieve. How fund managers define and pursue alpha is critical to the success of S&I strategies.

We have developed our S&I strategy with a view that S&I investing is not a drag on performance and can, in fact, be a value enhancer. As long-term investors it is key that we assess how S&I can be generated via our portfolio and how these features can effectively contribute to creating financial value.

Building our own track record in correlating the achievement of S&I objectives with the delivery of financial performance is an ongoing opportunity as we have a larger S&I portfolio.

We are committed to following closely and contributing where appropriate to industry initiatives like the International Sustainability Standards Board (ISSB) and support the creation and development of sustainability-related financial reporting standards that integrate sustainability in the financial assessment of companies.

Challenge 6: Greenwashing



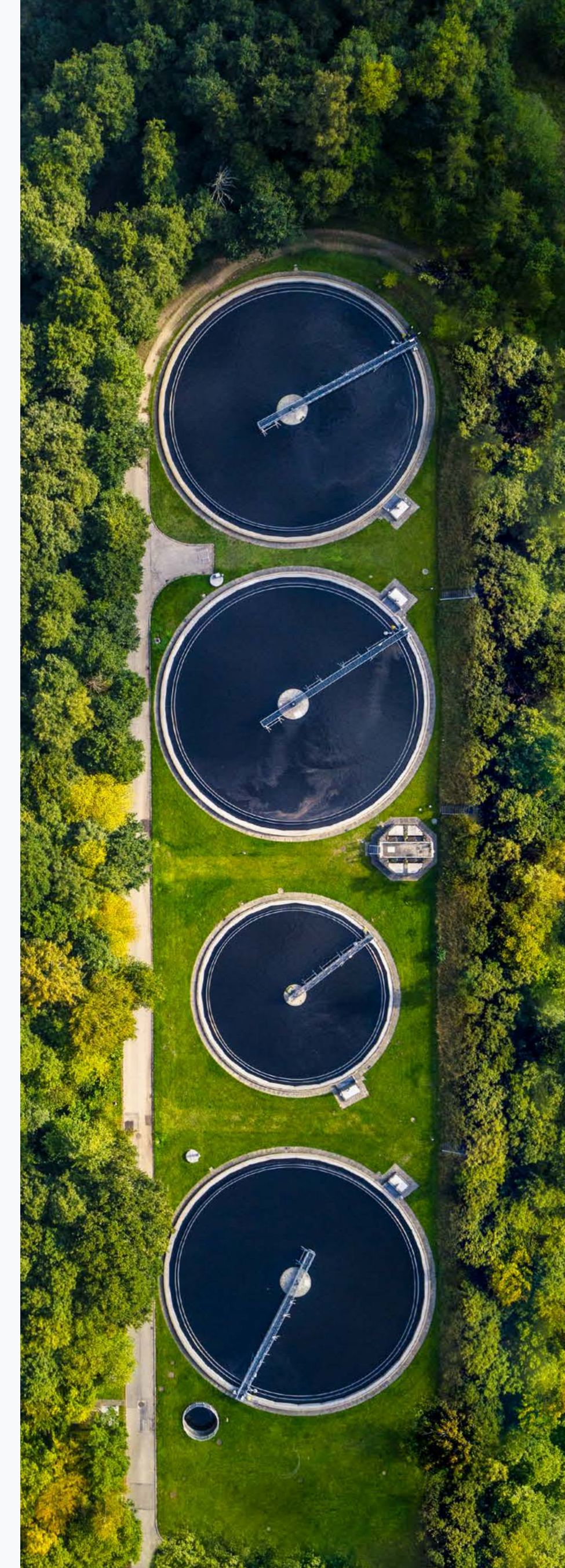
Greenwashing involves a firm making unsubstantiated or misleading statements about its sustainability and impact delivery and credentials. This isn't always intentional – a firm's efforts may be less effective or less comprehensive than it believes, due to inconsistent data or reporting. We take the risk of greenwashing extremely seriously as both forms are immensely destructive to our industry's journey towards more sustainable investment practices.

We are committed to reduce greenwashing risks by:

- Being transparent about the issue of managing the shift for some of our legacy portfolios. A significant part of our portfolio is in closed-ended multi-year strategies that can only be transitioned at the end of their respective lifecycles
- Reviewing our S&I products and services and associated communications to ensure that their S&I characteristics are represented accurately
- Making investments into our analytics capability to provide an accurate picture of our portfolio activities
- Being close to the assets we manage with sector specialists and expert investment teams on the ground

- Having internal risk management reviews and internal audits to ensure we are rigorous in presenting both our strengths and our weaknesses in S&I processes

To protect our reputation and the reputation of our investors our approach is to go the extra mile in disclosing what works and what does not. For impact driven strategies, we have planned an external independent verification of our S&I investment framework, policies and processes as we believe this is the most concrete manner to address any concerns and mark on our homework in terms of S&I performance.



CONCLUSION





CONCLUSION

Despite, and perhaps because of, the challenges outlined in the previous chapter, Schroders Capital remains optimistic about the future of S&I investments – and our role as a change maker in private markets.

In 2020, we achieved consistent integration of ESG considerations across our entire platform. In 2021 we created a central team to lead on S&I together with the sustainability experts of the investment teams.

In 2022 we have further expanded the capabilities of our sustainability team, created an umbrella [S&I Policy](#) to guide our activities, and have dedicated significant resources to enhancing our sustainability tools, methodologies and processes. We have also worked on improving the collection of S&I data – and this report is a testimony to this effort.

Where once we considered only risk and return, we now assess a third and fourth dimensions for our S&I investors: Sustainability and Impact.

Our S&I journey will continue. We will channel capital into successful and sustainable strategies in close collaboration with our investors as we seek to accelerate positive change.

As a leader in private markets, we aim to address the challenges presented above by investing in the private assets ecosystem and relentlessly pursuing our S&I objectives. As the complexity of our business grows, we are keen to enhance its relevance to the most pressing social and environmental challenges and take our responsibility to the next stage.

“

Our private markets activities are at the centre of Schroders’ growth. This means that if we want to go beyond reported profits and deliver ‘impact-adjusted profits’, we need to stand by Schroders Capital’s ambition to lead in sustainability and impact. We want to be proud of our private markets activities well beyond simply generating profits.

”



Peter Harrison

Group Chief Executive



EST. 1804

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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.

Context is a proprietary tool used by Schroders to support the analysis of companies’ and issuers’ management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company’s or issuer’s industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders’ investment-decision making or research by fund managers or analysts through the use of CONTEXT will reflect their judgement of the sustainability of one or more aspects of the relevant company’s or issuer’s business model rather than a systematic and data-driven score of the company or issuer in question. CS3526