2023 Active Ownership Report

Our commitment to stewardship

April 2024

Schroders

Contents

This document serves as our submission to the UK Stewardship Code. For more information on where Stewardship Code Principles are located within the document, see page 119.

Our commitment to stewardship

It is over two years since we launched our Engagement Blueprint, laying out how we believed we can increase the value of our clients' investments though our engagement with the management teams and Boards of the companies and assets in which we invest.

Over the course of those two years we believe that the need for an approach to investment that incorporates engagement on sustainability has become even more imperative. Equally, as more time passes, we believe our experience and data offers more evidence that engagement does indeed lead to better outcomes for our clients.

In the realm of climate, for example, we can now show that where we have actively engaged with companies, they are twice as likely to have set climate-related targets since our engagement than comparable companies where we have not engaged[1]. Early evidence shows that high engagement rates are also associated with better investment returns[2]. This is just one of many findings in the analysis we undertake of our climate-related engagements with over 1,300 businesses stretching back well over a decade.

Our conviction that sound investment decisions cannot be taken without considerations of sustainability and the broader environment in which companies must operate remains unshaken. And many of our clients tend to share our view: they see that the potential for costs, risks and opportunities arising from Environmental, Social and Governance (ESG) factors – either directly or indirectly via regulation or reaction by consumers, employees, or other stakeholders– is too material to ignore.

Among those clients, there is also an increasingly sophisticated understanding of what genuine sustainable investing entails. Our approach is to identify risks and potential sources of growth through a detailed understanding of the businesses we invest in, and might invest in. We will continue to refine and develop the analysis and tools that help us do this.

Crucially, we want to *help the businesses in which we invest adapt* and embrace the opportunities these changes present. This is where our approach to active management and engagement sets us apart from some quarters of our industry.

Asset managers are under increasing pressure to demonstrate to clients and other stakeholders that they are holding companies to account on issues such as climate. Being able to point to voting records which show a high number of votes against boards' recommendations, or strong support for independent shareholder resolutions, has become seen in some quarters as a measure of good stewardship.

The growth of passive investing has created large shareholders who sometimes lack detailed understanding of the businesses they own. Proxy advisors reflect these trends in many cases, but also risk fuelling them if not used appropriately.

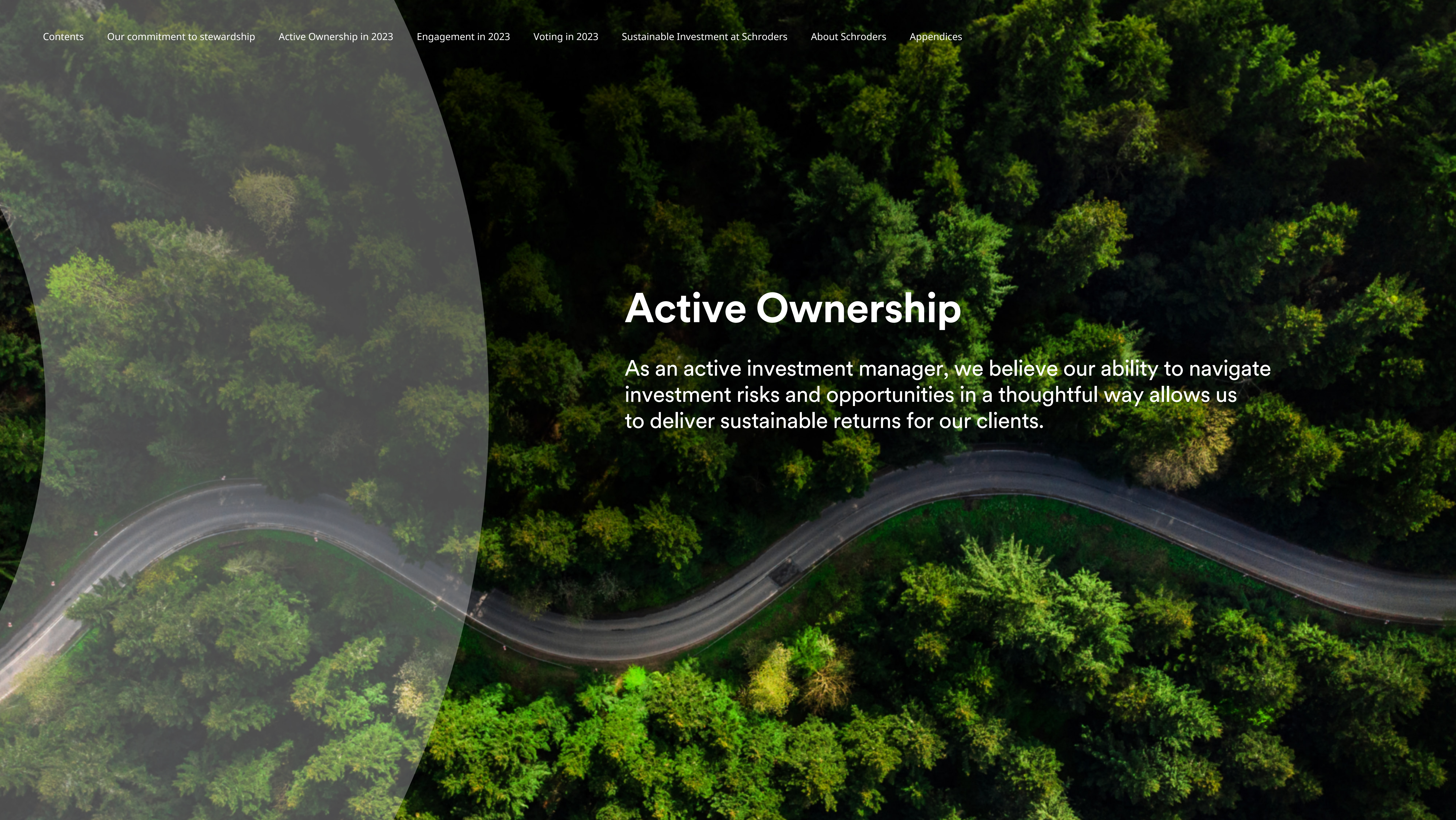
Whilst superficially attractive, we fear this approach to stewardship risks putting "box ticking" over substantive analysis and engagement. Too much emphasis on "proving" stewardship using vote records has perhaps distracted some institutional shareholders from more material issues. We need to reframe what is meant by "good stewardship". We are convinced that value creation for our clients requires a partnership between business and investors. Not an atmosphere of conflict and mistrust.

There are no shortcuts to delivering value for our clients: it comes from making sound investment decisions based on thoughtful and constructive relationships with investee businesses. That, in turn, highlights the importance of an active approach based on knowledge and analysis.

Peter Harrison
Group Chief Executive

1 https://www.schroders.com/en-gb/uk/intermediary/insights/how-engaging-on-climate-can-achieve-emissions-reductions-and-enhance-returns/

2 Based on Schroders analysis of listed companies in the MSCI ACWI IMI index. We examined changes in companies' emissions over the last five years, relative to sector peers, and compared the total shareholder returns delivered. Early evidence shows that high engagement rates are also associated with better investment returns. Where Schroders had engaged at least twice a year, cumulative peer-adjusted returns were 4% higher than peers after one year of engagement and 12% higher after two years of engagement. This returns analysis is based on the starting month of engagement. Companies with lower intensity engagement have been engaged for longer, therefore we could measure returns for three years after engagement at the time of publication. For more detail on our analysis, see: https://mybrand.schroders.com/m/572e2b324f330d34/original/612067_SC_INFOCUS_How-engagement-works-thought-leadership_v4-V2.pdf



Active Ownership

As an active investment manager, we believe our ability to navigate investment risks and opportunities in a thoughtful way allows us to deliver sustainable returns for our clients.

Our approach

As active investment managers, we believe our ability to navigate investment risks and opportunities in a thoughtful way allows us to deliver sustainable returns for our clients.

Sustainable investment is not just a research effort, a fund range or a way of reporting. It is understanding how the investment decisions we make may affect, and be impacted by, the myriad social and environmental issues shaping economies, industries and investment portfolios.

Our background in active management allows us to be bold where necessary, in line with our purpose to provide excellent returns to our clients. As a global manager, we can bring together insights from across our network of analysts and fund managers, across regions, investment styles and asset classes. Our people and culture and our values are also important drivers of our approach to active management.

Active management provides us the ability to influence the investments that we manage in investee companies with the aim of improving our clients' investment returns. Through constructive and committed engagement with management teams at the companies and assets we invest in, we seek to support and encourage the transition towards more sustainable and successful business models, which we believe is an increasingly important component of the value we create for our clients. We leverage our specialist expertise in our Sustainable Investment team and the breadth and depth of the relationships and insights of our investorsacross global industries.

We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. Our Engagement Blueprint, sets out our long-term expectations of companies across six thematic areas: Climate Change; Natural Capital and Biodiversity; Human Rights; Human Capital Management; Diversity and Inclusion and Corporate Governance. It has been updated annually since its release to reflect what we regard to be ongoing good practice. We regularly seek feedback from our clients on the Blueprint via surveys, client workshops and interviews. We recently launched an Engagement Blueprint for private markets, which draws on the framework outlined in the Blueprint for listed assets and tailors it for investment teams in private assets and their stakeholders.

Promoting a well-functioning financial system

We have a long-standing commitment to support and collaborate with several industry groups, organisations and initiatives to promote well-functioning financial markets. Our key stakeholders include exchanges, regulators and international and regional trade associations. For example, Schroders is a member of trade bodies such as the Investment Association in the UK, the European Fund and Asset Management Association (EFAMA), the Asia Securities Industry and Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in the US. Through this participation we share our insights to support the development of policy recommendations, share best practice and build coalitions of like-minded market participants to advocate for better functioning markets.

Our activity with policymakers aims to help them ensure that the measures they take support businesses and provide clear direction. By monitoring and influencing regulatory initiatives at their inception, we aim to support the development of a business environment which is conducive to Schroders' clients' best interests. In 2023 we responded to 29 consultations, including 12 on sustainability (for example, on the EU's Sustainable Finance Disclosure Regulation (SFDR) and the UK's Sustainable Disclosure Requirements (SDRs)).

We aim to engage with the regulatory environments in which we are operating and raise awareness on sustainability matters. We believe well-designed regulation is an important cornerstone to promoting healthy markets, and have asked publicly that policy makers support sustainable finance legislation and regulation and deliver on commitments, including around climate mitigation.

We consider this to be key in improving responsible investment standards across sectors, establishing a consistent dialogue with companies, and in promoting the ongoing development and recognition of sustainability and Environmental, Social and Governance (ESG) topics within the investment industry.

More information
A full list of organisations and initiatives of which Schroders is a member or signatory is available here.

Kimberly Lewis
Head of Active Ownership

We are committed to leveraging our influence as an investor with the goal of driving change that we believe should better protect and enhance the value of our clients' investments. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals.

Active Ownership in practice

We identify two key methods for practising active ownership:

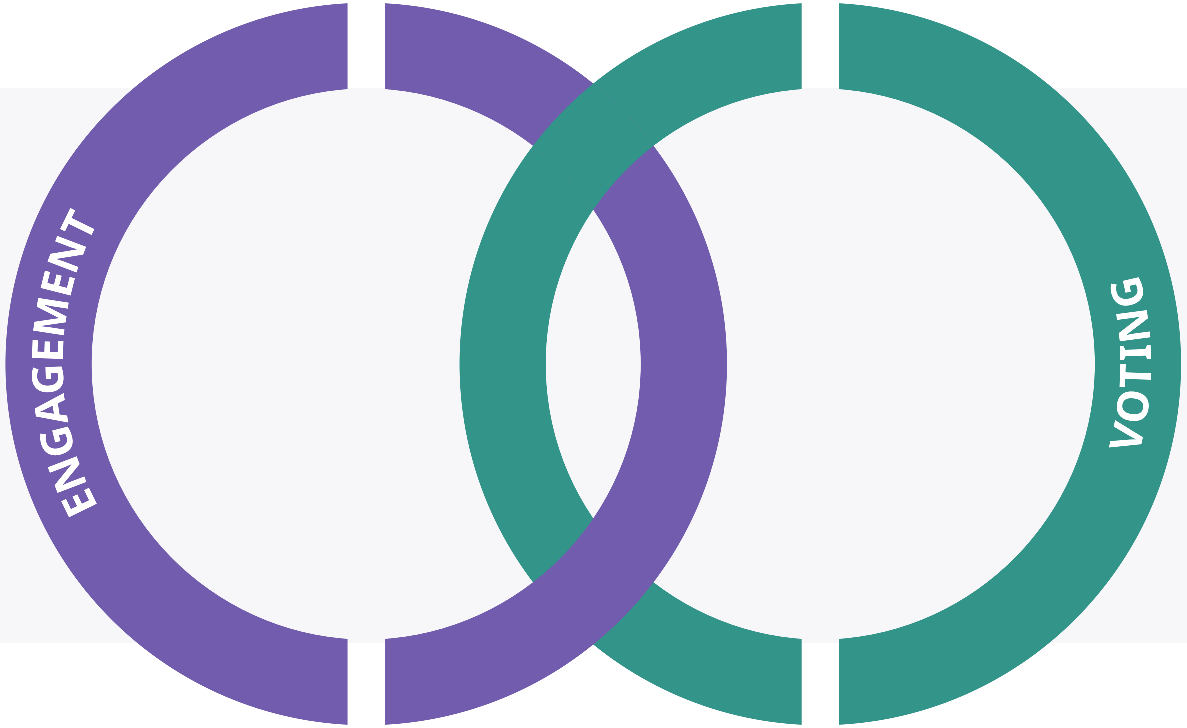
Engagement

We work with companies using a variety of approaches to:

a) Gain insights into their understanding and management of relevant ESG risks and their assessment of ESG opportunities, and;

b) Encourage them to take action in the areas where we believe that change may be required to deliver long-term value for our clients.

We refer to these two approaches as insights and outcomes engagements respectively.



Voting

We use our voting rights as shareholders to encourage companies to take action where we believe it to be in the interests of our clients through regular voting as well as targeted voting as part of engagement escalation, where appropriate.

These two forms of active ownership can take place directly with companies, led by our fund managers, investment analysts and/or our Sustainable Investment team; they can also take place in collaboration with other investor and stakeholder groups. Forms of engagement can include telephone conversations, face-to-face meetings and written correspondence.

Strengths of engaging as an active manager

Our active ownership priorities reflect the combined perspectives of our fund managers, investment analysts and sustainability specialists across the firm, supported centrally by the Sustainable Investment team. Our Engagement Blueprints for both listed assets and private markets provide the foundation to guide a common approach to engagement, taking into account differences in asset class as well as factors such as the regulatory environment, cultural factors and market capitalisation.

We believe that engagement should be a two-way street. We welcome companies, clients and our wider stakeholders contacting us about relevant issues and providing feedback on the framework we have set out in this document. Over the course of 2023, we have heard from many clients on our approach to engagement, and consider their feedback as we review our engagement strategy (see page 82 in the Incorporating Client Feedback section, where we explain how we have engaged with clients in 2023). We also acknowledge that Schroders' own business is on a similar journey to many of our investee companies regarding progressing our own priorities. We explain our approach in our Corporate Responsibility Report and Annual Report, where we summarise how we embed sustainability in our own operations on pages 18-19 and 30-37. We aim to be responsive to stakeholders looking to engage with us.

As an active investment manager, we are careful not to be in receipt of price sensitive information from companies or their advisers through the process of engaging with companies in the ordinary course of our business. Receiving such information may put us in a position where we are unable to act in our clients' best interests for a period. We make companies aware of our position to ensure we do not inadvertently receive sensitive information without our prior agreement.

Engagement case studies

- Voting against remuneration report at workspace solutions company for pay-for-performance misalignment
- Climate transition at large North American bank
- Lead-clad telecommunication cables in the United States
- Ethical AI at Verizon
- Paid sick leave at CVS Health
- Human capital management at Amazon
- Board gender diversity at IBM

- New business strategy at FEMSA

- BRF's animal welfare policies
- Climate targets at Latin American chemicals company

- Human rights policies at MercadoLibre

- Net zero target setting at Ecora
- Barclays' climate transition
- Decarbonizing the UK electricity market
- Environmental performance of the UK water sector
- Modern slavery
- Bellway board diversity
- Evaluating the risks of an acquisition
- Consultation on executive remuneration policy

- Balancing sustainability risks and opportunities
- Driving value for customers and shareholders at Siemens

- Transparency and disclosure standards for insurance linked securities

- Requisitioning an extraordinary general meeting

- Climate targets at Tokyo Steel
- Poison pill clause at Sumitomo Realty & Development Co

- Managing deforestation risk at CPIN

- Respecting the land rights of indigenous communities
- Australia's transition pathway

Key

Climate change	Human capital management
Natural capital and biodiversity	Diversity and inclusion
Human rights	Corporate governance

Active ownership highlights

In 2023, we undertook over 6,700 engagements with 4,443 companies. This includes roughly 1,100 substantive engagements (i.e. tailored, one-to-one engagements) led by investment desks at Schroders and roughly 440 led by our Sustainable Investment team. Engagement activities spanned 81 countries.

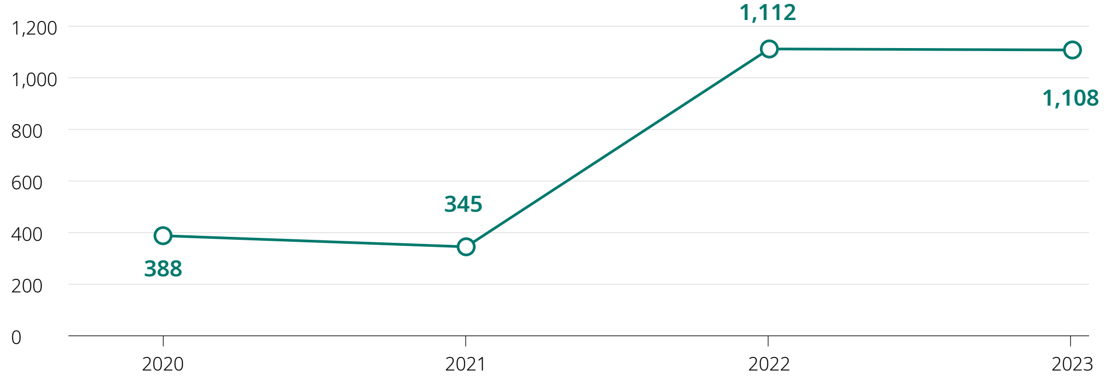
Engagements by scope

6,724

	2023
Investor-led engagement	**1,108**
Sustainable Investment team-led engagement	**441**
Campaigns and collaborations	**1,134**
Pre-AGM letters	**4,041**

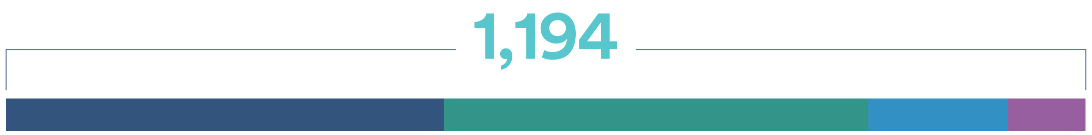
Investor-led engagements 2020-2023

In 2022, following the launch of our investor engagement requirements across relevant investment desks at Schroders, investor-led engagements trebled. Since then, the figure has remained stable at over 1,000.



Engagement outcomes

In 2023, we engaged on nearly 1,200 objectives. Seven percent of the objectives we engaged on over the year were achieved and a further 52% have progressed towards completion.

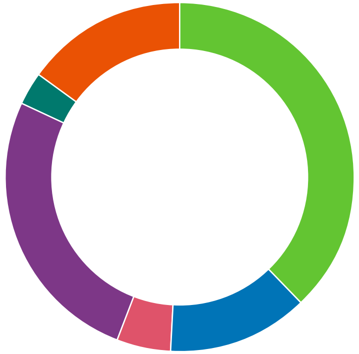


Our assessment framework for measuring progress is defined as follows:

- **Milestone 1** – engagement opportunity identified, and communication started: 484
- **Milestone 2** – acknowledgement by company of issues raised: 468
- **Milestone 3** – company commits to an improvement plan: 156
- **Milestone 4** – company implements our engagement objective: 86

Active ownership highlights *continued*

Engagements by theme

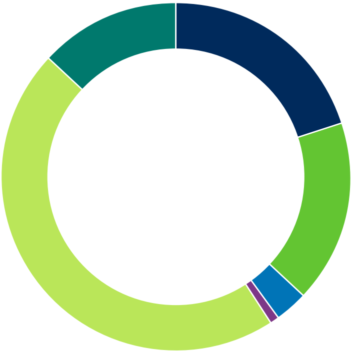


- Climate change: 38%
- Natural capital and biodiversity: 13%
- Human rights: 5%
- Human capital management: 26%
- Diversity and inclusion: 3%
- Corporate governance: 15%

Excluding pre-AGM letters

Roughly half (46%) of our engagements were outcomes driven, seeking improvements in the disclosure and actions taken to manage material ESG issues – this includes the mass engagement campaigns on human capital management and deforestation. When it comes to direct engagements led by investment desks, two-thirds (67%) were outcomes-driven.

Engagements by region



- Asia Pacific: 20%
- Europe (ex-UK): 17%
- Latin America: 3%
- Middle East and Africa: 1%
- North America: 46%
- UK: 13%

Excluding pre-AGM letters

2023 saw a large increase in engagements with North American companies due to our engagement campaign on human capital disclosure. Otherwise, the regional focus of engagements remained stable with good coverage across most regions.

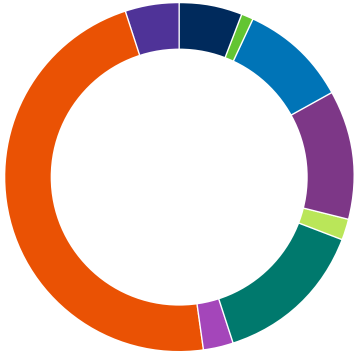
Engagement by sector

- Basic Materials: 10%
- Consumer Discretionary: 15%
- Consumer Staples: 11%
- Energy: 8%
- Financials: 11%
- Government Activity: 1%
- Healthcare: 8%
- Industrials: 12%
- Real Estate: 4%
- Technology: 13%
- Utilities: 8%

Excluding pre-AGM letters

Our engagements are distributed across sectors, reflecting the breadth of engagement undertaken throughout Schroders.

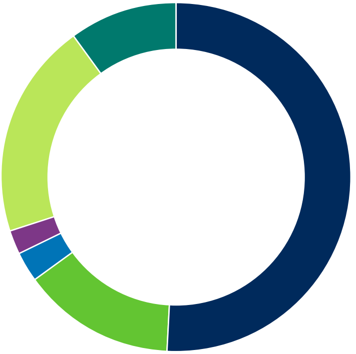
Votes by category



- Audit Related: 6%
- Allocation of capital: 1%
- Anti-takeover: 10%
- Remuneration: 12%
- Reorganisation & mergers: 2%
- Routine business: 14%
- Shareholder proposals: 3%
- Directors related: 47%
- Other: 5%

Director Related proposals represented the categories with the most proposals; we also vote on a variety of other issues including capital allocation, remuneration and shareholder proposals.

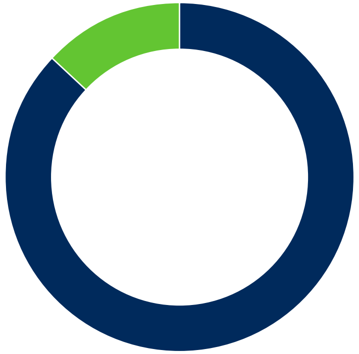
Votes by region



- Asia Pacific: 51%
- Europe (ex-UK): 14%
- Latin America: 3%
- Middle East and Africa: 2%
- North America: 20%
- UK: 10%

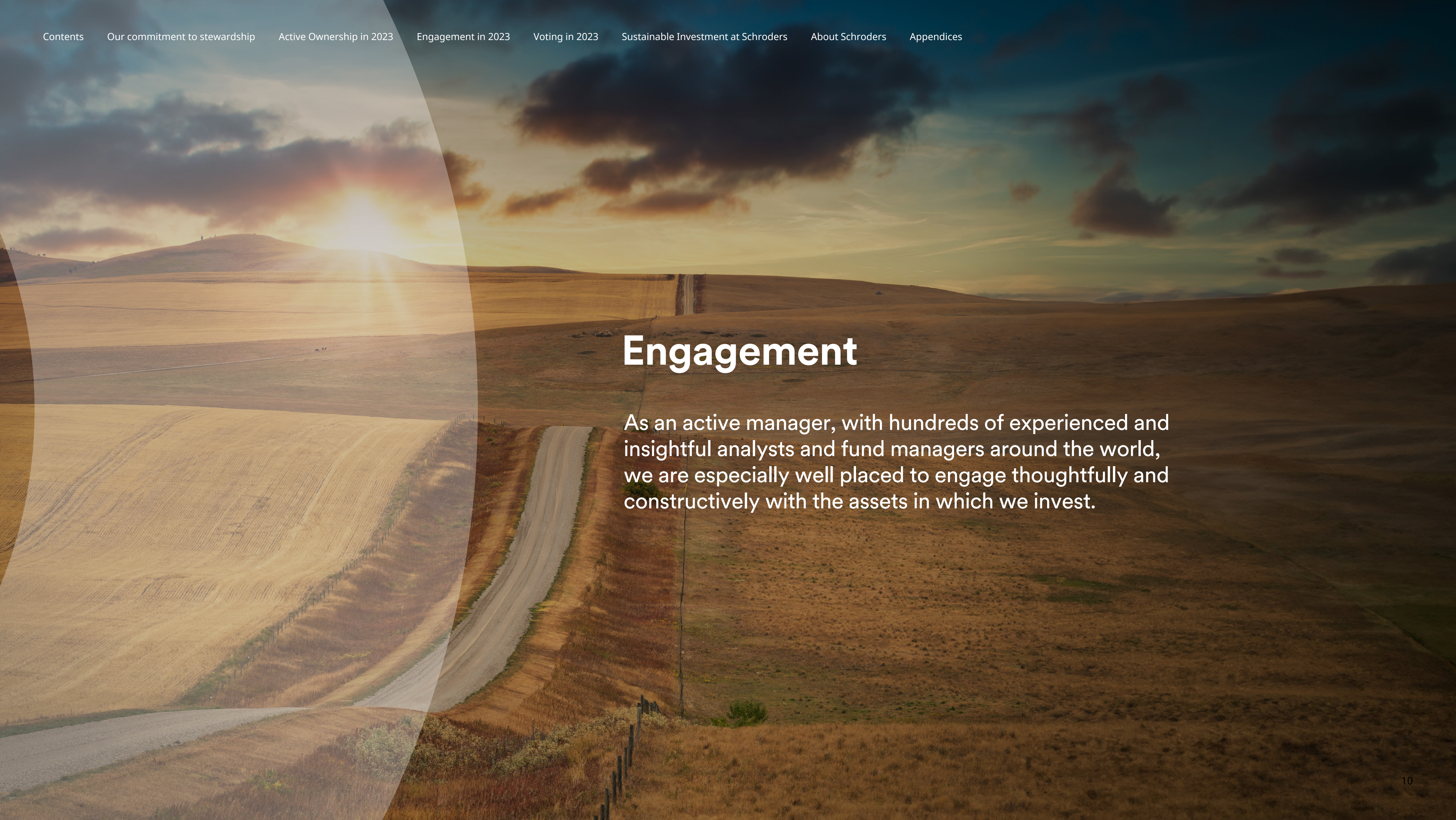
Our votes by region reflect the number of AGMs/EGMs held and number of meetings voted in a given year, the highest concentration of meetings was in the Asia Pacific region whereas the Middle East and Africa had the fewest meetings.

Votes with/against management



- With management: 87%
- Against: 13%

Our votes with management reflect a high number of director-related and other ordinary business-related ballots, while our votes against management are generally focused on matters related to pay and shareholder proposals where we believe we should encourage change at the company.



Engagement

As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the assets in which we invest.

How we prioritise our engagement on sustainability issues

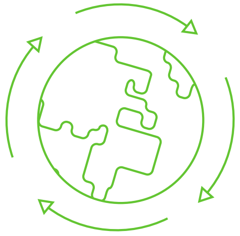
In our Engagement Blueprint, we set out the sustainability issues that we determine to have the potential to be material to the long-term value of our investee holdings. When companies fail to address these adequately, we believe that over time they might negatively impact their financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, communities, to the environment, suppliers and regulators. By strengthening relationships with that range of stakeholders, business models become more durable. The governance structure and management quality that oversee stakeholder relationships is also a focus for our engagement discussions.

In addition, we seek to reflect the priorities of many of our clients. Based on this process, we identify six broad themes for our engagement.

In our Engagement Blueprint for each theme we also set out our key sub-themes, the long-term outcomes we aim to achieve and the corresponding short- to mid-term actions. Where possible we align our desired long-term outcomes[3] with established international goals, such as the Paris Agreement or the United Nations Sustainable Development Goals (UN SDGs). That said, the objectives we may set are unique to a specific company or asset depending on its current practices, our determination of its most material issues and broader considerations such as company size, geography and sector. As such, we don't engage on all key themes for all companies; rather, we focus on achieving positive outcomes for the assets that we choose to prioritise and their most material themes.

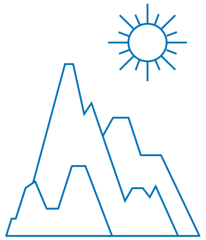
Climate change

- Climate risk and oversight
- Decarbonising and minimising emissions
- Just Transition
- Climate adaptation
- Climate solutions



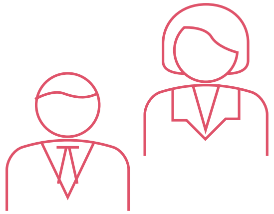
Natural capital and biodiversity

- Nature-related risk and management
- Circular economy pollution and waste
- Sustainable food and water
- Deforestation



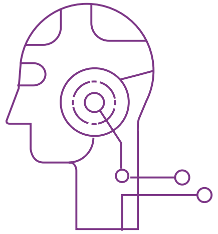
Human rights

- Overarching approach to human rights
- Workers
- Communities
- Customers and consumers



Human capital management

- Corporate culture and oversight of human capital
- Investment in the workforce
- Engagement and representation
- Health, safety and wellbeing

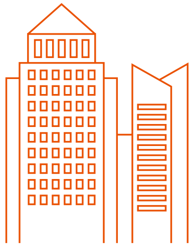


Diversity and inclusion

- Leadership and oversight of diversity and inclusion
- Workforce diversity and inclusion
- Value chain diversity and inclusion

Corporate governance

- Boards and management
- Executive remuneration
- Relationships with shareholders
- Purpose, strategy and capital allocation
- Transparency, risk and reporting



+ cross-cutting thematic priorities and sector specific issues

These themes are underpinned by additional cross-cutting thematic priorities, such as business ethics, and sector specific issues, like antimicrobial resistance (AMR) and health. We also increasingly recognise the interconnectedness of themes, such as the Just Transition within the climate theme, which recognises the social dimension of the transition to a resilient and low carbon economy. We seek to reflect this interconnectedness where possible in our engagements with companies.

3 See our Engagement Blueprint pages 12-13 for Climate change; 17-19 for Natural capital and biodiversity; 21-23 for Human rights; 25-27 for Human capital management; 29-30 for Diversity and inclusion; and, 32-37 for Corporate governance

How we prioritise material sustainability issues *continued*

Where themes interconnect

The six priority themes often connect to each other, and understanding these connections helps deepen the quality of our engagements. The following graphic provides an illustration of where we have identified connections between the themes. It is an indicative and non-exhaustive view of where themes may intersect, and may change overtime as sustainability topics evolve.

Climate change
1. Climate risk and oversight
2. Decarbonising and minimising emissions
3. Just Transition
4. Climate adaptation
5. Climate solutions

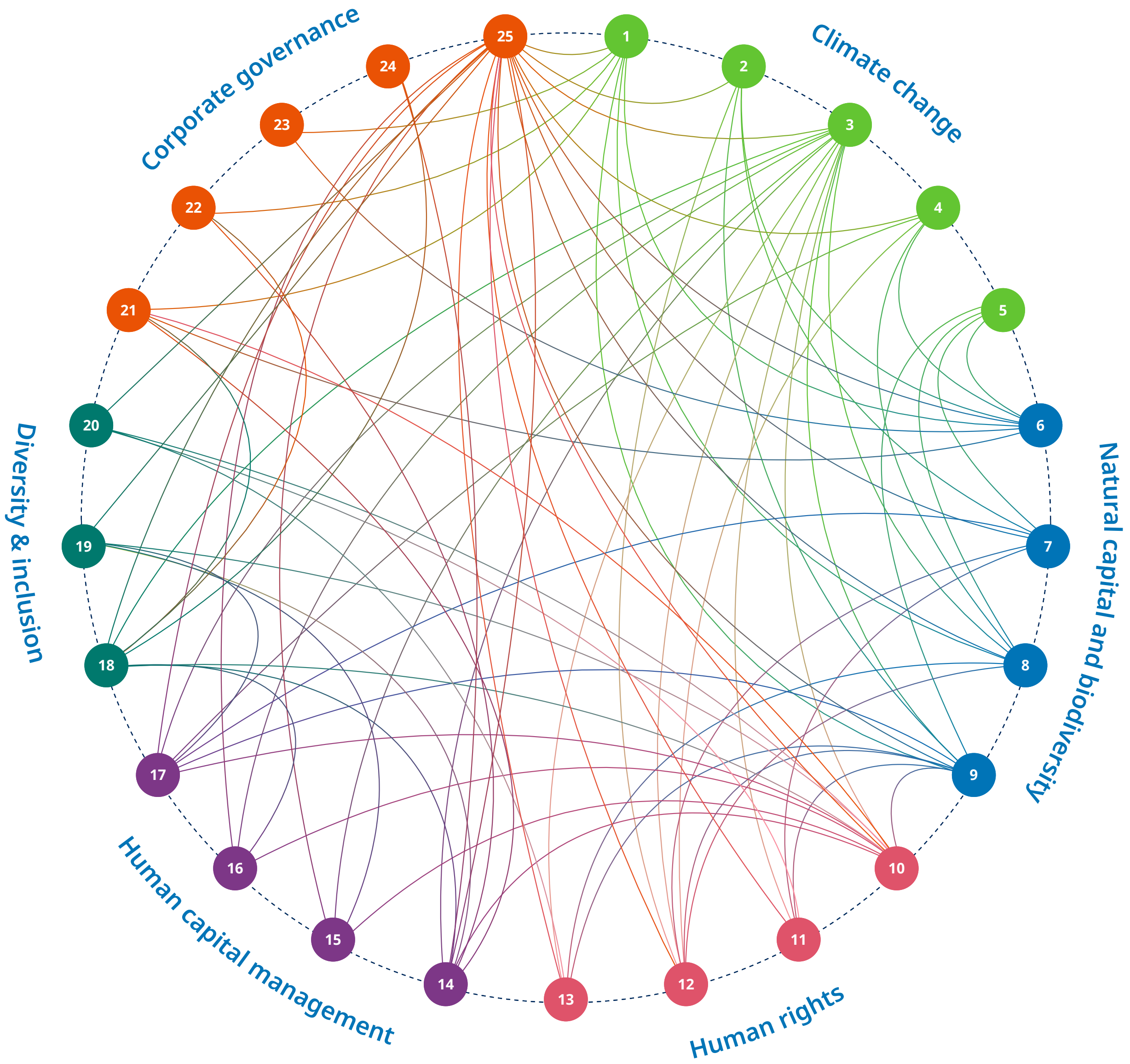
Natural capital and biodiversity
6. Nature-related risk and management
7. Circular economy, pollution and waste
8. Sustainable food and water
9. Deforestation

Human rights
10. Overarching approach to human rights
11. Workers
12. Communities
13. Customers and consumers

Human capital management
14. Corporate culture and oversight of human capital
15. Investment in the workforce
16. Engagement and representation
17. Health, safety and wellbeing

Diversity and inclusion
18. Leadership and oversight of diversity and inclusion
19. Workforce diversity and inclusion
20. Value chain diversity and inclusion

Corporate governance
21. Boards and management
22. Executive remuneration
23. Relationship with shareholders
24. Purpose, strategy and capital allocation
25. Transparency, risk and reporting



How we prioritise material sustainability issues *continued*

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Our approach to active ownership focusses on achieving meaningful outcomes to drive better returns for our clients; that's why we prioritise the depth and quality of our engagements over the volume of activity. When determining our engagement priorities and strategy, we would expect to consider the following factors amongst others:

1. Materiality: We seek to focus our engagement on what we consider to be the most material sustainability threats and opportunities to the company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value. While we look at the sustainability issues companies themselves deem material, we also apply our own understanding and judgement. This may include using our proprietary ESG tools and research, such as SustainEX™[4] and CONTEXT™[5] and consulting external research and subject matter experts. We explain our tools in greater detail on page 70.

2. Regional context: Our regionally-focused teams are well placed to ensure that engagement objectives are tailored to market-specific and regional contexts. Considerations such as ownership structure, regulatory environment or cultural factors are important to take into account when considering engagement strategies. Where possible we reference country or regional initiatives, regulations and leading practice from regional peers in our dialogue with companies.

3. Realistic outcomes: We consider both leading practice and what could realistically be achieved by the company in the next few years, having regard to the size of the company or its market capitalisation, and how quickly it might effect change.

4. Ability to monitor progress: We aim to use objective, measurable metrics or indicators that can be used to assess company performance on an issue.

5. Length of engagement: We aim to set short- to mid-term objectives. Some objectives may be achieved more quickly than others.

Regional focus

In 2023, we worked with our sustainability and investment colleagues based in Singapore, Hong Kong, Shanghai, Taiwan and Indonesia to develop an internal guide to engagement with companies based in Asia ex-Japan. This guide uses the Engagement Blueprint themes, sub-themes and approach to engagement to help colleagues understand the regional context for each engagement theme and identify the most appropriate objectives for engagement, with sector specific considerations.

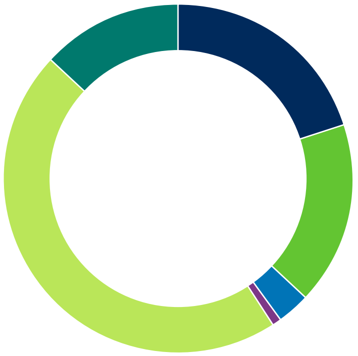
Continuing our regional focus, in 2023 we visited apparel manufacturing sites in Vietnam and China. Being on the ground and speaking with industry experts, our goal was to gain a deeper understanding of the apparel supply chain dynamics and how manufacturers strive to maintain operational excellence and meet sustainability targets.

During these visits, we observed the efforts made by manufacturers in climate target setting, supply chain traceability, automation, worker welfare and working conditions. While we acknowledged increased awareness and positive progress, we also found that the industry overall has limited understanding of climate physical risks and has not taken adequate steps to implement climate adaptation actions and disclosure. Our site visits provided valuable firsthand knowledge that helps inform our engagement strategies in the region and for the sector.

Investee company survey

In 2023, we surveyed over 350 investee companies from 45 countries to gather feedback on our engagement activities. The survey gives companies an opportunity to provide direct feedback on their dealings with Schroders. The final report highlights key findings and proposes three ways for investors to improve investment stewardship in our industry.

Our engagements by region



We generally engage with one or both of the following goals in mind:
- Outcomes-driven: to seek improvement in company performance in order to enhance and protect the value of our clients' investments;
- Insights-driven: to enhance our analysis of a company's risks and opportunities or to monitor developments in ESG practices, business strategy and financial performance at a company. This may feed into a decision about taking a holding in a company, or increasing or reducing exposures.

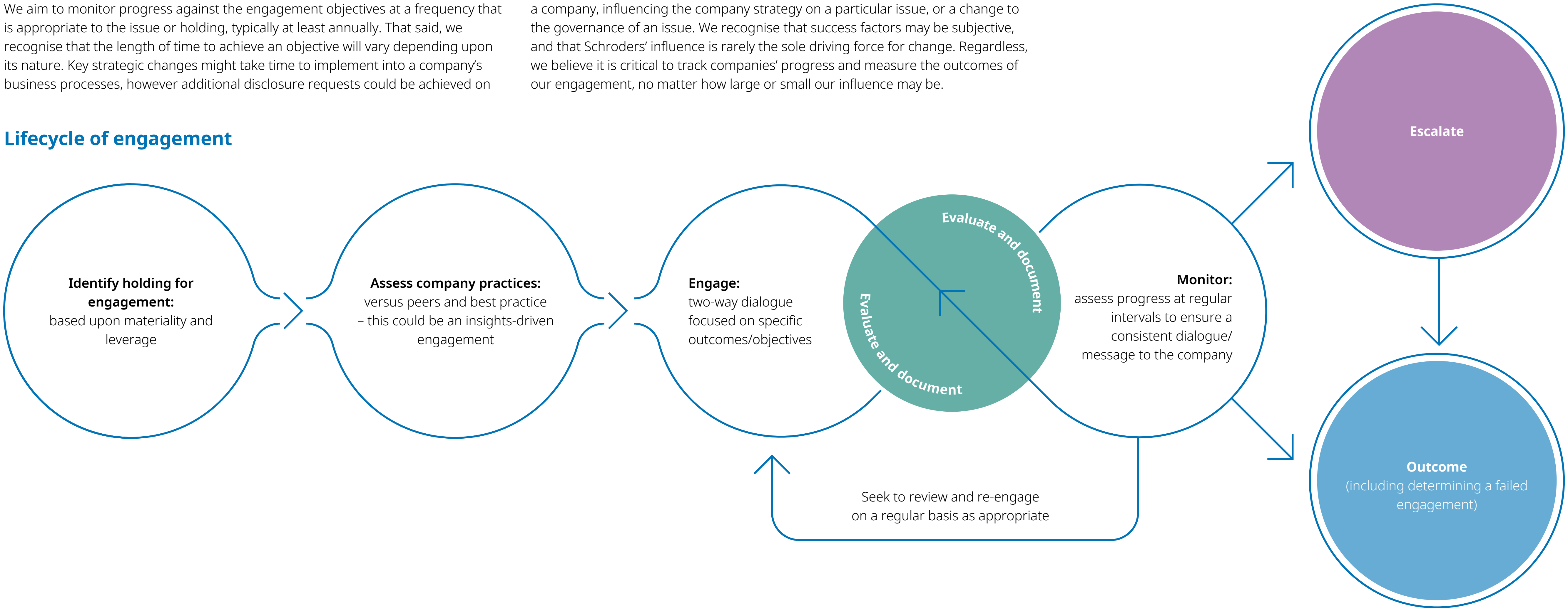
4 Schroders uses SustainEx™ to estimate the net social and environmental 'cost' or 'benefit' of an investment portfolio having regard to certain sustainability measures in comparison to a product's benchmark where relevant. It does this using third party data as well as Schroders own estimates and assumptions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

5 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.

How we prioritise material sustainability issues *continued*

We aim to set pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where they are suitable for the engagement. We aim to monitor progress against the engagement objectives at a frequency that is appropriate to the issue or holding, typically at least annually. That said, we recognise that the length of time to achieve an objective will vary depending upon its nature. Key strategic changes might take time to implement into a company's business processes, however additional disclosure requests could be achieved on a faster timeline. A measurable outcome from our engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, or a change to the governance of an issue. We recognise that success factors may be subjective, and that Schroders' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, no matter how large or small our influence may be.

Lifecycle of engagement



Our approach to engagement and impact

Our impact investment strategies aim to generate a positive and measurable societal or environmental impact via investee companies, alongside financial returns. We believe our ability to influence progress in companies in which these strategies invest through engagement is a key lever in delivering the desired investment goals.

Engagement priorities for impact strategies focus on actions that can accelerate a company's contribution to the impact objectives of the strategy in question. The impact objectives of a strategy are set as part of its theory of change, which is an industry-wide used framework formulated around five key dimensions, namely:

1) what is the societal and/environmental *problem* the strategy is tackling;

2) what are the *inputs* and ***activities*** the strategy can provide to achieve that;

3) what *outputs* (ie. impact KPIs) will be monitored over time to measure the performance;

4) what positive *outcomes* will be addressed through the investments of the strategy; and,

5) what is the ultimate *impact* of the strategy, often expressed through contribution to the UN SDGs.

We use stock-specific impact scorecards to outline key performance indicators and engagement objectives and monitor progress over time. Engagement objectives for impact strategies mainly refer to the monitoring and enhancing of impact KPIs over time, the verification of the disclosed impact KPIs or how to mitigate the potential risks that the impact sought may not be achieved. The company's product and services contribution to the achievement of the ultimate impact objective is at the center of impact engagements.

Case study 1
is an example of an impact engagement at a Middle Eastern bank.

Our approach to escalation

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Decisions on whether and how to escalate are made on a case-by-case basis, considering the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. These may take place in any order or frequency depending on the nature of the engagement.

We use a variety of methods to escalate engagements and reinforce our position on material sustainability issues to boards and management. These can include voting against the board's recommendations; for example, we may hold directors to account on issues by voting against the re-election of a director or directors we hold most responsible for overseeing the issue. We may also vote for shareholder resolutions when we think that the request meets our criteria described in the Engagement Blueprint. We will oppose the board's recommendations if we believe that doing so is in the best interests of shareholders and our clients, taking into account relevant factors. In addition to exercising our voting rights, we may collaborate with other investors, state our concerns publicly or divest. Escalation decisions are made in collaboration with our investment experts and wider sustainable investment team.

Where we plan to vote against the board recommendations of a company with which we have been in dialogue, we communicate our concerns to management and our voting intention prior to casting our vote. We also communicate the reason(s) behind our view and we encourage future dialogue. This is intended to help the company management team to better understand the nature and strength of our view and provides them with another opportunity to address our concerns. We provide further detail on our approach when voting against management on page 59.

Our methods of escalation

- Meeting or otherwise communicating with executive directors, non-executive directors or the Chair of the Board
- Collaborative intervention with other institutional investors
- Publicly stating our concerns
- Requisitioning shareholder meetings
- Expressing our concerns via company advisers or brokers
- Withholding support or voting against the board's recommendations
- Submitting resolutions at general meetings
- Divesting, which may mean a full or partial exit

Advanced disclosure of our votes

In recognition that the advanced disclosure of voting positions on resolutions is something our clients value, in 2023 we launched our Active Ownership Blog: Voting Season Spotlight where we provide advanced disclosure of our intended votes on various shareholder resolutions throughout proxy season. Using our shareholder resolution framework, which is outlined on page 60, we explain our analysis of shareholder resolutions both in cases where we support and vote against management's recommendations.

How we have escalated engagements in 2023

Over the course of 2023, we escalated engagements in a variety of ways including:

- Requesting a meeting with the Chair of the Board: our case studies of our engagement at a large North American bank (see case study 7) and on indigenous land rights (see case study 16).
- Collaborating with other investors: we decided to take part in collaborative engagements to complement our own direct engagement at a North American company where progress was stalling. See case study 2 for more information on this engagement.
- Publicly stating our concerns: as part of our work with Nature Action 100+, we signed public letters to call for urgent action to protect nature. Read more on page 28
- Co-filing a shareholder resolution: case study 20 of CVS Health explains why we co-filed a shareholder resolution on paid sick leave.

Our approach to divestment

Where engagement and escalation have proved unsuccessful in delivering change requested, we may decide to sell our position in a company. In doing so, our portfolio managers would take the view that investors' interests are best served through divestment.

Case study 27: Leadership and governance at an Asian consumer goods conglomerate
explains why we divested from a company.

Using our influence across different asset classes

To maximise the efficacy of our engagements, we may adapt our approach to reflect the nuances of specific asset classes. Below we describe our approach in fixed income, private markets, and multi-manager strategies. This helps to ensure our engagement strategy is relevant to the type of asset we are engaging and allows us to apply our influence in the most impactful way.

Fixed income

Where it is possible and there is alignment, we seek to represent both equity and bond investments during our ongoing engagements with companies, often with both equity and credit analysts partnering on engagements. This allows us to fully leverage our position as an investor. We do however recognise that, unlike investments in the equity of companies, fixed income investments do not generally come with voting rights, except in times of financial distress. As a result, our primary opportunity to influence through investment in these types of instruments may be before they are issued by the company.

We aim to maintain good connections with many bond issuers as well as a wide range of intermediaries so that we have access to the information we need, including prospectuses, trust deeds and other relevant documents, to make the best decisions for our clients. Additionally, our ongoing dialogue with bond issuers on sustainability topics allows us to maintain an understanding of practices for our ESG ratings and, where necessary, seek to encourage change, particularly where sustainability issues may relate to credit risk.

We are cognisant that our provision of time-limited capital (versus the permanent capital of the equity market), provides regular opportunities for our voice to be heard as debt is re-financed in the corporate bond market.

This network, along with the standing of our fixed income franchise (occupying 10%+ market share in some products), allows us an opportunity to influence the terms on which bonds are issued in many cases, including not only pricing but also discussions around sustainability outcomes in the case of green, social, or sustainable bonds. Corporate actions during the life of a bond may also offer us an opportunity to exercise oversight as bondholders.

In 2023, we continued to vote in the best interests of bondholders through several consent solicitations, which included events such as the termination of existing swap agreements and appointment of new trustees and the breakup of a whole business securitisation structure. Additionally, we voted in favour at a UK court restructuring plan to amend various bond terms and conditions to provide a company time to restore its financial position. Throughout these negotiations we aim to use our influence as bondholders to reach the best outcome for our clients.

We believe that transparency and accountability are essential for bond issuers to demonstrate their commitment to sustainable business models and to attract responsible investors. We have engaged with bond issuers to encourage them to build out their sustainability-related disclosure and reporting, following the best practices and standards in the market. For example, we recently worked with a company that did not report on any environmental, social or governance (ESG) risk factors to highlight what we would expect them to disclose from an ESG standpoint.

Protecting the value of our clients' bond investments

In our investment grade bond franchise, we aim to have certain protections in place for our clients in the event of a downgrade of a bond's rating. For example, in the instance of a downgrade to high yield we endeavour to obtain an automatic increase in coupon, or we might seek the ability to put the bond back to the company at par if the company is taken over by a private equity sponsor.

We are prepared to engage with other bondholders to reshape the capital structure when we believe that a company may no longer be able to function as a going concern and consequently might be at risk of a predatory bid which could impact our clients' interests as well as lenders, employees, and suppliers.

Seeking clarity over information provided to bondholders

Bond documentation in the green bond space has achieved greater standardisation in recent years, particularly with the adoption of frameworks such as the EU Taxonomy. The main terms in bond documentation have been converging to a common standard, which is beneficial for the market and can encourage greater investor participation.

Nonetheless, green bond terms still require engagement with the issuer to clarify specific points of nomenclature, for example, where sustainability terms such as "scope 3" value chain emissions[6] are mentioned, which do not have a hard legal or equivalent accounting standards definition.

Our approach to engagement with sovereigns

Engagement with sovereign issuers can deliver insights about how countries are managing sustainability risks and opportunities, which can support investors to assess credit quality. As debt owners, we have a role to play to share our insights on sustainability risks and how we are integrating these into our investment decisions and to encourage sovereign issuers to be more transparent about these risks. We consider our approach to sovereign engagement to be one of sharing insights and using our voice, where possible and appropriate, to manage risk.

Case studies 9: Climate targets at Latin American chemicals company, 12: Lead-clad telecommunication cables in the United States, and 13: Balancing sustainability risks and opportunities provide examples of engagements led by our Fixed Income desks.

6 Indirect greenhouse gas emissions from sources not owned or controlled by the company, such as emissions from business travel or investments.

Using our influence across different asset classes *continued*

Liability-driven investments and public policy engagement in the UK

Lead team/desk: Liability Driven Investments (LDI)

During the UK gilts crisis, and subsequent reviews of its causes, we carried out multiple engagement activities regarding collateral adequacy arrangements with:

- The Bank of England
- The Pensions Regulator
- The Financial Conduct Authority ('FCA'), as well as
- The UK government (e.g. through the Debt Management Office)

Overall in 2023, we held over 30 engagements with public bodies and LDI market participants. This included a meeting with the Financial Conduct Authority (FCA) and the Financial Stability team of the Bank of England to provide input on the future regulatory environment and collateral management processes for UK pension schemes. These engagements helped to inform the regulatory changes and new industry standards to improve operational resilience across LDI mandates used widely by the pensions industry.

Using our influence across different asset classes *continued*

Schroders Capital

Schroders Capital encompasses private equity, private debt and credit alternatives, real estate and infrastructure. Our Solutions business, which designs and delivers bespoke mandates, leverages our broad asset class knowledge and our sustainability and impact (S&I) expertise. Our breadth means we can invest in companies, real assets or pools of assets, either directly or indirectly.

Our engagement approach in private markets

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

Origination

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

Pre-investment

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

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

Post-investment

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

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

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

Using our influence across different asset classes *continued*

While the guiding principles of why and how we engage are consistent across Schroders, the distinct nature of private assets places active ownership at the heart of our value creation and sustainable and impact strategies in private assets. Our expertise in actively managing these assets means we can build and deliver positive – and tangible – outcomes alongside long-term financial performance. Our thematic approach in private markets reflects the same engagement priority themes of climate change, natural capital and biodiversity, human capital management, human rights, diversity and inclusion, and governance.

In private markets, active ownership and stakeholder engagement is fundamental to our regular business activity acting as a responsible manager of the assets, particularly where we invest directly, for example in our real estate and infrastructure businesses. There are different methods we can use within Schroders Capital to practice active ownership throughout the investment lifecycle. Where we have the power and rights to influence outcomes, which often differs by asset class and strategy, we may use one or more of the following stages of the investment lifecycle as points of interaction and influence.

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

Methods of escalation in private markets

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

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

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

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

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

You can read more about our approach to engagement in private markets in our Schroders Capital Engagement Blueprint, which was developed throughout 2023 and was published in early 2024.

Funds managed by third parties

Some of our investment teams, including within our Wealth Management and Solutions businesses, may invest via third-party managers. These are known as Multi-Manager strategies. Such teams apply a common approach to integrating sustainability risk considerations into manager selection processes. Further details of the wider approach can be found on page 69.

Being one step removed from asset or security selection, the stewardship approach for our Multi-Manager strategies is focused on engaging with external managers to increase the robustness of their own sustainability risk integration and their active ownership practices.

When engaging with external managers, the main priority is to share best practice to help develop their firm's or strategy's ESG approach as this is where we are likely to make the most progress. Where possible, this is aligned with the Engagement Blueprint themes. Engagement priorities are typically split into two categories: manager-specific priorities and thematic priorities. Where possible, engagements are intended to be outcomes-driven, with insights-driven engagements more likely to be captured in existing fund due diligence and the broader ESG-assessments of external managers.

You can read more about our approach to engaging third party funds in Cazenove Capital's ESG & Stewardship policy.

Thematic engagement

Environmental engagement

Climate change and natural capital and biodiversity are our two thematic priorities in relation to which we engage on impact on the environment.

We believe that every economy, industry and company will need to plot a net zero path to remain competitive in the long term. Our understanding of how climate risk may affect assets and companies helps us to deliver investment performance for our clients.

We use our expertise and influence to encourage businesses in their transition towards a net zero, more sustainable operating model. We do this by understanding and encouraging companies to take action to address the systemic risks posed by climate change and degradation of natural capital.

We engage companies on an individual level to understand how they are navigating and mitigating these risks, both independently and as part of a collaborative initiatives.

Engagement case studies 1-15 provide examples of how we have engaged on climate over 2023.

How we address systemic risks posed by climate change

Climate change

Our climate strategy focuses on encouraging decarbonisation in the companies and assets we hold in portfolios, rather than avoiding those with higher carbon footprints. Companies that are able to decarbonise more quickly than sector peers have outperformed in recent years, underlining the value that can be linked to companies' acting to mitigate their carbon exposure.

We believe that a changing climate is one of the greatest long term risks investors may face, as physical and transition risks can have both immediate and lasting impacts on businesses and assets. While our climate engagement strategy is focused on encouraging companies to account for these risks and align their business models towards a net-zero future, we also assess how we can influence change systemically through our engagement with policymakers, industry groups, and through our investments in sovereign bonds and the financial sector.

Engagement with policymakers and industry groups

Our activity with policymakers aims to support them in proposing and implementing measures to support the transition and provide clear direction to companies and investors. By monitoring and influencing regulatory initiatives, we aim to support the development of a business environment that is conducive to Schroders' strategic objectives and our clients' interests. Our activity with policymakers, including our responses to consultations, aims to help them implement measures to support the climate transition.

We play an active role in a range of climate and nature-related coalitions and initiatives. These include initiatives to improve transparency and disclosure of climate data, to collaborate on company engagement, encourage emissions reductions and establish opportunities to mobilise capital in areas that will support the transition.

As signatories to the Institutional Investor Group on Climate Change (IIGCC), an investor group working to make progress towards net zero by 2030, we collaborate with the investment community to drive significant progress by 2030 towards a net zero and resilient future. In 2023, we took on the role of co-leading both the Utilities working group and the Banks working group as well as supporting the Canadian and Chinese banks working group. In addition, we are members of the Real Estate Working Group, the Sovereign Bonds, Country Pathways Working Group, and the Engagement Sub-Group, which helped develop and launch the new Net Zero Engagement Initiative (NZEI).

Engagement with sovereign and financial services holdings

Our engagement with sovereign and financial services investments provides an opportunity to mitigate systemic risks posed by climate change, as progress made by sovereigns and financial services has the ability to scale climate change solutions.

In 2023 we engaged 20 sovereign bond issuers on sustainability related topics, including how governments are aligning their policies to support a transition to net zero. These engagements allow us to understand how governments are working to prepare their economies for a changing climate and to develop policies that support businesses across sectors and other assets to decarbonise. In 2022 and 2023, we have been engaging the Government of Australia on this topic as part of a collaborative engagement initiative led by the PRI. Sovereign engagement for fixed income holdings is a nascent area, and therefore this wider engagement activity builds on initial activity in 2022, participating in this collaborative engagement. We published internal guidance for investors in 2023 to support them to identify relevant sovereign stakeholders to engage with on sustainability matters.

The financial services sector has a critical role to play in the net zero transition by making the financing available to invest in new technologies and build out the infrastructure needed to address climate risk. We held 122 financial services engagements on climate change (both insights and outcomes driven) in 2023 to understand how firms are reducing their financed emissions and making capital available to accelerate decarbonisation across the markets in which they operate. On page 33 we describe one such engagement of a North American bank.

We have also been analysing the sovereign emissions methodology published by the Partnership for Carbon Accounting Financials (PCAF). We outlined our sovereign bond financed emissions, inclusive and exclusive of land use, land use change and forestry (LULUCF), as well as our financed consumption emissions. We included this for the first time in our 2023 Task Force on Climate-Related Financial Disclosures (TCFD) Report.

Climate change memberships and initiatives

We participate in various forums and initiatives to support system-wide progress on climate, including:

- Climate Financial Risk Forum: In 2022 Schroders has actively supported the Climate Financial Risk Forum (CFRF) to draft new guidance publications due in early 2023. The CFRF aims to build capacity and share best practice across financial regulators and industry, to advance the financial sector's responses to the financial risks from climate change. Schroders participates in the data, disclosure and metrics working group as well as the scenario analysis working group.
- Science-Based Targets initiative (SBTi): SBTi drives climate action in the private sector by enabling companies to set science-based emissions reduction targets. Our science-based targets (covering our operational and investment-associated emissions) were validated by the SBTi in February 2022. We also responded to the consultation on the Net Zero institutions Foundations Draft in 2022.
- Climate Disclosures: As a signatory of CDP, we have access to its extensive research and database on climate change, water and forestry. We achieved an 'A' for our 2023 climate change questionnaire (for year end 2022).
- Institutional Investors Group on Climate Change (IIGCC): As signatories to the IIGCC, we collaborate with the investment community to drive significant progress by 2030 towards a net zero and resilient future. In 2023, we were a member of various working groups, including Real Estate Working Group, Sovereign Bonds and Country Pathways Working Group, and Engagement Sub-Group, which helped develop and launch the new Net Zero Engagement Initiative (NZEI).

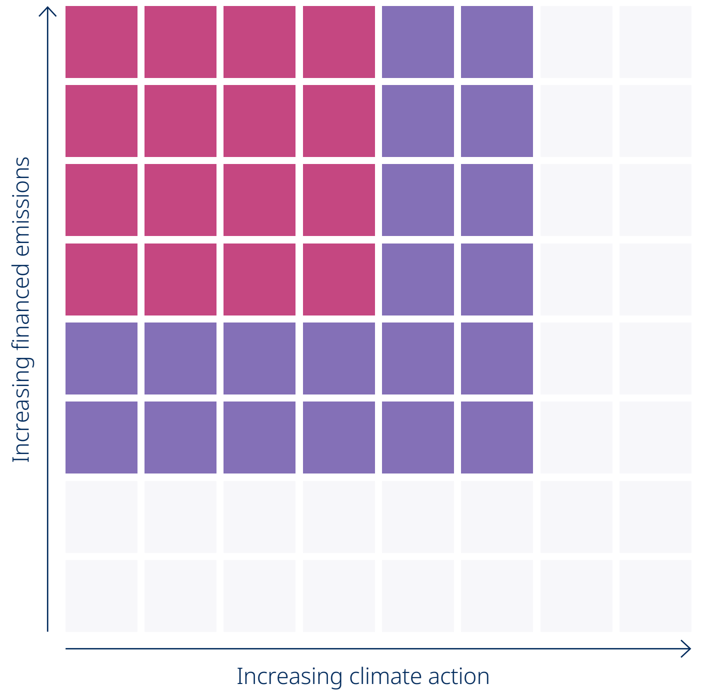
Climate engagement in 2023

Our engagement on climate change focuses on five key areas: climate risk and oversight, decarbonising and minimising emissions, the Just Transition, climate adaptation and climate solutions.

We invest in listed equity and corporate bonds of around 6,000 companies. It is therefore important that we focus our engagement efforts where we are best placed to make progress – generally these are companies that are making the biggest contribution to our Scope 3 financed emissions or those in which our investment and influence is greatest. We expect to focus our climate engagement efforts on around 1,000 priority companies through to 2030. We review our company prioritisation and selection on an annual basis.

In 2023, we engaged 743 companies on climate change, of which 500 were identified to be priority companies. Case studies 1-10 provide examples of how we have engaged on climate in 2023.

We expect to focus our climate engagement efforts on around 1,000 priority companies through to 2030



Group priority companies
Our Active Ownership team will lead the engagements for around 100 companies initially, working closely with investors and climate specialists within the firm.

Fund priority companies
Investors will lead engagements for the remaining priority companies, supported by our Active Ownership team and climate specialists.

Other companies
We will communicate our expectations, and monitor progress, to other companies.

Increasing engagement intensity

Engagements on decarbonising and minimising emissions represented the majority of our climate engagements in 2023. These engagements often focus on target setting, in particular asking companies to set long-, medium-, and short-term targets science-based targets covering Scopes 1, 2 and relevant Scope 3 emissions[7]. Engagements on climate risk and oversight were also a key part of the climate engagement programme, as we believe that managing climate risks, reporting on them accurately, and establishing Board accountability is an important lever to manage climate-related risks and drive change.

Collaborative engagements through the Carbon Disclosure Project non-disclosure campaign and the Institutional Investors Group on Climate Change (IIGCC) climate lobbying disclosure campaign accounted for just over 10%.

7 Scope 1 emissions are direct greenhouse gas emissions from sources owned or controlled by the company, such as emissions from gas, oil and company vehicles. Scope 2 emissions are indirect greenhouse gas emissions from sources owned or controlled by the company, such as emissions from consumption of purchased electricity, heat or steam. Scope 3 emissions are indirect greenhouse gas emissions from sources not owned or controlled by the company.

Collaborative engagements on climate

- In 2023, we joined the Transition Plan Taskforce (TPT) Banks Working Group and provided input into their draft guidance for banks.
- In 2023, we co-signed a letter coordinated by the IIGCC on climate lobbying. The letter was sent to all European CA100+ companies that do not yet publicly commit to undertake and publish a review of climate lobbying policies and activities. After sending the letters, we had separate group calls with each of the companies in which we gathered more information about climate lobbying practices.
- Every year, the CDP, formerly the Carbon Disclosure Project, leads a collaborative engagement with all companies who fail to respond to the request to complete their climate, forest, and/or water surveys. In 2023, we co-signed a letter asking companies that have consistently failed or declined to participate in previous CDP surveys to participate in the 2023 CDP questionnaires. Over 1,500 companies across the themes of climate, deforestation and water were contacted as part of this campaign. The CDP reports that companies that were contacted by financial institutions as part of the campaign were 2.3 times more likely to disclose to the CDP.
- The China Climate Engagement Initiative (CCEI) was launched in 2023 with 24 institutional investors as founding members, including Schroders, representing more than $5.6 trillion USD in assets under management. The initiative aims to assist institutional investors in playing a more active role in promoting China's green and low-carbon transition. In 2023, we supported the establishment of CCEI working groups, participated in discussions regarding CCEI's 2024 working plans and provided inputs as one of the founding members to finalise CCEI's 2024 engagement priority companies.

	Case study	Theme and actions
1	Impact disclosure at Middle Eastern bank	Climate risk and oversight
2	Accelerating our engagement at a North American energy company	Climate risk and oversight
3	Net Zero target setting at Ecora	Decarbonising and minimising emissions
4	Climate targets at Tokyo Steel	Decarbonising and minimising emissions
5	Barclays' climate transition	Decarbonising and minimising emissions
6	Collaborative engagement on Australia's transition pathway	Collaborative and sovereign climate engagement; climate adaptation
7	Climate transition at large North American bank	Decarbonising and minimising emissions; climate adaptation
8	Decarbonising the UK electricity market	Climate adaptation
9	Climate targets at Latin American chemicals company	Decarbonising and minimising emissions
10	Engaging third party fund managers on the climate transition	Climate risk and oversight

How we escalate climate engagements

Our Climate Engagement and Escalation Framework sets out how we will use our influence as investors to help drive the transition to a low carbon economy. By monitoring the progress of companies with whom we are engaging, we can get a sense of whether we are on the right track towards our own transition targets overtime.[4]

1.

Climate expectations
We set four objectives we expect large and medium sized companies to adopt in order to align their business activities with the goals of the Paris Agreement.

2.

Company prioritisation and selection
We focus our engagement activity on companies that we believe are highly exposed to, but least prepared for, the climate transition.

3.

Monitoring progress
We monitor company progress against our objectives over time using metrics in our climate tools and dashboards.

4.

Voting policy
We have developed climate voting principles covering shareholder resolutions 'Say on Climate' resolutions, and when we will vote against boards.

5.

Escalation practice
We use a range of escalation tactics to take action against companies that do not make progress within a specified timeframe.

Schroders Climate Transition Action Plan, 2021.

In line with best practice, we adhere to a "support or explain" approach to shareholder resolutions, aiming to vote in favour of resolutions where they align with our clients' investment goals and our view of companies' best long-term interests. This includes the following:

- Shareholder resolutions: In 2023, climate-related shareholder resolutions represented over 25% of shareholder resolutions at companies we invest in. We will continue to support resolutions that align with our climate engagement strategy. In 2023 we voted in support of 78% of shareholder resolutions that had a focus on climate.
- "Say on Climate" resolutions: These give shareholders a say to approve a company's climate targets, policy or transition plan. We support these resolutions where we believe they align with our climate expectations and a company's best interests.
- Votes against boards: We may use our vote to drive change, for example through voting against board directors in those companies significantly exposed and trailing on climate commitments. In 2023 we voted against over 90 directors at 87 companies.

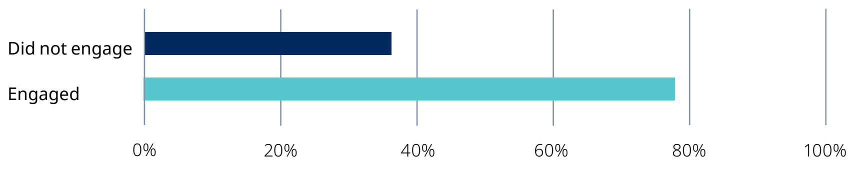
Assessing the effectiveness of our climate engagements

We based our Climate Transition Action Plan, published in 2021, on encouraging and supporting transition in portfolio companies. Our own analysis indicates that those companies that reduce their greenhouse gas (GHG) emissions more quickly than their peers have tended to outperform[8]. Since 2021, we have undertaken engagements with more than 1,000 companies on climate topics, primarily emission reduction goals and transition plans. That data set provides a basis to compare the changes we have seen among engaged companies with those of companies we did not engage with. Relative to peers, the large global companies we have engaged with since 2021:

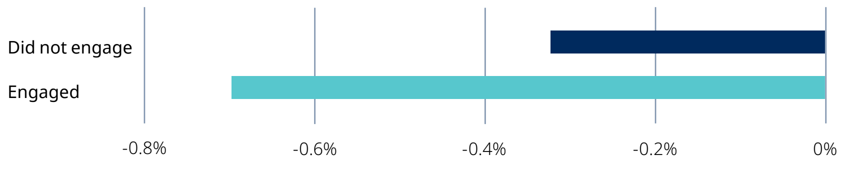
- were more than twice as likely to publish new emission-reduction targets
- reduced their emission intensity twice as quickly
- outperformed by approximately 4% annually.

The results are plotted in the following charts, comparing trends in constituents of the global equity MSCI ACWI Investable Market Index (IMI) according to our engagement on climate topics[9].

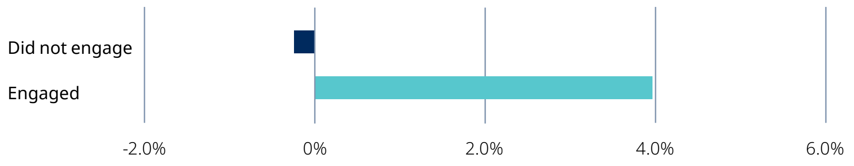
Percentage of companies setting new emission targets



Trend pace of annual emissions intensity reduction

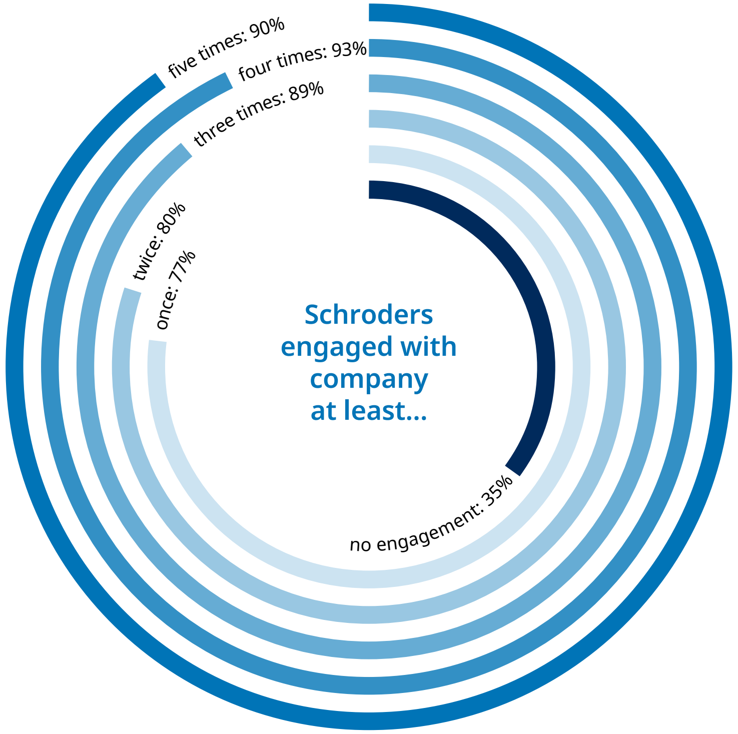


Total shareholder return relative to market average



The same picture typically holds true based on the intensity of our engagement. Where engagement has so far been limited, the likelihood of companies taking action has been lower than those in cases where we have had the opportunity for sustained engagement and dialogue. The engagement programme that underpins our transition strategy was calculated based on the assumption that engagement would result in companies being 10% more likely to establish transition plans than those we did not engage with. Although we are early in our multi-decade transition journey, and of course there are many other factors that might result in a company taking action, the results we have seen to date give us comfort that we are on the right track.

Percentage of companies setting new emission targets since 2021, based on intensity of Schroders engagement

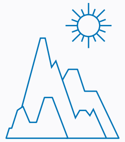


8 Based on Schroders analysis of listed companies in the MSCI ACWI IMI index. We examined changes in companies' emissions over the last five years, relative to sector peers, and compared the total shareholder returns delivered.

9 MSCI, Refinitiv, Schroders Engagement database (ActiveIQ), Schroders calculations. Note: Analysis is based on constituents of the MSCI ACWI IMI global equity index. We examined the proportion of companies setting a new emissions intensity target since the start of 2021 (includes companies that previously had targets), the trend pace of annual emissions reduction (since 2019, reflecting lags in reporting emissions data) and total shareholder return relative to the simple average of all index constituents.

Thematic engagement: **Environmental engagement *continued***

How we aim to support the addressing of systemic risks posed by nature loss



Natural capital and biodiversity

Our strategy for natural capital and biodiversity focuses on encouraging companies to minimise their impact on the natural environment and promote nature-based solutions where this is material and relevant to their business. We do this through our engagements with our investments on topics related to nature.

Natural capital plays a vital role in our economy and society with over half of global GDP, or $44 trillion, dependent on nature and its services[10]. Furthermore, up to $967 billion is required each year to reverse the decline in biodiversity by 2030,[11] potentially creating plentiful investment opportunities across new and existing industries. As a result, nature is becoming an integral factor within investment risk and return. That is why we regard accounting for nature risk, and its opportunities, as part of our fiduciary duty to our clients. Our Plan For Nature[12] and Group Biodiversity and Nature Position Statement[13] set out our ambition, our approach and our progress on this topic.

Notably, we believe that deforestation is a critical issue that must be addressed to mitigate investment risks and achieve global climate goals. Forests are home to around 80% of terrestrial biodiversity, making them a crucial focus in reversing nature loss. Deforestation poses various risks to our clients' investments, including regulatory, operational, and supply chain risks. In 2021 we therefore committed to use our best efforts to eliminate forest-risk agricultural commodity driven deforestation activities at the companies in our investment portfolios and in our financing activities by 2025. Our report 'Managing deforestation risk within our investment portfolios'[14] details in full our activities in 2023 to meet this commitment.

We were pleased to see that our efforts were recognised by Global Canopy in its Deforestation Action Tracker, where Schroders was highlighted for strong improvements in our deforestation policies and engagement[15].

Taskforce for Nature-related Financial (TNFD) Disclosures

We plan to undertake our first iteration of a TNFD Locate, Evaluate, Assess and Prepare (LEAP) assessment[16] over the course of 2024 to support our commitment as a TNFD "Early Adopter" to report next year. We are committed to taking action to tackle the threats that degrading nature poses to the investments we manage and to our business.

10 World Economic Forum, Nature Risk Rising 2020
11 KPMG Demystifying Natural Capital and Biodiversity, December 2021
12 Plan for Nature and Group Biodiversity and Nature Position Statement
13 Biodiversity and Nature Position Statement
14 Managing Deforestation risk within our investment portfolios (schroders.com)
15 2023: A watershed year for action on deforestation | Forest 500
16 Guidance on the identification and assessment of nature-related issues: the LEAP approach – TNFD

Engagement with policymakers and industry groups

In 2023, we continued the dialogue with policymakers that we commenced in December 2022 at the UN Biodiversity Conference (COP15). We called on them to take urgent action to join up the climate and nature agendas and clarify their plans to accelerate transformation in the real economy and financial services to deliver a nature positive future[17]. We also joined Business for Nature in calling for a robust EU Nature Restoration Law and gave evidence to the UK government's parliamentary committee regarding deforestation risk in investee companies. We have continued to contribute to industry groups to share knowledge on investment risks and opportunities relating to nature and biodiversity.

We have also used our influence to input into public policy and regulation. For example, Andy Howard, our Global Head of Sustainable Investment, gave evidence to the UK's Environmental Audit Select Committee as part of its inquiry into sustainable timber and deforestation, to discuss our insights into deforestation and investment risk ahead of the UK introducing its own deforestation due diligence regulations. We have also engaged with countries such as Malaysia and Brazil on deforestation through discussions on their sovereign bond issuance programmes.

Task Force on Nature-related Financial Disclosures (TNFD): The TNFD is developing a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. We are a member of the TNFD Forum, a global multi-disciplinary consultative group of institutional supporters. In 2022, we were actively involved with a TNFD- supported pilot on palm oil led by Global Canopy in Singapore through participation in workshops, reviewing proposals and sharing lessons learnt. The main aim of the pilot was to gather early insights into current practices used in the assessment, measurement and disclosure of nature-related risks and opportunities related to palm oil, as well as common barriers and challenges experienced during the process.

Finance for Biodiversity Pledge: In 2022, we signed the Finance for Biodiversity Pledge. By doing so, signatories commit to protecting and restoring biodiversity through their finance activities and investments by:

- Collaborating and sharing knowledge
- Engaging with companies
- Assessing impact
- Setting targets
- Reporting publicly on the above before 2025

We joined the Finance for Biodiversity delegation at COP-15, with 75 financial services representatives to call for an ambitious post-2020 global biodiversity framework. We joined two campaigns advocating for mandatory disclosures on nature and we're pleased that the final agreement included commitments to align public and private financial flows with the framework and ensure that companies disclose their risks, dependencies and impacts on biodiversity.

Make it Mandatory – Business for Nature: We supported a call to action to Heads of State at COP15 to make article 15 mandatory: "At COP15 in Montreal, we call on you to adopt, in Target 15, mandatory requirements for large and transnational businesses and financial institutions to assess and disclose their impacts and dependencies on biodiversity, by 2030."

Investor Forum: In 2023, the Investor Forum created a Working Group to focus on the UK Water industry given the complex array of challenges facing the industry. The objectives of the Working Group are to:

- Better understand the material effects of proposed license changes and the readiness of companies to address future challenges.
- Better understand the competing expectations and ensure credible plans are being produced, which shareholders and debt financiers can assess them against.
- Engage with regulators to demonstrate how investors assess company priorities as well as plans for delivery against their environmental and performance objectives and agreed commitments.

Since launch, we have collaboratively engaged several utilities companies and government agencies in the UK to strengthen water system management practices, particularly on storm and sewer overflows.

Natural capital and biodiversity engagement in 2023

Our engagement on natural capital and biodiversity focuses on four key areas: natural capital-related risk and management; circular economy, pollution and waste, sustainable food and water, and deforestation.

We engaged 399 companies on natural capital and biodiversity in 2023. Delivering on our commitment to use our best efforts to eliminate commodity-driven deforestation from our investments by 2025, and deforestation engagements represented 293 of these engagements.

We conducted an exposure analysis of our holdings to four main forest-risk commodities: beef, timber, soy, and palm oil. This analysis categorised companies into three risk tiers based on their likelihood of exposure to commodity-driven deforestation and a materiality threshold based on Schroders' holding size at the time of assessment:

- Tier 1: Producers and processors of forest risk commodities
- Tier 2: Companies likely exposed to commodity driven deforestation through their supply chain
- Tier 3: Companies with deforestation risk that don't meet the materiality thresholds for Tiers 1 or 2

We engaged with 293 companies identified as high-risk holdings on deforestation, including a mass engagement letter to Tier 2 companies and we participated in collaborative engagements with other institutional investors via Finance Sector Deforestation Action to amplify our impact.

Through our engagements, we identified areas where companies need to take further action to manage deforestation risks, including regulatory risks, risks to consumer and investor sentiment and operational and supply chain risks

17 https://www.schroders.com/en-gb/uk/intermediary/insights/five-policy-recommendations-for-natural-capital-and-net-zero7

Natural capital and biodiversity collaborative engagement in 2023

Recognizing the need for collaboration, we will seek opportunities to address deforestation risk in a wider range of asset classes, including sovereign and private market investments. By leveraging our insights, we aim to influence public policy and regulation for the long-term benefit of our clients' portfolios, engaging with countries and participating in global conferences on biodiversity loss.

- We joined Nature Action 100 (NA100) and participated in letters to 100 companies calling for urgent actions to protect and restore nature and ecosystems. We will participate in several collaborative engagements with NA100 in 2024.
- We participated in a collaborative engagement through the World Wide Fund for Nature (WWF) and the Emerging Market Investor Alliance on deforestation. We invited six companies to pilot WWF's new toolkit on deforestation risk assessments for financial institutions and have been involved in reviewing the output and suggesting improvements to the WWF toolkit.
- As part of a multi-year FAIRR Initiative (FAIRR) collaborative engagement on sustainable proteins, we met with Conagra, an consumer goods company to understand its progress to date on protein diversification, its long-term ambitions to diversify its product portfolio as part of its climate strategy, and whether the company is adopting demand-side as well as supply-side interventions to increase sales of plant-based products. This was part of a multi-year FAIRR collaborative engagement on sustainable proteins, where Conagra has been identified as a leader relative to its peers. Moreover, in 2023, we co-signed collaborative letter with FAIRR on company policies on antimicrobial resistance and antibiotics.

Case study	Blueprint themes and actions
11 Environmental performance of the UK water sector	Natural capital related risk and management; Sustainable food and water
12 Lead-clad telecommunication cables in the United States	Natural capital related risk and management
13 Balancing sustainability risks and opportunities	Natural capital related risk and management
14 Managing deforestation risk at CPIN	Deforestation
15 BRF's animal welfare policies	Natural capital related risk and management; Collaborative engagement

Environmental engagement case studies

1. Impact disclosure at Middle Eastern bank

Blueprint theme: Climate change
Lead team/desk: BlueOrchard
Sector: Financials
Region: Middle East

In 2023, we engaged a Middle Eastern bank regarding the issuance of a new green bond. The bond framework was aligned with the objectives of the investment team in terms of scope and sustainability credentials, including projects in renewable energy, energy efficiency, and natural capital preservation.

During an initial engagement in January, we noted disclosure as an area for improvement. Specifically, we asked the company to move away from qualitative reporting and enhance disclosure of quantitative impact metrics. This would help monitor the bond's key performance indicators (KPIs) and would help our investment team in BlueOrchard analyse and track the impact of this investment at the bond and portfolio level. While the company recognised the importance of quantitative metrics and stakeholder transparency, they were unsure of the exact expectations.

We followed up by sharing examples of best practice on impact reporting and outlining the metrics we would like disclosed including on renewable energy, avoided emissions, water use and treatment, and financing of clean transportation, aligning with International Capital Market Association (ICMA) green bond standards. Additionally, we wanted the company to more closely align reporting to common frameworks like the Task Force on Climate-Related Financial Disclosures and the Partnership for Carbon Accounting Financials.

Over several exchanges, we discussed the importance of quantitative metrics and the steps being taken to build information systems to enable reporting. We were comfortable with the company's plans regarding disclosure, particularly as green bonds typically have a period of a year after issuance where the KPIs are being established.

In December, we requested an update on the company's plans for disclosing quantitative impact metrics as the first impact report was due shortly. When the report was published in March 2024, we were pleased to see the company followed our recommendations and disclosed quantitative impact metrics. Moreover, the report had third-party verification.

During our engagement, we also recommended the company to join the Net Zero Banking Alliance for additional support on designing, setting, and monitoring credible science-based net zero targets. We appreciate the company's responsiveness to engagement and plan to continue dialogue on improving the company's impact in the future.

2. Accelerating our engagement at a North American energy company

Blueprint theme: Climate change

Lead team/desk: Sustainable Investment team

Sector: Energy

Region: North America

Escalation: Engage through a collaborative initiative

We engaged a North American energy company on its approach to decarbonisation, including setting absolute emissions reduction targets and producing a detailed climate transition plan. We highlighted our concern that there were gaps in the company's climate scenario analysis and that the company had not adequately assessed climate change in its assessment of market risks.

Although the company was taking some steps, we wanted to encourage more rapid progress. To complement our own engagements, in 2023 we escalated our approach by joining the Climate Action 100+ collaborative engagement group, engaging closely with the company. We have been encouraged by the company's openness to engage with the investor group, and willingness to make a member of its senior leadership team available to discuss the collaborative initiative's engagement objectives.

3. Net Zero target setting at Ecora

Blueprint theme: Climate change

Lead team/desk: UK Small Cap

Company: Ecora Resources

Sector: Basic Materials

Region: UK

Background

Ecora Resources is a UK-listed small cap royalty and streaming company, which provides capital to the mining sector across diversified commodities, from steel-making coal to transition metals such as copper and cobalt. Over the last few years, their overarching strategy has evolved with their portfolio transitioning from almost 100% exposure to coal to over 90% exposure to future-facing commodities by 2026.

In 2022, we met with Ecora Resources' management to discuss a range of climate topics including carbon offset practices, ESG screening processes, sustainability targets in remuneration with a key focus on encouraging the company to set externally validated emission reduction targets. During the meeting we found that the company was facing challenges measuring its downstream scope 3 emissions due to a lack of emissions reporting from stakeholders. We introduced the company to the Scienced Based Targets Initiative (SBTi)'s SME validation approach, through which small cap companies with less than 500 employees can select from a set of predefined target options and aren't required to set specific scope 3 targets.

We were able to provide them with an example of a precious metals streaming company peer which had set a validated target via this route. From this meeting, the company agreed to meet with the SBTi to discuss if this could be a viable next step for them.

Engagement in 2023

In March 2023, we were pleased to see that Ecora Resources had set a near term goal, which had been validated by the SBTi. Specifically, the company has committed to reducing scope 1 and scope 2 emissions by 46%, by 2030, from a 2019 base year, and to measure and reduce its scope 3 emissions through engagement with its operating partners. In addition, the company has committed to maintaining carbon neutrality with regard to their scope 1, 2 and upstream scope 3 emissions.

We plan to continue engaging the company to promote best practice and monitor progress.

4. Climate targets at Tokyo Steel

Blueprint theme: Climate change
Lead team/desk: Japanese Equity
Company: Tokyo Steel
Sector: Basic Materials
Region: Asia Pacific

Background

The company is one of our climate priority companies and our Japanese Equity team has been actively engaging with it since the launch of our climate engagement programme. As the company has already set an emissions reduction target, the main objectives of our engagement activity are to (1) encourage the company to seek third-party validation that its emission reduction target is science-based and in line with a 1.5 degree pathway and (2) establish a detailed transition plan covering how the company will reduce its emissions in line with its targets.

In 2022, we engaged the company to discuss its carbon reduction plan and the importance of having emission reduction targets validated by the Science-Based Targets initiative (SBTi). We also learned that the company announced a partnership with a Japanese construction company for a "zero-carbon steel initiative". This initiative aims to construct buildings with zero carbon emissions, further demonstrating the company's commitment to environmental sustainability.

Engagement in 2023

In May 2023, we held a call with the Investor Relations team where they confirmed the company's commitment to SBTi. We are pleased with the company's progress on emissions reduction targets and look forward to future engagement on the company's SBTi approval status.

5. Barclays' climate transition

Blueprint theme: Climate change
Lead team/desk: European Large Cap
Company: Barclays
Sector: Financials
Region: UK

Background

Banks have a vital role to play in supporting their clients' transition away from high-emission activities.Our first recorded engagement with the company on this topic dates back to 2008 and we have engaged frequently over the years

Our initial engagements focused on encouraging the bank to measure emissions related to its financing activities as well as to set Paris-aligned climate targets and develop robust climate policies. As the company has made positive progress against our requests, our recent engagements have become more technical in nature focusing on the scope and completeness of targets, assurance over emissions measurement, and requests for disclosure on client transition.

The company made progress during the engagement. In 2020, the bank took a significant step by announcing its commitment to net zero emissions. It developed a target methodology in the same year and set targets for two major sectors - energy and power.

Engagement in 2023

In March 2023, we spoke with the bank regarding new emission reduction targets for six high-emitting sectors as well as announcing a $1 trillion target to provide sustainable and transition finance to clients, accompanied by a client transition framework to support the shift to low-carbon business models. The bank's absolute emissions linked to its financing of the energy sector have fallen by approximately a third over the last three years, indicating significant progress towards its climate goals. The company has committed to stop providing financing for oil sands exploration and production companies, for the construction of new oil sands production or processing assets or pipelines. We look forward to future engagement and monitoring the progress of the company's emissions reduction initiatives across the business value chain.

6. Collaborative engagement on Australia's transition pathway

Blueprint theme: Climate change

Lead team/desk: Sustainable investment team, collaborative engagement

Organisation: Government of Australia

Sector: Government

Region: Asia Pacific

Background

Our engagement with the Australian government is a part of a collaborative initiative established in 2022 and led by the Principles for Responsible Investment. The initiative encourages change in the policy settings of engaged entities. This goes beyond seeking only to build investor understanding or improving public disclosure. Participating investors would like to see a reduction in exposure to risks associated with a failure to effectively transition its economy.

We are encouraging the Australian government's response to climate risk, to clarify how it intends to:

- Close the gap between current action and a Paris-aligned emissions reduction trajectory to which it has committed.
- Establish a detailed, credible and economy-wide net zero transition plan with supporting policy mechanisms, budget expenditure and investment structures.
- Build greater climate adaptation and resilience across the economy and community to avoid worsening disruption and damage from physical risks.
- Improve disclosure of sovereign exposure to climate risks and opportunities consistent with international standards.

Engagement in 2023

There have been several engagements involving government departments and ministries. We also engaged with think tanks and industry groups as part of this initiative. Most of these were conducted as in-person meetings. The group has been effective to date in raising awareness among Australian institutions of investor expectations on a comprehensive approach to addressing climate risks via the financial system and beyond. We are encouraged by the initial response and actions to date of the new government, such as the Commonwealth issuing authority (AOFM) announcing a green bond program. The Initiative is expected to run until June 2024 at least and we look forward to future engagement.

7. Climate transition at large North American bank

Blueprint theme: Climate change

Lead team/desk: Sustainable investment team

Company: TD Bank

Sector: Financials

Region: North America

Escalation: Contact Non-Executive Director or Chair, collaborate with other investors, vote against

Background

We have been engaging with TD Bank on the net zero transition since 2021. These engagements have taken place both bilaterally and collaboratively with other institutional investors via the Institutional Investors Group on Climate Change (IIGCC). Since then, our engagements have encouraged the setting of robust emissions reduction targets, development of lending policies for high-emitting sectors, and increased climate disclosure. In 2022, we engaged with this bank as part of the IIGCC Banking Initiative, collaborating with other asset managers and asset owners. This included sending a joint letter to reiterate net zero expectations followed by a group call where the bank provided updates on their progress in setting scope 3 financed emissions targets.

We also met with the company's Board Chair to assess the company's progress on climate change prior to the bank's Annual General Meeting (AGM). We expressed concerns about the bank's pace in addressing climate-related financial risks. We consequently voted against the reappointment of the Chair at the 2022 AGM and supported a resolution for a future "Say on Climate" vote. Towards the end of 2022, we held a meeting with the company to reflect on the AGM and the bank's progress on Net Zero. During the discussion, we shared our views on best practice for the banking industry and emphasized the importance of greater disclosure of the bank's activities to support its clients' transition to net zero.

Engagement in 2023

During the course of 2023, we engaged with the bank to discuss its next wave of sector-based climate targets and approach to physical risk assessment. The discussions focused on the credibility of the company's climate commitments, particularly regarding the funding of new fossil fuel infrastructure projects. We asked the company to publish a comprehensive client engagement report, outlining efforts the bank is taking to engage and support clients to decarbonise their businesses.

Ahead of the 2023 AGM, we held a call with the Board Chair to discuss our approach to voting and share our views on shareholder resolutions, say on climate votes and transition plans. We were satisfied by the company's progress on financed emissions measurement as well as the progress on setting out its client engagement strategy and goals, thereby meeting some of our engagement objectives. Given this progress, we shared that we did not intend to vote against a director on climate grounds but we simultaneously encouraged more progress on the bank's fossil fuel lending policy and absolute emissions targets.

In September 2023, we held a collaborative engagement with the company covering the new Transition Pathway Initiative (TPI) assessment, client engagement reporting and transition plans, climate lobbying, and post-AGM reflections on shareholder resolutions. During this engagement, we asked the company to continue making progress on climate commitments and targets, including:

- Setting out how the company aligns its direct lobbying activities and trade association membership with the goals of the Paris Agreement and with the company's climate strategy.
- Seeking verification or assurance of the bank's targets through the Science Based Targets initiative or another independent party.
- Setting financing policies for additional areas of fossil fuels.

Overall, we feel encouraged by the bank's initial progress on its decarbonization journey, as well as the willingness to engage with shareholders and other stakeholders on a regular basis. We look forward to future dialogue with the company and monitoring the progress of our engagement objectives.

8. Decarbonising the UK electricity market

Blueprint theme: Climate change

Lead team/desk: Sustainable Infrastructure

Company: SSE

Sector: Utilities

Region: UK

Background

We have been engaging with this British utilities company on climate change since 2005. In 2021, we intensified engagement by sending a formal letter asking the company to produce and publish a comprehensive, costed climate transition plan and provide further emissions disclosure across all scopes. Since then, our engagements have evolved into more technical discussions regarding different approaches for lowering emissions and increasing efficiencies in the British power market.

Engagement in 2023

In 2023, we held several technical meetings with the company's representatives, including the Board Chair, focused on distribution and transmission related capacity constraints in the electricity market. We sought clarity behind these constraints and how the company was engaging relevant commercial and government partners to resolve the issues.

This engagement took place in the context of an ongoing electricity market review in the UK which looks to address long-standing inefficiencies of the British energy market, focused on facilitating the balancing of supply and demand of electricity, and the policies that are meant to incentivise investments in the assets that generate or use electricity. On the back of this, we organised a meeting to review proposed regulations and the levels of investment (and returns) needed in the power sector to achieve the 2035 decarbonisation target. The engagement also delved into the material benefits of change and possible implications of the net zero obligation introduced with the new Energy Bill.

We conducted an in-depth piece of research into the company's SF6 emissions and asked them to reduce their inventory build particularly within the context of rapid electricity network expansion in the UK. SF6 emissions are a potent greenhouse gas used in electric power industry for circuit breakers, switchgear, and other electrical equipment. The engagements touched on various technologies being adopted in the sector, the challenges associated with their adoption, and the operational difficulties posed by different gas blends.

We also made a site visit to one of the company's new power stations, which is expected to be the cleanest and most efficient gas-fired power station in Europe. During this visit, we reviewed the company's 2030 scope 1 carbon intensity target for electricity generation, which plans to reduce emissions by 80% from a 2018 baseline. The company highlighted the importance of low carbon flexible generation, such as gas carbon capture and storage and hydrogen-fired turbines, to ensure a reliable and cost-effective transition to a decarbonised power system.

Over the course of our engagements with the company, we have gained good insight into a range of issues across their business and have welcomed the actions they are taking on reducing carbon intensity and developing technologies that could help accelerate decarbonisation. At the end of 2023, we were invited to be the co-lead engager for the company, as part of our participation in the Institutional Investors Group on Climate Change and the CA100+. We look forward to future engagement and progress on these topics.

9. Climate targets at Latin American chemicals company

Blueprint theme: Climate change

Lead team/desk: Emerging Market Credit

Sector: Basic materials

Region: Latin America

Background

Our engagement with this chemicals company on climate change and environmental risk commenced in 2021. We engaged to understand board governance around sustainability decisions, tracking of ESG performance indicators, and how the company promotes ESG goals and actions.

In 2022, we spoke with the Investor Relations team regarding climate expectations, potential new emissions reductions, and the main barriers to further decarbonisation. During the engagement, we enquired whether there were any risks to emissions reduction and if the company was working towards developing science-based targets. Our overall objective was for the company to set short-term and scope 3 emissions reduction targets, as well as improving disclosure.

Engagement in 2023

In 2023, we engaged the company several times to discuss climate change and environmental risk management. We felt encouraged by the targets the company had set to reduce scope 1 and 2 emissions by 37% by 2030 and achieve carbon neutrality by 2050. Speaking with the Investor Relations team in December 2023, we discussed the company's near-term decarbonisation trajectory in more depth, focusing on partnerships, procurement of green energy, and biomass generation.

On scope 3 emissions, we learned the company was working with an independent partner to engage the entire value chain and increase the share of renewable raw materials used. The company set a target for using 1 million tons of bioproducts by 2030. The engagement also delved into the need for new technologies, partnerships with start-ups, and how to increase green product adoption among customers.

Over the course of this engagement, we welcomed improvements to the company's disclosure practices, particularly by publishing science-based target indicators in the quarterly ESG release, in addition to the annual integrated report.

We look forward to continued engagement and progress in the future.

10. Engaging third party fund managers on the climate transition

Blueprint theme: Climate change

Lead team/desk: Cazenove Wealth Management

Sector: Financials

Region: Global

In November 2023, we published the Wealth Management Climate Transition Action Plan, which sets out the ambitions we have for our investments on net zero. As part of that plan, by 2030, 100% of our listed equity and credit funds should have committed to aligning to net zero.

We began this engagement by prioritising funds held in our sustainable models, where we expect greater ambition on decarbonisation. In practice, we need to engage managers on net zero commitments at the firm level, as well as ensuring this filters down to the underlying strategies we invest in. Our priority is to ensure the managers are aware of our expectations, share best practice, and encourage dialogue and consensus building as part of industry initiatives.

At the start of engagement, only a handful of the 22 funds held in our charity and sustainable portfolios had made a net zero commitment at the strategy level. In 2023, we outlined expectations to the remaining managers and held face-to-face meetings with 13 of these managers. The remaining meetings are due to take place in 2024.

At the firm level, we will continue to encourage managers to make a commitment, particularly where we have the greatest amount of assets invested. For managers that have made a commitment, we will be focussing on near-term targets and disclosure around the percentage of assets pledged, methodology, targets, timelines and the role of engagement.

We look forward to continued engagement and progress in the future.

11. Environmental performance of the UK water sector

Blueprint theme: Natural capital and biodiversity

Lead team/desk: Pan European Equities

Sector: UK water

Region: UK

In 2023, we reviewed the environmental performance of the UK water sector, with a focus on combined storm overflows (CSOs). These are systems developed to reduce pressure on wastewater treatment during increased periods of rainfall. Their use can result in untreated sewage and wastewater entering freshwater ecosystems. In response to increased monitoring and regulation on the performance of CSOs, government investigations, and increased media attention on pollution in UK rivers, we assessed how water utility companies are managing environmental risks.

Through these engagements we have been seeking to identify the reasons company performance on CSO discharges differs. There is evidence to suggest there are some operational issues by companies, but we identified the main reasons for variance as the proportion of the companies' historical sewage infrastructure that is combined, variation in rainfall patterns and differences in current capacity of the systems. We also explored the investment that is needed to reduce CSOs beyond the government's promised £56 billion by 2050.

Over the year, we met with the CEOs and Chairs of the three public water and wastewater companies (Severn Trent, United Utilities, and Southwest Water). These meetings were part of a collaborative engagement led by the Investor Forum. We have also met individually with each of these public companies to dig deeper into their current environmental performance. We sent data requests to all private companies on CSOs.

The engagement included meetings with the trade association, Water UK, and the NGO Windrush Against Sewage Pollution.

We also spoke with Ofwat, the UK services regulation authority. This meeting was a key opportunity to discuss the incentives they are introducing regarding CSO discharge reduction and encouragement of nature-based solutions. These can help to remove the pressure from surface water entering sewage systems by providing natural drainage.

This review and engagement highlighted that any solution to reduce CSO discharges will come with a large cost, take decades and be carbon intensive. As long-term investors in UK water utility companies we will continue to work with their management teams to encourage robust management of environmental risks and to support effective solutions for environmental pollution.

We look forward to future collaboration with the stakeholders in the UK water sector on solutions to reduce CSO discharges.

12. Lead-clad telecommunication cables in the United States

Blueprint theme: Natural capital and biodiversity

Lead team/desk: Global and US Credit

Company: AT&T

Sector: Telecommunications

Region: United States

Background

In the early era of telecommunications infrastructure, it was common practice to sheath telephone cables in lead.

Many telecommunications companies in the United States have inherited legacy cable networks. In recent years, environmental groups have become more vocal about pollution caused by these lead-clad cables and the potential impact on human health.

In 2021, the subsidiary of this large telecommunications company settled a lawsuit with environmentalists, who suggested its cables were leaking lead into a large freshwater lake. The lake is also a source of drinking water and a popular tourist destination. The company no longer owned the cables and stopped using them around the 1980s[18]. However, the company agreed to spend up to $1.5 million to remove eight miles of lead-clad cables.

Two years later in 2023, a prominent media agency published an investigative report[19] about the health impacts associated with lead contamination potentially caused by lead-clad telecom cables. Stock prices plummeted for the companies involved. The previous agreement to remove lead-clad cables from the lake was put on hold to provide further evidence for scientific testing and to determine whether removing the cables would cause more damage.

In response to the media story, the company highlighted its own independent tests on the levels of lead in the lake. In 2021, the company engaged an expert testing firm to sample and analyse the lake water using scientific methods aligned with US Environmental Protection Agency (EPA) standards. They concluded no lead was leaking from the cables and there were very low levels of lead overall in the lake.

Engagement in 2023

In August 2023, the Global and US Credit team engaged to determine the amount of lead-clad cables across the network and what steps were being taken to remediate the potential hazard to human health. During a call with the Investor Relations team, the company attested that less than 10% of its two million miles of copper cabling is lead-clad, with two-thirds of that amount either buried or contained in conduit. A small proportion is underwater.

The company estimated it would cost billions of dollars to remove all lead-clad cable in the network, and disturbing the cables could lead to greater lead exposure. However, removal could be done as part of 'replacement upgrades' to 5G, which would provide tax rebates for upgrading cables that are still in use.

During the engagement, the company confirmed it is working with the Environmental Protection Agency (EPA) to re-test the levels of lead pollution in the lake. The company also explained its approach to health and safety as one of the most unionised companies in America. While most employees have limited or no exposure to lead-clad cables, the company:

- Is meeting or exceeding federal and state Occupational Safety and Health Administration requirements and continues working with unions to ensure compliance is rigorous and employees are safe.
- Has comprehensive lead training and extensive practices to minimise exposure.

We asked for more detailed information about the training provided to employees and the company's practices around limiting exposure to lead. This engagement affirmed our view that the company is working to address the potential pollution caused by lead-clad cables and is committed to providing more information as it becomes available.

18 https://www.sacbee.com/news/environment/article255703057.html
19 https://www.attconnects.com/wp-content/uploads/2023/07/7-27-23-Letter-to-WSJ.pdf

13. Balancing sustainability risks and opportunities

Blueprint theme: Natural capital and biodiversity
Lead team/desk: UK and European Credit
Company: Bayer
Sector: Pharmaceuticals
Region: Europe

Our engagement with this major pharmaceutical and crop science company began in 2005. At the time, the company regarded its crop science division as a business opportunity due to global population growth and increased crop yield requirements. The company's research and development team was focused on improving yield strains to enhance a plant's ability to withstand climatic extremes.

We felt there was merit in developing products that can withstand our changing climate and society, but the risks should be adequately understood and managed. While emerging scientific consensus at the time had broadly concluded that genetically modified organisms (GMOs) were safe to eat, further research was underway on the impact of genetically modified crops on humans and other plant species.

In 2016, the company announced an intention to acquire a leading producer of genetically modified seeds and herbicides. The company believed this would be a valuable addition to its existing crop science business. We met with the CEO, noting potential differences in business culture between the two companies and the prevailing public interest in GMOs in Europe.

By 2021, the major acquisition resulted in the company being flagged as a potential violator of the UN Global Compact (UNGC) Principles by a leading provider of sustainability ratings over the potential environmental impact of GMO products.

Our UK and European Credit investment desk began engaging this company in 2021. We requested increased transparency on product safety and environmental impact, improved reporting comparing practices to peers, and meaningful engagement with stakeholders including independent ESG assessors.

Speaking with the company's sustainability experts the following year, we were encouraged by their detailed research on the impact of different genetically modified products. Transparency improved: they began granting access to full safety study reports submitted to and evaluated by regulatory authorities, as well as publishing educational resources on the safety of their products.

The company had been working with independent third parties to verify information on product safety. Moreover, the company established stronger governance mechanisms to oversee sustainability risk management. This included an independent external Sustainability Council, as well as an ESG Committee set up by the Supervisory Board that includes stockholder representatives and employee representatives.

With these measures, the company was better able to understand the potential risk, verify information, and drive action and accountability through formal governance mechanisms. In 2022, the controversy-related flag had been removed by the independent third party. The company's ESG rating improved to A-grade and the Sustainable Credit Portfolio Manager was able to purchase the company's bonds.

Engagement in 2023

The company's improved third-party ratings and our subsequent purchase of the company's bonds meant we could progress our engagement to consider a wider set of risks and opportunities, particularly its climate and social impact ambitions. In a June 2023 meeting, asked about net zero targets and requested disclosure of the target-setting methodology. We also asked how the company planned to meet its commitment to support 100 million smallholder farmers in low- and middle-income countries with products, agronomic education, financing and risk mitigation solutions and market access.

We look forward to future engagement and progress in these areas.

14. Managing deforestation risk at Charoen Pokphand Indonesia

Blueprint theme: Natural capital and biodiversity

Lead team/desk: Indonesian Equity

Company: Charoen Pokphand Indonesia

Sector: Consumer Staples

Region: Asia Pacific

In July 2023, we initiated an engagement with this Indonesian company with an email outlining expectations and best practices for managing deforestation risks. Specifically, we asked the company to:

– Set and disclose progress towards annual, timebound commitments to end commodity-driven deforestation in operations and supply chains.
– Comply with all local, national and international laws and regulations regarding forest-risk commodities in operations and supply chain.
– Conduct commodity-specific deforestation risk-assessments of operations and/or supply chains, and develop adequate traceability systems.
– Disclose the metrics used to assess deforestation risks and opportunities, and progress in mitigating them across the entire supply chain.
– Establish and implement a human rights policy in line with international frameworks.

The company is a significant producer of soybean meal and responded with further information regarding soybean meal purchasing practices. This exchange raised further questions regarding the certification of producers, targets for certification and traceability rates, as well as partnerships with suppliers for farm-level traceability.

Speaking with the Investor Relations team in August 2023, we enquired about the lack of specific deforestation policies and commitments. We also discussed the suppressed appetite for sustainable products in the Indonesian market, and the costs associated with certification. This market dynamic means it may be challenging for the company to set an early target for deforestation free soymeal.

During this engagement, we took the opportunity to identify additional areas for improvement including the establishment of a commitment to ending deforestation in supply chains and inclusion of ESG criteria in the audit process for suppliers. In November 2023, we followed up with the company reiterating our deforestation expectations.

Overall, we feel encouraged by the company's initial responsiveness to engagement and look forward to monitoring future progress on managing deforestation risks.

15. BRF's animal welfare policies

Blueprint theme: Natural capital and biodiversity

Lead team/desk: Sustainable investment team

Company: BRF

Sector: Consumer Staples

Region: Latin America

Background

We engaged with BRF SA, a Brazilian food processing company, several times beginning in 2017 to understand how it works with its suppliers to instill good practice related to treatment of animals.

In 2022, we signed a joint investor letter with the Emerging Markets Investor Alliance, in which we asked the company to adopt policies to improve animal welfare practices including making new and yet-to-be converted gestation pens for sows crate-free, and to develop a plan to make existing group housing systems for sows crate-free. We also stressed that using confinement systems for sows in their gestation period poses a regulatory challenge as legislation in several markets has been introduced to ban or restrict the use of gestation crates.

Engagement in 2023

In January 2023, the investor group met with the company to reiterate our objective and learn more about the work being done on animal welfare. The company explained some of the challenges it faced in moving to a fully crate-free system, such as limited space on farms. However, work was being undertaken to improve standards. We have since been encouraged that progress is being made, as the company committed to implement 100% collective gestation pens for sows by 2026.

In October 2023, we followed up with the company, focusing on the traceability of soy and palm oil, and climate change resilience. We were encouraged by the progress in soy traceability, reaching 75% for indirect grain suppliers and maintaining 100% for direct suppliers. The company noted early steps to advance the traceability of other commodities as part of their decarbonization plans and to ensure compliance with Science Based Targets initiative guidance.

Thematic engagement

Social engagement

Human rights, human capital management and diversity inclusion are our three thematic priorities under which we engage with selected companies in relation to their approach to addressing key societal challenges.

We believe that by addressing social risks across these thematic areas, we can help protect the value of the assets in which we invest and advance broader societal goals consistent with our clients' objectives.

We engage to encourage companies to evaluate social risks to their businesses and supply chains, and to take action where required to mitigate these risks and prepare their business models for the future.

Engagement case studies 16-23
Engaged on social topics over 2023.

Thematic engagement: **Social engagement *continued***

How we address systemic risks posed by social issues

We believe that social factors, when not actively managed, can pose risks by causing disruption to markets and society. Social risks include income inequality, access to health, education, and fundamental products and services, and violations of human rights. These risks can manifest in labour shortages and strikes, supply chain disruption and legal and reputational damage.

We aim to help address such risks by engaging a variety of stakeholders who are in positions to help mitigate these risks and influence positive change. This includes exploring how we can engage our sovereign holdings to understand how they are managing social risks and investing to improve social outcomes, working with the investment industry on collaboratively on social themes, and by contributing to policy developments which allow for better assessment of social risks.

Another way in which we seek to address social risks is through our involvement in different collaborative initiatives. By working with the investment industry, we seek to influence positive change on topics including workers rights and human rights. Schroders is a member of the Human Capital Management Coalition (HCMC) and leads the research and data subcommittee to collect relevant data and research to support HCMC messaging regarding the value of human capital information in the investment, engagement, and proxy voting processes. This includes messaging around the financial consequences of not having access to this data which is intended to be used to influence policy makers in the US to move towards more standardized human capital disclosure.

As part of our work to address modern slavery risks, we also signed a joint investor letter in August 2023 to the UK Secretary of State for Environment, Food and Rural Affairs in response to the Independent Review into Labour Shortages in the Food Supply Chain and outlined our support for critical recommendations in the review, particularly endorsing the recommendations related to the access of migrant labour through an improved seasonal worker scheme and its enforcement, and the need for a workforce data strategy to ensure a sustainable pipeline of agricultural workers and resources.

Finally, through our involvement in the Investment Association, we responded to a consultation from the Taskforce for Social Factors with the UK pensions industry about how social factors can be better incorporated into investment decisions[20].

Facilitating action on human rights: hosting a roundtable discussion on supply chain living wages

At the 12th Forum on Business and Human Rights in 2023, we hosted a roundtable discussion in partnership with Unilever on the topic of living wages in supply chains. We gathered a small group of companies and investors for a roundtable discussion under Chatham House rules around the topic of supply chain living wages: experiences to date, how to overcome key challenges and the role for investors in supporting company action on this topic. This was engagement in a different form; seeking to actively listen to corporates and share our perspective as investors through an open and collaborative forum.

While the issue of business and human rights has risen up the corporate and investor agenda in recent years, in large part due to increasing regulation, the majority of action to date still remains focused on lagging indicators and reacting to controversy or regulation. Substantial and widespread progress on addressing the specific conditions experienced by workers in global supply chain remains slower. This is despite the understanding that such practices can often be a leading indicator of commitment and progress.

We sought to discuss with companies the benefits and challenges they have faced, as well as using our voice as investors to advocate for stronger disclosure and action from companies on this topic.

20 https://www.taskforceonsocialfactors.co.uk/report/#:~:text=The%20Taskforce%20on%20Social%20Factors%20is%20a%20body%20established%20following,opportunities%20by%20occupational%20pension%20schemes

Human rights engagement in 2023

Human rights

Our engagement aims to work with companies to implement the UN Guiding Principles on human rights. This means that businesses should formally commit to respect human rights, carry out effective human rights due diligence, and provide access to effective remedy for any victims of human rights abuses.

We continue to actively engage with individual companies on human rights practices, the details of which are disclosed in our quarterly Sustainable Investment reports. In 2023, we undertook 145 engagements related to human rights, a similar level of engagement to 2022. This is driven by growing regulation and trade ban regimes affecting companies, as well as a growing focus on the risks associated with value chains in conflict-affected and high-risk areas – topics that have been a focus of many human rights-related engagements. Additionally, in 2023 we updated our Engagement Blueprint to include a greater focus on the 'just transition' and have sought to reflect this in our engagement activity when we consider the human rights and social impacts of the energy transition. We continue to develop internal resources to guide analysts undertaking engagements on social themes. Last year this included a toolkit to provide analysts with guidance on objective setting and best practice for engaging companies on community rights.

Case study	Blueprint sub-theme
16 Respecting the land rights of indigenous communities	Overarching approach to human rights; communities
17 Human rights policies at MercadoLibre	Customers and consumers
18 Modern slavery	Workers
19 Ethical AI at Verizon	Customers and consumers

Human capital management engagement in 2023

Human capital management

People within an organisation can be a significant source of competitive advantage. We engage with companies to understand how they invest and develop their corporate cultures and employees, to create productive, healthy and innovative environments.

In 2023 we undertook 999 engagements related to human capital management. Over 800 of these engagements were part of a campaign we undertook with our US holdings to encourage systematic improvement of human capital disclosures. This followed the research we published on human capital management in 2022[21], which examined the importance of human capital management in our integrated investment analysis of companies and decision-making. Our experience to date is that human capital data disclosed by issuers is frequently incomplete and inconsistent, which causes many investors to rely on stale, inaccurate or estimated data on human capital in their analysis of companies.

In the UK, we continued our focus on the cost of living crisis and how companies were working to support low-wage employees. We undertook engagements with our UK retail holdings to understand their efforts in addressing cost of living. The backdrop of the crisis meant that these retailers were facing increasing scrutiny of their workplace practices. As they are thin margin businesses, we recognised that getting the balance right was critical for both shareholders and society. Over the first quarter, we spoke to five companies around how they are supporting their employees amid the cost of living crisis. We focused the discussions on worker pay, wider benefits, employee engagement and voice and executive pay. We have learnt several insights from the conversations and have also outlined several asks where we think the approach can be improved.

In 2023 we also continued to engage companies on paid sick leave and other employee benefits which can result in positive impacts on the business. We believe it is important that we continue to engage companies on the potential upside to this benefit, which can be delivered at minimal cost. Where we do not see meaningful progress, we will look for opportunities to escalate these engagements, and this could include filing or co-filing resolutions.

21 https://www.schroders.com/en-gb/uk/intermediary/insights/human-capital-management-research-how-people-are-our-greatest-asset/

Case study	Blueprint sub-theme
20 Paid sick leave at CVS Health	Investment in the workforce
21 Human capital management at Amazon	Health, safety and wellbeing

Diversity and inclusion engagement in 2023

Diversity and inclusion

Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction.

In 2023 we undertook 99 engagements with companies on the topic of diversity and inclusion. A key focus of our engagement on this topic continues to be encouraging organisations to be representative of the societies in which they operate throughout their workforces[22]. In 2023 we expanded our voting policies on diversity and inclusion beyond the boardroom to reflect this, requiring that FTSE 100 companies have at least one woman on their executive committees; this is in line with the recommendations of the FTSE Women's Leaders Report. Moreover, we continued to expand our voting policies on board ethnic diversity, where possible, requiring that all US companies appoint at least one ethnically diverse director to the board.

Case study	Blueprint sub-theme
22 Board gender diversity at IBM	Leadership and oversight of diversity and inclusion
23 Bellway board diversity	Leadership and oversight of diversity and inclusion

Social collaborative engagements

- Schroders continues to be a lead investor for the UN PRI's Advance initiative, where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society. As a lead investor, we have committed to leading on engagements with two companies and supporting engagements at another three companies. We have also committed to respecting human rights in our Group Human Rights Statement and outlining our due diligence approach in our Modern Slavery Statement.
- We continue to support the Find It, Fix It, Prevent It initiative on modern slavery in the UK, and lead engagement on behalf of the coalition with a US hospitality sector company.
- We support a collaborative engagement on content moderation led by the Swedish Council on Ethics, participate in collaborative engagement dialogues as part of the World Benchmark Alliance's collaborative initiative on ethical AI, and continue to support the digital rights workstream run by the Investor Alliance for Human Rights.
- The Workforce Disclosure Initiative (WDI) aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data, and help increase the provision of good jobs worldwide. In 2023, we supported an engagement with a company to review their response to the WDI and discuss how scores could be improved. We also continue to encourage companies to respond to the survey.
- We are also a member of ShareAction's Long-term Investors in People's Health initiative. In 2023 we supported and provided feedback on a briefing on the investment case for workers health.
- In 2023 we also joined CCLA's Global Mental Health Benchmark collaborative engagement. For this, we lead engagements with both a global health insurance and logistics company on the topic of mental health.
- We also joined the Interfaith Center on Corporate Responsibility (ICCR), an investor coalition focused on shareholder advocacy, in 2023. As part of the coalition, we have engaged companies collaboratively on paid sick leave. We also participate in briefings and work collaboratively on health equity, workplace safety, and other social topics.

22 https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case

Thematic engagement: **Social engagement *continued***

Social engagement case studies

16. Respecting the land rights of indigenous communities

Blueprint theme: Human rights
Lead team/desk: Sustainable investment team
Company: Rio Tinto
Sector: Basic Materials
Region: Europe
Escalation: Contact Non-Executive Director or Chair, Vote against, Collaborate with other investors

Background

We had been engaging this major miner for two decades on sustainability issues when the company damaged parts of the Juukan Gorge in Australia in 2020. The lands were of significant cultural importance to indigenous peoples – the Kurrama and Binigura peoples as the traditional owners of this land.

Following the incident, we spoke with the Board Chair who explained the company's strong relationship with local indigenous groups and legal provisions for works. While steps were taken to obtain free, prior, and informed consent from local communities in line with international standards, the board noted some miscommunication and initiated a review to evaluate procedures, governance, and reporting. We followed up again with the Board Chair regarding processes and oversight for decision-making, escalation, company culture, and tracking of key performance indicators (KPIs).

While the Board Chair emphasized most of the decisions leading to the incident were taken by the previous CEO, it nevertheless led to the CEO's resignation a few months later, alongside several other senior management team members. We continued engaging independently and collaboratively with other investors regarding remedial actions.

In a group call coordinated by the Investor Forum, company representatives acknowledged the incident's serious implications and outlined remedial measures such as reviewing existing mine plans, changing reporting lines, establishing an Indigenous advisory group, and creating a fund to accelerate indigenous peoples' employment.

In a meeting with the new CEO, we discussed the recruitment and selection process leading to the appointment, the candidate's leadership style and values. We sought assurances of the CEO's commitment to uphold better standards on company culture and community relations. We also discussed the introduction of ESG KPIs, with emphasis on safety, diversity, and climate change. While we closely monitored the company's progress, we escalated the engagement in 2022 by voting against the re-election of the People & Remuneration Committee Chair due to concerns about culture, diversity and inclusion, and climate progress.

Our engagement continued on the company's approach to responsible mining. The company presented a comprehensive plan, which included site reviews, modernising agreements, establishing an Indigenous Advisory Group, and appointing a Chief Advisor of Indigenous Affairs. A system for escalating issues to the CEO had been established and the company pledged to report annually on internal commitments and external obligations. Throughout the engagement, we sought clarity on how local communities were being considered as part of the company's climate transition plans.

Engagement in 2023

In 2023, we held several direct and collaborative engagements covering corporate culture, community relations, and transition planning. In July 2023, we engaged as part of the UN Principles for Responsible Investment's collaborative investor group called the Advance initiative. The overall objective was to enhance respect for human rights and understand how human rights are factored into strategic planning.

In October 2023, we reconvened as part of the Advance initiative to understand the company's efforts to elevate human rights standards. Company representatives shared their focus on modernizing agreements and deepening engagement with indigenous communities, and we discussed the conclusion of independent impact assessments across global sites and the remedies the company would provide if necessary.

We followed up the group meeting by email asking the company to elevate standards around human rights and community relations. We sought clarification on numerous points, such as the company's willingness to develop and disclose a timeline for modernizing agreements with Indigenous groups, replicating good operational practices across global sites, and implementing recommendations from impact assessments.

Over the course of this engagement, the company has taken steps to strengthen indigenous relations by improving internal governance, oversight, policies, and practices. They have committed to disclosing progress against the recommendations of the board review following the Juukan Gorge disaster, with the information publicly available on the company's website.

We plan to continue engaging individually and collaboratively in the future and look forward to additional progress around community relations and respect for the rights of traditional landowners.

17. Human rights policies at MercadoLibre

Blueprint theme: Human rights

Lead team/desk: Emerging Markets Equity, Global and Thematic Equities

Company: MercadoLibre

Sector: Technology

Region: Latin America

Background

In 2022, we engaged this Latin American e-commerce company as part of our firm-wide climate engagement program. Our objective was for the company to commit to net zero by mid-century, set targets, and publish more climate related information.

The company had some initiatives for reducing emissions, including fleet electrification and renewable energy usage for offices and distribution centres. While these steps were welcome, there were limited quantifiable metrics to track the progress of these initiatives, and we encouraged better disclosure. During the engagement, company representatives expressed some reservations about committing to long-term objectives, and we shared examples of best practice to encourage change.

Engagement in 2023

We continued discussions regarding the formulation of the company's decarbonisation plans in 2023, noting a promising shift towards long-term sustainability goals, as the company signed a commitment letter for the Science Based Targets initiative.

We also engaged the company on its human rights approach and the need for greater disclosure of policies. While the code of ethics policy covered human rights, disclosure was limited on how human rights were embedded throughout the company. In January, we spoke with the Investor Relations team about efforts to reinforce human rights policies and due diligence processes. The company was in the process of revising policies and placing an increased emphasis on prioritizing human rights in operations.

We were encouraged to learn of some of the work being undertaken by the company, including joining the UN Global Compact - an initiative that encourages businesses and organizations worldwide to adopt sustainable and socially responsible policies. As a next step, we asked the company to disclose more information on how human rights policies are embedded in its operations and value chain.

Over the course of engagement, human rights-related disclosure improved. In the most recent Impact Report, the company published more information on human rights due diligence processes, including how the code of ethics is enforced, and disclosed metrics related to complaints registered through whistleblowing channels.

We look forward to future engagement and progress in these areas.

18. Modern slavery

Blueprint theme: Human rights

Lead team/desk: Sustainable investment team, collaborative engagement

Sector: Consumer discretionary

Region: UK

Background

We began engaging with this UK company on labour issues in 2019. This was part of a mass engagement of FTSE100 companies over its scoring in the Business & Human Rights Resource Centre's assessment of transparency statements under the UK Modern Slavery Act. The company had shown initial progress by providing more disclosure on modern slavery and we have continued to engage to shape this progress.

In 2022, we engaged as the lead investor for the 'Find It, Fix It, Prevent It' initiative, which aims to identify and mitigate modern slavery risks. The company demonstrated strong policies on modern slavery, aligned with international best practices, and was making progress in mapping its supply chain beyond tier 1 suppliers. We encouraged outcome-focused reporting and increased disclosure around purchasing practices, specifically within the company's Middle Eastern joint venture.

Engagement in 2023

We met with the company in December 2023 to discuss the company's human rights policies in Germany and its Middle Eastern joint venture. We acknowledged the company completed a human rights risk review with a specific focus on the Middle Eastern joint venture, meeting one of our engagement objectives.

We also sought greater clarity on the company's management of risks arounds bonded labour (a form of modern slavery) in UK agricultural supply chains and remediation for affected stakeholders.

We followed up the meeting by email. The company provided additional clarifications on modern slavery policies and steps taken to understand the risk profile of suppliers.

Over the course of this engagement, the company issued a new modern slavery statement with more in-depth information on its supply chain due diligence and completed a human rights risk assessment focused on the Middle Eastern joint venture.

We are pleased by this progress against our engagement objectives and remain appreciative of the company's willingness to engage on human rights and labor issues.

19. Ethical AI at Verizon

Blueprint theme: Human rights

Lead team/desk: Sustainable investment tea, collaborative engagement

Company: Verizon Communications

Sector: Technology

Region: North America

Background

In 2022, we wrote to Verizon Communications, a large technology company on the topic of ethical artificial intelligence (AI). This engagement is part of a collaborative effort coordinated around the World Benchmarking Alliance's (WBA) Ethical AI Initiative. The benchmark tracks the performance of the world's most influential digital technology companies, including the extent of open and ethical AI innovation.

Engagement in 2023

In January 2023, we spoke with the company's ESG team regarding its approach to ethical AI. We discussed how its use of AI focused on improving operations and data-driven decision making, such as determining the most cost-effective way to build a 5G network. The engagement delved into the core pillars of the company's approach to AI, covering governance, privacy by design, respect for human rights, technical robustness and transparency. Company representatives explained plans to make the principles operational and manage risks.

The discussion covered the upcoming ESG report and what information would be included on AI, acknowledging that future regulatory obligations may influence disclosure practices. We took the opportunity to encourage greater disclosure of AI policies, including the use of user data. We followed up the meeting reiterating objectives and shared examples of disclosure best practice from other companies. Later that year, the company published its AI principles in the ESG report, making progress against the objectives of this engagement.

20. Paid sick leave at CVS Health

Blueprint theme: Human capital management

Lead team/desk: Sustainable investment team

Company: CVS Health

Sector: Healthcare

Region: United States

Escalation: Submitting resolutions at general meetings

Background

In 2022, we engaged over 30 of our retail and service sector holdings in the US on their paid sick leave policies to understand how their policies had evolved after Covid-19 restrictions had ended and how they considered paid sick leave as part of a broader approach to investing in their workforce.

CVS Health, the American healthcare company and pharmacy retailer, is one of many companies we engaged with on paid sick leave. In our engagements we asked CVS to adopt a paid sick leave policy for all employees, as the company's policy appeared to be limited to employees working over 30 hours and those subject to a local or state mandate. We feel this is important for two reasons. Firstly, paid sick leave can bring several operational benefits to the retailer by reducing the spread of disease in the workplace. Academic research[23] has found that allowing workers to take time off while ill is associated with business benefits such as improved retention, reduced presenteeism, and reducing the spread of disease in the workplace. However, the US is one of only two OECD countries[24] without a federally mandated paid sick leave policy, and it is estimated[25] that over half of hourly workers at large service sector companies do not have access to this benefit. The company had raised in its reporting that the competitive market for attracting and retaining talented employees is a key operational risk.

Secondly, as a brand that is associated with good health for the communities it serves, we believed the absence of a comprehensive paid sick leave policy created a reputational risk. Given the potential benefits a paid sick leave policy can bring to the company, in particular to retaining employees and boosting productivity, we believed asking the company to adopt this policy would benefit the company's long-term sustainability and investment returns.

Engagement in 2023

To escalate this engagement, we worked with other investors to reinforce the issue with the company's management. We then determined that we would co-file a shareholder resolution asking the company to adopt and disclose a paid sick leave policy for its full and part time employees. The ballot received 26% support. We hope to see the company improve its paid sick leave policy and continue to monitor progress.

23 https://onlinelibrary.wiley.com/doi/10.1002/ajim.23469
24 https://www.oecd.org/coronavirus/policy-responses/paid-sick-leave-to-protect-income-health-and-jobs-through-the-covid-19-crisis-a9e1a154/
25 https://shift.hks.harvard.edu/paid-sick-leave-brief/

21. Human capital management at Amazon

Blueprint theme: Human capital management

Lead team/desk: Sustainable investment team

Company: Amazon

Sector: Technology

Region: North America

Escalation: Go public with concerns, collaborate with other investors, vote against

Background

We have been engaging with Amazon since 2015. In the past, engagements focused on pushing for greater disclosure on culture and turnover rates. We are pleased that Amazon has improved disclosure, and now reports on injury rates and training. However, we are continuing to encourage the company to consider disclosing a more in-depth breakdown of health and safety turnover statistics, such as by employee type.

Over 2022, we engaged with the company several times on the root cause of safety issues and increased workforce disclosure. We wrote to the company ahead of its Annual General Meeting (AGM) in May 2022 and went public with concerns by pre-declaring our voting intentions on workforce issues ahead of the 2022 AGM. This led to us supporting three different shareholder proposals related to workers. We have also sought to collaborate with other investors over 2022 to engage the company and later that year, signed a collaborative letter to the board, reiterating investor requests for company action on freedom of association.

The engagement also covered paid sick and family leave for its US-based employees. The company clarified its policies, which follow federal and state regulations, and allows employees to accrue paid time off on rates based on hours worked and tenure at the company.

Engagement in 2023

We continued our dialogue on worker issues throughout 2023. In January, we wrote to the company to reiterate our request for increased transparency on health and safety and turnover rates. Subsequently the company invited us for a tour of a fulfilment centre. We followed up with a call to clarify the performance management systems in place and how the company ensures the implementation of safety policies in fulfilment centres.

We reiterated our perspectives on health and safety in writing to the company and ahead of the May 2023 AGM. We met again in person in October to discuss a range of sustainability topics, delving into grievance mechanisms and the use of contractors in relation to human capital management. We followed up the in-person meeting by sharing examples of other companies that disclose contractor safety data.

Moving forward, we will continue to engage with Amazon on human capital management issues and remain appreciative of the responsiveness of the company to our engagements. We look forward to continued dialogue on these and other sustainability topics.

22. Board gender diversity at IBM

Blueprint theme: Diversity and inclusion

Lead team/desk: Value

Company: International Business Machines (IBM)

Sector: Technology

Region: North America

Escalation: Vote against

Our engagement on board diversity accelerated with this large North American technology company in 2023, following initial outreach on improving female representation at the board level the previous year.

In February 2023, we sent a formal letter regarding corporate governance and diversity in senior positions. The letter commended the company's efforts to improve the representation of women and emphasized the importance of having gender equality at the top board level given the underrepresentation of women in technology. It encouraged the company to consider appointing more women to meet our minimum expectation of at least 33% female representation on the board.

During a meeting with the Investor Relations team in April, we discussed the company's ongoing efforts around ensuring diversity of perspectives in decision-making and efforts to improve female talent in the industry through apprenticeships and workforce re-entry programs.

In September, we spoke with Investor Relations team and the company's corporate governance experts. During the call, we noted female representation stood at 15% and expressed intentions to vote against the re-election of the Chair of the Nominations Committee at the upcoming Annual General Meeting due to the lack of progress on gender diversity. Moreover, we expressed concerns about the lengthy tenure of the Chair of the Nominations Committee, as well as potential over-boarding given their membership of five company boards, which is not aligned to corporate governance best practice.

Over the course of this engagement, the company acknowledged the issues raised regarding corporate governance and diversity. We were pleased to see the Board elect a new female member at the end of 2023, taking the percentage of female representation to 21%. Although this is a step in the right direction, we will continue exercising our shareholder rights to encourage more progress in this area.

23. Bellway board diversity

Blueprint theme: Diversity and inclusion

Lead team/desk: ESG

Company: Bellway

Sector: Consumer Discretionary

Region: UK

Background

Our engagement with this British housebuilder was initially prompted by the findings of the Parker Review report, published in February 2020. The report highlighted the lack of diversity on FTSE 350 boards, specifically the under representation of directors of colour. Our engagement aimed to encourage meeting the report's recommendations of having at least one director of colour on FTSE 100 boards by 2021 and FTSE 250 boards by 2024. Moreover, we sought improvements to executive female representation.

In December 2020, we sent an email to the company asking it to complete a survey evaluating progress on diversity in senior positions. We wanted to see the company take additional steps to improve board and executive level diversity.

Engagement in 2023

In September 2023, we accelerated our engagement by first sending an email to the company ahead of its AGM, particularly seeking improvements to female and ethnic representation on the executive committee. At the time, the company was one of only nine in the FTSE 250 with an all-male executive committee, as reported by the FTSE Women Leaders Review. We understood the company had a small executive committee consisting only of the CEO and CFO, potentially requiring additional time and flexibility to implement the Parker Review and Hampton-Alexander Review recommendations with an organisational restructure.

This exchange was followed by a call with the Investor Relations team to discuss expectations on executive committee diversity. The company highlighted high levels of diversity in senior positions and explained they may need to reclassify management positions.

In November 2023, we spoke with the Company Secretary regarding executive gender and ethnic diversity. We were encouraged to learn the company was in the final stages of appointing an additional director from an ethnic minority background and that female representation on the board stood at 33%. Moreover, the Company Secretary highlighted plans to form a new executive committee, scheduled for January 2024, which would include two female members and a female Chair.

Overall, we feel the company is actively working towards meeting the Parker Review and Hampton Alexander Review requirements and increasing diversity at all levels of the organiszation. We look forward to the formal launch of the new executive committee and monitoring ongoing efforts to increase gender and ethnic diversity in the workforce.

Thematic engagement

Governance engagement

Governance is our thematic priority under which we engage with companies on the policies and practices in place to help to ensure that businesses act in the best interests of shareholders and other key stakeholders.

We believe good quality governance is critical for the successful longevity of a company and its ability to deliver risk-adjusted returns to its shareholders, including through achieving progress on environmental and social goals, linked to its chosen strategy. We also believe that good governance practices can help promote a healthy financial system.

We engage assets to understand how they are developing and implementing policies and practices to drive sustainable value creation.

Engagement case studies 24-28 provide examples of how we engaged on governance topics over 2023.

Thematic engagement: **Governance engagement *continued***

How we address systemic risks related to governance

We believe that bad governance can have an insidious effect on the overall health of a company, even when financial performance has been positive over the shorter term, and it may lead to significant issues in the future. We therefore have developed and periodically review our global governance guidelines that cover the main governance issues that can present significant risk. As governance varies significantly by market, because of different legal and regulatory regimes and different cultures and ways of doing business, we supplement these global voting guidelines with more detailed minimum expectations for different markets, which we review periodically. We have a framework within which we are able to evaluate systemic risk at global, individual market, and sector, level. This enables us to put in place measures to mitigate governance risks, and any potential negative impact on our clients' investments over the long term.

We engaged

588
companies on a variety of governance-related topics.

117
companies on executive remuneration and

110
companies on boards and management

First, as an active manager, we assess corporate governance as part of our investment decision making and our periodic assessment of our portfolio companies. The corporate governance team works hand-in-hand with our individual investment teams to assess the quality of governance at our investee companies, taking into consideration the company's financial performance and wider sector and market related issues of a more systemic nature. It is critical that when engaging or making a voting decision that we fulfil our fiduciary duty to our clients. We therefore consult our investment analysts and fund managers to reach often finely judged voting decisions, which may require both a qualitative and a quantitative approach to the decision. By doing this, we seek to evaluate and mitigate any systemic governance risk in our portfolios by taking account of wider issues as well as addressing aggregate risk. When a decision cannot be reached due to differing views between corporate governance analysts and investment teams, we have a Voting Escalation Committee to determine a final voting decision based on arguments presented by the relevant parties.

Secondly, we review our voting guidelines for each market before each annual proxy season, adjusting our approach, where needed. For example, we strengthened our guidelines in relation to how relative TSR is applied as a performance metric in variable awards in the US before the 2023 proxy season. We will likely vote against Say-on-Pay proposals when the vesting threshold for relative TSR is less than median of the relative peer group help to ensure that the pay outcome is better aligned to the shareholder experience. The guidelines are agreed with our investment desks across different markets. The guidelines address systemic risks about common practices in the market for which they are written.

Governance engagement in 2023

Engagement on governance issues continued to be a fundamental aspect of our engagement programme in 2023. We do this by evaluating governance risks broadly, and by engaging companies to improve their corporate governance practices. Our key focus areas are: boards and management, executive remuneration, relationship with shareholders, purpose, strategy and capital allocation, and transparency, risk and reporting.

We engaged 588 companies on a variety of governance-related topics. We engaged 117 companies on executive remuneration, which was the most frequently engaged governance topic. However, remuneration consultations often involve multiple discussions with the same company to influence positive change. This is reflected in our engagements with UK companies on renewing their remuneration policies. We believe that we can be most effective at influencing remuneration policy and practice when we are involved at the early stages of boards' discussions and when we are able to provide ongoing feedback throughout the consultation process.

We encourage companies to develop a balanced approach to formulating their pay packages, taking into account long-term strategic goals and alignment to company performance. In 2023 we asked companies to ensure that any pay increases given to executives did not outpace increases to the wider workforce in response to the cost-of-living crisis, which disproportionately affects low-pay workers. We also set out our expectations for pay-for-performance by asking boards to ensure that targets are stretching and material to the business strategy.

We engaged 110 companies on boards and management, representing the second largest proportion of our governance engagements in 2023. These include topics such as board structure, skills and diversity, and succession planning. We encourage boards to have emergency, medium and long-term executive succession plans in place that should reflect the evolving needs of the business. Where we have concerns about a company's succession plan, or lack thereof, we may vote against the chair of the nomination committee at the AGM. More broadly, we will engage with the chair, senior or lead independent director when we have concerns regarding board effectiveness and oversight. This includes engaging with boards when we do not believe that the company is delivering on its strategy or is misallocating capital.

Collaborative engagements

Investor Forum

We are members of The Investor Forum, a not-for-profit, practitioner-led membership organization, set up by institutional investors in UK public companies. The Forum's purpose is to position stewardship at the heart of investment decision-making by facilitating dialogue, creating long-term solutions and enhancing value. In 2023, we supported an engagement with a large UK listed company relating to its attempted acquisition of a target company at what we thought was too high a price.

Asia Corporate Governance Association

We are members of the Asia Corporate Governance Association, an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. We have continued to participate in collective engagements with companies in South Korea, which are traditionally challenging to communicate with. We expressed our views in an open letter to the Korean Financial Services Commission (FSC), advocating for the implementation of improved governance structures at the regulatory level. In addition, we have continued to participate in working group meetings across various markets and have attended numerous in-person meetings with delegations in the UK and Japan.

Council for Institutional Investors

We are an associate member of the US Council Institutional Investors, which advocates for effective corporate governance practices, shareholder rights, and policies that promote long-term value. In 2023, we held member hosted meetings at both of its conferences, focusing on human capital management. We also participated in the discussions of its corporate governance advisory council.

Case study	Blueprint sub-theme
24 New business strategy at FEMSA	Purpose, strategy and capital allocation
25 Evaluating the risks of an acquisition	Purpose, strategy and capital allocation
26 Driving value for customers and shareholders at Siemens	Purpose, strategy and capital allocation
27 Leadership and governance at Asian consumer goods conglomerate	Boards and management
28 Consultation on executive remuneration policy	Executive remuneration

Annual governance letters

Schroders corporate governance team writes to the chairs of Schroders' publicly quoted investee companies every year to outline our governance expectations ahead of the forthcoming year's proxy season. We send 10 different letters in total, each tailored to the respective markets in which our holdings are listed.

The intent of the letters is to highlight to boards where our voting approach has changed compared to the prior year and to reiterate important messages.

As a result of sending the letters, we received many requests from companies wishing to engage with us further on various governance issues. By increasing our expectations of boards year-on-year, our aim is to, on the one hand, encourage companies to improve their management of governance issues, where necessary, and continue to make progress on achieving material ESG goals by increasing our expectation of boards year-on-year. We also aim to engage with companies to gain a better understanding of their strategy, the challenges they face and how we can support them better.

Director roundtables on the future of UK stewardship

In 2023, against the backdrop of debates around the competitiveness of the UK market and revisions to the UK Corporate Governance Code, Schroders Corporate Governance and UK investment teams hosted three roundtables, under the Chatham House Rule. Chairs and other directors of twenty-nine FTSE350 companies joined us as we debated the future of UK stewardship, including how we, as active shareholders, can improve how we engage with companies. We also discussed how we can better support boards as they face growing challenges, including: competing with private markets, attracting and retaining talent and increasing reporting and regulatory requirements. The insights from these events continue to inform our engagements and voting decisions.

Assessing the effectiveness of our Governance engagement

In 2023, we published research analysing the relationship between engagement approaches and returns for investee companies. It looked at different approaches to engagement on governance issues, such as committed and sustained engagement, low-touch engagement, and mass communications of expectations and engagement campaigns. It also looked at the types of conversations that took place, such as those with board chairs and other board directors, remuneration committee chairs, and those related to improving target-setting and providing better disclosure on sustainability and risk.

The research findings indicate that companies with committed and sustained engagement see better returns than peers for nearly two years from the start of engagement.

Companies engaged frequently in the first year and just once in the second year saw consistently strong returns over this period, peaking around 7% towards the end of the first year.

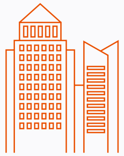
Companies with low-touch engagement in the first year saw slightly higher returns than peers in the first year, and for companies where engagement increased in the second year, returns increased, peaking at 11.8% over peers two and a half years into the engagement. For low-touch companies where engagement did not increase, returns worsened compared to peers in year two.

This research is important because it seeks to assess the relationship between investor engagement on management and strategy issues, and company returns. Although based on a limited sample, it supports our view that over the long term there is an association between engagement and returns, which can help investors understand how to focus their efforts in order to achieve better returns. The research also provides insight into how different engagement approaches are associated with different outcomes, which can help investors make more informed decisions about how to engage with their investee companies.

Thematic engagement: **Governance engagement *continued***

Governance engagement case studies

24. New business strategy at Fomento Económico Mexicano SA



Blueprint theme: Corporate governance
Lead team/desk: Global and Thematic Equities
Company: Fomento Economico Mexicano (FEMSA)
Sector: Food and Drug Retailing
Region: Latin America

Background

At the time of our engagement in 2022, this Mexican beverage and retail company had a complex business structure, which resulted in the stock being valued at a market discount.

For shareholders, business structures that are overly complex can be problematic - complicated and multi-layered business structures are challenging for shareholders to understand and, therefore, to price in potential risks.

In our view, there was a clear need for the company to simplify its structure and streamline its asset allocation strategy. We therefore decided to engage with the company regarding our concerns. This engagement coincided with a strategic review being undertaken by the business.

Whilst the company was receptive to our feedback, progress on addressing this issue stalled. In subsequent months, the stock underperformed as the discount continued to widen. The company's announcement of its plans to acquire a convenience and food service provider in Europe also contributed towards the negative performance.

Engagement in 2023

We continued engagement on the company's ongoing strategic review in 2023, including capital allocation strategy and how capital could be deployed more efficiently. We took the position that the company should focus on expanding organically opposed via an acquisition.

We also asked the company to provide assurance on how it is managing potential risks and driving long-term shareholder value. Mexican companies tend to have weaker disclosure than companies in other markets and we therefore often encourage companies in this market to be more transparent in their reporting.

As a result of our engagement, the company committed to increasing its disclosure on the performance of its respective business divisions by holding roadshows for different business areas.

In February 2023, the company announced the conclusion of the strategic review with a positive result for shareholders. The company said it would refocus on retail operations and exit non-core operations. There was also a commitment to a more conservative approach to acquisitions going forward. The publication of the strategic review was also a reflection of how the company is becoming increasingly transparent.

We are encouraged by the explicit action points, simplification, and refocus. We look forward to monitoring the outcomes of the company's strategic review and steps taken to improve board composition.

25. Evaluating the risks of an acquisition

Blueprint theme: Corporate governance
Lead team/desk: UK Prime
Sector: Professional services, Industrials
Region: UK
Escalation: Divestment

Background

In 2022, this UK-based manufacturer of appliances was looking to raise a significant portion of equity to buy a high-end manufacturer of appliances in Australia. We felt the company would face challenges in integrating two businesses in distant geographies with unique supply chains and distribution channels. It would expose the business more to the health of the 'consumer' which felt risky at the time of a looming cost-of-living crisis.

We also viewed their approach to funding the deal as miscalculated. As well as increasing the financial leverage to an uncomfortable level, the company planned to raise equity from investors and shortly after return a portion of this back to shareholders in the form of a dividend. It did not strike us a logical to ask shareholders for equity one month, and then return some back to shareholders the next. It may be in the interests of advisors to suggest this however, as they will often be remunerated based on the size of an equity raise. It is always important to consider these potential conflicts of interest when assessing a transaction to ensure that shareholder needs are looked after.

Our concerns with the transaction were set out in a formal letter shared with the management team. Despite this, the company proceeded with the transaction, and the Schroder funds that held a position sold their shares shortly after.

Outcomes in 2023

In 2023, a deterioration in trading at the company led to market concerns about the balance sheet and the shares fell by 40%. We exercised investment stewardship as guardians of our client assets, and acted by selling shares when we believed that a company was not acting in a way that was likely to create value for shareholders.

The engagement highlighted the importance of good governance to making informed capital allocation decisions. Management incentives should also be appropriate and not solely focused on growing revenue or increasing the size of the business at any cost, which may be detrimental to long-term value creation.

26. Driving value for customers and shareholders at Siemens

Blueprint theme: Corporate governance

Lead team/desk: European Specialist, European Large Cap

Company: Siemens

Sector: Industrials

Region: Europe

In 2023, we initiated several engagements with this large European Industrials company on governance, corporate structure, and the exposure of the company's products and services to growing environmental themes.

First in January, the European Large Cap desk wrote a letter to the CEO requesting improvements in shareholder value. The focus was on three key areas: the potential for individual divisions to operate as standalone businesses, R&D synergies between industrial divisions, and the valuation discount from the existing corporate structure. In March, we met with the CEO to discuss these topics and followed up by email with detailed suggestions on how business operations could be streamlined, with a view to delivering improved shareholder returns.

In a follow up email exchange with Investors Relations, we gleaned insights into the company's financial plans and shareholding structure. We followed up again on the subject in November, gaining clarity on a planned demerger, expected shareholdings, and outstanding payments.

Towards the end of 2023, investors in the Schroders listed equity impact teams developed a multi-year engagement strategy for the company as part of the impact investment framework. The objectives of the engagement covered:

- How the company's product range is supporting its customers through avoided emissions – including monitoring progress and understanding methodology
- What key product areas across the company's three main divisions are driving the most efficiency and productivity
- How the company approaches supply chain transparency and risk management
- How the company compares to peers on key governance and sustainability metrics

In November, we engaged one of the company's sustainability experts to discuss these areas in greater detail. The dialogue revealed that over 90% of the company's business contributes to positive sustainability themes, with key impact areas identified as: decarbonization and energy efficiency; resource efficiency and circularity; people centricity and societal impact.

Over the course of this engagement, we have provided substantive feedback on how the company can improve business value and positive impact for customers. We appreciate the company's willingness to engage with investors and look forward to future engagement on these topics.

27. Leadership and governance at Asian consumer goods conglomerate

Blueprint theme: Corporate governance

Lead team/desk: Asian Equity, Schroders Systematic Investments

Sector: Consumer Staples

Region: Asia Pacific

Escalation: Divestment

Background

This large consumer goods conglomerate was held by a quantitative desk in Schroders, who use mathematical and statistical models to analyse large amounts of data and identify trends that can be used for investment decisions.

The company was held in their flagship sustainability fund, subject to European SFDR regulations that require investee companies to have good governance practices (Article 8).

To identify companies that may fall short of our expectations, this investment desk conducts quarterly governance checks looking at indicators like third-party ratings, leadership independence, and board quality. When a company is flagged for potentially falling outside of the SFDR expectations, investors may engage the company in the expectation that it will make improvements to governance practices over a reasonable time frame.

Engagement in 2023

In January 2023, the company was flagged as part of the good governance checks, and we decided to engage the company. Examining the company's leadership and governance practices, we identified potential improvements including increasing board diversity and independent representation. Moreover, establishing formal Remuneration and Nomination committees would increase clarity and transparency on board decisions for investors.

When the company's annual report was published, we sought to understand whether company practices had improved and determine whether the company should continue to be held by the desk's sustainable fund. While progress was deemed insufficient resulting in divestment by an investment desk, we engaged this company in collaboration with the Asian Equities investment desk that had a longer-term relationship with the company.

In an August 2023 call with company leadership, we asked for improvements to board independence, 30% female representation on the board, and inclusion of concrete and trackable targets in the next ESG report. The company acknowledged the issues raised and noted they are keeping a close eye on ESG ratings and the views of third-party advisors. We were encouraged to learn of plans to increase board independence and the appointment of a new female director to the board.

28. Consultation on executive remuneration policy

Blueprint theme: Corporate governance

Lead desk: UK Prime

Sector: Education services, Technology

In 2023, this educational courseware company renewed their executive Remuneration Policy for the next three years. The new policy was ratified by shareholders at the company's 2023 AGM. Ahead of the AGM, we engaged with the company over a period of circa. 9 months, consulting with them on the proposed changes to the policy.

In the initial meeting with the chair of the Remuneration Committee and company secretary, they expressed their intention to achieve better alignment between their approach to executive remuneration and that of their US peers, where pay levels are higher than in the UK. They argued that since their CEO is based in the US, and it's a key strategic focus for the business, as well as the US being an important future talent pool, the executive compensation structure and quantum should reflect this to enable them to effectively compete in this market.

We did not agree with the boards' proposal to simultaneously apply material increases to both fixed and variable pay. We raised this issue with the Company, urging them to consider the negative optics and potential reputational risk.

Lastly, we also discussed the possibility of introducing an ESG performance measure. Given the nature of the business, an environmental measure would not be the most appropriate metric to use. Rather, we suggested using a social metric, potentially related to access to education, which we felt to be more material to the business.

We had an additional two meetings with the chair of the Remuneration Committee and Head of Sustainability to discuss the changes to the Policy and the sustainability strategy. We outlined some important concessions that would be required for us to consider their proposals.

- First; the introduction of a deferral mechanism in the bonus;
- Second, to increase, or at least sustain, the weighting of relative TSR in the long-term incentive (LTIP);
- Thirdly, for the majority of variable awards to be based on robust financial performance measures with stretching targets;
- Finally, to increase the shareholding requirement for the executives.

The above conditions would better ensure that executive pay remains closely aligned to the shareholder experience and that achievement of the maximum vesting be conditional on exceptional performance.

The company ultimately decided to go ahead with the large increases to the bonus and LTIP opportunities, however, they listened to our feedback on the CEO's base salary and decided to increase his salary by 3.5%, which was in line with the average salary increase for the US workforce and below the average level of increase for the UK workforce. They also fulfilled our ask of introducing a bonus deferral mechanism, and to increase the shareholder requirement for the CEO and CFO.

Finally, we were also pleased that the Board did not go ahead with their original proposal to increase the LTIP percentage that pays out at threshold performance to 25% of maximum.

Voting in 2023

Exercising our rights as shareholders is a key part of our active ownership activity and our fiduciary duty. Our votes can be an effective technique in signalling our views to companies and furthering our engagement objectives, should we feel we need to escalate.

How we choose to vote

Our voting decisions are driven by our assessment of the best financial interests of our clients' investments over the long-term. We have found that some of our stakeholders are increasingly calling for more votes against board recommendations. While we take tough stances, when engaging, where there are material risks, we believe that successful engagement is not always best achieved by, or correlated to, voting against board recommendations. Our right to vote as a shareholder can be a powerful tool in engagement and means that we often are able to achieve positive engagement progress and outcomes without voting against board recommendations. We are often able through consistent engagement with our portfolio companies on matters that may have a material financial impact to have a greater positive effect than merely expressing any concern through casting our votes.

Voting guidelines

Our voting guidelines, therefore, set out our global and market-specific expectations for our investee companies on a variety of topics, including director elections, executive remuneration, capital structure and allocation and, in some markets, shareholder proposals. Our corporate governance analysts apply these guidelines when assessing board and shareholder proposals. However, we also believe that it is important to take a sophisticated approach which also considers factors such as: our previous engagements with the company, our research, sector specific challenges and other factors, such as the company's size. The voting guidelines establish our conditional standards that should be met, unless there is a reasonable justification otherwise.

The main principles of our voting guidelines include the following:

- **Strategy, performance, transparency and integrity:** Companies' strategy should be aimed at producing adequate and sustainable risk-adjusted returns for shareholders over the long-term. How companies consider, behave towards and communicate with shareholders and their wider stakeholders including, lenders, employees, communities, customers, suppliers, regulators and the environment, could have a significant impact on the long-term viability of the business model and its value creation.
- **Boards and management:** Boards of companies should oversee and review, amongst other things, the company's strategic direction, the quality of leadership and management, risk management, relationships with stakeholders, the internal controls, the operating performance and their ongoing viability. Above all, they should be focused on the long-term sustainable generation and guardianship of value. Board directors must be competent and have relevant and varied expertise. Board independence and different dimensions of diversity should also be important considerations when making director appointments. The process for selecting, refreshing and retaining Board members and executive management should be transparent, robust and rigorous. Evaluations should be conducted regularly to ensure the board comprises a blend of the required attributes, is well structured and is working effectively to oversee and, when necessary, support or challenge management.
- **Capital:** Companies should have efficient balance sheets that minimise the cost of capital, with a well-judged level of gearing which recognizes the significant risks attached to debt across the cycle. Where companies do not use capital efficiently, they should consider returning it to shareholders. We expect companies to limit their issuances of equity without pre-emptive rights to a maximum of 10%, and where the company has a good track record of capital allocation, 20%. Companies should provide a strong argument to justify the introduction of equity shares, particularly those with unequal rights, as we tend not to support proposals of this nature.
- **Executive remuneration:** When we evaluate executive compensation arrangements a key focus is to ensure that there is a clear pay-for-performance alignment and, therefore, that remuneration is aligned with the shareholder experience. We expect executive pay not to be excessive and for Remuneration Committees to provide clear rationales for any increases to fixed and/or variable pay. We also expect companies to weight the majority of variable awards towards the long-term and for the vesting of the awards to be subject to stringent financial and returns performance conditions. Where financial performance has been poor, we expect to see this reflected in the remuneration for the period under review. We consult regularly with companies throughout the year on remuneration policy and practice, and where we see significant issues, we will be likely to vote against the executive remuneration report and/or policy at the AGM.
- **Environmental, social and governance resolutions:** We analyse board and shareholder resolutions on environmental, social and governance performance on a case-by-case basis, using the following framework outlined below.
- **Climate:** We believe that companies' long-term financial success depends on their ability to transition their business models to a net zero or 1.5° pathway and to address systemic climate-related risks. We use our influence as investors through engagement and voting to encourage companies to publish a transition plan and demonstrate disclosing their progress on addressing key climate risks. We will consider voting against the re-election of targeted directors at companies where we feel that climate change is a major risk, and the boards are not demonstrating that they are preparing sufficiently for it. For more information on how we escalate climate engagements see page 24.

How we choose to vote *continued*

Shareholder resolutions

We examine sustainability-related resolutions on a case-by-case basis and carefully consider the following questions, where they are relevant, amongst others:

Is the resolution aligned to our Blueprint?

Our Blueprint summarises our views on issues we regard as having the potential to be particularly material to investment risk, taking into consideration both the financial materiality and the potential impact on stakeholders. We seek to ensure that our approach to voting aligns with our wider active ownership priorities.

Is a resolution the best way to address the issue?

We do not intend to micro-manage companies, but rather to provide oversight and guidance through engagement and voting. Moreover, we consider if other relevant stakeholders are better placed to address the issue, for example governments through regulation.

Does the resolution add value to what the company is already doing?

This could include improving transparency to help us better understand how companies identify and manage risks, providing reassurance that policies and practices are effectively implemented, strengthening management systems to resolve and prevent controversies, and encouraging companies to move towards sustainability best practice.

Can the resolution be implemented without the potential for causing an unintended negative impact?

We consider whether the proposal could reasonably be implemented in a way that does not have a negative impact on the company and its stakeholders, taking into consideration a range of contextual factors, including cost, sector, geography, and economic climate.

Our detailed market specific guidelines address our approach to voting on a country-by-country basis. We review and update our voting guidelines annually to ensure that they continue to reflect our expectations and remain in line with new market developments. In 2023, we reviewed our voting policies on board gender diversity and increased our expectations in Hong Kong and Singapore to reflect local regulation. Our approach for each region is agreed by our regional corporate governance committees, comprising analysts, portfolio managers and the corporate governance analyst who covers the region.

In 2023, we reviewed our voting policies on board gender diversity and increased our expectations in certain markets. In Hong Kong and Singapore, we increased our gender diversity expectations to reflect local regulation. In Singapore, we created a small company carve-out, whereby companies with a market cap in excess of $20bn would be expected to have 20% gender diversity on their boards, whereas smaller companies were expected to have 15%. This split came following in-depth discussions with the holders of Singaporean stocks as well as a review of the market averages. In the UK, we expanded the number of companies where we expect to see ethnic diversity, and in Latin America we increased our gender diversity expectations.

On remuneration, we continued to call for companies to show restraint when increasing fixed pay for their executives by voting against where there was a significant salary increase that exceeded the wider workforce's. We also took a closer look at the structure of variable pay plans; if they are moving to a more guaranteed pay structure without making the necessary reductions to the maximum opportunity; as well as the rigour of the metrics employed, we are likely to vote against.

Our changes are reflective of our evolving stewardship expectations in different markets in line with promoting more exacting governance standards for issuers.

In order to maintain the necessary flexibility to meet client needs, local offices of Schroders may determine a voting approach regarding the securities for which they are responsible, subject to agreement with clients as appropriate, and/or addressing local market issues. Beyond these limited exceptions, individual funds do not set their own voting guidelines. When it comes to voting decisions, we try to achieve consensus across all relevant funds and vote in line with our firm-wide approach which allows some case-by-case variation as a result of engagement or specific company circumstances. Our Wealth Management business follows the same voting guidelines as the wider Schroders Group.

How we choose to vote *continued*

Global voting process

Voting information collated by proxy voting service provider

All voting activity coordinated by our dedicated Corporate Governance specialists

Establish our view on each resolution by:
Reviewing external research and performing internal analysis
Applying voting guidelines
Consulting with investment teams on material issues

Vote For
Resolution is in the best interest of investors and in line with Schroders' voting guidelines

Vote Against
Resolution is not in best interest of investors

Abstention
Occurs rarely in mitigating circumstances e.g. a company taking some steps to address the issue

Deliver vote processing through advisor's internet-based platform

Where voting is onerous compared to benefits associated e.g.:
Share blocking: The security is blocked from sale on receipt of the voting instruction by the client custodian
Power of Attorney (POA): Required in some markets, costly and time consuming

No vote

Except where there are contentious resolutions that represent a significant risk to shareholder value, where the risk of not voting outweighs the ability to trade a security.

Shareholder resolutions in 2023

Although shareholder resolutions represent a small share of the votes we cast every year (approximately 2.6% in 2023), they have been increasingly attracting attention from our clients and the media. They are often utilised by shareholders as a way of calling for the Board and management to act on environmental or social issues or governance subjects that are not typically captured by resolutions proposed by the Board.

We voted in favour of 67% of resolutions submitted by other shareholders.

We supported 78% of climate resolutions in 2023. We also welcomed the opportunity to vote on Boards' 'say-on-climate' resolutions. However, to vote in favour of these proposals, we needed to be supportive of the specific company's climate change strategy. We plan to monitor companies' progress on addressing climate risks, and voted against the re-election of targeted directors at companies whose response to the climate crisis we consider insufficient. In 2023, voted against the re-election of over 90 directors on climate grounds.

We provide information on how we vote on our vote disclosure website.

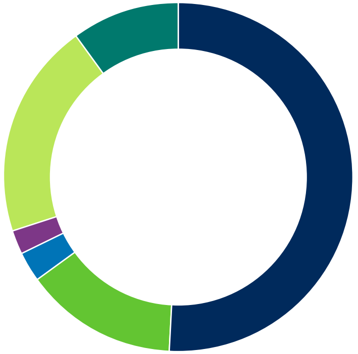
2023 regional proxy season review

The 2023 proxy season saw several developments across markets, reflecting a wide range of governance and sustainability topics. We seek to provide transparency on how we have voted both throughout proxy season through our post-proxy season AGM reviews:

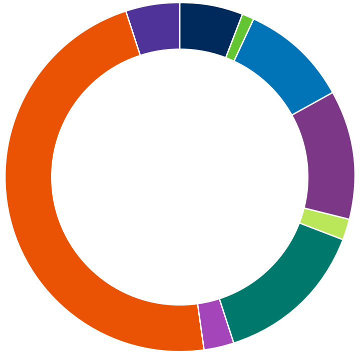
- Active ownership: social issues in the 2023 voting season
- Active ownership: how we voted on governance issues in 2023
- Active ownership: how we voted on climate issues in 2023

How we voted in 2023

Votes by region

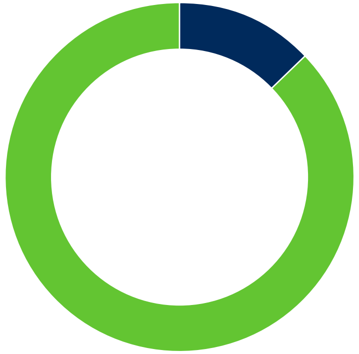


Votes by category



Votes against the board by category

Total statistics



7,141
Meetings

73,370
Resolutions

Voting case studies

29. Requisitioning an extraordinary general meeting

Blueprint theme: Corporate governance

Lead desk: Asian equities

Sector: Technology

Region: China

Schroders has been a long-term investor in a China headquartered information technology company which is attractive due to its low valuation considering the company's industry leading positions in growth sectors. We have engaged extensively with the company on how it can create more shareholder value, for example by using its large cash balances for dividends or share buybacks. In our view, the acquisition of the company would be another potential route to crystalising its value and we have encouraged the board to consider this option.

Over the last three years, the company has received multiple take-over bids. However, the board has been resistant to engaging with the different consortia. In 2021, the board reappointed one of its former CEOs to the position for the second time. At the same time, it suspended consideration of potential offers. These decisions, coupled with the board's rejection of previous reasonable offers from private equity firms, raised questions about the board's incentives and independence.

In 2022, a number of shareholders including Schroders Funds, requisitioned an extraordinary general meeting to increase the size of the board by electing new directors who would be more receptive to considering, and potentially accepting, an offer. Due to the company's poison-pill mechanism, to prevent hostile stake building, this was the most viable option to exert influence over the board.

The board delayed calling the EGM. Instead, it formed an independent board committee in 2023 whose role was to consider and manage bids for the company. Shortly after the committee was established, the company received and accepted an offer at a premium to earlier evaluations. Our focus is now on the timely completion of the deal, and subsequently, crystalising value for our clients.

30. Vote against Remuneration Report at workspace solutions company for pay-for-performance misalignment

Blueprint theme: Corporate governance

Lead desk: UK Prime

Sector: Workplace solutions, Real Estate

Region: UK

Escalation: Vote against

We voted against the Remuneration Report and Remuneration Policy at the 2023 AGM of this workspace solution company in the UK due to pay-for-performance misalignment. Our view is that variable awards should be conditional upon the achievement of stretching performance targets. We expect financial performance measures to account for most of the respective short- and long-term awards and for any pay outcomes to therefore be the result of strong financial performance. We consider non-financial measures, including ESG ones, to be a small proportion of the award given performance across non-financial or strategic targets are less correlated to the current shareholder experience and often difficult to measure and quantify.

For the period under review, the Company did not deliver on the financial targets in the bonus, however, the company did achieve the non-financial targets, which equated to c.30% of the total award. Therefore, the bonus was based on the achievement of the non-financial measures alone, creating a disconnect between executive pay and current financial performance.

We voted against the resolution and have since engaged with the company on this matter. Further to a recent discussion with the chair of the Remuneration Committee we are pleased that the Company is proposing positive changes to the Remuneration Policy ahead of the 2024 AGM which will re-align executive pay with financial performance. In our view, it is not in our clients' best financial interests to support remuneration packages unless the Company has delivered good financial performance, and the executives' rewards are appropriately aligned.

31. Poison pill clause at Sumitomo Realty & Development Co

Blueprint theme: Corporate governance

Lead team/desk: Japan Equity

Company: Sumitomo Realty & Development Co

Sector: Real Estate

Region: Asia Pacific

Escalation: Vote against

Background

Our engagement with this Japanese real estate company ramped up in 2022, when we had asked the company President regarding the necessity of the poison pill clause and possibility of abolishment. We had voted against management recommendations in the past due to the poison pill clause and due to capital allocation concerns.

The poison pill is a defensive tactic used by companies to deter hostile takeovers. The strategy allows existing shareholders to purchase shares at a discount, diluting the value of the acquirer's shares and making the takeover more expensive. However, the strategy can also be detrimental to good governance practices by limiting the power of independent shareholders.

In November 2022, we met with the Chief Financial Officer to outline the risks and opportunities of the abolishment, emphasizing the risk of a hostile takeover was limited compared to the potential increase in market capitalization. In response, the company noted the discount trends seen across real estate companies in Japan and how share prices remained muted regardless of provisions for shareholders.

Engagement in 2023

In 2023, we continued engaging regarding the abolishment of the poison pill clause. In March, we met with the Chief Financial Officer again to discuss the new Tokyo Stock Exchange request for measures to improve share price. We suggested dividend increases and abolishment of the poison pill clause as potential pathways for improving share price. In May, the company announced it was considering the abolishment of the poison pill clause in light of changes in Takeover Bid legislation. The company's share price increased by eight percent in response to the announcement and we sent an email commending the impact of the development.

Following the announcement, we met with the company's Investor Relations team in June 2023 to confirm plans to abolish the poison pill clause. The company also expressed a clearer commitment to maintaining a Return on Equity above nine percent. Following this engagement, we feel more confident regarding the company's governance practices and protection of independent shareholder interests.

We look forward to monitoring progress around the poison pill clause.

32: Improving ESG practices at hedge fund manager

Blueprint theme: Corporate governance

Lead team/desk: Manager Research

Sector: Financials

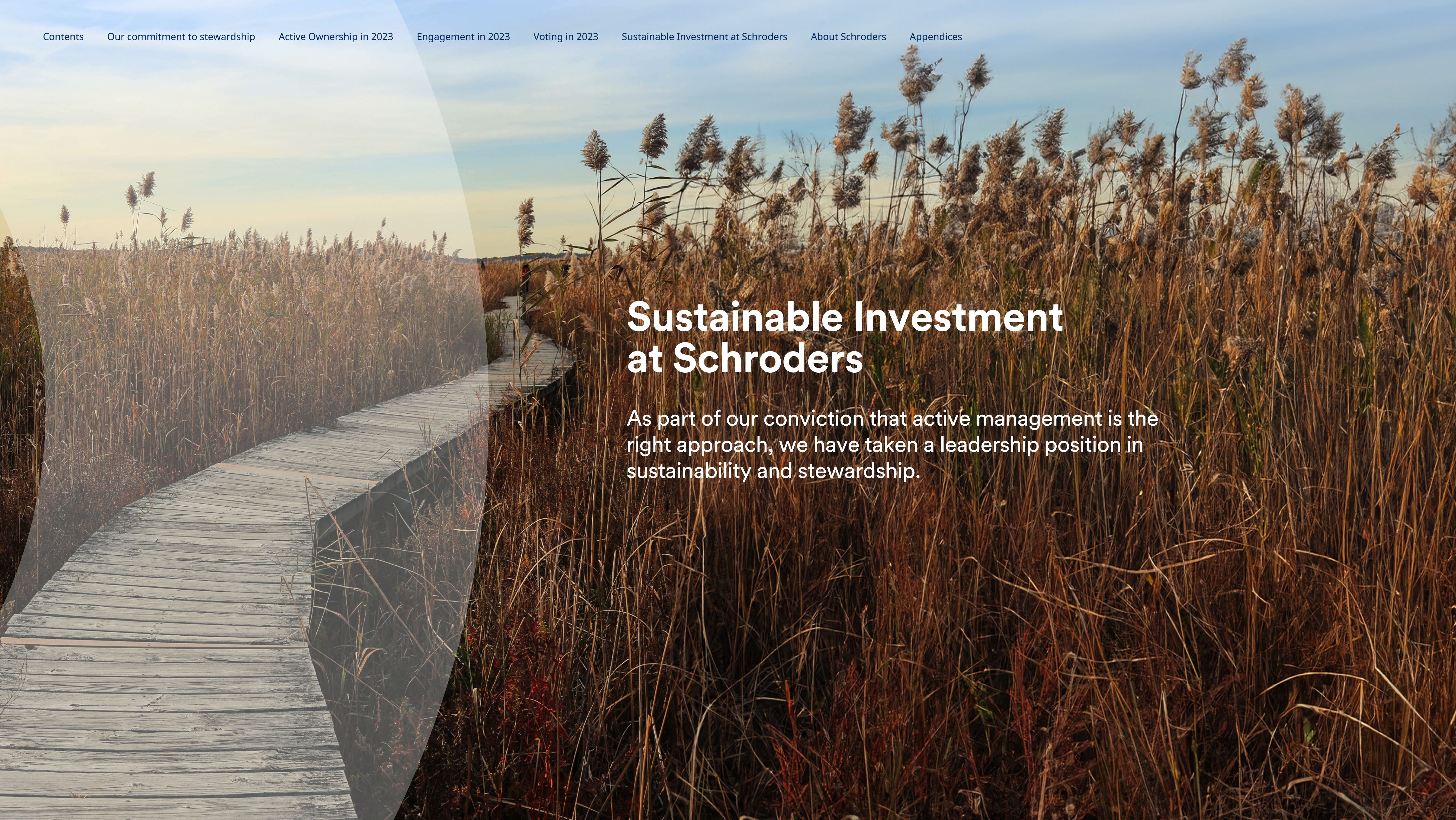
In 2023, we engaged a hedge fund manager on improving its ESG Firm Survey Score. Through the 2023 ESG Firm Survey, we identified areas for improvement including stewardship and ESG policies.

We discussed the manager's short holding periods for companies and the implications for proxy voting and engagement. Despite the short holding period, the manager was encouraged to produce voting records and we discussed best practice on disclosure amongst peers.

We also asked the manager to make ESG data more widely available to investment staff. The manager described what ESG factors were already considered within the business and the need for additional staff training.

The company is considering implementing an ESG committee supported by senior leadership to drive ESG policies, risk management and training. Finally, we enquired regarding the manager's plans to become a signatory of the UN Principles for Responsible Investment (PRI). We learned the manager's parent company was supportive and encouraging greater focus on ESG issues, with pressure from the parent company on carbon footprint and diversity in particular. The General Counsel of the business was planning to submit an application to the PRI by the end of the year.

We plan to continue engaging with this manager to gain clarity on the ESG committee and understand progress on integrating the PRI into individual business units. We would like to see more regular and structured training following the creation of an ESG committee and look forward to monitoring future progress.



Sustainable Investment at Schroders

As part of our conviction that active management is the right approach, we have taken a leadership position in sustainability and stewardship.

Our Sustainable Investment team

Sustainability is fundamental to our investment principles at Schroders and we have an experienced and well-resourced Sustainable Investment team, who are embedded within our Investment function. As at December 2023, the team comprises over 50 dedicated ESG dedicated sustainability professionals. We are a global team, spread across four regional hubs in London, Paris, Singapore and New York, aiming to ensure that sustainability is embedded through our global investment teams and client functions. The team brings substantial experience spanning sustainability and investment, and we believe these allow to effectively conduct stewardship.

The team is led by Andrew Howard, Global Head of Sustainable Investment who is also a member of our Group Management Committee. As team head, he oversees our approach to ESG integration, active ownership, our sustainability research and tools, and our reporting and product strategy.

Our central Sustainable Investment team sits alongside investment teams rather than operating in a silo, which facilitates regular dialogue with our analysts and portfolio managers.

While limited data availability and less established frameworks can present challenges in private markets, we apply the same sustainable investment principles to both public and private investments, with dedicated experts in private asset teams across Schroders Capital.

Over the last year, we have made enhancements to our team structure which includes the addition of Impact as its own pillar, as we continue to develop our capabilities in this area. We also reframed our Product pillar as part of Advisory and Integration, as part of our aim to develop deeper relationships and act as trusted advisors to our clients.

The team is organised into four pillars:

1. Sustainable Investment Management, incorporating advisory and integration, models and data and strategy and research;
2. Active Ownership, encompassing engagement and voting;
3. Regional experts in Asia Pacific, Europe and North America; and,
4. Impact.

We outline their key responsibilities and areas of focus on the next page.

How does the Sustainable Investment team interact with the rest of the firm?

For us, sustainability is a core part of our firm-wide strategy and is fundamental to our ultimate objective which is to achieve better outcomes for our clients. The central Sustainable Investment team work in partnership with many teams around Schroders including our investment teams, Investment Insights Unit, Product Governance and client teams.

Across the firm we have further resource to draw on. We have a number of dedicated sustainable equity and credit analysts who are embedded within our investment desks, including dedicated experts in investment teams across Schroders Capital, along with 50+ Sustainability champions across investment globally.

Our Sustainable Investment team *continued*

The Sustainable Investment team is organised into four pillars

Sustainable investment management

Our Advisory and Integration team acts as a central contact point and consultant for a range of stakeholders across the business. This includes advising investment teams on ESG integration best practice working with our compliance, risk and legal teams on ESG regulation; and working with our regional experts; across Asia Pacific, Europe and North America, as outlined under pillar three.

Our Models and Data team is responsible for the maintenance and evolution of our suite of proprietary tools. They are also responsible for ESG data, ensuring we harness sustainability data effectively from both conventional and unconventional sources.

Our Strategy and Research team is responsible for undertaking sustainability research to: inform firmwide strategy and commitments; provide insights for investment teams to analyse sustainability-related risks and opportunities; and provide research-related and technical support for other stakeholders across the firm.

Active ownership

Our Engagement team partners with investors to hold dialogue with the companies in which we invest, seeking to understand how prepared they are for a changing world and pushing them towards more sustainable practices. The team track the progress of these engagements and hold companies to account.

Our Corporate Governance team is responsible for voting in line with our Voting Policy and Principles.

Regional expertise

Our Regional Experts based in Asia Pacific, Europe and North America have a deep understanding of local market characteristics and nuances, and are responsible for staying abreast of sustainability-related developments. Our experts work with clients and internal teams to navigate and support clients' ESG aspirations and challenges, utilising Schroders' proprietary tools and research to develop investment solutions that meet their needs. They also engage with regulators and industry bodies to shape and support the global sustainable finance agenda. Our regional experts are a critical extension of the central team in London as the firm continues to evolve its global ESG strategy.

Impact

Our Impact team is responsible for scaling our impact product offering in line with best-practice impact principles. The team works closely with investment desks and is responsible for developing and implementing our impact management and measurement framework, including impact assessment and monitoring at transaction and portfolio level, product development, impact strategy and impact reporting.

Our Sustainable Investment team *continued*

How we organise stewardship between the Sustainable Investment team and analysts/ fund managers

Wealth Management

Cazenove Capital is the principal UK Wealth Management business of the Schroders Group, that makes investment decisions on behalf of clients. It aims to help its clients plan for a successful financial future. Such clients include business owners, corporate executives, stewards of family wealth, and individuals who have built their wealth in many different fields. Sustainability risks form part of its view of investment risk and, therefore, its portfolio managers assess these risks across their entire client base and not just for clients invested in their sustainable product range. Some investment teams within Cazenove Capital form part of the Multi-manager group. For further details on the approach to assessing third-party managers, see page 72.

For those clients wishing to look beyond sustainability risks and be actively invested in strategies helping to promote or solve sustainability issues, Cazenove construct client portfolios which embed environmental and social themes at their core. The Wealth Management Sustainable Fund Selection Group undertakes fund research and selection for sustainability products across asset classes including listed equity thematic funds, impact bond funds linked to the SDGs, and real assets such as battery.

Cazenove has a central ESG resource, consisting of dedicated sustainability specialists and a network of sustainability champions. This central resource ensures the Cazenove investment teams are appropriately trained on ESG. The Cazenove ESG team also work closely with the Schroders central Sustainable Investment team on a range of topics, including stewardship.

Schroders Capital

With over 400 investment professionals in 26 locations around the world and £66bn[26] in assets under management (AUM), Schroders Capital combines deeply specialised and local teams, with the strength, scale, and resources of a global institutional platform with a 200-year heritage.

Schroders Capital encompasses private equity, private debt and credit alternatives, real estate and infrastructure. Our Solutions business, which designs and delivers bespoke mandates, leverages our broad asset class knowledge and our sustainability and impact (S&I) expertise. Supported by Schroders Capital Sustainability and Impact Central Team (S&I Team), the Private assets S&I Steering Committee is responsible for the development and oversight on the implementation of the Private Assets S&I strategy, principally:

- Schroders Capital S&I Policy
- Schroders Capital S&I Investment proposition
- Schroders Capital level reporting to clients, internal and external stakeholders
- Private assets S&I Risk dashboard

The Committee meets quarterly and maintains close coordination with the Schroders Global Sustainability Team, as well as Private assets S&I teams and committees, and wider stakeholders, notably through the Private assets S&I working group that meets on a bi-monthly basis.

More information on Schroders Capital Sustainability and Impact policies and reports is available here.

26 https://mybrand.schroders.com/m/158811efd283d143/original/SDR-FY-23-Data-pack-Final.pdf

Tools, data and technology supporting our stewardship

We have invested in developing a range of proprietary research models and tools to gain insights into social and environmental investment factors and help inform investment decisions where relevant to a particular investment strategy. We may also supplement our proprietary models and tools with ESG data from third-party sources.

Proprietary models may be used by our Investment teams to support the assessment of sustainability risks and opportunities, along with supplementary metrics from external data providers and our own due diligence, as appropriate to the goals of any given strategy. This analysis may form a view of the potential impact of sustainability risks on a specific investment or an overall investment portfolio and, alongside other risk considerations, the possible impact of such risks on investment returns over time. Such models are also utilised to help meet various ESG-related product requirements. However, the use of any given tool or model by an Investment team will depend upon factors like the asset class and the investment objectives and policy of the strategy/client.

Our suite of proprietary models and tools include CONTEXT™[27], SustainEx™[28], ThemEx™[29] and our Climate Analytics Framework (which includes both proprietary models and third-party inputs), as well as a number of team-specific tools, frameworks and models. The models are generally focussed on public market investments only.

Proprietary tools

CONTEXT™

CONTEXT™ uses a selection of data to assess a company's relationship with its stakeholders such as customers, suppliers, regulators and employees. This tool is interactive and customisable, enabling our investment analysts to select and weigh material sustainability trends for each sector and select the most relevant metrics for assessment in any given case. The tool gives our analysts the flexibility to make company-specific adjustments to reflect their specialist knowledge.

The tool is integrated within Schroders' global research platform, which is readily accessible across investment desks and geographies. Specifically for stewardship, it enables us to track companies' ESG performance on chosen metrics such as employee fatality rates, board independence, and carbon intensity, as well as the direction of travel over time. It also helps us to identify areas of weakness for engagement and to encourage companies to improve the sustainability of their business models by adopting industry best practice.

SustainEx™

SustainEx™ provides an estimate of the potential social and environmental 'costs' or 'benefits' that an issuer may create on a net basis. It does this by using certain metrics with respect to that issuer and quantifying them positively (for example by paying 'fair wages') and negatively (for example the carbon an issuer emits) to produce an aggregate notional measure of the effect that the relevant underlying issuer may have on society and the environment. The model enables our investment teams to integrate sustainability risk considerations by assessing issuers having regard to such measures, and the risks they face if the social and environmental 'costs' they externalise were to be pushed into their own financial costs.

Whilst many of the metrics used within the SustainEx™ model are relevant issues to engage companies on, this requires careful analysis and understanding of each of the 'externalities' calculated by the model as well as thoughtfulness as to how best to engage with the company.

For example, the social costs of alcohol are estimated and assigned to companies using the model based on their sales of alcohol. These notional costs and will dominate the SustainEx™ scores for most alcohol producers. Therefore, engagement with an alcohol company to improve its score may not make sense in isolation as it would effectively mean asking them to sell less alcohol, but we may engage with that company if we consider diversification into other areas beneficial.

On the other hand, some costs like carbon emissions are calculated on a bottom-up basis and based on company reported (or estimated) emissions. In this case, it would make sense to engage with companies to reduce their own carbon footprint and we have sought to do so in many cases. In 2022 we expanded this model to cover sovereigns. The extension of our analysis to the country-level helps us quantify the positive and negative impacts countries have on the rest of the world.

ThemEx™

ThemEx™ seeks to measure the alignment of a company's products and services to a range of sustainable investment themes, including Schroders' "Super Themes" (climate change, demographic shifts, natural capital management, societal change, technological innovation) and the UNs' Sustainable Development Goals (SDGs). Alignment is estimated systematically based on the company's revenue from its underlying business activities. ThemEx's revenue data is taken from third party sources. In the absence of reliable third-party data sources to extend ThemEx to private market investments, we have developed a private assets SDG Alignment framework aligned with the ThemEx methodology to enable the assessment and reporting of SDG alignment across both public and private universes.

27 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.

28 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.

29 ThemEx™ seeks to measure the alignment of a company's products and services to a range of sustainable investment themes, including Schroders' Super Themes (Climate Change, Demographic Shifts, Natural Capital Management, Societal Change, Technological Innovation) and the United Nations' Sustainable Development Goals. Alignment is estimated systematically based on the company's revenue from its underlying business activities. As ThemEx is focused on revenue alignment from a company's products and services, there is no alignment for operationally focused SDGs such as SDG 13 – Climate Action.

Tools, data and technology supporting our stewardship *continued*

Climate analytics framework

We have also developed a suite of climate tools called the Climate Analytics Framework[30], which assesses companies' exposure to climate risks and opportunities, the mitigating actions they are taking, and the outcomes of those actions. The aim of this toolkit is threefold:

- to support the Group to monitor and manage our progress towards our net zero targets;
- to provide our investment teams with insights to help to identify unpriced climate risks and untapped opportunities to generate value in the transition;
- to support our clients in attaining their climate and decarbonisation objectives.

To this end we have developed the Climate Insights Dashboard which enables investors to access and analyse climate information on key pillars of transition including risk exposure.

Third-party data sources and services

Whilst we don't outsource any of our stewardship activities to third parties, we do employ some ESG data providers to help collate information, including Refinitiv, MSCI and Sustainalytics, as well as Glass Lewis to help us assess and execute our voting decisions.

The key third party service providers that support our stewardship activities are set out below:

Provider/Product	Brief Description of Purpose
Sustainalytics	ESG data, research and ratings as an input into proprietary ESG analysis Screening
MSCI ESG	ESG data, research and ratings as an input into proprietary ESG analysis Screening
Bloomberg	ESG data as an input into proprietary ESG analysis
Thomson Reuters ASSET4	ESG data as an input into proprietary ESG analysis
Glass Lewis	Proxy voting research
Proxy Insight	Proxy voting research
BoardEx	Proxy voting research

Source: Schroders, for information purposes only.
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Holding ESG data vendors to account

Our preference is for raw ESG data over calculated scores, which we consume from a range of sources including Refinitiv, MSCI, ProxyInsight, BoardEx and Sustainalytics. In our experience, ESG data quality lags compared to that of other financial datasets hence we also monitor the output of our use of third-party data within the models and ahead of reporting. Our data governance team oversees the lifecycle of the data use in collaboration with Global Technology.

We regularly engage with our data providers to support the quality of the data inputs that we use in our proprietary models and analysis.

The most important external service providers we use in our ESG integration process are ESG data providers. We generally consume raw ESG data from a range of sources. These feed into our proprietary tools but both our Sustainable Investment team and our analysts/ fund managers also use them to help them identify any potential red flags.

In our experience, ESG data quality lags that of other financial datasets as ESG data is not subject to the same rigour as financial data. We, therefore, transform and cleanse the data ourselves before using it.

Where we receive bespoke services in connection with how we integrate ESG into our investment portfolios, we will typically only appoint a supplier after we run a competitive tendering process. As part of this, we will meet a number of service providers and discuss our expectations for the services.

30 Further details of our Climate Analytics Framework can be found in our latest Climate Report, available via our dedicated sustainable investment policies, disclosures & reports webpage here.

Advisory and Integration

We integrate ESG considerations into our research and investment decisions across Investment teams and asset classes with the aim of maximising risk-adjusted returns for our clients. We confirm the adoption of ESG integration by our Investment teams using an internal accreditation framework.

Our approach is pragmatic: we want to integrate ESG factors into established investment processes rather than create separate processes. Our Investment teams should be able to articulate and demonstrate how relevant issues are identified, investments are examined, portfolio decisions are influenced and how they monitor and manage emerging ESG risks in relevant investment cases. The extent to which particular ESG factors may be relevant to an investment process will depend upon considerations like the materiality of the factor given the investment objectives, the policy of the strategy/client and the investment universe. The central Sustainable Investment team provides research, proprietary models, and support through these steps.

Investment teams complete an accreditation proposal annually, which describes the role of ESG analysis in their investment processes. The accreditation process is managed independently from the Investment team by the central Sustainable Investment team so that there is consistency across all asset classes and sectors.

In 2023, we included a greater focus on climate change risks, asking investment teams to articulate how they identify climate-related risks and opportunities and measure climate exposure. Secondly, we placed more emphasis on sustainability-focused engagement, asking the teams to provide a "focus list" of engagements they will carry out over the following year, linked to themes set out in our award-winning Engagement Blueprint.

To achieve accreditation status, each Investment team must:

- Articulate their investment philosophy;
- Describe the key steps of their relevant investment processes and the role ESG factors may play in these;
- Describe their approach to active ownership (as appropriate for their asset class);
- Describe how they identify, assess and monitor climate-related risks and opportunities, as relevant;
- Provide information on the ESG resources utilised by their Investment team; and
- Evidence practical implementation of ESG integration through at least three new case studies.

Our integration approach spans the breadth of the investment process, from identifying trends, analysing securities, constructing portfolios, through to engagement, voting and reporting[31].

For certain businesses acquired more recently, we have not yet accredited the integration of ESG factors into investment decision-making. A small portion of our business where the integration of ESG factors is not practicable or possible is also excluded, for example, certain legacy businesses or investments in the process of being liquidated, and certain joint venture businesses.

As previously described, Schroders' Sustainable Investment team is embedded in the Investment function, sitting alongside investment desks to facilitate regular discussion and collaboration.The collaboration between our fund managers, analysts and the Sustainable Investment team includes the following:

- The Sustainable Investment team works directly with each investment team so that we are comfortable with the basis upon which ESG integration is implemented within any given investment process. It then provides ongoing advisory services to ensure that ESG continues to be integrated in a relevant way for the asset class, investment strategy and market, taking into account evolving best practices. Accountability remains with each investment team to ensure ESG is integrated in its research, analysis, and decision- making processes, with central oversight of those desk level processes
- Our Sustainable Investment team has developed a number of proprietary ESG tools to help our fund managers and analysts identify, understand, and manage ESG risks and opportunities. CONTEXT™ and SustainEx™ are our flagship tools currently available for equity and corporate credit. In addition, we have developed a number of more focused, asset class specific tools that enable particular investment teams to integrate ESG into their investment process. We describe some of these under the asset class headings in the following section.
- The main reason for developing our own proprietary tools is that we consider relying solely on third- party sustainability ratings and research provides a limited view of ESG factors, as the underlying filters, analysis, and methodologies are opaque
- The Sustainable Investment team also provides ongoing training to analysts and fund managers and this training may be included in the latter's personal objectives

31 https://www.schroders.com/en-hk/hk/institutional/insights/schroders-fully-integrates-esg-into-financial-analysis-of-investments/

Integration across different asset classes

We understand that different asset classes may require different methods to integrate ESG into their investment processes effectively. Below, we have set out some specificities to particular asset classes.

Company analysis

We approach fundamental company analysis within both our equity and our credit strategies through multiple lenses to assess both financial and non-financial factors and their potential impact on returns. We pay particular attention to how a company manages its relationships with its key stakeholders such as its customers, employees, suppliers, and regulators as well as its impact on the environment and social communities.

Specifically, we believe companies whose management establish strong relationships with all its stakeholders are likely to be more sustainable. We analyse this mainly with CONTEXT™.

Low scoring companies in CONTEXT™ that equity and credit analysts are interested in may undergo a deeper dive with analysts looking in more detail at the ESG performance. We may also use this analysis to inform an engagement with a company. This engagement is sometimes done by equity and credit teams together. Depending on the company's response, we may escalate our engagement.

This stakeholder focus aligns with our position as both debt and equity investors on behalf of our clients. We believe that our awareness and analysis of sustainability risks enhances our fundamental understanding of a company's value and its ability to deliver attractive long-term returns whether through its share price or dividends paid, or in its ability to service and repay its debt.

While ESG analysis focuses on companies and their exposure to, and management of, key ESG trends, we recognise that the type of analysis applied, and its implications for investment decisions, varies across different parts of the company's capital structure. As a result, while our equity and credit teams apply similar analysis and draw on common frameworks, tools, perspectives and data to examine companies, the areas on which they focus and how they apply those conclusions can differ.

For example, although both equity and credit analysts will look at the direction and outlook for changes in a company's performance, credit analysts may typically focus more on factors which could lead to downside risks or losses, whereas our equity analysts may put more weight on areas linked to future opportunities.

We have designed our approach to ESG integration as well as the supporting tools and infrastructure in a way that allows our equity and credit teams to share perspectives and insights while retaining the capacity to tailor the conclusions to their respective investment strategies.

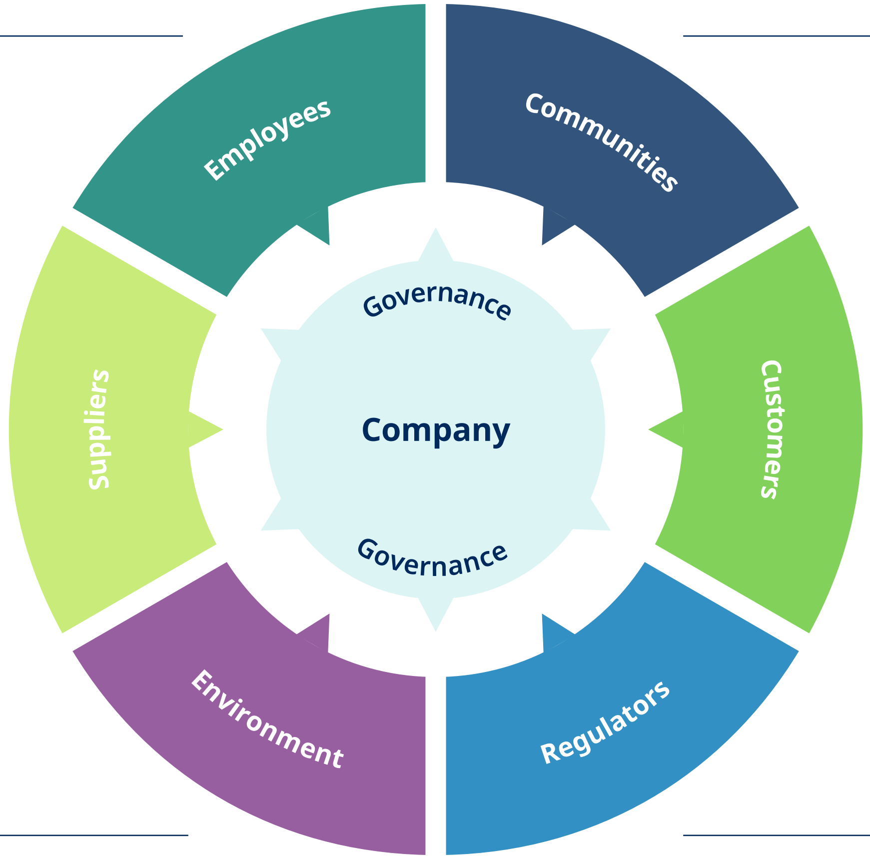
Some of our investment teams invest through a quantitative approach. They take a similar approach by identifying sustainability risks or 'signals' that have been empirically shown to improve the expected risk or return profiles of our clients' portfolios. These factors are used in some cases to arrive at a composite environmental, social or governance score per company and are also used in portfolio construction to determine position sizing.

Advisory and Integration *continued*

Schroders' stakeholder model

How do your employees perform?
How motivated is your team?

What support do you offer your local community?
Have you committed to protect human rights?



How exposed is your supply chain to disruptive risks?
How strong are your supplier relationships?

How is your brand perceived?
What is in your produce pipeline?

Have you put in place an energy transition plan?
Are you managing operating impacts?

How competitive is your market?
Are you paying a fair rate of tax?

Advisory and Integration *continued*

Integration case study – US small cap equities

We utilise in-house and third-party ESG tools and research to form a proprietary view and determine how best to incorporate our ESG research into our investment analysis and portfolio construction. We also consider additional governance factors during ESG analysis, such as the relationship between management compensation and the metrics that drive variable compensation.

Our investment process incorporates a high level of direct contact with current and potential investee companies (600+ company meetings in 2022), and we directly engage with investee companies where necessary to effect change. We developed a proprietary screen to help understand and assign risks associated with our companies. We use the screen in combination with feedback from the governance team to help highlight companies we should engage with on ESG factors. Our risk screen leverages metrics already at the core of our investment process. We assign a risk score for each metric by deciling the metric either against the investable universe or against sector peers. Our risk screen is not a stock selection model. It is used as additional information to assess the attractiveness of a company.

Integration case study – Global Emerging Market Equities

ESG considerations are explicitly integrated into our emerging market equities investment process. Our process does not utilise positive or negative ESG screening, although idea generation may be influenced by thematic ESG considerations such as decarbonisation.

The Emerging Market Equities analysts complete a written ESG review for each company researched which is updated at least annually. This identifies and assesses the potential effect of ESG issues on the investment case. There is no ESG scoring; instead the financial impact of the ESG considerations is reflected in the analyst's final recommendation.

Our analysts' ESG review may result in adjustments to the cost of capital, provisions or cash flows. Where it is not possible to make an explicit adjustment to the fair value calculation, the ESG impact is incorporated as a discount/premium applied to the initial fair value. This is a subjective decision, discussed by the analyst and portfolio manager. Significant ESG concerns will also affect the analyst's conviction in their recommendation.

The investment team also incorporates explicit adjustments to the country equity risk premia used as inputs in our valuation models.

At the company level, CONTEXT™ is the main repository for the team's ESG analysis. CONTEXT™ provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. It contains approximately 300 metrics drawn from traditional and alternative data sources that assess a company's performance in specific areas. By expanding our information sources beyond company reporting, we build a more complete picture of a company's performance and reduce our reliance on corporate disclosure, which remains incomplete, particularly among smaller companies, in emerging markets. CONTEXT™'s consistent structure makes information sharing easier and allows us to identify market wide trends and insights.

Private markets

For privately held companies, a similar approach is undertaken by our private equity and debt investors. We integrate ESG factors as part of our investment process to identify issues that can impact an asset's risk and return profile.

For privately held companies, sustainability analysis is rooted in our internal Raising Impact, Sustainability and Engagement ('RISE') framework. This proprietary methodology looks at multiple underlying indicators through seven focus areas: climate change, conservation, workforce, diversity, equity and inclusion ('DE&I'), community impact, transparency, and policies and practices.

However, in private assets, we are limited by the lack of publicly available data as private companies typically disclose less sustainability risk information. There are also constraints in our ability to transact given the lower liquidity and higher transaction costs common in private markets.

Typically, this means that engaging and carrying out due diligence upfront, that is, at the deal origination stage, is more important. We carry out extensive due diligence on private companies and their management teams prior to investment on a wide range of issues, including material ESG issues. This can involve the use of third-party vendors who provide us with detailed reports on the ESG risks associated with prospective investee companies.

Ongoing company engagement is also particularly important in light of the absence of data.

For our direct private equity investments, we will typically be in regular communication with the management team and seek a board seat for one of our investment team members. However, this may not be possible where we have invested indirectly or have taken a minority stake.

Advisory and Integration *continued*

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 our Sustainability and impact report available on Schroders Capital website for more details and illustrative case studies.

Sovereign debt

The social and environmental backdrop facing countries and their governments is changing quickly. As these pressures become more acute, the financial importance of effectively managing social and environmental change for sovereign issuers is rising. We believe that identifying and understanding relevant sustainability risks and assessing how challenges are being met, help with our long-term analysis of sovereign risk.

We approach sovereign analysis by identifying the building blocks of a country's economic growth (such as capital, labour or productivity) and then analysing sustainability risks that impact those building blocks. For example, we look at health and education metrics as indicators of the capability (and potential) of a country's labour force.

Integration case study – Global fixed income team

ESG analysis is an integral part of our investment process and serves to complement traditional analysis of sovereigns' and corporates' ability and willingness to pay both the interest and principal on the bonds they have issued. We believe that employing an ESG framework provides a natural complement to our macroeconomic fundamental considerations. Our view is that countries and companies with better, or improving, ESG characteristics are likely to represent better long-term investments, with more sustainable cash flows (i.e. a greater willingness and ability to service their debt).

As part of this, we produce country ESG scorecards. While ESG data inputs can be notoriously backward looking, we feel that the proprietary element of the analysis is fundamental to generating a clear and forward looking view on a country's sustainable progress.

The scorecard combines a number of quantitative (including SustainEx) as well as qualitative assessments based on a broad range of sources to conclude directionality in terms of a country's sustainable outlook. It is also designed to raise any concerns around potential ESG controversies. The report focuses on in depth analysis across environmental, social and governance factors including the credibility of government's net-zero policy assessments. It also drills down into the laggards and positives with SustainEx™ scoring metrics, providing a qualitative assessment of these.

Convertible Bonds analysis

Convertible bonds are hybrid securities that allow the investor to convert a bond into a certain number of associated shares. They combine the protection of a fixed income investment with the potential return of an equity investment. The blend of individual elements that make up a convertible bond – bond, equity and right of conversion – produces an asset class that has unique risk-return characteristics.

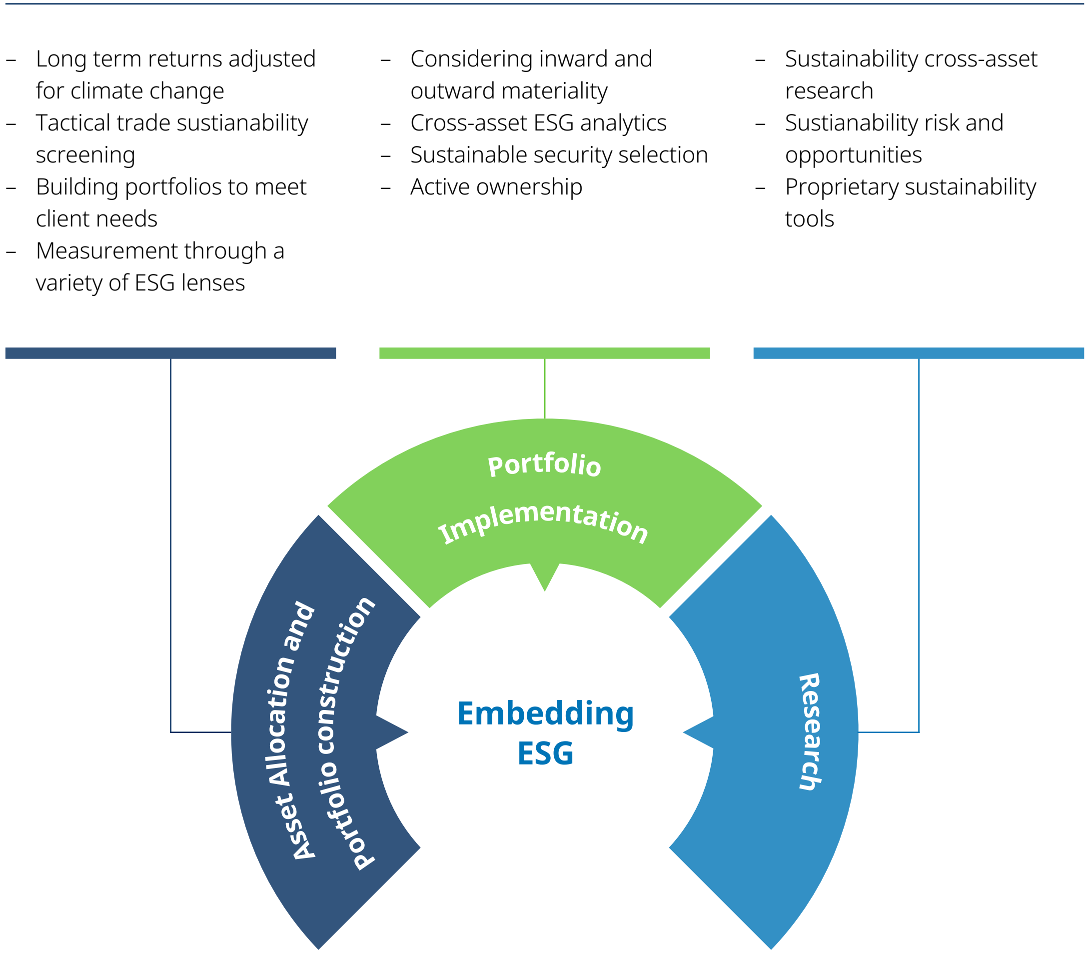
Sustainability risks may be one of the factors that affects an issuer's creditworthiness. Sudden shocks are often more costly than gradual credit declines. From a sustainability risk perspective, this means that we are concerned with sharp moves driven by new information, particularly around controversies. Analysis of sustainability risks is therefore part of our fundamental, bottom-up research, the idea generation process, the modelling and pricing of convertibles and hence has an impact on the top picks in each region.

Advisory and Integration *continued*

Multi-asset analysis

Our approach to multi-asset investing goes beyond allocating just by asset class; instead, our research, asset allocation and portfolio construction are based on an analysis of the fundamental drivers of risk and return called 'risk premia'. We believe that asset classes are proxies for risk premia – they are essentially baskets of returns that an investor receives for taking on exposure to the systematic risks associated with an investment. In some cases, an asset class may be represented by macro risk factors. For example, global equities are exposed to economic, inflation and sustainability risks. Some sub-asset class allocation decisions are also exposed to more specific risks. For example, the Japanese corporate governance reforms in 2023 had a major impact on Japanese equities.

Our approach to sustainability considers both a top-down view when allocating to asset classes and a bottom-up view when selecting securities. The cornerstone of our ESG integration is our internal Sustainability Cross-Asset Research Group, which sits across our seven risk premia research groups (equity, credit, term, commodities, currency, private assets, alternative risk premia) as part of our Global Research Platform. The Sustainability Cross-Asset Research Group focuses on identifying ESG trends that could impact markets and portfolios, with an emphasis on political, regulatory, social and positioning trends that could result in externalities being internalised in the performance of companies and markets.



Integration case study – inward/outward materiality in multi-asset

Within multi-asset, we consider the inward and outward materiality when implementing our investment views. Inward materiality is critical for all portfolios and assessed across a range of sustainability metrics.

Where possible, from a strategic core multi-asset portfolio perspective, we prioritise physical investments, allowing us to make meaningful use of the sustainability tools available, which differ by asset class. We test holdings against different outward materiality criteria. The three core sustainability tools we use are: 1. Active ownership; 2. Use of proceeds and provision of capital; 3. Direct outward impact.

We believe active ownership through engagement and voting is the sustainability tool to best demonstrate outward materiality for physically invested equities. Active engagement is also a tool used by credit investors to demonstrate outward materiality, however we believe the use of proceeds and provision of capital is the most powerful sustainability tool for fixed income investing. The third tool 'direct outward impact' is used by strategies delivering financial returns through investments that contribute to societal or environmental goals or strategies intended to generate a positive & measurable societal or environmental impact, alongside financial returns.

Advisory and Integration *continued*

Structured credit analysis

Our securitised credit universe is fixed-income investments created by pooling together underlying assets and issuing securities backed by those assets. It includes Asset-Backed Securities (ABS), Mortgage-Backed Securities (MBS), Commercial mortgage-backed securities (CMBS) and Collateralized Loan Obligations (CLO).

In order to assess risk adjusted return, factors that impact cashflows such as borrower health (ability and willingness to pay), value of collateral we can recover against, and alignment of interest, are core components in the calculations we make.

The consideration and integration of ESG factors into our cashflow analysis incorporates the assessment of the quality of the collateral and the sustainability of the cash flows. We also assess the impact of the lending and the asset footprint on the environment.

Insurance-Linked Securities

Insurance Linked Securities (ILS) are primarily linked to the (re-) insurance of natural catastrophe, mortality and pandemic risks, and extreme events that can cause severe disruption to individuals' lives and the communities they live in. Our approach to integrating sustainability risk considerations focuses on the covered risks, sponsors of and structures used for such transactions.

By nature, certain types of ILS products, such as catastrophe bonds, in themselves are already exposed to social and environmental trends such as climate change. We follow and examine the trends we believe will emerge over the investment horizon and consider their potential impact on returns. For example, we adjust natural catastrophe models to reflect our own views on the frequency and severity of extreme weather events. In non-weather related ILS we seek to avoid investing in risks that may contain ethical or social concerns (for example where investment returns are dependent on the outcome of insurance lottery jackpots or life settlements).

Depending on the type of sponsor, we consider different sustainability risks to help us assess the quality of the sponsor and to ensure that stakeholders' interests are aligned.

Integration case study – Transparency and disclosure standards for Insurance Linked Securities

One of the main engagement objectives for the ILS team is to increase transparency in transactions to help differentiate between companies when making investment decisions. This is particularly important for transaction sponsors who may be more removed from transaction risks and beneficiaries, including in reinsurance or retrocession transactions – where an insurance company passes on part or all of the risk it has assumed to another insurance company. Before the start of this engagement programme, there was limited to no ESG disclosure in ILS transactions.

The ILS team at Schroders co-established an ILS ESG working group initially consisting of Zurich-based asset managers for which ESG is of strategic relevance. The main objective was to analyse re-insurance companies' capital flows with respect to covered risks and ultimate beneficiaries. This working group identified common ESG data needs in the ILS industry, with the aim of establishing a commonly accepted reporting standard and achieving better ESG data transparency. The working group developed a questionnaire to enhance ESG disclosure.

The group has made good progress since inception in 2022: we have noted increased market awareness and improvements in ESG data and disclosure for selected ILS transactions. In 2023, the Zurich ILS Working Group was awarded 'ESG Initiative of the Year' by Trading Risk for the group's effort to develop an industry wide accepted ESG reporting framework.

We also received strong interest from other non-Zurich based ILS managers to join this initiative, creating positive momentum towards better transparency. As a result of the expansion of participants, the group was renamed to the ILS ESG Transparency Initiative in 2023. The extended group now represents about a third of the ILS market share – roughly double the market share of the initial participants.

Since the formation of the working group, we have seen a significant increase in disclosure in ESG questionnaires for ILS transactions. We acknowledge this is a journey of improved transparency that will take years of collaborative engagement with the stakeholders involved in ILS transactions. We look forward to future collaboration with ILS market participants on developing a common standard on disclosure and transparency.

Advisory and Integration *continued*

Real estate

Real estate investing on behalf of our clients carries the responsibility to understand and manage environmental, social and economic impacts (both positive and negative), to deliver resilient investment returns for the long term and manage exposure to material risks. We believe that understanding and improving the impacts of real estate investment sits alongside our priority to maximise returns for our clients in a manner consistent with our funds' risk profiles.

We also believe that these issues and their impacts is integral to our investment process and may be applied to all aspects of real estate investment across the lifecycle stages of acquisition and ownership, asset management, property management and operation (which may be provided by third parties), renovation and construction. For example, we conduct pre-acquisition ESG due diligence to understand the sustainability credentials and risks and to reflect into our investment decisions. Post-acquisition, sustainability objectives are established for each asset. Implementation follows throughout the asset holding period and reviews are regularly conducted (, for example typically twice a year at portfolio level).

The environmental factors of most importance to us include energy, carbon and water use and efficiency, as well as waste management and disposal, pollution, physical climate risks and biodiversity. From a social perspective we are interested in optimising the tenant experience, fostering community relationships and contributing to local prosperity. We are also focused on good governance of our assets and portfolios including for example compliance with building regulations, oversight of third-party property managers where they may be responsible for the daily support to a building and ensuring product level reporting meets regulation and industry best practice. oversight of third-party property managers where they may be responsible for the daily support to a building and ensuring product level reporting meets regulation and industry best practice.

Infrastructure finance

Schroders makes infrastructure investments in both public and private markets via a range of investment teams. The long-term nature of this asset class makes understanding and managing sustainability risk issues particularly critical. As investors on behalf of our clients who generally look to hold to maturity, sustainability risk analysis is fundamental to the investment decisions we make. These considerations are both a driver of infrastructure growth (e.g. the energy transition shift to low carbon transport) and potential sources of risk (e.g. poor governance can lead to mismanagement of infrastructure assets with real human costs as well as financial implications).

Specifically in respect of renewable infrastructure and energy transition equity investments, we may consider potential sustainability risks such as the environment, workplace standards, health and safety practices, environmental management, supply chain, community engagement and employment (where possible). Sustainability risks are considered prior to investment as part of early-stage screening, detailed due diligence and the Investment Committee's decision-making, and managed post-acquisition in accordance with our wider asset management practices.

Sustainability risk considerations also form a core part of our investment process in our infrastructure debt business and we have developed a comprehensive toolbox to perform a qualitative and quantitative risk assessment of transactions contemplated. Our selection phase includes a preliminary ESG assessment of the transaction and then a thorough review of the due-diligence package and report findings. These feed into an ESG scorecard and inform the sustainability opinion presented to the Investment Committee. The subsequent execution and ongoing monitoring phase includes a quarterly report on any noticeable ESG-related issue and the collection of ESG data points on an annual basis to monitor ESG performance at portfolio level. Where relevant and appropriate, we also engage with our counterparties.

Integration case study – Schroders Capital Greencoat

We implement rigorous ESG assessment at due diligence during acquisition process. Part of the ESG due diligence is the risk assessment of the asset against climate change and the identification of potential mitigation measures.

During a recent acquisition, we assessed the asset with our preferred climate risk assessment platform under different climate scenarios and timeframes. The results showed high risk in coastal inundation historically and throughout the century due to the topography, whilst the exposure to all other hazards was minimal. (Hazards include coastal and riverine flooding, heat stress, precipitation drought, wind and wildfire). These results were aligned with the seller's flood risk and climate risk assessment and after extensive discussion with technical advisors we agreed on the seller's suggested mitigation measures.

Specifically, the elevation of buildings by 30cm above ground level was required and similarly sensitive equipment within the DNO substation was raised a minimum of 1m above ground level. These design amendments aim to provide flood defence against extreme weather events during the asset's lifetime.

Approach to funds managed by third parties

Some of our investment teams, including within our Wealth and Solutions businesses, may invest via third-party managers. Collectively, these teams are known as the Multi-Manager group. Our Multi-Manager investment teams conduct extensive due diligence on third party managers and carry out regular monitoring of both the portfolios that such third parties are responsible for managing as well as the systems and controls that managers have in place.

To integrate sustainability risk considerations into our manager selection process, we first examine the manager at firm-level, where we aim to understand if the consideration of sustainability risk is a central part of the firm's ethos and investment and corporate culture. Secondly, at the investment strategy level, we assess the extent to which the manager integrates sustainability risk considerations within their own investment processes. We do this using ESG questionnaires which have the same overarching objective of seeking to understand external managers' sustainability approach.

Taken together, these questionnaires contribute to our research and analysis on the suitability of the external fund manager for inclusion in our portfolios.

Manager selection teams at Schroders are an additional step away from asset or security selection. Our active ownership approach therefore is focused on engaging with our external managers to increase the robustness of their own sustainability risk integration and their active ownership practices.

Commodities

Our commodities teams invest in both commodity futures and commodity producers (equities). The latter is covered under the Company Analysis section above. Sustainability risks can influence commodity prices and therefore we integrate these considerations into our forecasts for commodity market returns. We use our proprietary tools (e.g. CONTEXT™) as well as our own understanding of specific commodity markets, to identify key sustainability risks that may impact either the supply or demand of the commodities in which we trade. For example, we have identified that unsustainable sourcing of nickel supply from Indonesia presents sustainability risks and yet nickel is an important input into electric vehicles, which are integral to the energy transition.

Case study – Schroders Manager research

The fund of funds team serves a variety of internal clients with their requirements around third party fund allocation. We recognise the challenges in integrating ESG directly into the externally managed strategies given the indirect nature of our investment. Our approach is to focus on assessing the firm as well as the strategy that we are researching, through the use of ESG surveys. We are a part of Schroders' Multi Manager Working Group, which has developed a Firm ESG Survey and a Strategy ESG Survey when assessing external managers. This joint approach gives us greater leverage as a firm for engagement purposes and it enables the sharing of best practice and knowledge between working group members.

One of our clients has implemented a responsible investment policy whereby for the managers used in their portfolios they have mandated us to use only those with an ESG strategy score of Progressive or Leading and having a firm ESG score of three or higher, according to the two surveys referenced above.

Upon reviewing the strategy survey results, we identified that a long-only credit strategy within the client's portfolio had a strategy score of 'Basic', which did not meet the new requirements of the client's policy. After engaging with the manager throughout 2023, it was apparent that the manager did not have any intention to improve the ESG integration of the strategy. The manager had taken a business decision to launch dedicated ESG strategies, rather than integrate ESG into existing products. We therefore decided to commence a search for a replacement product.

Having conducted a search on the peer group, we were able to identify a strategy which scored as Leading on the strategy survey. This, combined with a firm score of three, meant that we recommended the fund to be included in the client's portfolio.

Differences across geographies

Our stewardship activities, including integration, rely on the input of analysts who can provide the regional context for each case and help us understand the different pressures companies face. The process of the integration does not vary across different geographies. What differs is the materiality of ESG factors, the thresholds before we engage, and the length of time before we can reasonably expect a change when we engage.

For example, physical risk by climate change is more relevant in regions exposed to extreme weather events. Or we will normally place a stronger emphasis on corporate governance issues when we invest in emerging markets and other jurisdictions where standards are still evolving and companies' performances in that area can be highly variable.

Companies in developed markets usually have more rigorous listing standards, so investor expectations are higher, for example around auditor and remuneration disclosure or board composition, diversity and independence. Emerging markets are subject to more constraints, which sometimes reflect cultural issues, and in some markets our priorities focus more on achieving a minimum level of disclosure.

More generally, regional differences play a role in determining the context in which a company operates, that is, to identify its peers, consider regional regulation, and compare to the regional best practice. It will not change the integration process.

Advisory and Integration *continued*

Integration case study – Asian equities

We are long-term "bottom-up" investors. We have a clear focus on long-term return on investment capital, utilising a Shareholder Return Classification framework to judge the relative attraction of different businesses. This longstanding process has been back tested with market data and we believe offers superior investment returns in our clients' portfolios over many years. ESG analysis is entirely complementary to our ROIC analysis. To that end, we have enhanced the discipline of our ESG analysis since 2020, through documenting identified material ESG risks and opportunities from a stakeholder lens (using CONTEXT™). While much of our analysis will be qualitative given the quality of ESG disclosure in our markets, we draw on external and internal measures of sustainability such as SustainEx™, MSCI, and other third part data providers.

As managers of large pools of capital, we believe that we have a responsibility to our investors and all stakeholders to exercise our ownership rights and obligations and encourage sustainable business practices. Often the quality of the dialogue we have during engagement with a company on 'E' and 'S' targets can provide us with invaluable insight into the 'G' and management capability of a company. More generally we feel we have a role to play in encouraging companies to improve disclosure and transparency on their ESG reporting, in line with global best practice.

Climate change is a priority theme for us given its potential to present material risks and opportunities. We engaged with a laser equipment manufacturer in 2023 following our initial outreach on Climate Change in 2022. In 2022, we had encouraged the company to begin disclosing fundamental ESG metrics such as emissions, and provided them with sample peer reports. They have met the request by publishing their first ESG report last year. Following that, we continue our engagement, first showing appreciation for the effort they put in to advance ESG disclosure, and then subsequently encouraged further action such as setting an emissions reduction target. Going forward, we will continue to monitor progress and work with the company on its ESG journey.

Integration case study – Japanese equities

We have been signatories to the Japanese Stewardship Code since 2014. The team has established a Stewardship Committee which is responsible for engagement with investee companies on ESG issues, with the aim of encouraging best practice and influencing change over time.

An engagement focus list is maintained and it currently comprises 19 companies with engagement topics such as climate change, board diversity, and corporate governance. Companies are identified as engagement targets based on several factors including recommendations from fund managers and analysts, our holding size, and potential effectiveness of engagement. Companies on the focus list are engaged with on a periodical basis until the engagement objective is achieved. At that point, the company is then removed from the focus list. Each engagement is attended by the research analyst responsible for that stock alongside a member of the Stewardship Committee. We also consult and collaborate with the central Sustainable Investment team when it is needed. We log our engagements in the firm's new ActiveIQ engagement database and monitor progress through predetermined milestones.

In 2023, we engaged with 19 companies including Toyota Industries on a variety of ESG-related issues including climate change, board diversity, and cross shareholding. Our engagement in 2023 focussed on cross-shareholdings in Toyota Group. Compared to other Toyota group companies, we note that Toyota Industries' action has been rather slow. We suggested that the company should disclose a capital allocation policy which the Tokyo Stock Exchange has requested to all of the listed companies in a timely manner. According to the company, there is ongoing discussion about this, and we expect that the company will announce it in the near future. We also plan to continue our engagement with the company on climate change and gender diversity.

Incorporating client feedback

Our client base and assets under management

On average over the course of 2023, across our business, about 60% of our assets under management are managed on behalf of institutional clients, and about 40% are managed on behalf of retail clients, including Wealth clients. The regions with a relatively larger retail investor base are Europe (ex-UK) and the UK, where a majority of our Wealth assets are managed. By contrast, in the Americas a higher proportion (approximately three quarters) are managed on behalf of institutional clients. For more information on our AUM and client base, see pages 6 and 7 in our Annual Results 2023.

Most Schroders' investments, across all regions and client types, are managed with a long-term perspective to reflect our culture and principles. We believe that the best way to deliver excellent investment performance over the long term is to invest in companies with fundamentally sound and sustainable business models that have strong long-term growth prospects. However, we do offer a small number of products to meet our clients' needs that are based around shorter-term trading strategies.

The investment horizon over which we aim to deliver for our clients varies across products. Broadly, most of our fixed income and equity funds have 3-5 year minimum performance periods, whereas for multi-asset funds this tends to be either 5-7 years or 7-10 years. We define the minimum performance period as the shortest time frame over which we anticipate delivery of the performance objective. These time periods are set with reference to the length of a 'typical' market cycle for the respective asset classes. Certain bespoke products have more customised time periods for assessment and cannot be meaningfully summarised into a single figure.

AUM by region (£ billion)

UK	**366.0**
Europe, Middle East and Africa	**107.3**
Asia Pacific	**186.1**
Americas	**91.2**

Includes AUM from joint ventures and associates.

Understanding our clients' needs

As investors of our clients' capital, our business is dependent on being able to identify, understand, and meet the ongoing and evolving needs of our clients. We work hard to anticipate the needs of our clients so we can provide products and solutions that will support them achieve both their financial and sustainability objectives.

In addition to feedback we collect on an ad hoc basis through talking to our clients, every year:
- Global Investor Study to canvass retail investors' views
- Institutional Investor Study focusing on institutional clients and their priorities
- The UK Adviser Survey to examine views, concerns, and priorities of financial advisers in the UK and their clients

We explore each and their findings below.

Global Investor Study

The Global Investor Study focuses on retail investors around the world and their views on issues around three broad themes: investing, sustainability and retirement. Within the sustainability theme we explore their attitudes towards sustainable investing altogether, what may motivate them to invest, and what they are looking for in a sustainable fund.

In 2023, we surveyed over 23,000 people who invest from 33 locations around the globe, spanning across Europe, Asia and the Americas. The detailed survey results can be found here.

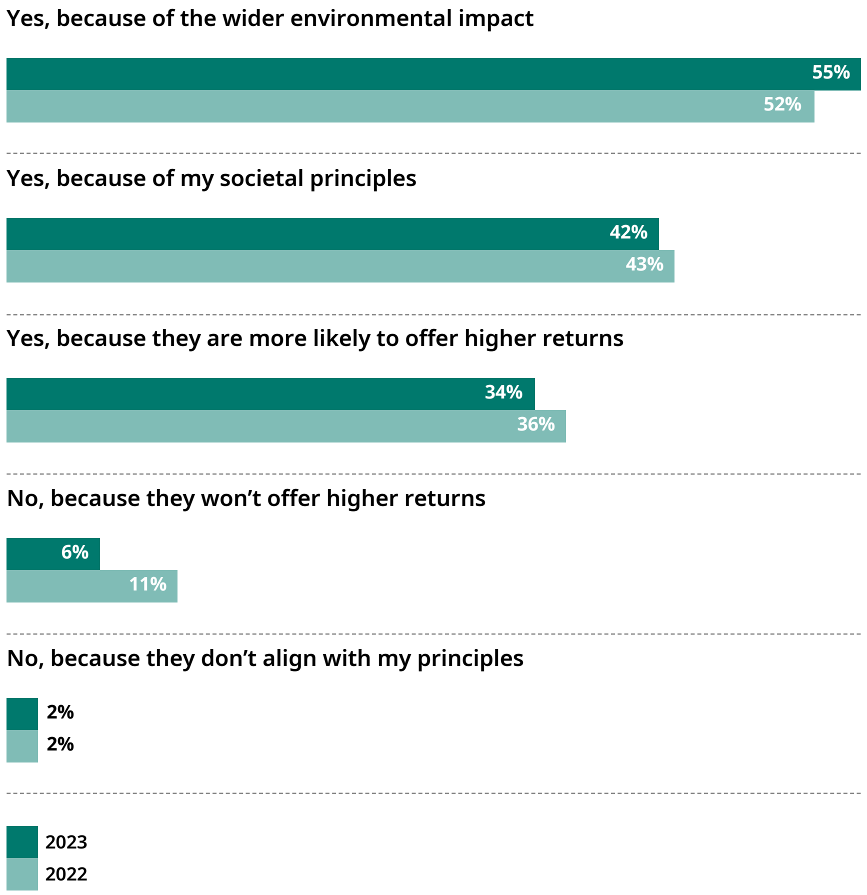
On sustainability, it was found:
- Retail investors continue to be drawn to sustainable funds because of environmental impacts (55%), societal principles (42%) and in part as they believe they are more likely to offer higher returns (34%).
- A third of respondents said they would invest more if the providers of sustainable investments self-certified that their sustainable investments are sustainable.
- 50% of respondents noted more education about sustainable investment would lead them to increase their holdings in sustainable assets.
- The most-mentioned barrier (54%) to sustainable investment is foundational: people want data to show their investment strategy is having an impact.
- Almost all respondents have heard of active ownership, and as their investment knowledge rises, they better understand the concept.
- It is widely believed that working with businesses to operate sustainably leads to greater value in the future (71%).

Climate, natural capital and human capital management are felt to be the most important issues for asset managers to engage with companies on. This was mirrored in the investments retail investors want to avoid, which high emitting companies ranking first, followed by tobacco producers and companies with poor workforce practices.

Incorporating client feedback *continued*

People continue to be drawn to sustainable funds

Whether people are attracted to sustainable funds and why

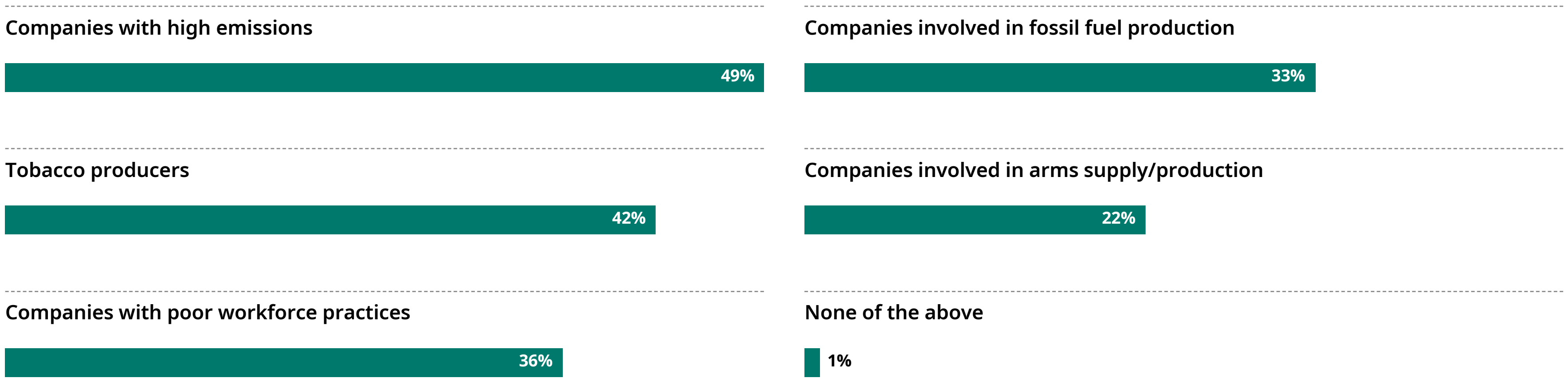


People believe that working with businesses to operate sustainably leads to greater value in the future

Whether encouraging companies to act sustainably helps the generate long-term value

Almost everyone has an area they want their investments to avoid, high emissions top of the list

The areas people would prefer their investments avoided



Schroders institutional investor study

Schroders annual Institutional Investor Study analyses the investment perspectives of global institutional investors on the investment landscape, sustainability and private assets. Similar to the Global Investor Study, the study covers three broad themes: investment outlook, sustainability and private assets. Within the sustainability theme, we gather evidence on institutional investors' attitudes towards sustainable investing and Active Ownership such as plans for future allocation, their preferred approaches to take, and the challenges they face.

The respondents represent a spectrum of institutions, including corporate and public pension plans (59%), insurance companies (25%), endowments and foundations (12%) and official institutions (4%), collectively responsible for US$34.7 trillion in assets. The research was carried out via an extensive global survey during June 2023. The 770 institutional respondents were spilt as follows: 200 North America, 345 in Europe (including UK and South Africa), 195 in Asia Pacific (including Israel) and 30 in Latin America. Respondents are from 36 different locations.

The detailed survey results can be found here.

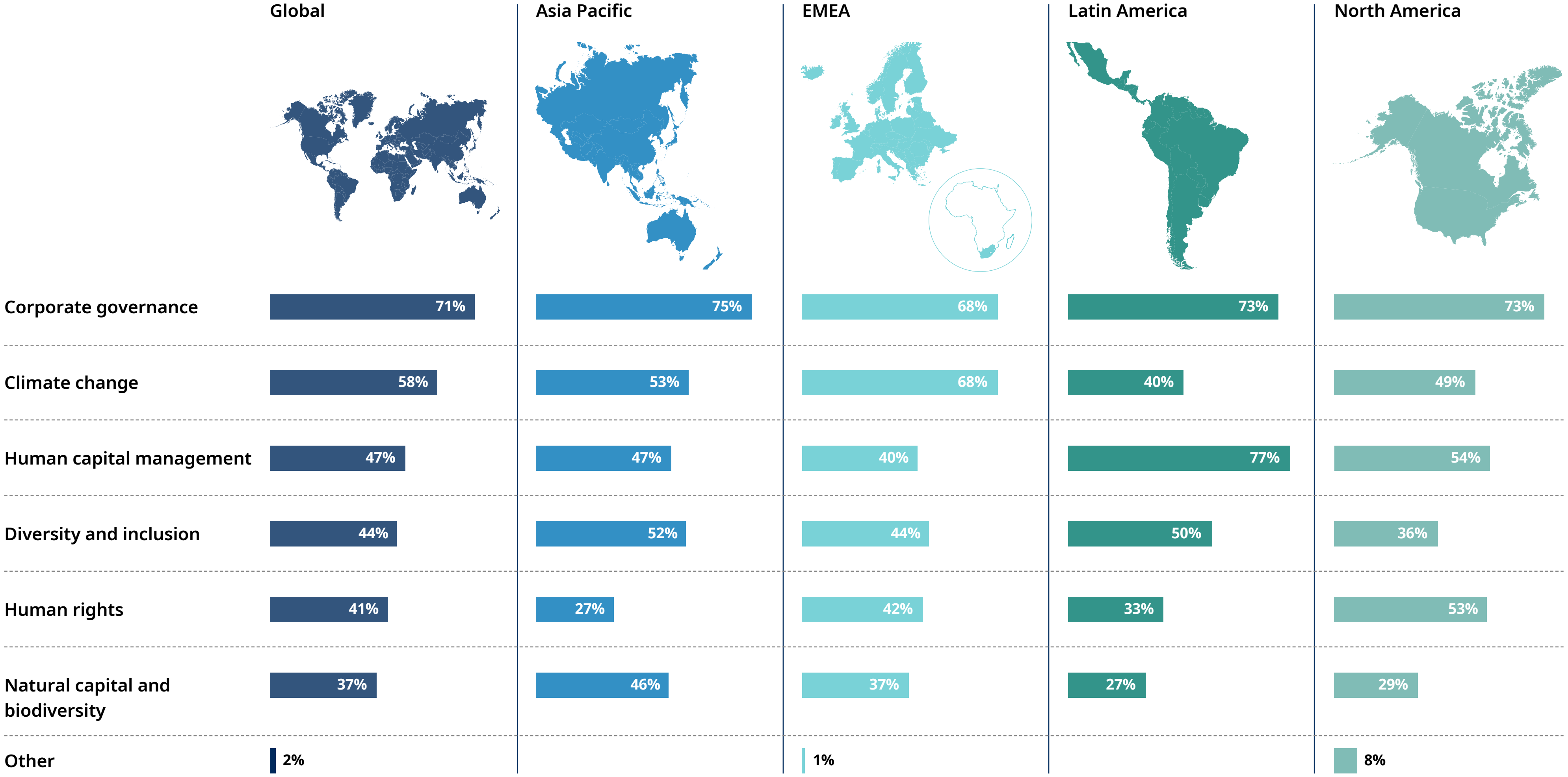
The sustainability section of the study highlighted some key findings on stewardship from our institutional clients.

- Corporate governance was highlighted as the top engagement theme for the second year in a row.
- Climate continues to be a key priority for institutional investors, ranking second globally followed by human capital management.
- Institutional investors' also want to see real world investment outcomes through active ownership. When asked about key features of an engagement strategy, the top results were tangible evidence of real-world outcomes (56%) and evidence of improved financial performance (44%).

Importance of individual active ownership themes varies across regions

Q. Which of the following issues are the most important to you in terms of active ownership?

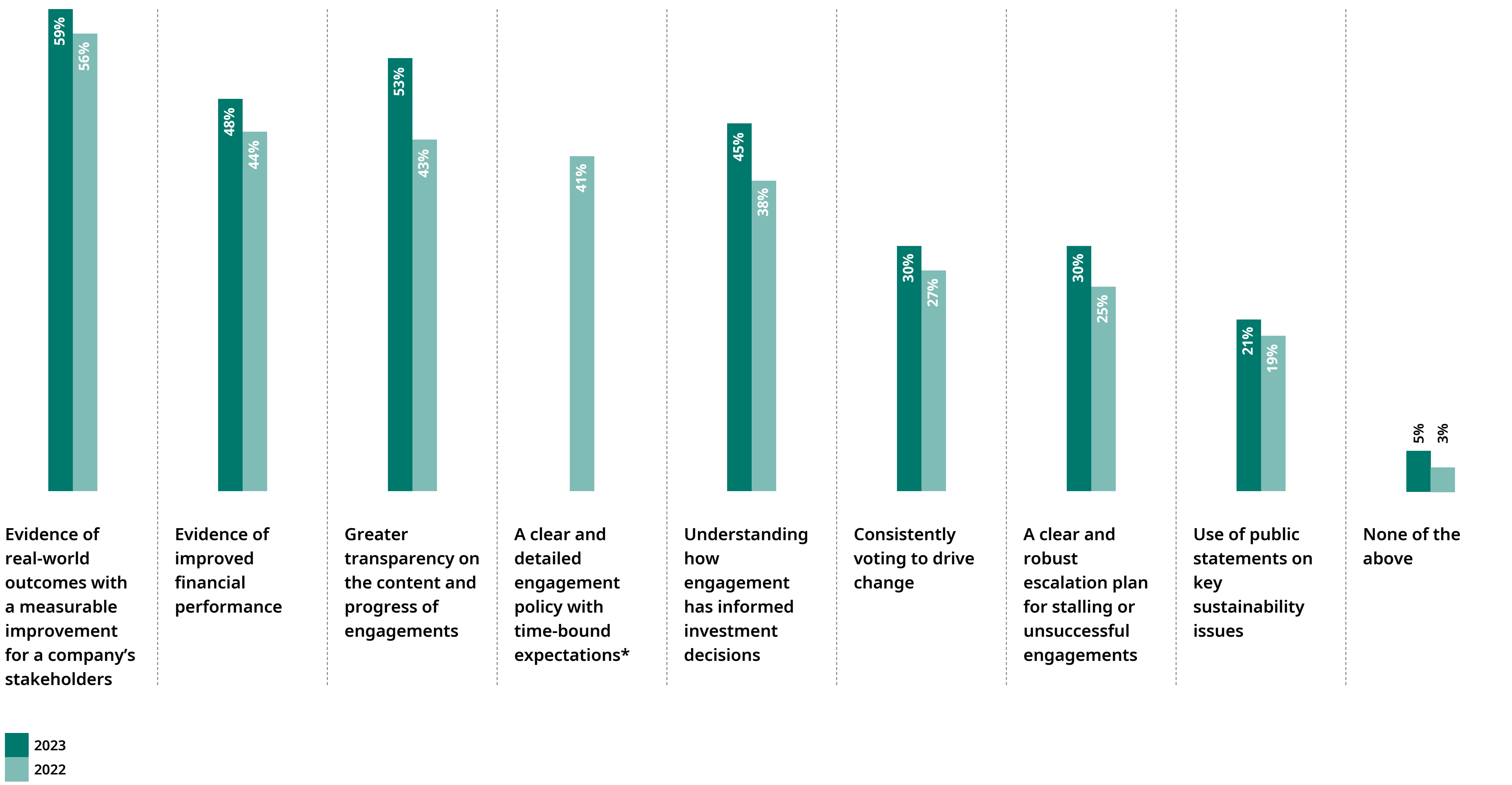
% Rank 1 + 2 + 3



Source: Schroders Institutional investor Study 2023. Note: respondents rank their top three answers.

Incorporating client feedback *continued*

Q. What features of an engagement strategy are most important to you?



Source: Schroders Institutional investor Study 2023.
Note: respondents rank their top three answers.
* This was not asked in previous years

UK Advisor Survey

The Schroders UK Financial Adviser Survey series covers a wide variety of issues from the current challenges facing financial advisers, to the way their strategic thinking is developing and the direction of travel for the industry.

The survey provides evidence that advisers and their clients are now more aware of the link between sustainability and investing and are increasingly looking to ensure that their views on sustainability are reflected in portfolios.

76% of advisers now specifically consider sustainability and ESG factors as part of their fund selection process, compared to 43% in 2019. 23% of Independent Financial Advisors (IFAs) report that more than a quarter of their clients now ask to incorporate ESG factors when investing. This is up sharply from 9% in 2019. However, it remains below the 29% figure reported in 2021.

It's possible that a combination of difficult market conditions and the increasing strain on household finances may have pushed sustainability back a little in the list of the concerns that advisers' clients have relating to their investments.

Advisers, on balance, are becoming more confident in talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing. 45% rate their confidence level as high compared to 35% last year. However, many advisers want to improve their understanding of sustainable investing further with 45% saying they would like more educational support in this area.

Incorporating client feedback *continued*

Incorporating client feedback

The combination of these surveys reflects our diverse client base and helps us to develop products to meet investors' evolving needs, recognising that different clients have difference perspectives and priorities and we must necessarily focus on the most common, material issues raised. We are actively responding to the feedback that we receive through our survey, and through the ongoing dialogue that we have with our clients. We reflect on and evaluate the feedback we receive, and below we list how we have acted to address feedback points. We believe that these methods have been effective in promoting transparency in our approach.

Some of our key headlines are as follows:

Feedback point	Our response
Demand for sustainable investment products	We have continued to enhance the range of products within our Sustainable and Impact investment range, with a particular focus on building thematic and impact investment opportunities.
Self-Certification	In 2023 we continued to expand our Article 8 and 9 SFDR fund range. A number of these funds carry ESG country labels such as the French "Label ISR" and "Greenfin", Belgian "Towards Sustainability" label and German "FNG" label. We are also supportive of the FCA's Sustainability Disclosure Regulation regime and will be actively seeking to apply labels to our funds in 2024.
Need for education	We launched our SustainEducation programme in Autumn 2023 which comprised of a range of introductory sustainability modules, aimed at financial intermediaries. We continue to educate our institutional investor clients through our School of Sustainability and through the ongoing support that we provide. This includes content on decarbonisation, which has been heavily requested by our clients recently.
Reporting and transparency	We have increased the number of metrics available to clients to demonstrate the sustainability outcomes their portfolios generate, drawing primarily on our proprietary set of ESG models. Enhancements have also been made to our reporting platform, Seismic.
Active ownership	We ran a public campaign to highlight our active ownership activities and have held numerous client roundtables on stewardship. We have also provided educational material through initiatives like SustainEducation and ran a webinar to our European clients on our Active Ownership approach and 2023 voting highlights. We solicited feedback from clients on our Engagement Blueprint through client roundtables and one-to-one correspondence and discussion. This helps us to understand their engagement priorities and incorporate their feedback, where appropriate, in our annual updates to the document. We also provided strategic advice on prioritising companies for engagement and developing engagement strategies, and held meetings to discuss our observations on proxy season with various clients.
Climate	Our climate work continues to gather pace, with new decarbonisation pathway assessment methods and frameworks to assess alignment being developed across multiple asset classes; through engaging for a second year with over 600 of our investees on their climate activities; and, by developing our Climate Toolkit and adding climate-specific questions to our ESG accreditation framework. We continue to detail our approach to climate through our annual Climate Report.
Natural capital and biodiversity	We continue to build our understanding of our impacts and dependencies on natural capital through the evolution of our proprietary models, in addition to undertaking thematic research pieces. We undertook almost 400 engagements on the topic of Biodiversity, of which 293 were specifically focussed on Deforestation. We held thematic deep dive sessions with a focus on the changing nature-related legislation and disclosure landscape, and recorded video materials to explain our approach to biodiversity to clients.
Social themes	We published a major piece of research alongside the Oxford Rethinking Performance Institute at Said Business School and in partnership with California Public Employees' Retirement System (CalPERS) which explored a novel approach to human capital management by evaluating the systems deployed to optimize the performance of a company's workforce. We also published joint research with Cornell University on the social implications of physical climate risk on apparel supply chain workers. We also ran clients' holdings through our prioritisation tools to help assess their holdings' exposure to social risk factors.
Governance	We provided many updates on the proxy voting season to our clients in one-to-one meetings. We considered their feedback when we updated our approach to voting for the 2024 proxy voting season. We participated in a meeting of leading US asset-owners organised by one of our US asset-owner clients to discuss the proxy season, in particular, focusing on the US and ESG resolutions. While their approach was generally similar to ours, their insights were particularly useful as we continue to refine our approach on voting and engagement in the US. We also participated in a meeting called by a group of UK asset-owners, some of whom are our clients, about their expectations on voting, in particular in relating to climate change. We listened to their views and continue to discuss and engage with our clients on this and other topics relating to voting, governance and engagement. In ongoing discussions with clients and prospective clients we review their approaches to voting and sometimes we adopt their views and vice-versa.

Incorporating client feedback *continued*

Communicating activities and outcomes

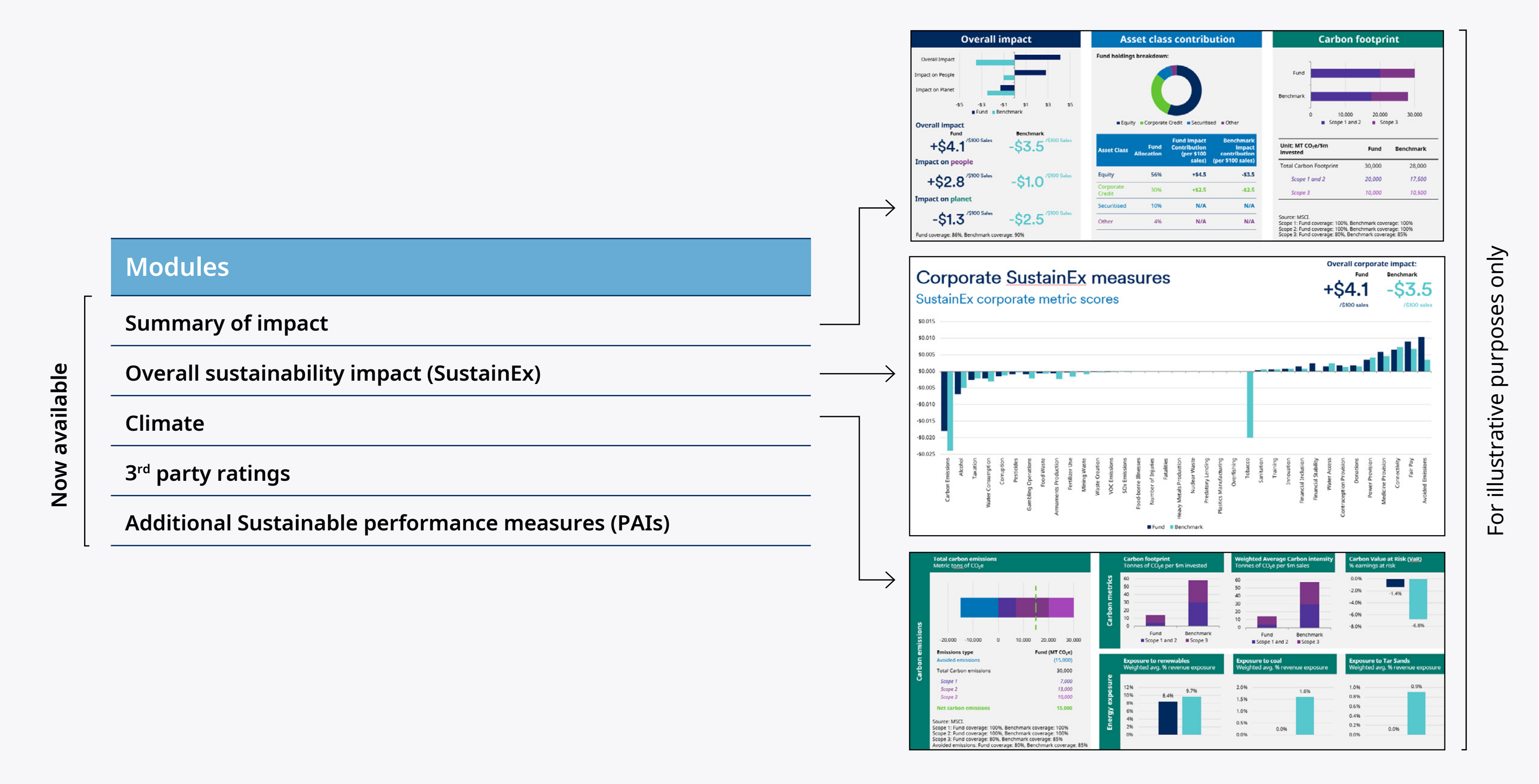
The investment we have made in the development of proprietary tools and internal processes serves exactly the purpose of providing more transparency. Tools such as SustainEx™ enrich our research process but also enable us to estimate the effect in "costs" and "benefits" an investment they have on society and the environment.

During 2023 we focused on meeting regulatory reporting requirements, and establishing the necessary infrastructure to help us continue to provide greater transparency to our clients. We introduced:

- Product-level TCFD reporting for funds and client mandates where portfolio management takes place in the UK. This included an Implied Temperature Rise and Climate Value at Risk (CvaR) analysis. We also introduced a time series for our carbon emissions client reporting.
- We continue to enhance our standardised portfolio level reporting for our public assets investment teams, introducing time series data in 2023.

Product-level ESG reporting

Available across listed equity, fixed income and multi-asset portfolios*



Source: Schroders. For illustrative purposes only.

*Available where a portfolio is run on our investment platform.

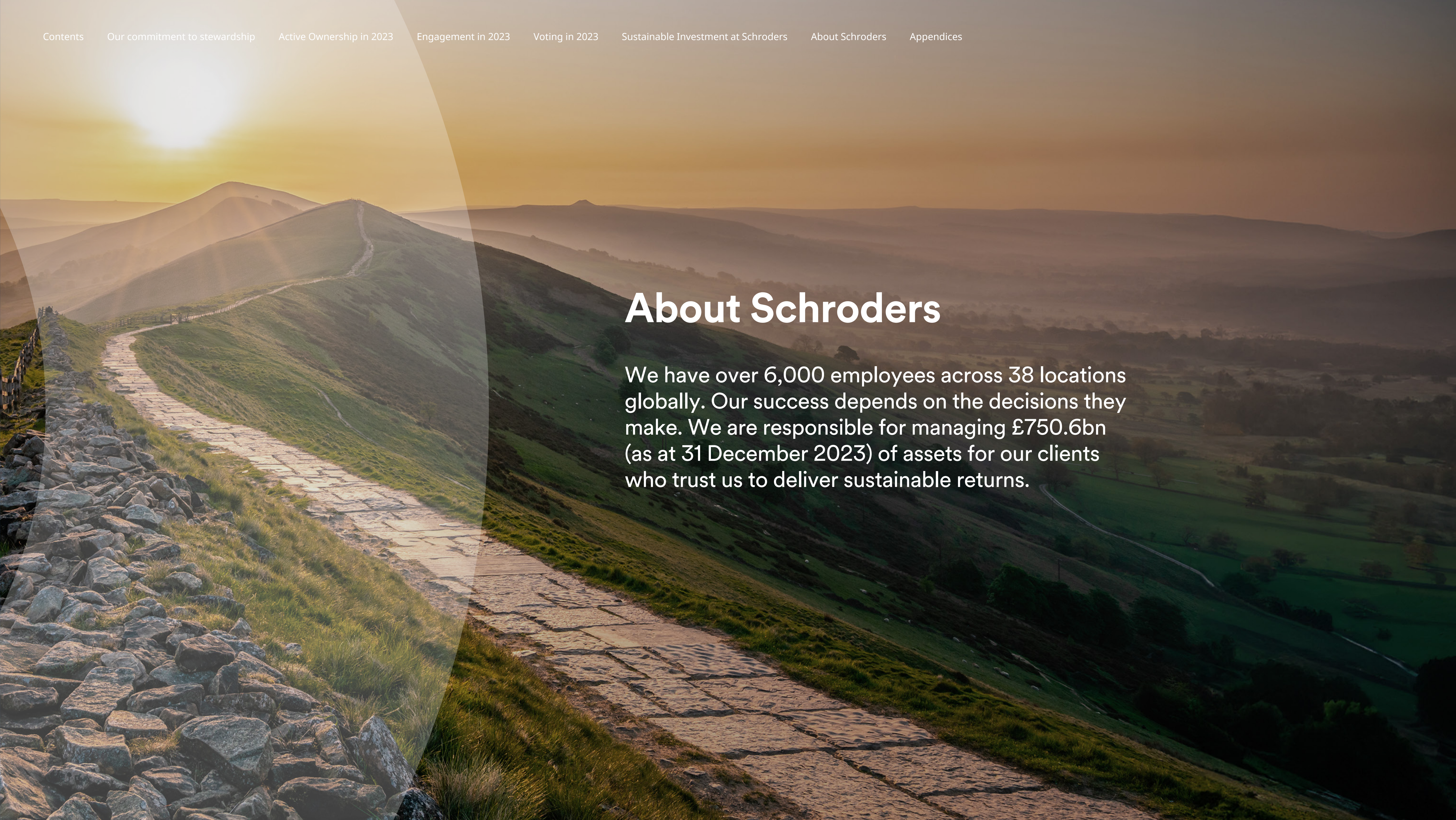
Incorporating client feedback *continued*

We are also very transparent in regard to our stewardship activities. We disclose these in our Sustainable Investment Reports. Past reports can be accessed here.

The reports include information such as:
- A full list of companies engaged with, and which stakeholder group the engagement related to
- Breakdown of engagement by tier to distinguish between who and how an engagement was conducted
- Overall statistics on the progress of historic engagement by year
- Case studies of regional engagement and proxy voting activity
- Summary statistics on our voting activity globally
- Summaries of thematic research

In addition to our public disclosures, we provide more tailored reporting to institutional clients with segregated mandates. These reports include the voting activity for each mandate and detailed information on the progress of company engagements that are ongoing. Going forward, we will be looking to develop fund reporting to include information of fund-level stewardship activities.

In 2023, we rolled out our internal Sustainability Curriculum which includes modules focused on Active Ownership. Our Sustainability Curriculum complements the internal Sales Excellence programme we ran in 2022 for over 300 of our salespeople.



About Schroders

We have over 6,000 employees across 38 locations globally. Our success depends on the decisions they make. We are responsible for managing £750.6bn (as at 31 December 2023) of assets for our clients who trust us to deliver sustainable returns.

Our strategy

Our current strategy has been in progress for more than seven years. It was founded on our understanding of the changing needs of clients and wider changes triggered by macroeconomic and industry trends. We have deliberately shifted our business to capture these opportunities.

Build closer relationships with clients

Close connections with clients enable us to provide more relevant and tailored investment solutions. They also promote longer client relationships. We are growing our wealth management business across the spectrum of client needs.

We are also expanding our role as a provider of tailored solutions to pension and insurance clients, and other owners of long-term assets.

Answering increasing client demand for holistic advice helps us address downward pressure on fees.

Expand our private markets business

By building a more comprehensive set of capabilities across all private asset classes – infrastructure, private debt, private equity and real estate – we can now service clients who are under-allocated to private markets and who seek exposure. The ongoing decline in public markets relative to their private counterparts supports this element of our strategy.

Future innovations such as tokenisation will enable us to offer these assets to a wider range of clients.

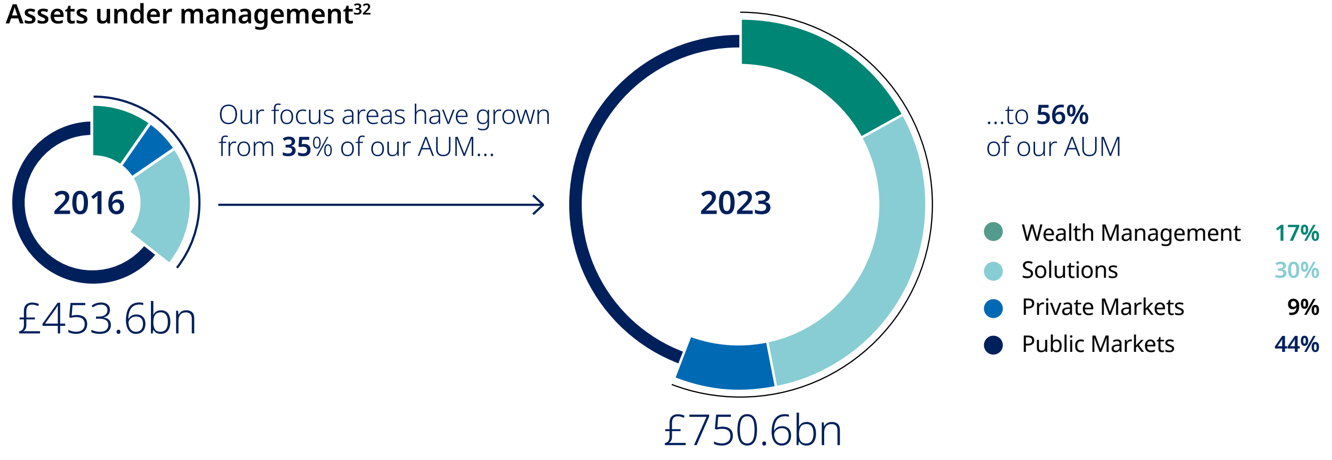
Grow asset management business

Identifying businesses with the greatest potential for excess returns from future growth remains a key client need. We have built a core set of global and differentiated products that are actively managed. This helps us meet growing demand for thematic, sustainable solutions, and the characteristics of these products shelter us from some pricing pressures. Our strategic partnerships give us access to some of the world's largest and most promising markets such as the US, China and India.

Lead in sustainability

Leadership in sustainability is central to our ambition to deliver for stakeholders over the long term.

Assets under management[32]



32 Including joint ventures and associates. https://mybrand.schroders.com/m/4a9da70dab78ad39/original/schroders-annual-report-and-accounts-2023.pdf/

Our business

We have two business segments, Asset and Wealth Management. The breadth of capabilities within these segments gives us scale and reach to understand and serve our clients' complex needs, with actively managed investment solutions across public and private markets.

Asset management: Active investment management across public and private markets through mutual funds and institutional mandates

Public markets: Our investment expertise across publicly listed asset classes and markets means we can meet clients' investment needs at different phases of the economic and market cycle. Our mutual funds deliver a wide range of investment strategies that are distributed to retail clients through intermediaries and investment platforms. Segregated accounts support institutional clients by enabling us to provide more tailored investment strategies across asset classes.

Private markets: Private markets offer investors the opportunity to access returns from assets that are not otherwise available through public markets. Investment opportunities across private equity, private debt, real estate and infrastructure have historically been available only to institutional investors and ultra-highnet-worth clients. Innovations we are making in new collective investment vehicles mean they are increasingly available to a wider range of clients.

Solutions: Our solutions business helps institutional clients answer the most complex investment challenges at scale with strategic advice, an advanced investment process and integrated implementation model. Clients benefit from access to our investment expertise across public and private markets.

Associates and joint ventures: We partner with leading firms, including Bank of Communications in China and Axis in India, to access these high-growth markets.

Wealth management: Investment, advisory and platform services across the wealth spectrum.

Our wealth management businesses, Cazenove Capital in the UK and Schroders Wealth Management internationally, provide investment and advisory services to highand ultra-high-net-worth clients. Benchmark Capital offers financial planning and advice to a broad range of clients and provides an investment platform used by advisors across the UK to help them meet the needs of their clients.

Associates and joint ventures: Our joint venture with Lloyds Banking Group, Schroders Personal Wealth, offers financial advice to affluent clients.

Our purpose

Our purpose is to provide excellent investment performance to clients through active management. By serving clients, we serve wider society. Channelling capital into sustainable and durable businesses accelerates positive change in the world. Funding the future is a privilege; we use it wisely and responsibly.

Our commitment to a net zero pathway

We have made a number of climate and nature-related commitments to support achieving net zero by 2050, or sooner. These span both the investments we manage and our own operations. These commitments build on years of research, risk analysis, proprietary tool development and action to understand and manage the risks and transition opportunities posed by climate change and biodiversity loss.

We based our Climate Transition Action Plan, published in 2021, on encouraging and supporting that transition in portfolio companies. Engagement is at the heart of that strategy, and the volume of climate-focused engagement we undertake across Schroders has risen accordingly in recent years. That strategy will only work if our engagement efforts support robust and meaningful action by portfolio companies. The rising volume of climate-focused engagements across Schroders provides a foundation for deeper analysis of the relationship between those engagement efforts and their effects. We have developed ActiveIQ – a proprietary database used across many of Schroders' investment teams – to track engagements with investee companies and management teams on a range of sustainability related topics, including climate change. Since 2021, we have logged engagements with more than 1,000 companies on climate topics, primarily emission reduction goals and transition plans. That data set provides a basis to compare the changes we have seen among engaged companies with those of companies we did not engage with.

Our culture and values

Our values

Excellence Our commitment to excellence fuels our drive to create value for all stakeholders and a thriving long-term future for our business.

Innovation and teamwork We disrupt the status quo, anticipate future opportunities, and embrace the transformative power of teamwork. We aim to deliver value by valuing individual contributions and by harnessing the power of collaboration.

Passion and integrity We are determined in our ambition and pragmatic in delivery. We carry out our responsibilities with great care, energy and determination. This is complemented by a culture of transparency and accountability

Our focus on engagement and retention

Developing and retaining talented people is key to our ongoing success. We actively monitor retention, focusing on those who have received a strong performance rating. Our highly-rated employees retention rate increased this year to 96%. This represents a committed and engaged workforce, aligned with our values.

Our people and culture

The commitment, drive and innovation of our people enable us to deliver our strategy successfully.

We aim to attract people with the skills and passion to help us achieve our purpose. This means creating a high-performing culture that is inclusive, encourages diversity of thought and provides employees with opportunities to grow.

To maintain our position as an employer of choice, we aspire to offer:

- Purpose, inspiration and inclusion.
- Fair pay for performance.
- A positive environment that prioritises wellbeing.
- High-quality work and personal growth opportunities.

Our approach to inclusion and diversity

Embracing an inclusive culture that celebrates diversity enables us to deliver against our purpose, and maintain our position as an employer of choice and as a trusted partner for our clients.

Support at all levels is needed to celebrate diversity and embed an inclusive culture across an organisation. Support and advocacy from senior management complements our employee resource groups and local inclusion and diversity (I&D) Councils who provide grassroots leadership and are agents for change. Collectively, they help raise awareness about challenges that under-represented groups face in the workplace, amplify our I&D strategy and campaigns, and are visible role models both inside and outside our business.

In 2023, we were excited to introduce two new employee-led networks – NextGen and Socioeconomic Diversity Network. Our employee resource groups span across our UK offices, US offices and beyond. They are also supported by a number of I&D councils and committees at our different offices to ensure alignment of local interests.

Our commitment to monitor continuously the diversity of our people is a key part of measuring our progress and assessing the impact of our initiatives. Key reflections in 2023 include:

- An increase in diverse representation and diversity profile completion, providing us with a more comprehensive view of our workforce.
- Hiring and retention rates have contributed favourably to increasing diverse representation, however the net pace of progress has slowed compared to previous years. This probably resulted from a slowdown of headcount growth this year.
- Early careers recruitment efforts yielded successful outcomes. With a continued focus on internal mobility, one of our 2024 focus areas is to equip individuals at the early stage of their careers with the necessary skills to thrive and advance at Schroders (see page 19 for more). In addition to dynamic data and remuneration analytics, our enhanced reporting dashboards allow senior business stakeholders to regularly monitor and evaluate progress, identify trends and drive change. These discussions are formalised and incorporated as a standing agenda item in quarterly business review meetings.
- Our approach to inclusion and diversity, including our 2030 aspirations, are set out in our 2023 Inclusion at Schroders Report

Our governance

Our ownership structure

Schroders plc is a listed company and a constituent of the FTSE 100 Index.

The history of Schroders began in 1804 when JH Schroder became a partner in J.F. Schröder & Co, a London-based firm founded by his brother JF Schroder. It has evolved since then into the company today known as Schroders plc. Throughout that time, the Schroder family have maintained a significant interest in the business, which we believe has been a significant benefit to the Group. Today, the interests of some members of the Schroder family (being certain descendants of the late Helmut Schroder and, in some cases, their spouse or former spouse) are spread across a number of parties, who are collectively known as the Principal Shareholder Group.

The Principal Shareholder Group is comprised of a number of private trustee companies (and investment companies controlled by those trustee companies), a number of Schroder family individuals, and a Schroder family charity which, directly or indirectly, are shareholders in the Company. The Principal Shareholder Group currently holds 711,068,586 ordinary shares (44.11% of the issued ordinary shares) in the Company.

See page 94-95 of the Schroders plc 2023 Annual Report and Accounts for further information.

Our governance framework

The Board is responsible for approving the Group's strategy, which includes our sustainability strategy. The Board has delegated overall responsibility for the delivery of the Group's strategy to the Group Chief Executive, who has the authority to delegate further while retaining overall responsibility for the delivery of our strategy. In discharging its responsibilities, the Board takes appropriate account of the interests of our stakeholders, including clients and wider society. Our governance framework enables the Board to have oversight of the climate and nature-related risks and opportunities impacting our business. Through this framework, the Board receives regular briefings on sustainability matters, including climate and nature-related issues.

- The Board was updated on how sustainability trends, for both our own operations and the investments we manage, were shaping our industry, and on progress on some key issues including climate change, biodiversity, human rights and community investment.

- At our annual Board strategy meeting, the Board noted our leadership position in sustainability as part of the Group Chief Executive's strategy paper. The Board also noted several climate and nature-related developments as part of the Governance report.

The Audit and Risk Committee receives reports from management on key risks to ensure they are considered at Board level. As 'Sustainability risk including climate change' is identified as a key business risk, the Audit and Risk Committee received information quarterly to assess how it is being managed. During 2023, the Audit and Risk Committee had five meetings. For more information on the Audit and Risk Committee, see pages 66 to 73 of the Annual Report.

Within our governance structure, sustainability is integrated across our business areas. There are a number of management committees and working groups that assess, advise on and oversee climate and nature-related risks and opportunities.

Our key sustainability management committee is the Group Sustainability and Impact (GSI) Committee. The GSI Committee provides advice to the Group Chief Executive to assist him in discharging his responsibilities regarding sustainability and impact. The GSI Committee monitors our climate and nature-related targets with progress reported to the Board (for more information on our targets, see our Climate Report 2023) . The obligations of our climate transition plan are monitored by the GSI Committee as part of reviewing our sustainability strategy. This includes monitoring progress towards our science-based targets. During 2023, the GSI Committee had six meetings. For further information on our climate and nature governance structure, see our Climate Report 2023.

Our remuneration structures emphasise the strategic importance of climate-related issues. Executive Directors have sustainability measures in their annual bonus and Long-Term Incentive Plan (LTIP) scorecards. Performance against these measures impacts their compensation outcomes.

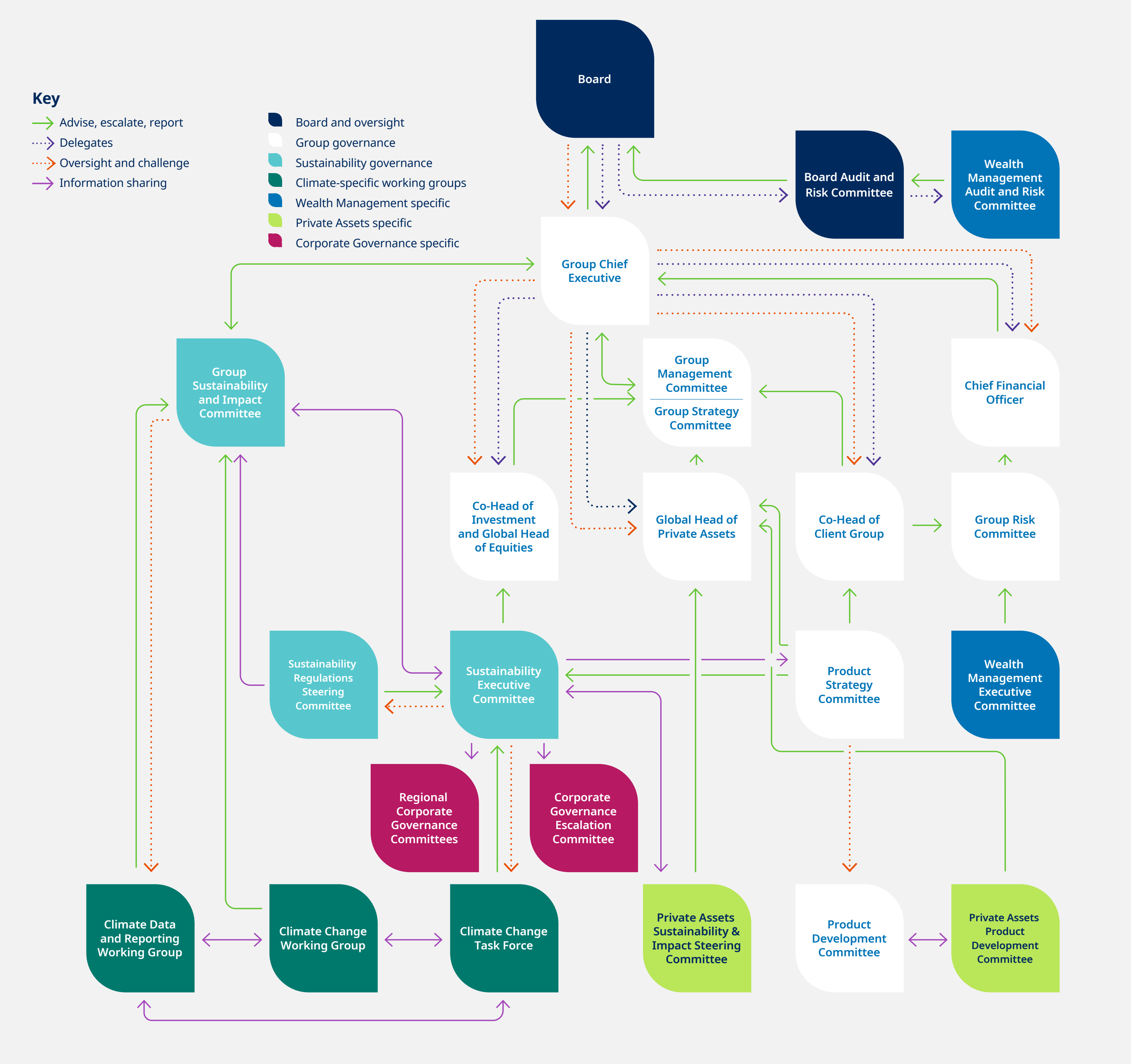
For more information on our Governance framework see page 56 of the Annual Report.

Our governance *continued*

Sustainable Investment team governance

Our Sustainable Investment capability sits within our Investment division. Andrew Howard, our Global Head of Sustainable Investment, runs the Sustainable Investment team and in 2021 became a member of the Group Management Committee (GMC). In 2023, he reported into Rory Bateman, Co-Head of Investment and Head of Equities, who reports to the Group CEO.

The Sustainability ExCo comprises senior leaders from across the firm and is charged with implementing the group's sustainability strategy. There remains a clear line of accountability from the Sustainable Investment team to Peter Harrison, our Group Chief Executive, and to the Board of Schroders plc.



Our governance *continued*

Board training

The Board believes that the ongoing development and briefing of Directors is an important part of the Board's agenda. The Board receives regular briefings throughout the year to provide them with a deeper understanding of the Group. The Chair and Group Company Secretary discuss briefing topics annually and agree what these should cover. During 2023, a briefing was provided by our Chief Economist on the challenging macroeconomic environment and how it affects Schroders.

Our Global Head of Sustainable Investment and Global Head of Corporate Sustainability provided a briefing session which covered how sustainability trends are shaping our industry, as well as our progress on key issues including climate change, biodiversity, human rights and community investment. The Board also received briefings on our private markets strategy, on our strategy in Asia and on the benefits, risks and use of artificial intelligence (AI) at Schroders. Members of the Board Committees also receive regular updates on technical developments at scheduled committee meetings. Other training includes external professional events and industry updates.

Board diversity

The Board recognises the importance of diversity and that it is a wider issue than gender and ethnicity.

We look for diversity of skills, thought, experience and background, which is important for the effectiveness of our Board, its Committees and the management team. This will continue to be the primary criterion by which we select candidates. Diversity across our whole workforce is discussed by the full Board. The specific diversity targets for the Group are set by the Board, on recommendation from management, as part of our annual review of people strategy.

The Board understands the importance of increasing gender and ethnic diversity and is committed to have a minimum of 40% of Board positions held by women and to meet the Parker Review's recommendations of at least one director from an ethnic minority on the Board. Currently we meet both these gender and ethnicity recommendations as, following the AGM, women will comprise 50% of the Board and we have two ethnic minority Directors. We intend only to use the services of executive search firms which have signed up to the Voluntary Code of Conduct on Gender Diversity.

Our gender diversity statistics for both the Board and senior management can be found on page 96 of the Annual Report.

Our governance *continued*

Forum	Information	Description	2023 activities
Board Audit and Risk Committee (BARC)	**Chair:** Schroders plc independent non-executive Director **Membership:** Independent non-executive Directors of Schroders plc **Meetings:** 5	The BARC is a Board Committee and is responsible for overseeing financial reporting, risk management and internal controls, internal and external audit. The BARC receives reports from management on key risks to ensure they are considered at Board level. Oversight of key risks is essential to the delivery of the Group's overall strategy, and the BARC provides an update of these key risks to the Board quarterly.	– As "Sustainability risk including climate change" is identified as a key business risk, the BARC received information quarterly in order to assess how it is being managed. – Considered and discussed sustainability-related regulatory changes.
Group Management Committee (GMC) Group Strategy Committee (GSC)	**Chair:** Group Chief Executive **Membership:** Senior management from across the Group **GMC meetings:** 11 **GSC meetings:** 14	The GMC comprises the wider senior management team and is an advisory committee to the Group Chief Executive on the day-to day running of the Group's business. The GSC comprises the senior management team who have primary responsibility for the development and delivery of the Group's strategy. It is an advisory committee to the Group Chief Executive.	– Considered the Group's strategy and key risks, including climate, ahead of submission to the Board. – Reviewed the sustainability annual update, which included how sustainability trends were shaping our industry and the progress on some key issues including climate change, biodiversity, human rights and community investment. – Discussed climate and nature-related issues as part of the delivery of the Group's strategy.
Group Risk Committee (GRC)	**Chair:** Chief Financial Officer (CFO) **Membership:** Senior management from across the Group **Meetings:** 10	The GRC assists the CFO in discharging his responsibilities in respect of risk and controls. The executive oversight of risk is delegated by the Group Chief Executive to the CFO. The GRC reviews and monitors the adequacy and effectiveness of the Group's risk management framework, including relevant policies and limits. It also reviews emerging risks and developments to our internal key risks, one of which is "Sustainability risk including climate change".	– Reviewed the description and framework of "Sustainability risk including climate change" and an assessment of risk position versus risk appetite. – Reviewed the second-line oversight of sustainability and the Sustainability Operating Model programme.
Group Sustainability and Impact Committee (GSI Committee)	**Chair:** Group Chief Executive **Membership:** Senior management from across the Group **Meetings:** 6	The GSI Committee provides advice to the Group Chief Executive to assist him in discharging his responsibilities regarding sustainability and impact. The Committee considers, reviews and recommends the overall global sustainability and impact strategy, including key initiatives, new commitments and policies to the Group Chief Executive for approval. The Global Head of Corporate Sustainability and Global Head of Sustainable Investment are members of the Committee and report annually to the GMC and the Board. The obligations of our climate transition plan are monitored by the GSI Committee as part of reviewing our sustainability strategy. This includes monitoring progress towards our science based targets.	– Reviewed the progress against our climate change strategy and delivery plans for our science-based targets, including climate engagement for investee companies, operational action plan and supply chain engagement strategy. – Discussed and reviewed our 2023 CDP response. – Discussed and recommended for approval our Group Climate Change Position Statement and Group Nature and Biodiversity Position Statement.
Sustainability Executive Committee (ExCo)	**Chair:** Co-Head of Investment and Global Head of Equities **Membership:** Senior management from across the Group **Meetings:** 25	The ExCo develops and oversees the delivery of our Group-level investment management sustainability strategy. The ExCo also advises on the development of our sustainability and impact investment and product frameworks. The ExCo has senior representation from across the business including Investment, Client Group, Wealth, Schroders Capital and Corporate Sustainability to enable co ordination and alignment across the business.	– Discussed the further development and application of the climate toolkit, including the Net Zero Dashboard. – Discussed and reviewed the climate engagement programme. – Reviewed the climate solutions framework to help clients navigate our offering aligned to their climate outcomes, as well as products mapping across public and private assets. – Discussed the development of our decarbonisation capability, including client education, thought leadership, climate commitments approach and decarbonisation solutions. – Reviewed the Schroders fossil fuel approach and coal policy, as well as the Schroders Capital fossil fuel approach.

Our governance *continued*

Forum	Information	Description	2023 activities
Sustainability Regulations Steering Committee	**Chair:** Global Head of Product Development and Governance **Membership:** Senior representatives from across the Group **Meetings:** 12	The Sustainability Regulations Steering Committee oversees the implementation of sustainability regulatory change programmes, as well as monitoring emergent sustainability regulations and determining their high-level impact on our Group sustainability strategy and supporting operations. The Sustainability Regulations Steering Committee receives input on planned or potential sustainability-related regulation from our Public Policy team, which actively engages with relevant regulators, industry trade associations and other bodies in our key markets of the UK and EU.	– Discussed and reviewed our responses to regulatory consultations for emerging climate related regulations. – Provided a second line of oversight to the development of climaterelated tooling and carbon reporting in order to meet regulatory requirements. – Supervised the development of product-level sustainability disclosures. – Identified regulatory risks and confirmed that they are factored into the strategy setting and implementation planning activities of the appropriate product, sustainability-related committees.
Product Strategy Committee (PSC)	**Chair:** Co-Head of Client Group **Membership:** Group Chief Executive, Divisional Heads including Investment and Client Group, and leaders from the Product team **Meetings:** 4	The PSC identifies, prioritises and reviews the Group's overall product strategy globally. This includes consideration of climate related opportunities to shape the development of new products.	– Reviewed demand for sustainability oriented thematic strategies, and undertook to conduct more advanced research into approaches for helping clients to mitigate the impacts of climate change and nature degradation. – Agreed cross-functional support for delivering portfolios which contribute to clients' environmental and social goals.
Product Development Committee (PDC)	**Chair:** Head of Product Development – UK and Europe **Membership:** Senior representatives from Investment, Client Group, Operations, Compliance, Legal and Governance **Meetings:** 15	The PDC reviews and recommends detailed product proposals, including climate-focused strategies and assessment of climate and sustainability-related portfolio measures as relevant.	– Recommended the launch of carbon offset shares for Schroders ISF Global Climate Leaders. – Recommended the launch of the first two sub-funds of the new Schroders Capital Long-Term Asset Funds umbrella, Schroders Capital Climate+ LTAF and Schroders Greencoat Global Renewables+.

Our governance *continued*

Forum	Information	Description	2023 activities
Private Assets Product Development Committee (Private Assets PDC)	Co-Chairs: Head of Private Assets Legal and Head of Product Management Private Assets **Membership:** Global Head of Private Assets and senior representatives of Schroders Capital business, including Product, Strategy, Change, Risk and Compliance **Meetings:** 12	The Private Assets PDC is responsible for the development and life cycle of all private assets products. It reviews product business cases, which include details of assessments of climate and sustainability-related portfolio measures. For products targeting intermediary investors, where an initial business case recommendation is provided by the Private Assets PDC, further consideration is provided by the PDC.	– Considered various proposals for the launch of products with climate-related features, including funds specifically targeted at climate impact investing. – Recommended the launch of several private assets funds targeting climate and impact focused strategies.
Private Assets Sustainability and Impact Steering Committee (PA S&I Steer Co)	**Chair:** Head of Sustainability and Impact for Private Assets **Membership:** Senior representatives of Schroders Capital business including Product, Strategy, Change, Risk and Compliance **Meetings:** 4	The PA S&I SteerCo is mainly responsible for defining Schroders Capital S&I policy; for enabling, overseeing and reporting on the implementation of Schroders Capital S&I policy and commitments within the requirements of appropriate S&I regulations; and for ensuring that the capabilities of the Schroders Capital S&I Central team are consistent with the private assets S&I strategy. The PA S&I SteerCo is supported by a Private Assets S&I Working Group.	– Discussed and recommended for approval the development of Schroders Capital approach to fossil fuels. – Discussed progress in implementation of climate integration across businesses.
Wealth Management Audit and Risk Committee (WMARC)	**Chair:** Schroder & Co. Limited independent non-executive Director **Director membership:** Independent nonexecutive Directors of Schroder & Co. Limited **Meetings:** 6	The WMARC is responsible for overseeing financial reporting, risk management and internal controls, and internal and external audit within the Group's wealth management business. The WMARC receives reports from management on key risks within wealth management. Oversight of key risks is essential to the delivery of the Group's overall strategy, and the WMARC's minutes are provided to the BARC and the WMARC Chair presents an annual update on the Committee's activities to the BARC.	– Assessed the potential financial risks associated with climate change on the wealth management business. As part of this assessment, WMARC reviewed the standalone TCFD legal entity disclosures of Schroder & Co. Limited. These disclosures were published in June 2023.
Wealth Management Executive Committee (WMEC)	**Chair:** Global Head of Wealth Management **Membership:** Senior executives within the Group's wealth management business **Meetings:** 11	The WMEC meets monthly to assist the Global Head of Wealth Management in discharging their responsibilities in managing Wealth Management, including in respect of strategy, policy, finance, people, systems, conflicts of interest, risk and controls. One of the WMEC's roles is to review new products and investment offerings for the Group's wealth management business.	– Considered the overall sustainability strategy for wealth management. – Discussed sustainable investment within the wealth management business, including a review of capabilities for delivering a pathway to net zero for client portfolios. – Reviewed the impact of climate change on the strategic asset allocation of the core investment models in the wealth management business.
Climate Change Working Group (CCWG)	**Chair:** Global Head of Corporate Sustainability **Membership:** Representatives across the Group to ensure input and alignment from operational and investment stakeholders **Meetings:** 5	The CCWG discusses and recommends the approach and actions needed to deliver Group-wide commitments on climate change to the GSI Committee. An update is also provided to each GSI Committee on latest activities. There is a focus on targets, disclosures such as CDP, climate and nature reporting, and evolving our policies and practices across the business. The CCWG also discusses external communications and employee engagement.	– Discussed and reviewed SBTi progress. – Developed and supported the submission of climate-related disclosures, such as CDP and nature-related reporting (e.g. the Taskforce on Nature-related Financial Disclosures) and integration with climate reporting. – Discussed internal climate engagement campaigns and external communications plans, such as Earth Day and COP28.

Our governance *continued*

Forum	Information	Description	2023 activities
Climate Change Task Force (CCTF)	**Chair:** Climate Change Strategist **Membership:** Representatives from the Sustainable Investment team **Meetings:** 24	The CCTF drives climate workstreams from an investment perspective, including climate analytics, engagement, reporting, integration and research. The CCTF aims to improve co ordination, consistency and innovation, in order to meet our climate goals. The CCTF consults with the Climate Planning Investor Group, a subset of investors with experience integrating climate-related considerations, to test and refine climate planning and proposals.	– Discussed and planned the development of new tools to support climate analytics, including data sources and visualisation outputs. – Monitored progress on climate engagement targets and insights derived from engagements. – Discussed updates to the client and internal climate training curriculum, including feedback from sessions.
Climate Data and Reporting Working Group	**Chair:** Head of Climate and Environment, Corporate Sustainability **Membership:** Representatives from Corporate Sustainability, Sustainable Investment, Workplace Services, Group Procurement and Group Finance **Meetings:** 8	The Climate Data and Reporting Working Group monitors the internal reporting of quarterly data underpinning our science based targets and produces the climate dashboards for management committees. It also produces and reviews the annual emissions data for external publications and the associated controls and procedures required for internal audit and external assurance.	– Reviewed and updated the climate dashboard (and emissions reporting) for internal management committees. – Reviewed and updated the operational emissions data for external publications. – Reviewed and updated the documented controls and procedures regarding data collection, review, verification and assurance. – Discussed the external assurance approach. – Discussed and reviewed the emissions recalculation process for financed and operational emissions.
Regional Corporate Governance Committees	**Chair:** Regional AO team analyst **Membership:** Regional investment desks **Meetings:** 2 per year per region	The corporate governance team convenes meetings of Schroders regional corporate governance committees at least twice a year to discuss evolving governance issues in the regions. The membership comprises the relevant members of the corporate governance team that are responsible for the region and representatives of the investment teams that cover the region. These committees form the basis for developing our approach to voting at proxy meetings in the region and other matters such as agreeing the letter that we send to our investee companies in the region before the proxy season.	– A meeting was convened pre and post AGM season with full committee attendance. Topics discussed included: – a review of last quarter's voting stats and comparisons to peers/previous vote history – Significant votes against since the last meeting – Policy changes for 2023 – Significant governance engagements – Ad-hoc discussions with committee members e.g. sign off of governance letters
Corporate Governance Escalation Committee	**Escalation committee:** **Chair:** Co-Head of Investment **Membership:** members of the active ownership team **Meetings:** 0	The escalation committee is convened when the corporate governance team is unable to agree with all the investment teams on how to vote on one or more resolutions at a shareholder meeting. Schroders always intends to vote in line with what it views is the best way to promote the future success of the company and long-term returns to its clients. Our investment teams may have different strategies and therefore we often debate different approaches to voting but generally come to collective agreement on how to vote.	The escalation committee did not need to meet during the year.

Our incentives structure

For FY2023, executive pay was awarded in line with the current remuneration policy as approved by shareholders in April 2023. The bonus element of executive Director pay was determined by the Group Remuneration Committee according to the achievement of the performance measures in the balanced scorecard. The scorecard included a 30% weighting for non-financial factors which took into account achievement against strategic sustainability, people, risk and conduct matters as outlined on pages 79 – 81 of the 2023 Annual Report and Accounts.

This included an assessment of the performance of the newly added financial ESG metric, 'proportion of Article 8 and 9 funds', carrying a 10% weighting. The measure was chosen by the Remuneration Committee as an externally-defined proxy for the extent to which our product range offered to clients has sustainable characteristics. The targets set for the measure reflect our commitment to our sustainable offering and our establishing and maintaining our position as a sustainability leader. The performance assessment also took into account the achievement of a notable milestone by doubling our engagement with companies on sustainability matters as well as progress against our own multi-year emissions targets.

Sustainability matters are also considered within the executive long-term incentive plan (LTIP) scorecard as detailed on page 83 of the 2023 Annual Report and Accounts. In 2023, the climate metric in the scorecard was updated to align to a newly-introduced company key performance indicator (KPI): 'portfolio temperature score', carrying a 30% weighting. The portfolio temperature score tracks our progress towards our net zero ambitions and provides an opportunity to transition to an AUM-related climate metric in the LTIP, which previously focused on the percentage of renewable electricity used across our global offices. In setting targets, consideration was given to our disclosed net zero ambitions and interim target to align portfolios to a 2.2ºC pathway by 2030 as validated by the SBTi. A leadership position on climate change, as independently assessed by the CDP, must also be achieved in each year of the performance period in order for the executives to experience any payout.

The remuneration principles underpinning how all our people are paid is centred on creating alignment with our key stakeholder groups, including society and the environment as shown in detail on page 76 of the 2023 Annual Report and Accounts. Performance against sustainability goals forms part of the annual performance review and in turn compensation outcomes for those with roles able to influence our investment and business operations, including members of the GMC, fund managers, and corporate staff such as Workplace Services and Procurement. A significant proportion of higher-earning employees' variable remuneration is granted as deferred shares and/or fund awards (which are notional investments in funds managed by the Group), thereby aligning the interests of employees with that of our shareholders and clients. This includes the executive Directors, other members of the GMC and other key employees such as senior fund managers.

Following the launch of the Engagement Blueprint in 2022, Schroders made engagement a requirement for investors, and it is tied to compensation. Every investor's objectives require at least three substantive engagements per year. Fund managers can choose from the six core themes in the Engagement Blueprint when considering their company interactions. The engagements are closely monitored by Rory Bateman, Co-Head of Investment and Head of Equities, alongside the Active Ownership team.

Climate incentives

Our remuneration structures are designed to reflect the strategic importance of climate-related issues. For a number of years, our executive Directors have had sustainability-related measures included within their annual bonus scorecard. The measures are reviewed by the Remuneration Committee each year to align with our key priorities. For 2023, the executive Directors' annual bonus scorecards included a new metric that measures the proportion of our funds subject to the EU Sustainable Finance Disclosures Regulation (SFDR) classified as Article 8 and 9 funds. This financial metric, underscores our dedication to our sustainable offerings and our ongoing efforts to be at the forefront of sustainability leadership. The 2023 performance assessment also took into account engagement with investee companies, leveraging our influence as an asset manager to encourage others to reduce their emissions, as well as performance against our own multi-year climate-related targets.

In addition to continuing to include sustainability measures in the executive Directors' annual bonus scorecard, from 2022 our commitment to climate action was also reflected in our Long-Term Incentive Plan (LTIP). The 2022 LTIP incorporated a climate metric relating to the percentage of renewable electricity used across our global offices, holding a 20% weighting in the LTIP scorecard that year. From the 2023 grant, the climate measure evolved towards the portfolio temperature score of our assets under management (AUM) to the target net zero pathway. This quantitative, investment focused metric is designed to support our near-term target of transitioning our portfolios to a 2.2°C pathway by 2030, as we progress towards our goal of aligning our portfolios to a 1.5°C pathway by 2040. The measure now holds a 30% weighting to reflect its materiality to our strategy and scope across the business. In order to achieve payout from any climate metric, we must also maintain a leadership position on climate change in every year of performance measurement, as assessed independently by CDP.

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

Performance reviews and training

In March 2023, we launched a dedicated Sustainability Curriculum, developed by our own experts, on our global learning management platform, Spark. This curriculum covers topics such as:

- Introductory principles such as how to incorporate ESG in company analysis, our proprietary models, our research and engagement themes, and regulatory requirements.
- ESG integration and active ownership.
- Schroders' climate commitments, climate science and target setting and our climate toolkit

Since its launch to the end of 2023, over 2,000 of our employees have interacted with the curriculum, and over 1,100 staff have completed at least one module.

Beyond internal training, we continue to support our employees through professional qualifications, including the Chartered Financial Analyst (CFA) Institute Certificate in ESG Investing and CFA UK Certificate in Climate and Investing.

The Sustainable Investment team provide regular updates to both our Investment and Client Group teams through monthly meetings (for example, Sustainability for Investors and Sustainability for Client Group). In this forum, the Sustainable Investment team present on a specific topic or theme. The meeting provides a platform to discuss the topic in greater detail and to help investors understand the implications for their analysis. Topics covered during 2023 included:

- Climate engagement and voting (including specific company examples); and
- Our deforestation engagement programme, deep dives on our biodiversity and water engagement toolkits

Our risk management framework

We are exposed to a variety of risks as a result of our global business activities and are committed to operating within a strong system of internal control. Our Risk Management framework enables management to identify, manage and escalate risks so that we can pursue our business strategy without exposing the Group to significant regulatory breaches, losses or reputational damage.

As our business has continued to expand into areas of strategic growth, we have pivoted resources towards supporting these areas. We appointed a Head of Risk, Private Markets in 2023 to consolidate our oversight of the Schroders Capital business. Additionally, we have adapted our Risk and Compliance recruitment strategy to focus on recruiting staff with private markets experience to enable us to provide knowledgeable and effective oversight across our diverse business.

Managing risks

The Board is accountable for the maintenance of a prudent and effective system of internal control and risk management. It assesses the most significant risks facing the business, and also uses quantitative exposure measures, such as stress tests, where appropriate, to understand the potential impact on the business.

Non-executive oversight of the Risk Management framework process with respect to standards of integrity, risk management and internal control is exercised through the Audit and Risk Committee.

Risk management is embedded in all areas of the Group. The Group Chief Executive and Group Management Committee (GMC), as an advisory committee to the Group Chief Executive, regularly review the key risks we face. They are also responsible for monitoring that the individual behaviours in the teams they manage reflect the values and control standards of the business. Legal entity boards fulfil their obligations for managing risks in line with regulatory and legal requirements.

The executive oversight of risk is delegated by the Group Chief Executive to the Chief Financial Officer. The Chief Financial Officer is responsible for the Group's risk and control framework, and chairs the Group Risk Committee (GRC). The GRC supports the Chief Financial Officer in discharging his risk management responsibilities. The GRC reviews and monitors the adequacy and effectiveness of the Group's Risk Management framework, including relevant policies and limits. It also reviews emerging risks and changes to existing risks.

The GRC is supported by a number of sub-committees, including the Group Conflicts Committee, the Financial Crime Committee and the Information Security Risk Oversight Committee. These sub-committees review and challenge risks and report significant risk matters to the GRC.

Assessment of viability

The assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group, which are outlined on pages 40 to 43 of the Annual Report. The Directors review the key risks regularly and consider the options available to the Group to mitigate these risks so as to ensure the ongoing viability of the Group. Stress testing is performed on the Group's business plan and considers the impact of a number of the Group's key risks crystallising over the assessment period. This includes consideration of new and emerging risks, identified through the business planning process, that could have a material impact over the five-year planning period. The severe but plausible stress scenarios applied to the business plan include consideration of the following factors:

- A deterioration in the value of our AUM, for example as a result of a severe period of market stress, the return of significant inflationary pressures combined with a marked slowdown in global growth, or the early crystallisation of certain climate change risks.
- A significant decline in net operating revenue margins reducing projected revenues.
- The impact of a material operational risk event or poor performance which could lead to reputational damage and significant outflows of our AUM.
- An increase in the ratio of total operating expenses to net operating income.

The Group also assesses the impact of regulatory stress scenarios published by the Prudential Regulation Authority. The stress scenarios are consistent with those used in the Group's consolidated Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process.

Our governance *continued*

Having reviewed the results of the stress tests, including a scenario that combines a number of the factors set out above, the Directors have concluded that the Group would have sufficient capital and liquid resources and that the Group's ongoing viability would be sustained. In drawing this conclusion, the Directors assessed the management actions that are available to the Group and were comfortable that they are sufficient in order to maintain adequate capital and liquidity surpluses. The Directors also have regard to business model changes that may be required given the new environment in which the Group would be operating.

It is possible that a stress event could be more severe and have a greater impact than we have determined plausible. In this context, we conduct reverse stress tests, which demonstrate the unlikely and very extreme conditions required to make our business model non-viable.

The Directors' current, reasonable expectation is that Schroders plc will be able to continue in operation, meeting its liabilities as they fall due, over a viability horizon of at least five years. The Board's five-year viability and longer-term assessment is based on information known today.

The key areas that the Audit and Risk Committee considered durin 2023 are set out below. In addition, at each quarterly meeting, the Committee received updates from Internal Audit, Compliance, Risk, Legal and external audit, covering ongoing projects and the key issues that had arisen since the last meeting, and reviewed a dashboard of metrics to monitor key risks. The dashboard also includes metrics covering Internal Audit and the status of relevant change projects and sustainability targets.

Financial reporting and financial controls

As part of the Group's annual reporting cycle, the Committee considered the 2022 Annual Report and Accounts and 2023 half-year results, including financial estimates and judgements and governance considerations. Ahead of preparing the 2023 Annual Report and Accounts, updates were provided on the effectiveness of our internal controls, and on the Group accounting policies. The going concern and viability statements, Pillar 3 regulatory disclosures and climate-related disclosures were also considered.

The Group Head of Tax updated the Committee on the Group's tax strategy, our approach to tax risk, the key tax risks facing the Group and how the Group's effective tax rate is expected to evolve in the coming years.

External audit

When considering the 2022 Annual Report and Accounts, the Committee assessed the oversight and independence of the external auditor and audit effectiveness.

In relation to audit quality and effectiveness, the Committee discussed the results of the external auditor feedback questionnaire and noted the areas of improvement that had been identified. EY presented plans to respond to the feedback, and these were discussed by the Committee. The Committee reviewed EY's audit plan for 2023, including key audit matters and focus areas. Fees for non-audit services were reviewed and approved by the Committee.

Policies for safeguarding the independence of the external auditor were considered and re-approved.

Internal Audit

As part of the governance considerations for the 2022 Annual Report and Accounts, the Committee considered the annual assessment of the Group's governance and risk and control framework, conducted by Group Internal Audit.

The Committee approved the appointment of a new Head of Group Internal Audit. The Internal Audit Charter was reviewed and re-approved with minor amendments.

In 2023, the Group Internal Audit team carried out a review of the Active Ownership team's policies, processes and controls and made recommendations for improvement to continue to enable effective stewardship. These recommendations were implemented shortly after receiving the final audit report.

Looking ahead to 2024, the Committee considered and approved the 2024 Internal Audit and Compliance Testing plan, which is based on an assessment of the risks the business faces.

Risk and internal controls

When reviewing the 2022 Annual Report and Pillar 3 disclosures and 2023 half-year results, the Committee considered the Group's key risks and risk management framework. The Chair of the WMARC provided an update on the activities of the WMARC and its oversight of the financial reporting, risk management and internal controls of the entities within Wealth Management.

The Committee considered the ICAAP, ILAAP, Group wind-down plan, Group recovery plan and operational resilience self assessment for recommendation to the Board. The approach taken for the Group's resolution process was also considered. The Committee approved the stress scenarios for use in the Internal Capital and Risk Assessment required for Schroder Investment Management Limited under the Investment Firms Prudential Regime.

The Group Head of Financial Crime Compliance provided a review of financial crime risk, including updates on the regulatory landscape and effectiveness of the Group Financial Crime framework, and on the Group's Financial Crime control systems.

Thematic issues were considered throughout the year, including operational resilience, whistleblowing, and our conduct and culture risk oversight. The findings of the auditor's assessment of our cyber security capabilities in light of the cyber risks posed to the Group were presented to the Committee.

The Committee reviewed climate-related disclosures in line with the TCFD framework and recommended the Group's Climate Report 2022 to the Board for approval. Sustainability risks were also considered as part of the Committee's review of key risks. The Financial Reporting Council (FRC) performed a limited scope review of our TCFD disclosures of metrics and targets in our 2022 Annual Report and Accounts as part of a thematic review and raised no issues.

The Global Head of Finance provided an update on the proposed legislative and regulatory changes following the UK Government's review of corporate reporting and corporate governance.

Assurance and oversight

Three lines of defence

The first line of defence in managing and mitigating risk consists of the business functions and line managers across the Group. Heads of each function take the lead role in identifying potential risks and implementing and maintaining appropriate controls to manage these risks. They do this by applying our Risk and Control Assessment (RCA) process.

Line management is supplemented by oversight functions, including Risk, Compliance, Legal, Governance, Finance, Tax and Human Resources. These constitute the second line of defence. The compliance assurance programme reviews the effective operation of relevant key processes against regulatory requirements.

Internal Audit provides retrospective, independent assurance over the operation of controls, and forms the third line of defence. The internal audit programme includes reviews of risk management processes and recommendations to improve the control environment. The team also carries out thematic compliance monitoring work.

We maintain comprehensive insurance cover with a broad range of policies covering a number of insurable events.

Lines of defence overview

Business areas, as the first line of defence, take the lead in identifying and assessing potential risks in their area, and implementing and maintaining controls to manage these risks. This includes risks relating to climate change.

Our governance *continued*

Risk assessment

During the normal course of business, emerging risks and changes to our existing risks are identified throughout the year. Risks are reviewed and discussed at relevant risk committees (for example, the GRC) and Board meetings. Periodically, we also complete a formal assessment of the risks faced by our business using a top-down and bottom-up approach.

The top-down approach uses analysis from the Risk team and discussions with GMC members and subject matter experts around the Group. Existing risks and emerging risk trends are reviewed against the current internal and external environment, geopolitical factors, market conditions, changing client demand and regulatory sentiment. Our regulators aim to ensure market integrity, good conduct, appropriate consumer protection, and the promotion of competition within the industry are also taken into account. Each risk is then analysed to assess how it can be managed and mitigated.

The bottom-up approach uses the results from our RCAs, trends in risk events and high-impact issues logged in our operational risk database.

The results of these assessments are used to inform our key risks, which are presented to the GRC prior to the GMC, Audit and Risk Committee and Board meetings.

We have reviewed the list of key risks and identified a sub-set that we believe represents the Group's principal risks. This is not an exhaustive list, but these are the principal risks most likely to impact our strategy, business model, external reputation and future performance. The numeric icons are for presentational purposes only and do not indicate a rank. The risks represent our exposure after mitigating controls are applied.

Trend arrows are included below to show how our risk profile has changed since last year. Commentary to explain the changes can be found on the following pages.

We confirm that the Group has an effective risk and controls process, supported by an appropriate governance framework.

Principal risks

Movement versus prior year position	Increased	Decreased	Remained the same
Categories of risk	Strategic risk	Business risk	Operational risk

	Description	How we manage this
1 ↑	Business model disruption	
	Our business model could be disrupted by a range of external factors including technology advancements such as AI, product evolution and market participants. Geopolitical turmoil, including sanctions and conflict, could impact our domestic business activities. For example, heightened tension between China and the West may result in us losing our license to operate in China, and could affect the value of Chinese assets in which we invest on behalf of our clients. The rise of AI and the threat to the asset management industry means that this risk has increased in 2023.	We continue to invest in our technology platform to support our business and embrace new technologies such as AI. We regularly monitor developments in countries subject to geopolitical risk and take steps to protect our people and assets where necessary. This includes monitoring and reviewing portfolio exposures, potential single name and/or sector vulnerability, and possible outcomes under different scenarios.

Our governance *continued*

Movement versus prior year position	Increased	Decreased	Remained the same
Categories of risk	Strategic risk	Business risk	Operational risk

	Description	How we manage this
2 (Strategic risk) – Remained the same	Changing investor requirements Client requirements are evolving rapidly. Failing to adapt or evolve our business model and product range to reflect these changes could lead to a decrease in AUM. Sustainability is a significant part of many of our clients' considerations and we expect climate risks to feature more heavily in future investment requirements and offerings. The advice gap means demand for many wealth management products continues to persist. There is a risk we do not grow and evolve to respond to this demand and retain and attract the right people to serve our wealth management clients.	The integration of the River and Mercantile solutions business and Greencoat Capital have allowed us to evolve our products to meet a wider range of client needs. We continue to focus on developing our investment capabilities, expanding into new investment types and specific areas of expertise, and commit seed capital to support product innovation for future growth. We focus our attention where we believe we are able to make a more significant difference to our clients through current or planned future capabilities; for example, closing the UK private client advice gap through SPW and Benchmark Capital.

	Description	How we manage this
3 (Operational risk) – Remained the same	Conduct and regulatory risk The risks of client detriment arising from inappropriate conduct of our staff or those of counterparties, suppliers and other third parties we engage, including failure to meet regulatory requirements (including those with respect to conflicts and financial crime), poor behaviour, or failing to meet appropriately our clients' expectations. Regulators continue to take varying approaches to sustainability, making implementation more difficult and scrutiny of greenwashing risk remains high. This risk has stabilised at the elevated level reported last year as our compliance framework remains effective and enables us to manage our business in line with regulatory expectations.	We promote a strong compliance culture and seek to maintain good relationships with our regulators. We also encourage appropriate conduct and regulatory compliance via our conduct risk framework, supported by training and compliance assurance programmes. Our Group Regulatory Oversight Committee and Sustainability Regulatory Steering Committee provide oversight and challenge of the implementation of regulatory change.

Our governance *continued*

Movement versus prior year position — Increased / Decreased / Remained the same

Categories of risk — Strategic risk / Business risk / Operational risk

	Description	How we manage this
4 (Strategic risk; Remained the same)	Fee attrition Fee attrition caused by clients allocating more of their assets to passive products, and less to active managers, coupled with a lower allocation to public markets, and a greater allocation to private markets (where we have a lower market share). This has resulted in increased competition on price in the traditional active management market and remains at the elevated level reported in prior years. We are also exposed to the risk of intermediaries taking a greater share of revenue streams.	We have continued to focus on solutions and outcomeorientated strategies, thematic products and growing our market share within private markets, to diversify our fee income. Our fiduciary business within solutions continued to be successful during 2023. We are also increasingly diversifying our product offering, supporting long-term profitability. We are moving to vertical integration and getting closer to clients allowing us to better understand their needs. This has also given us opportunities to access a greater share of available revenue.
5 (Business risk; Remained the same)	Financial instrument risk We face market, credit, liquidity and capital risks from movements in the financial markets in which we operate, arising from holding investments as principal. Due to ongoing geopolitical events generating market fluctuations and contributing towards inflation, movements in interest rates and commodity prices, we have seen continued higher volatility in several asset classes. There have also been shifts in correlations between asset classes. Failure to manage market, credit and liquidity risks arising from managing AUM on behalf of clients would be considered an Operational Process risk. While volatility remains elevated in several asset classes, this risk has stabilised at the heightened level reported last year, and some asset classes have seen a gradual decline in risk levels. This is supported by recent falls in global inflation rates and the current outlook for declining interest rates	We manage capital, liquidity and the Group's own investments through Board-set limits and through the Group Capital Committee. Equity market and credit spread risks in seed capital are hedged where it is economic and practicable to do so and foreign currency Group investments are hedged back to sterling. We monitor our credit and counterparty exposure in the Group balance sheet, bank lending portfolios and in our client assets.

Our governance *continued*

Movement versus prior year position — Increased · Decreased · Remained the same

Categories of risk — Strategic risk · Business risk · Operational risk

	Description	How we manage this
6	Information security and technology	
	Information security risk relates to the confidentiality, integrity or availability of services being negatively impacted by the activities of a malicious insider or external party. Technology risk relates to the failure in delivering scalability, privacy, security, integrity and availability of systems that leads to a negative impact on the Schroders business and our client experience. Advances in AI and deep fake technology creates opportunities for more advanced social engineering techniques to be used in cyber attacks. These advances and other information identified through our threat intelligence and active cyber testing progress continue to provide insight on the areas we should focus on to enhance our cyber defence capabilities. While the overall risk trend remains consistent with the level reported last year, there have been changes in the risk trends of individual components. Our technology risk has decreased, owing to the substantial completion of our migration to the Cloud, which has bolstered our resilience. Cyber threats, stemming from highly capable criminal organisations and state-sponsored entities, persist, and are amplified by advances in AI and deep fake technologies but we continually adapt and advance in response to these threats.	We have a dedicated Information Security function responsible for the design and operation of our information security risk framework, which includes oversight of critical third parties' cyber capabilities. Information security risk is overseen by specialists within both the second and third lines of defence and is monitored by the Information Security Risk Oversight Committee. We operate a Global Technology Risk Committee to oversee operational risk associated with IT services across the organisation.

	Description	How we manage this
7	Investment performance risk	
	There is a risk that portfolios may not meet their investment objectives or that there is a failure to deliver consistent and above-average performance. There is a risk that clients will move their assets elsewhere if we are unable to outperform competitors or unable to deliver the investment objectives. The higher interest rate environment can impact clients' performance expectations and our ability to meet them and may require adjustments within strategies. Strong investment performance is critical to the success of Schroders.	We have clearly defined investment processes designed to meet investment targets within stated parameters, which are subject to independent review and challenge. Oversight of both risk and performance is embedded in our business processes and governance. In 2023, 60% of client assets outperformed benchmarks over three years and 77% outperformed benchmarks over five years.

Our governance *continued*

Movement versus prior year position	Increased	Decreased	Remained the same
Categories of risk	Strategic risk	Business risk	Operational risk

	Description	How we manage this
8 (Strategic risk; Remained the same)	Market returns Our income is mainly derived from the value of the assets we manage. Falling markets reduce our AUM and therefore impact revenues. Market falls may be exacerbated by geopolitical risks, for example in response to the situation in Ukraine and the Middle East which remains heightened. Foreign exchange rates are a key factor in our financial performance as we are sterling denominated with earnings in other currencies. In addition, economic uncertainty and geopolitical developments presented a risk in 2023. The impact of higher inflation on interest rates, wages and economic growth could impact asset prices and markets, as could an acceleration of climate risk, leading to a fall in AUM. Throughout 2023 market conditions continued to be challenging so this risk remains at the same level reported in previous years.	We have diversified income streams across a range of markets to mitigate a considerable fall in any one area. Excluding associates and joint ventures, AUM from Private Markets, Solutions, and Wealth Management increased from £372 billion in 2022 to £405 billion in 2023, further increasing our diversification. Our focus on growing our Schroders Capital product range and investment capabilities, including the launch of the first Schroders Greencoat products, allows us to have a broader range of income streams which are less directly linked to markets.

	Description	How we manage this
9 (Operational risk; Remained the same)	Operational process risk The risk of failure of significant business processes, such as compliance with fund or mandate restrictions, fund pricing, trade execution for investment portfolios and client suitability checks, whether these occur within Schroders or appointed third parties. It includes operational integration of acquisitions as there may be some risks while newly acquired firms are operating on different platforms, and before they are fully aligned to Schroders' policies. It also includes the ineffective management of joint ventures and associates.	Our key business processes are reviewed regularly and the risks assessed through the RCA process. Operational risk events are reviewed to identify root causes and implement control improvements. When we undertake change, such as acquisitions, we assess new processes that may arise. We work with acquired firms to move them onto our platforms (where appropriate) and to align our policies. We have a well-established process to assess the risks within our supply chain. We review suppliers throughout the supplier life cycle to identify potential risks which may impact the quality or continuity of service.

Our governance *continued*

Movement versus prior year position	↑	Increased	↓	Decreased	↔	Remained the same
Categories of risk	●	Strategic risk	●	Business risk	●	Operational risk

	Description	How we manage this
10 ↔	People and employment practices People and employment practices risk may arise from an inability to attract or retain key employees to support business activities or strategic initiatives; non-compliance with legislation; or failure to manage employee performance. Inclusion and diversity remain a key focus for the company. The morale of the workforce remains good overall which is evidenced with our latest pulse survey results. This risk has stabilised at the lower level reported last year as turnover remains low and within tolerance.	We have a competitive remuneration and employee value proposition, with appropriate deferred compensation targeted at key employees. Sustainable succession and development plans are in place. We also have policies and procedures to encourage inclusion and diversity and to manage employment issues appropriately, handling them consistently, fairly and in compliance with local legislation.

	Description	How we manage this
11 ↔	Product strategy and management There is a risk that our product or service offering is not suitably diversified or viable or does not provide access to strategies that will help investors to meet their objectives. There is also the risk that products are not accurately described, do not perform in alignment with their investment objectives for a sustained period, or that product liquidity is not consistent with the product description or the redemption requirements of investors.	Risks are managed within our Product Frameworks, which include the Product Strategy Committee, Product Development Committee, Product Governance Committee and Capacity Committee. We have a liquidity risk management framework and monitor the liquidity of our products on an ongoing basis. We have a process to raise awareness of funds identified as having more challenging liquidity profiles so that any changes to client sentiment (or potential redemptions) would be notified to relevant teams rapidly, to reduce potential liquidity risk issues.

Our governance *continued*

Movement versus prior year position: Increased / Decreased / Remained the same

Categories of risk: Strategic risk / Business risk / Operational risk

	Description	How we manage this
12 (Increased)	Reputational risk This may arise from poor conduct, judgement or risk events due to weaknesses in systems and controls and may lead to loss of assets or inability to win new business. In recent years we have extended our business through a number of acquisitions. Reputational issues in joint ventures and associates where we have limited control of the outcome could adversely impact the Group. Issues relating to senior management and directors have been experienced in a variety of organisations including financial services, corporations and industry bodies, which have damaged the reputation of these organisations. This is therefore a heightened risk for all firms. Failing to meet stakeholders' expectations (for example, clients, regulators or the wider community) could also give rise to reputational risk. The rise of AI provides opportunities for efficiency but also gives rise to potential reputational risk. Social media exacerbates reputational risk due to the pace at which information or disinformation can be spread, and how the information may be perceived by different stakeholders. As a result of these points, and the reputational issues observed in other organisations, this risk is heightened.	We consider reputational risk when initiating changes to our strategy or operating model and focus on maintaining high standards of conduct. We have a number of controls and frameworks to address other risks that could affect our reputation, including: financial crime, investment risk, client take-on, client communications, conduct risk, whistleblowing and product development. Our Schroders appointed board members oversee the activities of joint ventures and associates, supported where necessary by oversight committees. In 2023, we undertook an analysis of the potential causes of reputational risk. This led to a deeper awareness of reputational risk across the Group, and at the GMC, enabling us to be better equipped to respond to reputational risk issues as and when they occur. Potential reputational risk arising from our use of AI is being managed through our AI framework (see page 39 for more details).
13 (Remained the same)	Sustainability risk including climate change Failure to understand, accurately assess and manage investment risk associated with sustainability factors within assets and portfolios, and to appropriately articulate the risks, and our commitments in relation to them, to clients and stakeholders. This may lead to poor investment decisions, and a failure to offer appropriate sustainable products or to meet our clients' expectations, impacting our performance, brand and reputation. A failure to meet corporate climate change targets may have a similar impact. The risk associated with regulators implementing different approaches to sustainability, and their heightened scrutiny on the topic, is captured within Conduct and regulatory risk above. The impact of climate on each of our principal risks is set out on page 51 of TCFD.	We have developed a range of proprietary tools to better understand the potential effects of sustainability risks including climate change on the portfolios we manage. We use ESG risk toolkits to support day-to-day risk oversight and formal review and challenge of investment risk at Asset Class Risk and Performance Committees. We have an Integration Accreditation Framework which we use to assess the integration of ESG factors into our investment desks' processes and re-accredit them on an annual basis. Regarding climate specifically, we have developed a Net Zero Dashboard which enables our investment teams and central risk function to monitor the temperature alignment of portfolios and track our progress against our businesswide net zero commitment.

Developing our risk management approach

Supporting areas of strategic growth

To support the implementation of robust controls within Schroders Capital as it expands, and enhance our oversight at the appropriate pace, we have adapted our risk and compliance approach. We have consolidated our oversight of Schroders Capital business processes and investment portfolios by appointing a Head of Risk, Private Markets and we have actively recruited risk and compliance staff with private markets experience to enable comprehensive oversight of diverse business areas such as Real Estate and Insurance-Linked Securities. This enhanced supervision supports the "democratisation" of private markets initiative within Schroders Capital, including oversight of product development processes.

Our Wealth Management Risk and Compliance function continues to provide effective oversight while the business expands. A key focus in 2023 (and into 2024) was the provision of guidance and second-line oversight on a strategic initiative to close the existing service centre in Zurich and transfer the functions to the Schroders campus in Horsham.

Regulatory initiatives

The Consumer Duty, which came into force in the UK on 31 July 2023, has been implemented across the Group. A comprehensive programme, involving first-line and second-line representatives, was completed to support compliance with the new rules. This included staff training and enhancements to functional area policies and procedures. A Consumer Duty Forum has been established to oversee these new rules across the business. To demonstrate ongoing compliance, each UK-regulated entity board reviews and endorses an assessment of the entity's delivery of good outcomes for its retail customers, at least annually.

Given the Group's strategic focus on sustainability and the level of regulatory scrutiny on sustainability matters in connection with asset managers, we have performed a review of our second-line oversight processes for sustainability. The review resulted in enhanced collaboration with our Sustainability team to bring our existing controls together.

For more information on how we have engaged with policymakers, see page 5.

Investment risk

Despite strong performance through the gilt crisis in 2022, we have continued to enhance the resilience of our LDI offering. In addition to larger liquidity buffers and enhanced internal systems, we have created a library of playbooks, templates and guidance notes to record the lessons from 2022 and be well prepared for a future crisis. The effectiveness of our crisis preparations has been recently validated in a cross-functional "war game", where participants were presented in real time with a series of different scenarios, which progressively increased in severity. This successfully tested our ability to identify high-risk areas quickly.

To support the oversight of investment risk control frameworks across the Group we have developed robotic process automation. This is embedded in our investment risk process and checks that controls across a wide range of portfolios are implemented and documented accurately. The use of robotic automation replaces a manual process introducing significant efficiency, allowing investment risk managers to focus on other value-add initiatives, and reduced operational risk.

The assets of the solutions business acquired from River and Mercantile in 2022 have been migrated to our core investment management system. This integration into the Group operating model has reduced risk and created efficiencies in first-line and second-line oversight. Front-office systems to support the investment desks, along with client and consultant portals, are now integrated with our core investment management system, yielding further operational efficiencies.

For more information on our engagement with liability-driven investments market participants, see page 18.

Cyber risk

The Information Security Risk Oversight Committee continues to oversee the management of cyber risk. Our Group-wide multi-year programme to accelerate the evolution of our cyber defences is progressing well. We have recently developed advanced attacker metrics to enable the Audit and Risk Committee and GRC to monitor and challenge progress to improve the cyber risk profile. Attacks by organised crime groups (for example, targeted ransomware) remain a risk for financial services, and Schroders is no exception.

Managing the risks associated with Artificial Intelligence (AI)

As a business we are harnessing the power of AI to boost productivity and decision-making. As well as starting to test and adopt third-party products such as Microsoft365 Copilot, we have developed an internal AI tool leveraging models such as ChatGPT, that enables employees to interact with and query data efficiently while maintaining the security of our client and proprietary information. While AI provides opportunities, there is a risk it increases the effectiveness of cyber threats such as deep fakes (where a video/audio recording of a person is digitally manipulated) or produces inaccurate information. Consuming this information could impact investment decisions or our reputation. To manage potential risks, we have established a set of principles and guidelines that govern the use of AI within Schroders. They support our goal to use AI in a way that aligns with our corporate values and complies with relevant laws and regulations including data confidentiality obligations. A Steering Committee has been set up to provide strategic direction, supported by a Responsible AI Working Group for oversight and guidance, and an AI Use Case Working Group which provides a central review of our use of AI throughout the firm. A core principle of our approach to AI is that all outputs are reviewed for accuracy and reliability prior to being used.

Investment Risk oversight framework

Part of our governance and oversight involves incorporating ESG into our portfolio risk management. For this we have the Investment Risk oversight framework. Its purpose regarding ESG risk is to:

- Support transparency over risk taking in portfolios that we manage for clients, and help avoid unconscious or unintended ESG risks
- Ensure that portfolios are being managed in accordance with the ESG credentials that have been marketed to and are demanded by our clients
- Ensure ESG models are robust and implemented as intended

The process of reviewing and challenging ESG risks has been embedded into the existing governance structure provided by the Asset Class Risk and Performance Committees (ACRPCs) since 2020. Every portfolio is mapped to an ACRPC. These committees meet quarterly and are attended by senior employees from both the

Our governance *continued*

first and second lines of defence (Including Co-Heads of Investment, Asset Class Heads) and members of their direct management team, Product Governance and Second Line Group Risk and Compliance.

The ACRPCs serve as a formal venue for review and challenge and they complement day-to-day oversight processes. In this context, ESG risk is treated as a core risk lens in the same way as other core risk measures such as liquidity, exposure concentration, active risk and performance. ESG discussions cover both helicopter views at the portfolio level, along with review and challenge on individual holdings.

A key tool used to support ESG risk analysis (both at the ACRPC level and on a day-to-day basis) is the ESG Risk Dashboard. This provides transparency on the ESG risk profile of a portfolio and highlights where a portfolio may have exposure to positions with heightened ESG risks. It incorporates both internal measures based on our proprietary tools as well as raw (published) company data and external measures such as MSCI ESG scores. Ultimately, it allows users to immediately identify the individual positions that drive the portfolio-level ESG scores. The Dashboard is used by our investment teams as well as the Group Risk function to consider the sustainability characteristics of the underlying portfolio compared to its benchmark. It was made available to all investment teams in 2020. We continue to invest in enhancing our suite of proprietary ESG tools. For example, by increasing the data coverage of public securities within our SustainEx tool, refining the metrics within the tool, and enhancing our proprietary scorecards used for assessing private market investments.

External assurance

Over and above our three lines of defence, an additional level of assurance on our control framework is provided via our external auditors and we periodically engage third party advisers to help us design and implement specific new frameworks or review our existing practices and recommend changes where we think that is appropriate. This helps us understand where our practices sit in relation to rest of the market and to identify best practices used by other investment managers that we can adopt or adapt for our own purposes.

We place great importance on the quality, effectiveness and independence of the external audit process. The BARC oversees the relationship with our external auditor, EY, including safeguarding independence, approving non-audit fees and recommending their appointment at the Annual General Meeting of Schroders plc.

Assessment of audit quality and effectiveness

The Audit and Risk Committee is responsible for evaluating the performance of the external auditor. In February 2023, ahead of the consideration of the 2022 Annual Report and Accounts, the Committee received initial feedback on the conduct of the 2022 audit, which identified no significant areas of concern. A full assessment of the external auditor was carried out by way of a questionnaire prepared in accordance with the FRC's guidance and completed by key stakeholders. Interviews with senior managers and Group Finance were also held. The findings of the questionnaire were presented to the Committee in May 2023. EY generally scored highly in the auditor effectiveness questionnaire and was assessed to have further improved in the fifth year of its audit. Areas of improvement were identified and discussed with EY to allow for enhancements to be made ahead of the 2023 audit.

The Committee reviewed the 2023 external audit plan presented to the Committee in May 2023, and the amendments required to that plan as a result of the findings of the FRC Audit Quality Review (AQR) of the 2022 audit, and additional work undertaken. The plan included considering the impact of continued market volatility as a result of global macroeconomic and political factors. Updates were received from the external auditor throughout the year, demonstrating that professional scepticism had been applied through challenge of judgements, estimates and disclosures. Matters arising from the audit were communicated to the Committee on an ongoing basis.

The Committee reviewed EY's transparency report and discussed the findings from the EY audit quality inspection report published by the FRC. The Committee discussed the impact on the Schroders audit plan, how EY maintains and monitors a high-quality audit generally through its UK Sustainable Audit Quality Programme. EY undertakes a range of processes that are designed to promote, embed and monitor audit quality. The structure of the audit team has been designed by the Lead Audit Partner to deliver and maintain a high-quality audit. EY continues to assess the structure, experience and knowledge of the team, with a view to maintaining and enhancing audit quality. In making this assessment, the Committee and EY have discussed and considered several Audit Quality Indicators (AQIs). These include: audit planning milestones; hours spent; internal and external reviews and results; training undertaken and experience of the team; senior team members' responsibilities and their time commitments; and the extent to which specialists are involved in the audit.

The FRC AQR team, responsible for monitoring the quality of UK audits, reviewed the EY audit file for the Group's 31 December 2022 year end as part of its regular cycle of audit inspections. The Committee have reviewed the FRC's report on the audit and the AQR's areas for improvement with respect to revenue and general ledger journal entry testing. In the February meeting, the Committee discussed with EY the amendments made to their approach in the 2023 audit, including additional testing, and were satisfied with the changes made.

In February 2024, ahead of the consideration of the 2023 Annual Report and Accounts, the Committee received initial feedback on the conduct of EY's 2023 audit, including how the AQR findings were addressed. The detailed assessment of EY's 2023 audit will be considered by the Committee at its May 2024 meeting and any findings will be implemented for the 2024 audit.

Independent model validation

Our proprietary models are reviewed by our Internal Model Validation Committee. Given the maturity of our SustainEx model and the scale of its use across the firm, in 2022 we decided to engage an external party to provide an independent review and validation of the model against its objectives, including any recommendations for improvement. In 2023, we continued working through the recommendations from the Internal Model Validation Committee, and in addition underwent Internal Audit on our models.

Voting process

The votes we cast on behalf of clients are critical to our ability to push for positive changes that create and preserve value. How we use our influence over the companies in which we invest is a vital component of our role as active managers. Although most companies only have one shareholder meeting each year, our analysis of, and dialogue with, companies takes place all year round. Our corporate governance analysts, within the Sustainable Investment team, centrally co-ordinate our voting activity to ensure consistency of approach across geographies and funds.

While we set global best practice expectations, our corporate governance team splits responsibility for voting regionally. This is to ensure that local governance codes and our evolving expectations for different markets are incorporated into our approach and to effectively build and maintain relationships with the relevant investment desks.

As active investors, we recognise our responsibility to make considered use of voting rights. It is, therefore, our policy to vote all shares at all meetings globally, except where there are onerous restrictions, for example, share blocking. In 2023, we voted 97% of meetings we were eligible to vote. In a small number of cases, we may abstain where mitigating circumstances apply, for example, where a company has taken substantive steps to address issues. Our preference is to vote for or against resolutions. Abstentions count for approximately 0.75% of our total voting instructions. This includes instances where we do not support a proposal but there is no other valid vote option.

Account set-up

We follow strict auditable procedures to ensure the correct set up of client accounts where we have been given voting authority. A check is completed to ensure the custodian has confirmed the set up and that voting ballots are feeding through to our proxy voting environment.

Client and public reporting

It is our policy to disclose how we have voted, and our reasons for voting against the board's recommendations, publicly on our website. We update it the day after every shareholder meeting at which we have voted. The link to our vote disclosure website page is: Schroders Investment Management Vote Disclosure.

We provide institutional clients with tailored reports which include their individual voting records and detailed information on the progress of current company engagements in their portfolio.

Use of proxy research

As discussed in the 'voting guidelines' section, we implement our own voting instructions based on our voting guidelines for each market. These are reviewed and updated at least annually to ensure they adequately reflect our expectations for what we think best represents our clients' interests for each market.

Our proxy advisor uses these voting guidelines to deliver draft proxy voting recommendations for the companies in which we invest. Prior to December 2023, all proxy voting instructions, in all markets, were submitted using the ISS global voting platform, and via Glass Lewis' platform, thereafter. The relevant proxy service provider carried out the individual processing of vote instructions with the custodians and/or company/company agents.

Where our holding in a company is less than 0.5% of share capital, we generally vote in line with our custom voting instructions, administered by our proxy voting provider. However, contentious resolutions or those that require a more nuanced decision, are reviewed by our corporate governance team, and often, also by the relevant investment team, irrespective of holding size. In 2023, we voted differently from our proxy adviser's standard recommendation for approximately 6% of resolutions.

Managing conflicts

Conflicts framework

Schroders accepts that conflicts of interest may arise in the normal course of our business (see examples in the next section). . Our approach is to seek to identify all potential and actual conflicts and manage them in the best interests of our clients and in line with regulatory expectations. In practice this means that Schroders implements and maintains effective organisational and administrative arrangements, with a view to taking appropriate steps to prevent or manage conflicts of interest from constituting or giving rise to a risk of damage to the interests of its clients.

We have provided a summary of our Group Conflicts of Interest policy, which sets the minimum standards and provides guidance on the: identification, prevention and management of conflicts (including disclosure where appropriate). The policy applies to all staff globally and all employees receive training on conflicts through our Mandatory Training Framework. The Group policy is reviewed annually.

Identified conflicts are prevented or appropriately managed through effective measures and governance arrangements, such as:
- Processes and controls implemented through policies and procedures
- Modifications to or limitations imposed on business processes or personal activity
- Client disclosure
- Business decision to cease or stop the activity

In additional to the Conflict of Interest policy, Schroders has a number of additional policies and procedures which are designed to appropriately manage various conflicts of interest these include but are not limited to; Gifts & Entertainment policy, Client Inducements policy, Personal Account Dealing policy, Proxy Voting policy and the Market Abuse policy.

Schroders governance arrangements are designed to manage potential conflicts arising from its ownership structure, including misaligned remuneration arrangements, poorly controlled procurement decision making and excessive directorship powers. These arrangements include segregation of duties and reporting lines between directors, controls functions and business functions; representative board composition; directorship obligations and disclosure requirements; recruitment process controls and risk management controls.

Any new business activities are required to follow change control procedures which are designed to identify and mitigate potential conflicts of interests if and when they arise. Conflict management is the responsibility of senior management, and each regulated board is required to periodically assess that arrangements are appropriate and in line with the Group Conflicts of Interest policy.

All potential conflicts that are identified (by category) are recorded in our Group Conflicts of Interest Register (Group Register), along with associated controls and mitigating actions. The Group Register is reviewed annually by the Schroders Group Conflicts Committee – a sub-committee of the Group Risk Committee.

The Group Conflicts Committee is chaired by the Global Head of Strategy and Solutions, with participation by the Global Control Function Heads, Business Chief Operating Officers or Chief Administrative Officers, and meets monthly or more frequently should specific matters arise. On an annual rolling basis, the Chief Administrative Officers of the Regions (EMEA, Asia Pacific and Americas) present to the Committee an overview of the conflicts of interest management practices in their respective businesses and regions, highlighting any situational conflicts resolved in-country during the past year and any standing conflicts that have been identified in their region and added to the Group Register.

Where required, the Group Conflicts Committee is asked to adjudicate on instances of material conflicts that cannot otherwise be fully mitigated or to agree proposed mitigations are appropriate, in order to reach a consensus that the outcome is in the in the best interests of clients. Conflicts that cannot be resolved by the Group Conflicts Committee or matters which could impact the risk profile of the firm, are escalated to the Group Risk Committee) and to relevant impacted legal entity boards. Where agreement cannot be reached on a particular issue, or the conflict is deemed to be a significant risk, the matter may also be escalated to the Group Chief Executive for a final resolution.

The Conflicts Framework is supported by our Central Risk & Compliance team who maintain the central records (Group Register and Group Log) and provide ongoing advice to the business on whether different scenarios present a conflict and whether the associated controls or mitigating actions are adequate.

Conflicts of interest

Business conflicts

Conflicts that can arise in the course of our business include the following (non-exhaustive list):

- Our Group structure. As outlined above, we have a successful and significant Wealth Management business in our Group. We separate the processes and management of our main Asset Management businesses and our Wealth Management division to help ensure that decisions made for our Wealth Management clients are not inappropriately influenced, for example by investing their capital into a Schroders product that may be less suitable than a third-party fund. There may also be competing interests within the Asset Management Division, for example between our retail funds business and our institutional business, or between the public and private asset Investment teams. Our governance structure ensures that there are separate legal entity boards responsible to oversee the management of these businesses. Where executive directors serve on these boards, we have sought to align their corporate roles to the interests of the ultimate end-clients of the entities insofar as possible (for example, the Chair of our primary investment management entity in the UK is our Global Head of Strategy and Solutions), and we have appropriate conflicts of interest management as part of board governance, overseen by our Group Governance team.
- Overlapping mandates. It is inevitable given the size and diversity of the Schroders Group that different client mandates result in portfolios that invest in the same issuers. This can result in competing orders to deal in the same instrument for different clients or, particularly in less liquid markets, transactions taking place between clients (in line with regulatory requirements and restrictions applicable to such transactions). Certain multi-asset or fund of funds strategies may also be able to invest in other Schroders managed products. To manage these situations, we maintain policies on asset allocation and valuation to ensure that client orders are allocated fairly and that any transactions between clients are priced at an independently determined market price. We also maintain a robust investment oversight process (including reviews by Asset Class Risk and Performance Committees chaired by senior Investment staff and attended by Group Investment Risk), and information barriers to ensure there is no information advantage gained by the various teams and that all investments are made in the best interests of our clients.
- Remuneration. Schroders believes that a discretionary incentive approach is preferable to the use of formulaic arrangements, to ensure that good conduct and behaviours in line with our values are rewarded, to avoid reinforcing or creating conflicts of interest and to encourage a one team attitude. The remuneration structure at Schroders has been largely unchanged for many years, reflecting the firm's long-term approach. That structure is designed to be consistent with and promote sound and effective risk management, and not to encourage inappropriate risk taking. Schroders has an established Remuneration Committee consisting of independent non-executive Directors of Schroders plc. Their responsibilities include recommending to the Board the Group's policy on Directors' remuneration and overseeing the remuneration governance framework. The Committee determines the remuneration for the executive Directors, other members of the GMC, the Group Company Secretary and control function heads; monitors and reviews remuneration for other Material Risk Takers (MRTs); and provides oversight of compensation review outcomes for all employees more broadly. The Committee determines Directors' remuneration in the context of remuneration across the Group, including financial and non-financial performance, operating compensation ratio and the remuneration outcomes for the wider workforce. To avoid conflicts of interest, no Director or employee participates in decisions determining their own remuneration.
- Market abuse. We have a proportionate framework in place to prevent market abuse, such as mis-using material non-public information received in the normal course of business. Our framework includes information barriers where appropriate, trade surveillance tools, stop and watch lists, and restrictions on employees trading in their personal accounts.
- External appointments. Individuals may seek to hold other roles which either conflict with firm or client interests by limiting the time available to their primary role, or where they sit on boards of clients or of funds (or hold multiple board positions) they may be able to (or be perceived to) influence certain decisions. The Group External Appointment policy, requires certain external appointments to be pre-approved and sets out the criteria that applies to determine if such an appointment is permissible.

Stewardship conflicts

There are potential conflicts that specifically relate to our stewardship activities which we resolve with the interests of our clients and our fiduciary responsibilities as our guiding principles. These are:

- Engagement with our clients. Many of our institutional clients are themselves listed companies in which Schroders may invest. The conflict that may arise is a reluctance to raise issues of material concern during our engagement or vote against management for fear of losing revenues in our Asset Management business. In these cases, we follow a stewardship and voting conflicts policy that is set out in this and the next section.
- Outside business interests. Conflicts may arise where a Schroders employee responsible for engaging with a company or a voting decision at a company is a director or shareholder or has a position of influence at this company. We have an outside business interest policy (as mentioned above) and we monitor the personal investment activities of our employees to try to prevent these conflicts from arising.
- Different interests in engagement and voting outcomes. Some of our funds or mandates may have a different preferred outcome in a particular engagement issue with an investee company. This can happen as a result of clients being invested in different parts of a company's capital structure, particularly in distressed situations, merger and acquisition (M&A) activity, or because of other aspects of the investment strategy. However, our Active Ownership team can take in views from multiple investment teams and attempt to reach a consensus position. Where this is not possible, we do not promote outcomes that would favour the interests of one group of clients at the expense of another. Where possible, when our engagement results in a voting decision, votes can be split, though this rare. However, we take the view that on most engagements, borne out by our experience, there is usually little difference in the outlook of investment teams at a long-term, responsible investor. We discuss these circumstances with the respective investment desks and vote accordingly.
- Schroders plc. As a general rule, Schroders does not allow trading in Schroders plc shares across our funds or discretionary portfolios. There may be specific circumstances in which we may hold Schroders shares, for example where asset are transferred to us that already comprise Schroders shares or where a client of our Wealth Management business already has such shares in their portfolio. In these circumstances we have controls around trading the shares. When it comes to voting, we follow our voting conflicts of interest policy outlined below.

Voting conflicts

Schroders is responsible for monitoring and identifying situations that could give rise to a conflict of interest, including those that could give rise to a conflict of interest when voting at company meetings, in line with Schroders Group Conflicts of Interest policy. Those responsible for monitoring and identifying situations that could give rise to a conflict of interest are responsible for informing the Corporate Governance team of any potential conflicts.

Where a potential conflict is identified with respect to a fund or client on whose behalf the Corporate Governance Team is voting, or the company being voted on, we will follow the standard voting recommendations of a third party (the supplier of our proxy voting processing and research service).

Examples of potential conflicts include, but are not limited to:

- Where the company being voted on is a significant client, or part of the same Group as a significant client of Schroders
- Where the Schroders' employee making the voting decision is a director of, significant shareholder of, or has a position of influence at the company being voted on
- Where Schroders votes at a company where a Schroders plc director or senior manager is a director or senior manager of the company being voted on
- Where Schroders plc or an affiliate is a shareholder of the company being voted on
- Where there is a conflict of interest between one client and another or there is a pressure to vote in a particular way due to a client request
- Where we vote on Schroders plc resolutions

There may be scenarios in which it is in the best interest of the client to override the recommendations of the third party (described above) and vote in a way that may be perceived to benefit Schroders. In such scenarios, Schroders will obtain approval for the decision from Schroders' Head of Equities (or other relevant asset class) with the reason for such a vote being recorded in writing. Where a director of Schroders plc is also a director of an investee company, Schroders' Global Head of Equities will approve the voting recommendations for all resolutions at that investee company's shareholder meetings with the reason for such a vote being recorded in writing. If the third-party recommendation is unavailable, Schroders will vote in what we believe to be the best interests of clients, irrespective of whether this puts Schroders at a disadvantage.

In the case of mergers, acquisitions or similar corporate actions where a fund or client holds investments in both the target and the acquirer, Schroders will always act in what it regards as the best interests of its clients. There may be other instances where different funds or clients, managed by the same or different Schroders fund managers, hold stocks on either side of a transaction. In these cases, the fund managers will vote the shares they control in the best interests of their respective clients, in their specific funds and we support the independence of those decisions to avoid the exertion of inappropriate influence.

Voting conflicts in 2023

In 2023 we recorded a total of 253 conflicts of interest in connection with voting. We voted in line with our provider's standard policy recommendations in all cases apart from 8 meetings whereby we followed our policy of escalating these votes to an internal committee for approval.

Case studies - conflict policy escalation

- We placed a vote against our proxy adviser's standard policy and for the Auditors' Remuneration at a private equity fund of fund's 2023 shareholder meeting. Our vendor had advised that the information relating to the auditor fees was not available in the materials, making it difficult for shareholders to make a voting decision. However, we were able to source this information ourselves and followed the escalation process under our conflicts policy in order to support the proposal.
- We voted against a company's remuneration report contrary to our proxy adviser's standard policy which supported the proposal. We voted against because the Chair and CEO lacked the company's shareholding requirements, owning approximately only 25% of the required shareholding. We followed the escalation process under our conflicts policy in order to dissent on this proposal.

Reviewing our policies

The starting points for ensuring our stewardship activities and processes remain effective are:
– The ongoing review of our policies, procedures and related materials on our engagement and voting approach; and
– The ongoing maintenance of our engagement database

The process behind both is aligned with our firm- wide policies and processes for internal and external assurance. We describe each, in turn, below.

Policy reviews

As of 31 December 2023, we were guided by our ESG Policy for Listed Assets, which included our principles and processes related to stewardship. Please note, as of April 2024 we have replaced the ESG policy for listed assets with our Group-wide Global Sustainable Investment Policy, alongside our Voting Guidelines. Our Global Sustainable Investment Policy establishes the firm's overall approach to sustainable investing, and serves as a framework Policy for various policies, position statements and other types of document which cover specific Schroders entities, business lines, investment strategies and sustainable investment themes.

Our voting guidelines set out how Schroders votes at shareholder meetings at its investee companies that are publicly quoted. However the underlying principles guide our decision-making when voting at investee entities in other asset classes

We believe these documents help to better clarify our policies and guidelines to our wider stakeholders.

Our sustainable investment policies can be found here.

Holding service providers to account

At least every three years we undergo a tender process for our proxy advisor- contract. In 2023, we did a thorough review of our current proxy advisor and conducted a full tender process. The Corporate Governance team worked closely with Schroders Procurement team to evaluate the resources, governance and systems of our current provider and possible alternative providers to determine the most suitable service provider. We identified a shortlist of two providers who participated in an RFP process to reach a decision, one of which was our incumbent proxy advisor, ISS and the other, Glass Lewis, who we subsequently, appointed as of December 2023 as a a result of the tender. We will also continue to use research from the Investment Association's Institutional Voting and Information Service (IVIS).

We viewed this tender process as an opportunity to improve the quality of our proxy advisor services.

After extensive assessments of the quality of research offered by both providers as well as their respective capabilities when it came to implementing complex voting instructions in a timely manner, we believe that Glass Lewis would be the most suitable provider for us at this time. As part of our tender process, Schroders' Information Security team conducted due diligence reviews to ensure that Glass Lewis is compliant with our third-party cyber security policy and data and information requirements.

Our service level agreement with ISS, and now Glass Lewis, outlines our expectations for a high quality, accurate and timely service. We endeavor to work as a partners with our proxy advisors and are, therefore, in regular contact with them through frequent emails and calls. We also have a formalised monthly call with our respective teams and the corporate governance team attends industry events held by our current proxy advisors, as well as their peers, to share views and insights on policy, performance and trends.

In early 2023, we signed the Investment Forum's letter to a proxy advisor, alongside other asset managers, to communicate shared concerns about the service the advisor was providing. We are constantly monitoring our proxy advisor and aim to provide constructive feedback, where necessary, to improve its services.

Voting discretion

Given our focus as an active manager on ESG integration and stewardship, we believe it is in our clients' best interests for them to give voting discretion to Schroders as we consider our in-house team of experts, working alongside our investment teams, are best placed to engage with companies and to make voting decisions. We believe that the power of our voice during the whole year is underpinned by these voting rights.

Stock lending

We do not lend stock.

Regional committees

We believe that collaboration with our investment desks is a fundamental part of the voting process. The Schroders Corporate Governance team hosts corporate governance committee meetings bi-annually for the UK, US, Europe and Australia. The committees are hosted by the analyst responsible for the market and attended by investors and analysts who have holdings in the region

The purpose of the Committees is to provide an update on our recent voting activity and to consult them on proposed changes to our voting guidelines, discussed below. We may also discuss new market developments, including regulatory changes, as well as controversial company meetings and engagements.

Escalation committee

We aim to vote in the same way across Schroders' funds for all resolutions, except in cases such as mergers and acquisitions where funds may have fundamentally different views, for example, because they own the acquirer or the target company.

In rare cases, where the corporate governance team and the relevant investment teams cannot reach agreement on how to vote, the relevant parties are required to convene the escalation committee, chaired by the Global Head of Equities, which will agree how to vote on the disputed resolution(s) and record the decision.

Reviewing our policies *continued*

Oversight of external service providers

We have an established global network of external service partners to supplement our own infrastructure, benefiting from the expertise and specialised skills our partners provide. Our dedicated Procurement team oversees our suppliers and the procurement of outsourced relationships.

Outsourcing and supplier oversight is essential to effectively manage relationships and mitigate the risks with suppliers providing goods and services to the Group. Schroders' Group Outsource and Supplier Oversight policy (along with the Service Criticality Assessment) outlines the framework and minimum standards to be applied to the management of Schroders suppliers to:

- Ensure outsourced activities are subject to a consistent standard of control and effective oversight
- Ensure goods and services are delivered to agreed and expected quality and performance standards
- Understand and mitigate any potential risk exposure related to our suppliers
- Ensure added value from suppliers by maximising return on management effort

Our Procurement team check that practices are compliant with our policies.

Depending on the types of relationship, activities, and the related level of risk assessed by Schroders, the management measures to be employed may differ. In all cases, we carry out an initial due diligence assessment and ongoing monitoring to ensure that the services supplied are of an acceptable quality and that our supplier code of conduct has been adhered to. Our Supplier Code of Conduct sets out the high standards and behaviours we expect from them, covering human rights, ethical sourcing, bribery and corruption, living wages, diversity and inclusion, health and safety and the environment. In 2023, we updated and reformatted this, to broaden our requirements and make the document easier to navigate for our suppliers. This included highlighting that we expect suppliers to support freedom of association and collective bargaining and drawing attention to the availability of our whistleblowing service to our supply chain. We also strengthened our climate section, for the first-time requiring new material suppliers to set science-based targets.

We engage proactively with our external service providers through regular communication from employees and have an established framework that governs our approach to selection, on-boarding, management, oversight and reporting across our supply chain. The Schroders plc Audit and Risk Committee reviews the Group's material outsource providers annually to ensure that the strategy for their use remains consistent with our strategy to use service partners as a way to add value to our infrastructure. We have dedicated resource to lead the focus on our sustainability responsibilities within the supply chain. This allows us to assess and review those suppliers deemed to be of higher risk to modern slavery. In 2022, we commenced a three-year partnership with appointed Slave Free Alliance, to support ongoing improvements to our risk mapping, assessment, and due diligence of our supply chain. We also monitor, engage, and support our suppliers in setting science-based targets to meet our own goal for 67% of suppliers (by greenhouse gas emissions) to have set a science-based target by 2026. Progress against our target is published in our Schroders Climate (TCFD aligned) Report 2022. We launched our Supplier Climate Action Programme in November 2023, focusing on supporting suppliers to baseline their GHG emissions and set science-based targets. Initially, selected three strategic suppliers with whom we have long-term relationships, will be guided through the target setting process over a six-month period.

Maintaining the quality of our engagement data

The Sustainable Investment team conducts regular reviews of the ActiveIQ database and advises investors where data quality can be improved. The reviews involve checking for poor quality records, potential duplicates, and where achieved objectives are not recorded correctly.

There is a formal monthly approval process for completed objectives. Relevant thematic experts in the team review objectives that have reached Milestone 4 to ensure objectives are aligned with the SMART guidance and there is sufficient evidence for completion. Expectations on following SMART guidance and updating objective Milestones have been communicated to investment desks during training sessions and other presentations. Generally, investors are equipped with training and guidance on how to approach and record engagements.

ActiveIQ users receive a weekly digest of their objectives that have not had a recent event, to help identify which objectives need action (e.g., additional meetings, escalations, archiving). Ultimately, investors are responsible for maintaining good data quality for their recorded engagements.

The Engagement Reporting Working Group exists to provide oversight on the creation and use of engagement data. The purpose of the group is to:

- Discuss how engagement data should be presented for reporting.
- Keep abreast of ActiveIQ developments and advise on how reporting may be impacted.
- Training and dissemination of relevant information about reporting engagements for investment desks.
- Agreeing on the appropriate level of information to share externally.

Fair and balanced stewardship reporting

We are committed to ensuring fair and balanced stewardship reporting, as it plays a crucial role in demonstrating our accountability and transparency. Our reporting provides clear and comprehensive information about our approach to stewardship, including our policies, processes, and the outcomes we have achieved. We prioritize transparency by disclosing our engagement activities with investee companies, voting records, and any collaborative initiatives undertaken. We provide contextual information to help stakeholders understand the rationale behind our stewardship decisions.

Appendices

Principle	Principle description	Most relevant sections	Page numbers
1	**Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."**	*Our commitment to Stewardship*	3
		Active Ownership	4-9
		Sustainable investment at Schroders	67-89
		About Schroders	89-95
2	**Signatories' governance, resources, and incentives support stewardship.**	*Sustainable investment at Schroders*	67-89
		About Schroders	90-118
3	**Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**	*Managing conflicts*	114-116
		Sustainable investment at Schroders	67-89
4	**Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**	*Active Ownership*	4-9
		Engagement	10-57
		Sustainable investment at Schroders	67-89
		Our risk management framework	101-113
5	**Signatories review their policies, assure their processes and assess the effectiveness of their activities.**	*Reviewing our policies*	117-118
		About Schroders	90-118
6	**Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**	*Incorporating client feedback*	82-88
		Active Ownership	4-9
		Engagement	11-13, 17-20
		Our commitment to Stewardship	3
		About Schroders	90-118

Appendices

Principle	Principle description	Most relevant sections	Page numbers
7	**Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**	*Using our influence across different asset classes*	17-20
		Active Ownership	4-9
		Engagement	10-57
		Voting	58-65
		Sustainable investment at Schroders	67-88
8	**Signatories monitor and hold to account managers and/or service providers.**	*Holding ESG data vendors to account*	71
		Reviewing our policies	117-118
		Use of proxy research	113
9	**Signatories engage with issuers to maintain or enhance the value of assets.**	*Active Ownership*	4-9
		Engagement	10-57
		Our commitment to Stewardship	3
		Voting	58-65
10	**Signatories, where necessary, participate in collaborative engagement to influence issuers.**	*Engagement*	24, 28, 43, 52, 78
11	**Signatories, where necessary, escalate stewardship activities to influence issuers.**	*Engagement*	10-57
		Voting	58-65
12	**Signatories actively exercise their rights and responsibilities.**	*Our commitment to Stewardship*	3
		Engagement	10-57
		Using our influence across different asset classes	17-20
		Voting	58-65
		Developing our risk management approach	113
		Sustainable investment at Schroders	67-89
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Glossary

Acronym	Definition
ABS	Asset Backed Securities
AGM	Annual General Meeting
AI	Artifical Intelligence
AOFM	Australian Office of Financial Management
ASIFMA	Asia Securities Industry and Financial Markets Association
AUM	Assets Under Management
BARC	Board Audit and Risk Committee
CCEI	China Climate Engagement Initiative
CCLA	Churches, Charities and Local Authorities
CCTF	Climate Change Task Force
CCWG	Climate Change Working Group
CDP	Climate Disclosure Project
CFO	Chief Financial Officer
CFRF	Climate Financial Risk Forum
CLO	Collateralized Loan Obligations
CMBS	Commerical Mortgage Backed Securities
COP15	UN Biodiversity Conference
CSC	"Group Strategy Committee"
CSO's	Combined Storm Overflows
CvaR	Temperature Rise and Climate Value at Risk
DCCEEW	Department of Climate Change, Energy, the Environment and Water
DE&I	diversity, equity and inclusion
EFAMA	European Fund and Asset Management Association
EMEA	Europe, Middle East, Africa
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
ExCo	Sustainability Executive Committee
FAIRR	Farm Animal Investment Risk and Return

Acronym	Definition
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSC	Korean Financial Services Commission
GHG	Greenhouse Gas
GMC	Group Management Committee
GMO	Genetically Modified Organisms
GRC	Group Risk Committee
GSI	Group Sustainability and Impact Committee
HCMC	Human Capital Management Coalition
I&D	Inclusion & Diversity
ICCR	International Committee on Credit Reporting
ICMA	International Capital Market Association
IFA	Independent Financial Advisors
IIGCC	Institutional Investor Group on Climate Change
IIGCC	Institutional Investors Group on Climate Change
ILS	Insurance Linked Securities
ILS	Insurance Linked Securities
IMI	Investable Market Index
KPI	Key Performance Indicator
LDI	Liability Driven Investment
LEAP	Locate, Evaluate, Assess and Prepare
LTIP	Long-Term Incentive Plan
LULUCF	Land Use, Land Use Change and Forestry
M&A	Merger & Acquisition
MBS	Mortage Backed Securities
MRT	Material Risk Takers
NA100	Nature Action 100
NGO	Non-governmental Organisation
NZEI	Net Zero Engagement Initiative
PA S&I Steer Co	Private Assets Sustainability and Impact Steering Committee

Acronym	Definition
PCAF	Carbon Accouting Financials
PCAF	Partnership for Carbon Accounting Financials
PDC	Product Development Committee
Private Assets ADC	Private Assets Product Development Committee
PSC	Product Strategy Committee
R&D	Research & Development
RBA	Reserve Bank of Australia
RISE	Raising Impact, Sustainability and Engagement
ROIC	Return on Invested Capital
S&I	Sustainability and Impact
SBTi	Scoence-Based Targets initiative
SDR	Sustainable Disclosure Requirements
SFDR	Sustainable Financial Closures Regulation
SIFMA	Securities Industry and Financial Markets Association
SMART	Specific, Measurable, Achievable, Realistic and Time-Bound
SME	Small and Medium Enterprises
TCDF	Task Force on Climate-Related Financial Disclosures
TCFD	Task Force on Climate-Related Financial Disclosures
TNFD	Taskforce for Nature-related Financial
TNFD	Task Force on Nature Related Financial Disclosures
TPI	Transition Pathway Initiative
TPT	Transition Plan Taskforce
TSR	Total Shareholder Return
UN SDGs	United Nations Sustainable Goals
UNGC	UN Global Compact
WBA	World Benchmarking Alliance
WDI	Workforce Disclosure Initiative
WMARC	Wealth Management Audit and Risk Committee
WMEC	Wealth Management Executive Committee
WWF	World Wide Fund for Nature

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Important information