

SCHRODERS CAPITAL SUSTAINABILITY AND IMPACT POLICY

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Schroders
capital

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Scope

This Policy applies to all Schroders Capital businesses and fits within the Schroder's Environmental, Social and Governance Policy for Listed Assets¹. It can be complemented by individual private assets (PA) business ESG policies.

¹ [schroders-esg-policy.pdf](#)

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Schroders Capital Ambition

For Schroders Capital, sustainable and impact investing is effective in contributing meaningfully to resolving current environmental and social challenges. Our ambition is to get closer to the assets we manage, to maximize the potential long-term impact of our investments in private markets.

Sustainability and Impact (S&I) are at the core of our investment process. Schroders Capital's vision is to have an innovative investment approach that has S&I at its centre and establishes S&I as a defining characteristic of our private asset offering.

As we move towards a world which is progressively pricing in both positive and negative externalities, it is ever more critical to understand, assess, monitor, report and improve on the broader impact of our investments on the planet and its inhabitants over time.

Our approach is founded on the conviction that sustainable and impact investing can, in addition to generating financial returns, play a critical role in resolving environmental and social challenges. As such sustainability and impact become one of the defining characteristics of our investments.

This is especially the case in private markets where we typically have more leverage to operate and enhance the assets we are investing in and where a longer investment horizon can enable long-term changes.

Schroders Capital's approach to building change in a sustainable and impactful manner is based on three core attributes:

- **Intent:** We strive to ensure that S&I considerations are well represented in the investment objectives and complement the achievement of financial returns. We aim to select partners that are like-minded in terms of the change we target
- **Contribution:** Our integrated investment process seeks to contribute S&I investing via a range of strategies and themes including sustainable cities, climate mitigation and adaptation, financial inclusion,

healthcare, industry and innovation, job creation and economic growth, amongst others. Active ownership and engagement expand our principles and their implementation across the entire value chain of intermediaries and stakeholders with whom we work

- **Measurement:** Transparency and disclosure are fundamental to our approach. We collect an extensive range of sustainability and impact metrics to measure the effectiveness of our investments in achieving the goals we set for each strategy, theme or sector. We track positive and negative changes generated over time to enhance the effectiveness of our active ownership efforts and inform future investments

At Schroders Capital, we are in a unique position to lead the delivery of positive change in private asset (PA) markets. First, our multi-sector strategies can deliver S&I at scale across different environmental and social themes and asset classes. Second, our human capital, with a specialized S&I team in partnership with S&I experts within each sector and in close partnership with Schroders Group's sustainability team. Finally, the S&I team benefits from the impact track-record existing in-house (BlueOrchard).

Our ambition has led to participate in the following initiatives:

- Schroders group was an early signatory of the UN Principles of Responsible Investment (PRI), supports the UN Global Compact initiative and the Sustainable Development Goals
- In Dec 2020 Schroders joined the Net Zero Asset Manager initiative, the goal of which is to attain net zero greenhouse gas emissions by 2050 or sooner. It is part of a shared aim to limit global warming to 1.5 degrees above pre-industrial levels. A first reporting based on 2019 as a baseline has been prepared in Nov. 2021 in accordance with the Science Based Target Indicators (SBTi)
- Schroders supports the Task Force on Climate Related Financial Disclosure (TCFD) and encourages companies to report against the key elements of this framework

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Governance

The Sustainable and Impact Team (S&I Team) at Schroders Capital is responsible for the content and updating the S&I Private Asset Policy (the Policy). The Policy will be reviewed regularly and at least every 2 years unless any major update/change in process takes place within this period.

The Sustainability and Impact Steering Committee (the Committee) oversees the S&I strategy, policy and practices at Schroders Capital, and it is comprised of:

- Head of Sustainability and Impact for Private Assets (Chair)
- Head of Private Assets Strategy
- S&I representative of each business line
- S&I team of Private Assets
- Global Head of Sustainable Investments

The Committee is responsible for developing and overseeing implementation of the S&I Private Asset ambition. The Committee's specific focus areas include:

- Approval of the S&I PA Policy
- Review S&I processes and recommend improvements
- Oversee the implementation of the Policy for both existing and new investment strategies
- Ensure all PA investment professionals are properly trained on S&I best practices and standards
- Oversee S&I reporting to clients as well as to internal and external stakeholders

The Committee meets quarterly and maintains close coordination with the Schroders Global Sustainability Team.

A vertical photograph on the left side of the page shows several wind turbines in silhouette against a vibrant sunset sky. The sun is low on the horizon, creating a bright orange and yellow glow that reflects on the calm water in the foreground. The turbines are spaced out, with the closest one being the most prominent.

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ESG, Sustainability and Impact Definition

At Schroders Capital, we use the following definitions which are aligned with best market practice:

ESG integration² – the consideration of environmental, social and governance (ESG) factors as part of the investment process to identify issues that can potentially materially impact an asset's risk or return profile. It does not require ESG to be the most important factor driving investment decisions but requires a consistent and robust application of the approach.

Sustainable investing³ – an investment approach in which ESG factors are central considerations in the investment process and key drivers of the investment decision, with the overall aim of enhancing risk adjusted returns over the long term, by using ESG analysis to better understand emerging risks and opportunities. This generally requires defining explicitly how ESG factors are considered and determine a minimum bar which must be met.

Impact investing – investments made with the intent to contribute to measurable positive social, economic, or environmental impact alongside financial returns⁴.

² As defined in the "Sustainability Accreditation Framework"

³ As defined in the "Sustainability Accreditation Framework"

⁴ As defined by the Operating Principles for Impact Management ([Invest for Impact | Operating Principles for Impact Management \(impactprinciples.org\)](https://www.impactprinciples.org/))

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Product Classification

To reflect our commitment to making investments that can accelerate positive change, all Schroders Capital strategies are classified following the S&I umbrella framework.

The classification process clarifies key features of each strategy as well as compliance with a pre-defined set of commitments. It is a framework which results in the investable universe being classified as either (i) ESG Integrated, (ii) Sustainable Investing or (iii) Impact Investing.

The S&I umbrella framework is the result of a forward-looking evaluation of market best practices where each product should consider positioning itself, depending on its S&I characteristics and the definitions set out in section 4. The framework also considers regulatory requirements as applicable today within the European territory.

Product Classification Criteria

	ESG Integrated	Sustainable	Impact
ESG Integration	Yes	Yes	Yes
Principles Adverse Sustainability Impacts (PASl) Disclosure	Yes through in-house tools	Yes through in house tools	Yes through in house tools
Apply and disclose exclusion list	Yes	Yes	Yes
E&S performance monitoring	NA	Meet pre-defined social or environmental threshold (absolute) or outperform a reference benchmark in ESG dimension (relative)	Meet pre-defined social or environmental threshold (absolute) or outperform a reference benchmark in ESG dimension (relative)
Good governance test	NA	Yes	Yes
Do no significant harm test	NA	Only to the sustainable share of the portfolio	On the majority of the portfolio and on a 70% + part of total assets or NAV
SFDR⁵ classification (where applicable)	Article 6	Article 8	Article 9

5 As per the Sustainable Finance Disclosure Regulation (SFDR), [EUR-Lex – 32019R2088 – EN – EUR-Lex \(europa.eu\)](#)

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ESG Integration Process

At Schroders Capital, we fully integrate ESG factors across all products. Different asset classes, investment strategies and investment universes may require different approaches to ESG integration. Schroders Capital adopts the Group's "Sustainability Accreditation Framework", a framework that establishes the approach for incorporating ESG into the investment process for different strategies. This accreditation is renewed on an annual basis by Schroder's Sustainability Investment Team.

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Excluded activities

As per Schroder's Group, funds directly managed by Schroders Capital fully support the following international conventions:

- The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions
- The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of anti-personnel landmines
- The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons
- Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons

In addition, Schroders Capital will not knowingly invest in any activity that is involved in⁶:

- The production, stockpiling, transfer and use of these weapons. We do not exclude those companies whose business activities or products only have the potential to be used for these purposes, or where these activities or products have not been undertaken or created with these uses in mind
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's⁷, wildlife or products regulated under CITES⁸

- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where Schroders Capital considers the radioactive source to be trivial and/or adequately shielded
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- Commercial logging operations for use in primary tropical moist forest
- Production or trade in wood or other forestry products other than from sustainably managed forests
- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour

We recognise that many investors hold views that their investments should not be associated with companies engaging in specific activities. We implement a wide range of negative screens and exclusions according to specific ethical exclusion criteria requested by our clients. We draw on a number of different data sources to ensure that their views are reflected in the most accurate way possible.

Specific investment strategies and products at Schroders Capital may, in addition to the above exclusion list, have additional exclusion criteria to meet sector and asset class specific regulatory requirements.

⁶ For the full list of IFC Exclusion List, please see [IFC Exclusion List](#)

⁷ PCBs: Polychlorinated biphenyls - a group of highly toxic chemicals.

⁸ Convention on International Trade in Endangered Species of Wild Fauna and Flora ([CITES](#))



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Operating Principles for ESG, Sustainable and Impact Management

Schroders Capital aims to implement a standardised investment process across all its business lines that incorporates an assessment of ESG risks and opportunities, as well as sustainability, and impact investment risks and opportunities, when relevant, throughout all the stages of its investment process. Schroders Capital applies an umbrella framework inspired by the Operating Principles for Impact Management⁹ (the Principles).

The Principles guide Schroders Capital's practices to ensure that sustainability and impact are embedded in all the relevant steps of its investment process from its strategic intent, origination and structuring, portfolio management, impact at exit, and verification.

Sustainability and impact are part of Schroders Capital's product development process. Each new product must be approved by Schroders Private Assets Product Development Committee (the PDC). Within the PDC document each product is classified in terms of low, medium, and high sustainability and impact potential. The potential is assessed, and targets set, measured and monitored during the entire life of the investment strategy.

⁹ [Invest for Impact | Operating Principles for Impact Management \(impactprinciples.org\)](https://www.investforimpact.org/operating-principles-for-impact-management/)

		ESG Integration	Sustainable Investments	Impact Investments
Principle 1 DEFINE OBJECTIVE	- Identify ESG risks material to the investment strategy			
	- Identify sustainability characteristics material to the investment strategy			
	- Define strategic impact objectives consistent with investment strategy			
Principle 2 MANAGE OBJECTIVE	- Manage ESG risk on a portfolio basis			
	- Manage sustainability characteristics at portfolio level and align staff incentives with sustainability characteristics			
	- Manage strategic impact on a portfolio basis and align staff incentives with impact achievement			
Principle 3 CONTRIBUTION	- Establish the manager's contribution to the achievement of sustainable characteristics and/or objectives			
	- Establish the manager's contribution to the achievement of impact			
Principle 4 EXPECTED SUSTAINABILITY/ IMPACT	- Assess the expected sustainability characteristic of each investment, based on a systematic approach			
	- Assess the expected impact of each investment, based on a systematic approach			
Principle 5 INTEGRATE ESG RISKS	- Assess, address, monitor potential ESG risks on financial performance for each investment			
	- Engage with investees to seek its commitment to take action to address potential ESG gaps			
Principle 6 MONITOR ESG AND/OR IMPACT PERFORMANCE	- Monitor ESG risks for each investment			
	- Monitor progress of each investment in achieving sustainable characteristics against expectations			
	- Monitor progress of each investment in achieving impact objectives against expectations			
Principle 7 SUSTAIN IMPACT	- Conduct exits, considering the effect on the sustainability characteristics of the investments			
	- Conduct exits, considering the effect on sustained impact			
Principle 8 IMPROVE PROCESSES	- Review and improve decisions and processes based on ESG risks assessment and integration			
	- Review, document and improve decisions and processes based on the achievement of environmental or social characteristics and/or objectives			
	- Review, document and improve decisions and processes based on the achievement of impact and lessons learned			
Principle 9 TRANSPARENCY AND EXTERNAL VERIFICATION	- Internal accreditation from central Sustainability team			
	- Publicly disclose environmental or social characteristics/objectives of strategy including performance against designated benchmark (relative) or pre-defined socio-environmental thresholds (absolute terms)			
	- Publicly disclose alignment with the Principles and provide regular independent verification of the extent of the alignment of the investment process to the Principles			



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Stewardship and Engagement

Schroders Capital has certain responsibilities as investors and as guardians of our clients' assets. That's why we must seek to actively influence corporate behaviour to ensure the companies we invest in are managed in a sustainable way.¹⁰

We engage on a broad range of topics, everything from understanding how a company is transitioning 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.

Finally, engagement provides us with an opportunity to try and influence company interactions with their stakeholders; ensuring that the companies we invest in are treating their employees, customers, and communities in a responsible way.

Engagement activities are prioritised based on several factors:

- The materiality of our exposure to the individual companies, either by the total size of assets invested on behalf of clients or by the percentage exposure to an individual asset
- Whether there have been controversies, or we know about poor stakeholder relationships
- Whether the firm is considered an ESG laggard

Various teams work together to identify areas that warrant discussion with companies.

In addition, specific strategies at Schroders Capital may have a higher engagement level when directly operating and managing assets.

¹⁰ [Active Ownership – Schroders global – Schroders](#)

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SDG Mapping and reporting

The United Nations' Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, and peace and justice.

At Schroders Capital, the SDGs provide a universal framework to measure our contribution, helping achieve a collective ambition. Sustainable private organizations measure their impact, contribution towards these goals and lead the drive for change.

Clear intent and priorities

Top down

Determine the main intent of the strategy, defining

- key impact areas (i.e. target SDGs)
- material ESG areas for the industry
- approach for claiming and measuring the first two
- minimum ESG standards

Set targets

Top down

Depending on the strategy (sustainable or impact Fund) define targets (yearly and for the life of the Fund) per SDG claimed. This will serve as guidance.

Integrate assessment

SDG management

Manage SDG objectives, incorporating strategy to meet targets in investment guidelines.

Depending on strategy, follow Operating Principles for Impact and/or Sustainable Management.

Measure and monitor

Bottom up

For each investment, define and measure KPIs to be used to quantify contribution to the SDGs claimed.

Collect data and monitor progress and evolution of KPIs.

Transparent reporting

Communicate progress towards achieving targets to stakeholders.

Clear periodic reporting (annual).

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Disclosure

Transparency is an enabler of sustainability and impact. At Schroders Capital, we are committed to be transparent towards investors, therefore we prepare and publish regular updates to stakeholders on material impact and ESG parameters of the different business lines. These include but are not limited to:

- Schroders Capital Annual S&I Report. This report will elaborate on key S&I performance indicators, thematic research reports, detailed case studies, engagement progress, our involvement in industry initiatives, collaborative engagements, among others
- Some business lines will also produce quarterly reports that include details on their S&I activities and key performance indicators during the period



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