Schroders

Sustainable Investment Report

Q3 2017

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Contents

The majority of asset managers spend most of their time *talking* about their buying discipline rather than discussing the ownership process, and how they exercised their stewardship responsibilities. However, we believe that actions speak louder than words so rather than just talking about it, we show exactly how we exercise our stewardship responsibilities by sharing actual insights from our engagement and voting activity. These demonstrate how sustainability is embedded in the lifecycle of our investments.

Jessica Ground
Global Head of Stewardship, Schroders

An obvious manifestation is how we vote at annual general meetings (AGMs). Our Swiss equity team has written up a case study based on the engagement and voting that they conducted at the AGM of one of their holdings, GAM. This activity was spearheaded by fund managers, and involved collaboration with competitors aimed at getting the best outcome for clients.

We also take you through the highlights from the 2017 UK AGM season to date, where much of the focus remains on pay. Corporate governance reform was high on Prime Minister May's agenda when she took office and the 2017 season was a chance for investors to show how seriously they take their responsibilities in this area.

Another topic that has been in the headlines is corporate culture. We are delighted to share the insights from an event that we hosted on "culture the intangible." This is a nebulous subject and the insights shared by accountants, the Banking Standards Board and other investors were helpful in defining what shareholders should be focusing on to assess the cultural health of their investments.

Moving onto research, our work on antimicrobial resistance in the food chain shows the implications for a number of sectors while our analysis of the tobacco industry yielded some surprising results. Because many of our clients exclude the sector on the basis of ethical, religious or individual preferences, the sector is often overlooked when it comes to engagement and risk assessment. We compare the tobacco industry to the consumer staples sector and find that in short, neither tobacco nor sugar are good for your health!

Finally, climate change remains a major focus for us. In August, we published our latest tool, the Climate Progress Dashboard. The news isn't good. Our calculations are based on a number of indicators from political commitments to electric vehicle and oil and gas output, and forecast a 4 degree rise in temperatures – double what scientists have forecast to be "safe." We will publish more over the next quarter and update the dashboard on a regular basis. To gain a better perspective of our Sustainability efforts, we encourage you to visit the 'Sustainability' section of our website at schroders.com/us, or schroders.com/ca.

Antimicrobial resistance: investment implications from farm to pharma

The cost of drug-resistant infections is potentially huge. Leading economists estimate resistance could contribute to 10 million deaths per year at a cost of $100 trillion by 2050 if no action is taken.

Yet the food and drug industries and investors do not yet factor in fully the implications and opportunities.

With a growing number of bacteria able to survive in the presence of antibiotics, it becomes increasingly difficult for doctors to cure patients with infections. Antimicrobial resistance (AMR) has been accelerated by the misuse and overuse of antibiotics in humans and animals.

For instance, globally, 480,000 people develop multi-drug resistant tuberculosis each year, and in 2016, news broke that bacteria were developing resistance to colistin, a 'last-resort' antibiotic.

AMR could fundamentally undermine the value of industries tied to conventional antimicrobials as lawmakers crack down on their excessive use and availability. Here, we briefly look at the implications for the healthcare and food industries and highlight potential risks and opportunities.

While the healthcare sector has not borne the blame for antibiotic resistance, this sector is the supplier of antibiotics for both human and animal use, and ultimately will face restrictions in how rapidly this product area can grow.

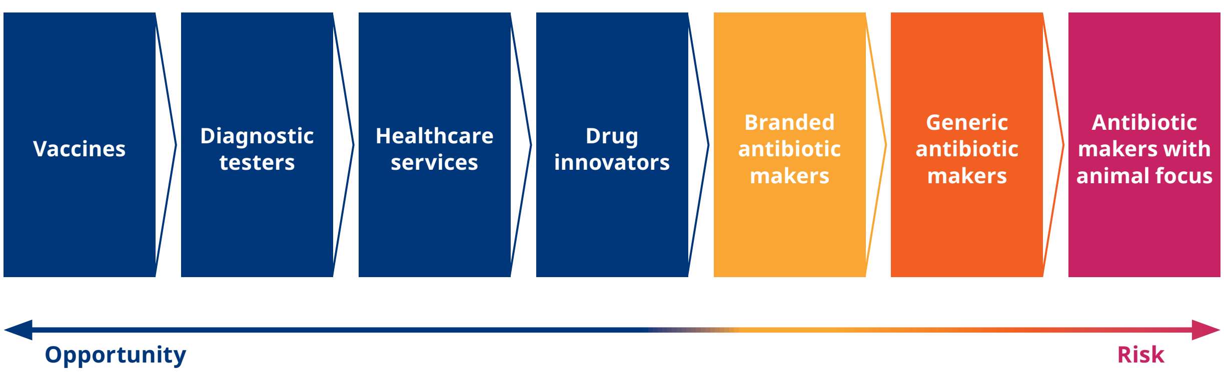
Even though access to antibiotics is growing in developing markets, indicating higher volumes, we believe this growth will be restricted, and the costs heavily controlled.

We find that incumbent manufacturers of antibiotics – particularly those that supply the farming industry – will face the biggest obstacles.

On the opportunity side, innovative drug companies could reap imminent financial rewards for inventing new classes of antibiotics – already scientifically challenging – but will likely face stricter marketing restrictions.

We see the greatest opportunities for companies providing either alternatives to antimicrobials (such as vaccines and probiotics) or peripheral services (such as diagnostic testing for infections, and cleaning services – given the role hygiene plays in spreading infection).

Sector implications: healthcare industry



Source: Schroders

Sector implications: food industry

A large body of academic research highlights the farming and food industries' roles in the AMR challenge, the increased regulatory pressure and heightened scrutiny from consumers will have an impact on company policy.

Those most likely to be affected include food producers that are reliant on antibiotics to control infection, as they could face additional costs to upgrade farming practices.

Companies providing additives to animal feed will be well placed to benefit however, as they take the opportunity to innovate and expand nutrients to reduce the reliance on antibiotics.

Retailers and restaurants are also being affected by rising consumer awareness and many are already strengthening supply chain policies restricting the use of antibiotics.

How Schroders is engaging on antibiotic stewardship

Given the substantial cross-industry investment impacts we have identified, we have sought to understand how companies are approaching and managing AMR risks and opportunities, and encouraging further data disclosure that will enable us to value the impacts in our models. This is vital: the resistance threat is not yet on corporate risk radars for 70% of the 10 companies with the largest US antibiotic sales.

Our engagement questions for healthcare companies center on:

- Product areas affected by the AMR trend
- Sales, marketing and pricing disruptions
- Approach to R&D
- In-house knowledge of the latest policy developments
- Impact of the O'Neill review on risk discussions
- Assessment of the collateral impact of AMR on demand for other therapies, devices or treatments which are dependent on antibiotics

We have also supported collaborative engagement initiatives aimed at food companies in the antibiotic supply chain, led by non-profit programme Business Benchmark on Farm Animal Welfare (BBFAW).

Resolutions filed by shareholders on AMR have also started to creep into food company AGM ballots this year. The resolutions request timeframes be set on removing non-therapeutic use of antibiotics in meat supply chains.

We supported the resolution filed at Sanderson Farms but voted "against" at McDonald's given the company is already committed to phasing out antibiotics.

Stakeholder analysis: Smoking or obesity – which poses the greatest investment risk?

Tobacco industry: exclusion versus ESG integration

When discussing the tobacco sector within the context of sustainable investing, it is often in reference to clients' preference for excluding the sector from their investment portfolios (an investment approach termed "screening" or "exclusion"). This decision may be taken to align with a charity's mission, or to reflect ethical, religious or individual preferences. Schroders' 2016 Global Investor Survey showed that 18% of investors would consider selling out of stocks associated with tobacco or alcohol.

However, we believe it is important to take a closer look at the sector through an integration lens given the prevalence of tobacco firms in global benchmarks and positions held across a range of client portfolios. Rather than simply exclude these stocks, we assess ESG issues and engage with tobacco companies on behalf of our clients that hold tobacco stocks in their portfolios.

Stakeholder analysis: surprising results

Using a stakeholder approach, we quantified a broad range of issues related to each individual stakeholder group in the tobacco industry including regulators, suppliers, employees and customers. We did this relative to the broader consumer staples sector, which includes food producers, beverage manufacturers and food retailers. By assessing each of these we thought we may be able to further explain why tobacco companies are valued at a discount to their consumer staples peers (part of the discount can be attributed to the material lawsuits and strict regulation facing tobacco firms).

However, the results surprised us. When assessing both risk exposure and risk management across the two industries, we found that:

1. **Tobacco: better established risk management**

   Tobacco companies have more established risk management systems in place resulting from past challenges. For example, they pay higher tax rates, higher wages and have more robust supply chain management. A summary of our analysis opposite shows that the risk profile for consumer companies is changing and we do not believe they have the adequate systems in place to adapt to these increasing risk.

The rising risk profile of consumer staples companies versus tobacco firms

Stakeholder issue	Trend	Tobacco risk profile	Consumer staples risk profile
Human capital	Wages are higher for tobacco as attracting talent is a challenge, but consumer staples could face similar pressures	↑	□
Supply chain management	Tobacco has more stable costs through greater supply chain visibility and lower risk of disruption. The opposite is true of consumer staples	↑	□
Product liability litigation	Continued but declining risk for tobacco, but a possibility of further litigation. Emerging risk for consumer staples	↑	□
Tax rates	Tax rate for consumer staples companies looks unsustainably low	↑	□
Governance	Lack of diversity on tobacco boards	□	↓
Bribery risks	Risk to operating licences from potential fines for tobacco companies	□	↑

↑ Increasing risk □ Risk stable ↓ Decreasing risk

Source: Schroders

2. Exploring the parallels: Big Food and Big Tobacco

The parallels between the two sectors and the risk that food companies could become as unloved as tobacco firms may imply greater risk for consumer companies going forward. The risk profile for tobacco companies is well understood and is more stable in comparison.

Current regulatory pressure is clearly greater for tobacco companies but as highlighted in the graph below, obesity is almost equal in its negative economic impact. The World Health Organization (WHO) estimates that smoking has an annual economic impact of $2.1 trillion, and obesity is only slightly lower at $2 trillion, as demonstrated by the graphic below.

As discussed in our 2015 ESG thematic note, “Is Sugar turning Big Food into the next Big Tobacco?” we believe that regulation across the consumer staples sector will increase over the next few years. This will be partly driven by the healthcare concerns highlighted previously, but also by rising consumer awareness and scientific scrutiny. This is already evident with the introduction of additional sugar taxes in the UK, Spain and South Africa since 2015. Our research also highlighted the potential for tobacco-like litigation against food and beverage companies for their role in contributing to the increasing healthcare burden faced by governments.

ESG risks are priced into tobacco, but not consumer staples

While the tobacco sector continues to face material risks, our analysis suggests that these are stable and well understood by the market. Consumer staples companies, which may become the “next tobacco”, face rising risks. As active owners we will continue to monitor these trends and actively engage with companies across both industries.

Estimated global social burden of smoking compared to obesity (2012)

Selected global social burdens	GDP, $ trillion	Share of global GDP %	Historical trend
Smoking	2.1	2.9	▲
Armed violence, war, and terrorism	2.1	2.8	▲
Obesity	2.0	2.8	▲
Alcoholism	1.4	2.0	▶
Illiteracy	1.3	1.7	▼
Climate change	1.0	1.3	▲
Outdoor air pollution	0.9	1.3	▶
Drug use	0.7	1.0	▲
Road accidents	0.7	1.0	▲
Workplace risks	0.4	0.6	▲
Household air pollution	0.4	0.5	▲
Child and maternal undernutrition	0.3	0.5	▼
Unsafe sex	0.3	0.4	▶
Poor water and sanitation	0.1	0.1	▼

Source: Overcoming obesity: An initial economic Analysis, McKinsey Global Institute, November 2014

INterpret

Culture: the intangibles

As part of Governance Week 2017, Schroders organized an event on culture for female shareholders. The goal was to delve into the research, focus on tangible culture indicators, and come up with some practical strategies for engagement on the issue. We are grateful to the audience and to Aviva Investors, the Banking Standards Board, EY, the Financial Reporting Council (FRC), Morgan Stanley, Nuveen and Value Act who participated in the talks and panels for so generously sharing their insights.

Does culture really matter?

The evidence from shareholders was that culture is a key part of both financial analysis and engagement. Increasingly, an assessment of the cultural health of an organisation is explicitly made before investing. Investors can get "lost in spreadsheets" and fail to ask the right questions as to how numbers are being achieved. Examples were cited from the technology sector, where companies had pursued a growth agenda at all costs but have "crashed and burned." Culture eats strategy for breakfast, and no sector is immune.

The focus is not on identifying a single right culture, but on establishing how culture is being used to help businesses achieve their objectives. The best companies identify the cultural shifts needed to help them achieve their goals and explicitly monitor them.

Furthermore, there is a difference between culture and values. Articulated values are often "bought" and look remarkably similar across companies. According to the Banking Standards Board's 2016 survey, 81% of respondents agree that their firm's values and purpose are meaningful to them as an individual. However, only 65% say there is no conflict between their firm's stated values and how they do business. Investors clearly need to look behind the platitudes.

Can you measure culture?

Culture is most often measured by surveys. However, there was widespread agreement that the construction and framing of a firm's own employee surveys can encourage positive answers and therefore lead to less-than-accurate results. In contrast, the Banking Standards Board's survey consists of a mixture of 36 positive and negatively worded questions, to minimize bias. Other surveys ask for more spontaneous answers, mapping the words given against the firm's aspirations.

It is important to have a meaningful framework to assess culture against; for example, mapping purpose, strategy and values to a cultural hierarchy to assess an overall contribution to society. Having established an ideal, it is then possible to assess an organization's health.

A firm's culture is also a key input into any audit. Data analytics can be used to help identify areas of vulnerability, highlighting where deeper analysis is needed. This has the potential to shift audit priority away from a size to a risk focus.

We need to talk about culture

The CEO is still viewed as a key component of any firm's culture and without unfettered access to the board room, an assessment of culture from the outside can therefore be difficult. However a number of practical suggestions were made, with the most important message being "ask and validate".

- A diverse board is often a good sign. This does not necessarily have to be just in terms of gender or nationality, but in terms of diversity of experience, ethnicity and age.
- Board turnover, both high and low should be challenged.
- Is the CEO happy for other board members to meet with shareholders without him/her being present?
- What is on the board agenda?
- What are the Key Performance Indicators (KPIs)?
- Is there a well articulated succession plan and culture? Can the firm promote from within?
- Remuneration structures are insightful; the best incentivise people on firm performance first, team performance second and finally individual performance. And it isn't just CEO pay – how are people incentivized throughout the organization?
- Can management provide examples of a healthy culture, but also discuss things that have gone wrong and what was done about it?

Regulatory scrutiny coming

As well as becoming more important for investors, culture is on the regulatory radar too. Given the FRC's pioneering work in the area, it could feature in upcoming revisions of the UK Corporate Governance and Stewardship Code. In the future investors may be asked to articulate the work that they have done in this area. Participants in the investment chain should also be willing to provide transparency on their own cultures and behaviors.

Trust then verify

Culture is a relatively new arrival on the governance agenda. However as this event demonstrated, it shows no signs of going away, especially now that regulators have the issue firmly in their sights. The anecdotal link between culture and performance has clearly been made and with the new tools under development we will have a more data-driven approach for the future. The united view of contributors was that a strong commitment from the top to a healthy culture, and a willingness to drive it down into the organisation, is essential. Investors need to be able to delve past things like employee surveys and mission statements to verify if this is really happening.

UK AGM review: more work to do on pay

The Corporate Governance team at Schroders branded 2016 "The year of the shareholder revolt on pay". 2017 was supposed to be uncomplicated. The UK government had released its Green Paper on corporate governance reform towards the end of 2016 and we had engaged with companies and remuneration consultants on the need to lower quantum. We believed that they'd received the message. We've now learnt this wasn't necessarily the case.

Large votes against pay

We witnessed a significant percentage of "against" votes at some large companies this year.

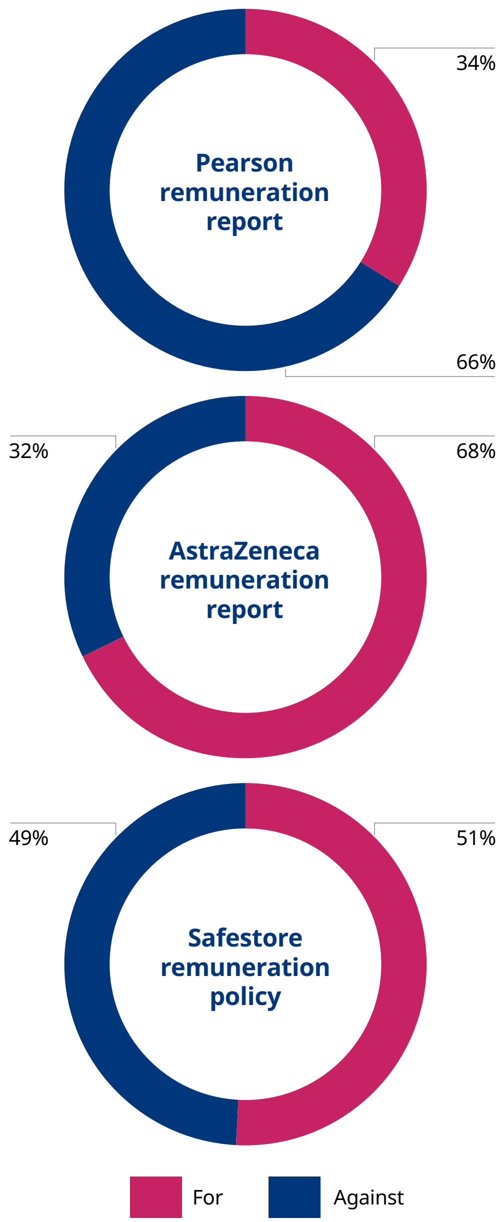
Large votes against remuneration resolutions

- In the biggest vote against this year, Pearson's investors rejected the pay report in which the CEO received a 20% pay rise.
- AstraZeneca suffered another shareholder revolt as the CEO's compensation rose 68% to £13.4 million.
- Safestore pulled their initial remuneration resolution and presented a revised plan at an extraordinary general meeting (EGM), which just scraped through. This could see share awards worth up to 1.6% of the company's market value.

Behind the headlines

Safestore's move is part of a growing trend that has seen numerous companies withdrawing pay resolutions ahead of their annual general meetings (AGMs) following pressure from shareholders. The following plans were pulled by management prior to their AGM:

- Imperial Brands planned to increase the maximum bonus payable to the CEO by 100% to 450% of salary.
- Chemring's new incentive plan was originally based on single year targets
- Aveva's Restricted Share Plan allowed directors to be granted share awards irrespective of performance



Source: Company websites

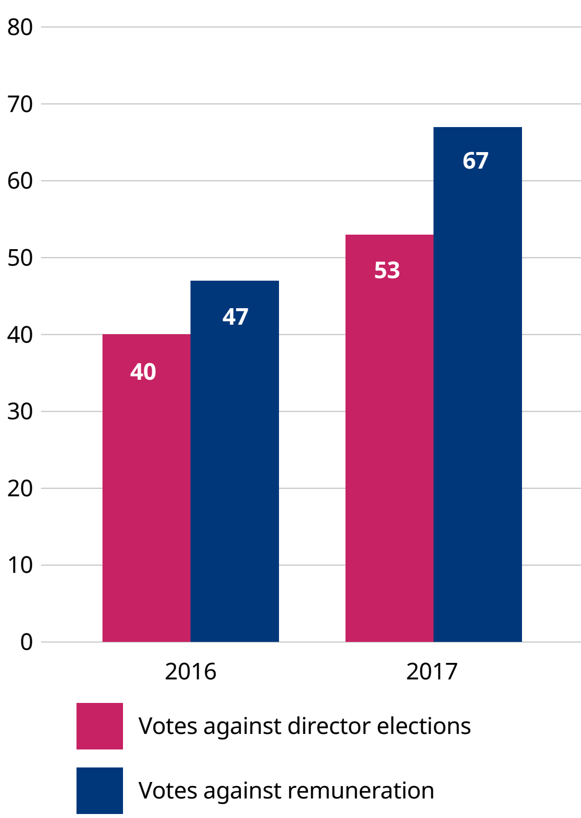
Director accountability

Schroders is holding individuals more accountable than ever for poor governance practices. Since 2016 our policy has been to vote against the remuneration committee's chair when there are repeated pay concerns. We executed this at:

- British American Tobacco
- AstraZeneca
- Standard Chartered
- Centrica

Of 410 UK meetings in 2017, Schroders voted against 53 directors at 34 companies. Although Schroders' policy is to encourage board diversity, many of these negative votes were, unfortunately, against female directors. This is partly because over 40% of FTSE 350 remuneration chairpersons are currently women – a disproportionately high percentage considering the low percentage of women versus men on boards.

Schroder votes against remuneration 2016 vs 2017



Source: Schroders

Glimmers of hope

There have, however, been some signs of progress in 2016. For example, BP was dealt a blow as 60% of shareholders voted against its pay report. After extensive engagement with investors, the firm slashed the CEO's pay package by around 40%. Quantum and complexity were both reduced and more than 97% of shareholders were in favor of the rejigged policy. We also saw an improvement in the banking sector. UK banks received universal approval of their revised pay plans, quantum was down and votes had over 95% approval rates.

A better way forward?

The one thing investors agree on is that the current pay structure is flawed and disliked. Restricted share awards have been proposed as an alternative to long-term incentives. These awards would not involve performance criteria, but executives would be motivated by a long-term increase in the company's share price. The majority of companies we met with had discussed alternatives at board level but still appear to support conventional long-term incentives.

That said, one of the companies we met with, Pets at Home, received 85% support for their proposed alternative incentive plan. Their approach was down to simplicity.

- The maximum potential of earnings was halved from 150% of salary to 75%
- Insertion of a financial underpin with zero shares vesting in the event of negative total shareholder return (TSR)
- Staggered vesting over three to five years
- The incentive plan is subject to both Malus and Clawback clauses

More work to do on pay

With some large votes against pay reports and policies, investors are signalling that companies have more work to do on pay. Furthermore, shareholders are holding boards and individual directors more accountable for pay. It appears long-term incentive plans aren't going away. Although we are likely to see more and more companies discuss alternative incentive plans, the majority of pay policies are locked in for three years, so there will not be overnight change. 2018 may be just as interesting.

INfluence

Case study: GAM

When GAM Holding (GAM), a mid-sized Swiss asset manager with a history dating back to 1983, released its 2016 annual report, our local equity team in Zurich promptly picked up on the issue of executive compensation. A thorough review of GAM's pay practices against history and peers revealed major concerns:

- **Pay for performance:** Despite poor performance, compensation was growing:

Growth in underlying profit before taxes		
5 Years	3 Years	1 Year
-43.9%	-48.5%	-39.3%

Group Management Board (GMB) compensation growth[1]		
5 Years	3 Years	1 Year
248.6%%	10.7%%	7.1%

CEO compensation growth		
5 Years	3 Years	1 Year
156.5%	71.5%	22.8%

Source: Schroders, GAM 2011-2016 Annual reports

- **Excessive transfer of wealth:** Total compensation for the GMB stood at 15% of underlying profit before taxes and 1% of market cap, which we deem excessive irrespective of industry or company size. It was also more than double what we observed at peers, and the highest level in GAM's own history.
- **Poor communication:** Tables and comments in the 2016 annual report and a pre-AGM (annual general meeting) presentation appeared misleading to us, particularly given the exclusion of long-term incentives (LTIP) from total compensation. The comparison with previous years' figures was not properly adjusted to reflect prior one-off payments to management.

Under Swiss law shareholders vote on a series of resolutions around pay at an AGM. Our fiduciary duty towards our clients, the ultimate shareholders of GAM, demanded that we take action. We met with company management twice to voice our concerns. Unfortunately, the company did not change the 2017 AGM agenda, although the chief executive officer made voluntary concessions regarding his remuneration for 2017.

Collaborative engagement

Together with Schroders' sustainability team we contacted other GAM shareholders to share our analysis and concerns, which resulted in constructive conversations with other shareholders around the world. We also raised these with ISS, the proxy voting advisor.

Our efforts seem to have contributed to the voting results at the 2017 AGM:

- The 2016 compensation report was strongly rejected, with only 17.6% of votes in its favor.[2]
- The 2017 GMB variable pay proposal was overwhelmingly dismissed, with a meager 7.1% support.[3]
- The chairman of the compensation committee was not re-elected to this position.

Both proxy voting specialists ISS and Glass Lewis suggested voting against compensation, which played a significant role in the above results.

We are often asked by our clients about collective engagement, and this case shows how collaboration and knowledge sharing can play a powerful part in supporting shareholder rights.

Engaging to protect the interests of our clients

Since the AGM the company has approached us and other shareholders to conduct a full review of pay practices at GAM. We view this as a very positive step. In early June, we met with the newly elected chairman and a new member of the compensation committee to share our views not only on remuneration and other governance aspects, but also on capital allocation, target setting and cost culture. At the time of writing, our engagement is ongoing and we aim to better align strategy and management with the interests of long-term shareholders.

[1] In 2013, the number of GMB members was increased from 3 to 7.

[2] This was a voluntary consultative (non-binding) vote which effectively has no impact.

[3] This was a binding vote. According to GAM's articles of incorporation, the Board must now submit a new compensation proposal for approval at a subsequent extraordinary shareholders' meeting, or at the next ordinary shareholders' meeting.

Third quarter 2017

Total company engagement

Our ESG team had 683 engagements this quarter with the 619 companies listed below, on a broad range of topics categorized under “environmental”, “social” and “governance”. They included one-to-one meetings, joint investor meetings, conferences, teleconferences, written correspondence and collaborative engagements.

Company	E	S	G
Consumer Discretionary			
Accor			✔
Alibaba Group	✔		✔
Amazon.Com	✔	✔	
Antena 3 de TV			✔
ASOS		✔	
Autoliv			✔
Bajaj Auto			✔
Belle International	✔		
Bellway			✔
Berkeley Group			✔
BMW		✔	
boohoo.com		✔	
Bosch	✔		
BOVIS HOMES			✔
Brembo			✔
Brilliance China Automotive	✔		
Burberry Group			✔
CAIRO COMMUNICATIONS			✔
Carter's	✔	✔	
Coats Group			✔
Compass Group			✔
Continental			✔
Cooper Tires	✔		
Daily Mail and General Trust			✔
Daimler		✔	✔
Debenhams			✔

Company	E	S	G
DFS FURNITURE			✔
Dixons Carphone			✔
Dometic Group			✔
Dongfeng Motor	✔		
Dufry			✔
Enterprise Inns			✔
Faurecia			✔
Ferrari	✔		✔
Fiat Chrysler		✔	✔
Ford Motor		✔	
Galaxy Entertainment Group	✔		
Game Digital			✔
General Motors		✔	
Genting Singapore	✔		
GKN			✔
Granada Group			✔
Greene King			✔
Haier Electronics			✔
Halfords Group			✔
Harley-Davidson	✔		
Headlam Group			✔
HOLLYWOOD BOWL GROUP			✔
Home Depot		✔	
Honda Motor		✔	
Howden Joinery			✔
Husqvarna			✔
HYUNDAI MOTOR		✔	

The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Informa			✔
Intercontinental Hotels Group			✔
ITV			✔
Jaguar Land Rover		✔	
JD Sports Fashion		✔	
Kia Motors	✔	✔	
Ladbrokes Coral Group			✔
Lagardere			✔
LVMH			✔
Marks and Spencer			✔
Maruti	✔		
Merlin Entertainments			✔
Michael Kors			✔
Mitchells and Butlers			✔
MODERN TIMES GROUP			✔
Moncler	✔		✔
Mothercare			✔
Motherson Sumi Systems	✔		
Mvideo			✔
N. Brown Group		✔	
NEXT			✔
NH Hotels			✔
Nissan Motor		✔	
Nokian			✔
OPAP			✔
OReilly Auto		✔	
OVS SpA			✔
Pandora			✔
Pearson			✔
PERSIMMON			✔
Pets at Home			✔
Photo-Me International			✔
Porsche	✔		✔
PT Astra International	✔	✔	
Publicis Groupe			✔
Redrow Group			✔
Reed Elsevier			✔
RELX Group			✔
Renault		✔	
Restaurant Group			✔
Richemont			✔
Salvatore Ferragamo Italia			✔
Samsonite	✔		
Sands China Ltd	✔		
Shanghai Auto	✔		
Shenzhou International	✔		
Sports Direct		✔	✔
Supergroup			✔
Swatch			✔
Tata Motors		✔	
Taylor Wimpey			✔
Technicolor			✔
TECHNOGYM			✔
Television Francaise			✔

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Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Toyota Motor		✔	
Trinity Mirror			✔
Valeo			✔
Vivendi Universal			✔
Volkswagen		✔	✔
William Hill			✔
Wolters Kluwer			✔
XXL			✔
Yoox			✔
Consumer Staples			
Ahold Delhaize			✔
AMBEV / BRAHMA	✔		
Anheuser-Busch InBev			✔
Aryzta			✔
Beiersdorf			✔
BRITANNIA	✔		
British American Tobacco			✔
Carrefour			✔
China Mengniu Dairy	✔		
China Resources Beer	✔		
Colgate Palmolive		✔	
Dairy Crest Group			✔
Danone			✔
Diageo plc			✔
Emart	✔		
Glanbia	✔		
Greencore Group			✔
Gruma	✔		✔

Company	E	S	G
Henkel			✔
Imperial Tobacco Group			✔
Indofood	✔		
INDOFOOD CBP			✔
Kraft Heinz Foods		✔	✔
MARR			✔
Monster Beverage Corporation	✔		
Nestle			✔
Nu Skin Enterprises	✔	✔	
Ontex Group			✔
Pernod Ricard			✔
Philip Morris			✔
Reckitt Benckiser			✔
Sainsbury's			✔
Svenska Cellulosa			✔
Tesco			✔
Thai Beverage	✔		
TSURUHA	✔		
Unilever			✔
Universal Corp			✔
Wal Mart Stores			✔
Wm. Morrison			✔
Wuliangye	✔		
X5	✔		
Yili Industrial Group Co Ltd	✔		
Energy			
Adaro Energy	✔		
Amec Foster Wheeler			✔

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Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Anadarko Petroleum	✔		
Apache	✔		
BP	✔		✔
Cabot Oil & Gas	✔		
Cairn Energy			✔
Canadian Natural resources	✔		
Chevron Texaco	✔		
China Shenhua Energy	✔		
Cimarex Energy Co.	✔		
CNOOC			✔
DEVON ENERGY	✔		✔
ENI			✔
EOG RES	✔		
Exxaro	✔		
Exxon Mobil	✔		
Galp			✔
Gazprom			✔
Hargreaves Services			✔
Helmerich & Payne	✔		
IHC Caland			✔
Lundin Petroleum			✔
Marathon Petroleum	✔		
National Oilwell Varco	✔	✔	
Newfield Exploration Co	✔		
NK Lukoil			✔
Occidental Petroleum Corpn	✔		
Petro Geo Svcs			✔
Phillips 66	✔		

Company	E	S	G
PIONEER NATURAL RESOURCES	✔		
PKN	✔		
Romgaz			✔
Royal Dutch Shell			✔
SARAS			✔
Sasol			✔
SCHLUMBERGER	✔	✔	
SK Innovation	✔		
Soco International			✔
Statoil			✔
Tambang Batubara Bukit Asam	✔		
Tatneft	✔		✔
TechnipFMC	✔		
Tenaris			✔
TGS			✔
Total			✔
Tupras	✔		
VALERO ENERGY	✔		
Wood Group			✔
YPF	✔		
Financials			
3i Group			✔
ABERDEEN ASSET MNGMT			✔
ABN AMRO			✔
Ageas			✔
Allianz			✔
Alpha Bank			✔
Amundi			✔

The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Anima Holding			✔
Ashmore Group			✔
Assura			✔
AURELIUS			✔
Aviva			✔
AXA SA			✔
BANCA FARMAFACTORING			✔
Banca Generali			✔
Banca IFIS			✔
Banca Mediolanum			✔
Banca Sistema			✔
Banco Santander			✔
Bankinter			✔
Barclays			✔
BBVA			✔
Bce Pop Unite			✔
BNP Paribas			✔
British Land			✔
Catal Occidente			✔
Cerved Information Solutions			✔
Cheung Kong Hutchison	✔		
Coface			✔
COLLINS STEWART			✔
Credit Suisse Group			✔
Credito Emiliano			✔
Derwent London			✔
Deutsche Bank			✔
Deutsche Boerse			✔

Company	E	S	G
Direct Line Insurance Group			✔
DNB Nor			✔
Erste Bank			✔
Euler Hermes			✔
FinecoBank			✔
Fondul Proprietatea			✔
Generali			✔
Grainger			✔
Grand City Properties			✔
Hastings Group			✔
Hellenic Exch Hlds			✔
HSBC Holdings			✔
Industrivarden			✔
ING Groep			✔
Intermediate Capital Group			✔
Intesa Sanpaolo			✔
Jardine Lloyd Thompson Group			✔
Jupiter Fund Management			✔
Just Retirement			✔
KBC Groep			✔
KLEPIERRE			✔
Lancashire			✔
LEG Immobilien			✔
Legal & General Group			✔
LIBERBANK 9			✔
Lloyds Banking Group			✔
London Stock Exchange			✔
Man Group plc			✔

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Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Mediobanca			✔
MLP			✔
MORSES CLUB			✔
Nets A			✔
NewRiver Retail Limited			✔
NEX Group		✔	✔
Nexity			✔
Nordea			✔
Old Mutual			✔
Phoenix Holdings			✔
Provident Financial			✔
Prudential Corporation			✔
Rathbone Brothers			✔
Royal & Sun Alliance Insurance Group			✔
Royal Bank of Scotland Group			✔
Safestore			✔
Saga			✔
Sampo			✔
SEB			✔
Secure Trust Bank			✔
St Jamess Place Capital			✔
Standard Chartered HK			✔
Swedbank			✔
Swiss Reinsurance Company			✔
UBS			✔
Unibail-Rodamco	✔		✔
Unicredit			✔
Unite Group			✔

Company	E	S	G
Vienna Insurance Group			✔
Virgin Money			✔
Vonovia			✔
Wendel Investissem			✔
Wharf	✔		
WORKSPACE GROUP			✔
Worldpay Group			✔
Zurich Financial Services			✔
Healthcare			
Allergan		✔	✔
AstraZeneca		✔	✔
Basilea Pharmaceuticals			✔
Bayer		✔	✔
BTG			✔
Dechra Pharma		✔	
DiaSorin			✔
Elekta			✔
Endo International		✔	
ESSILOR			✔
Fresenius Medical Care			✔
Fresenius SE & Co			✔
Genus			✔
GlaxoSmithKline		✔	✔
H.LUNDBECK			✔
Hikma Pharmaceuticals		✔	
Indivior			✔
Lilly, Eli & Co		✔	
Lonza Group			✔

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Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Merck & Co		✔	
MorphoSys			✔
Novartis		✔	✔
Novo Nordisk		✔	✔
Orpea			✔
OTSUKA HOLDINGS		✔	
Pfizer		✔	✔
Recordati			✔
Roche Holding		✔	✔
Sanofi-Aventis		✔	✔
Shire Pharmaceuticals Group		✔	✔
Sino Biopharmaceutical		✔	
Smith & Nephew			✔
Spire Healthcare Group			✔
SUN PHARMACEUTICAL		✔	
Teva Pharmaceuticals Industries		✔	
UCB			✔
Valeant Pharmaceuticals		✔	
Zoetis		✔	
Industrials			
Aalberts Inds			✔
ABB AG			✔
Acuity Brands	✔		
Aena			✔
AGCO	✔		
Aggreko			✔
AHLSELL			✔
Air France-KLM			✔

Company	E	S	G
Alstom			✔
AP Moller-Maersk			✔
Ashtead			✔
Assa Abloy			✔
Atlas Copco			✔
Babcock Intl Group			✔
BAe Systems	✔		✔
Balfour Beatty			✔
BEIJING ENTERPRISE	✔		
Berendsen			✔
Bilfinger Berger			✔
Bodycote			✔
Bpost SA			✔
Brenntag			✔
Bunzl		✔	✔
Capita Group			✔
Chemring Group			✔
China Communications Construction Co			✔
CHINA GEZHOUBA GROUP COMPANY	✔		
China International Marine Containers Group	✔		
China Railway Construction Corp Ltd			✔
China State Construction Engineering Corp	✔		✔
Cie de Saint-Gobain			✔
Cobham			✔
D/S Norden			✔

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Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Danieli & C Officine Meccaniche			✔
Dart Group			✔
De La Rue			✔
DMCI Holdings	✔		
DP WORLD			✔
DSV			✔
EasyJet			✔
Eicher Motors	✔		
Elis Services			✔
ENAV			✔
Experian Group			✔
Fanuc Ltd		✔	✔
Finmeccanica			✔
FirstGroup			✔
Fisher(J)& Sons			✔
FORTIVE CORPORATION	✔		
Fortune Brands Home & Security	✔		
G4S			✔
GEA GROUP			✔
Go-Ahead Group			✔
IMA Industria Macchine Automatiche			✔
IMI			✔
Interpump Group			✔
Intertrust			✔
John Laing Group			✔
Johnson Electric			✔
KION GROUP	✔		✔
Kone			✔

Company	E	S	G
Korea Aerospace Industries	✔		
Krones			✔
Larsen&Toubro			✔
Legrand			✔
Leoni			✔
MAEDA ROAD CONSTRUCTION	✔	✔	✔
Maire Tecnimont			✔
Mears Group			✔
Melrose Industries			✔
Munters			✔
National Express	✔		✔
NWS Holdings	✔		✔
Philips			✔
Porr			✔
Prysmian			✔
Qinetiq Group			✔
Rentokil Initial			✔
Rieter Holding			✔
Rolls-Royce			✔
Roper Technologies	✔		
Royal Mail			✔
Rps Group			✔
Schindler Holding			✔
Serco Group			✔
Shanghai Electric Group			✔
Siemens			✔
Sig			✔
SMC Corp	✔		

The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Smiths Group			✔
Spirax-Sarco Engineering			✔
Stabilus			✔
Stericycle	✔		
Teleperformance			✔
Travis Perkins			✔
Trelleborg			✔
United Tractors	✔		
Vallourec			✔
VAT Group			✔
Vestas Wind Systems			✔
Vinci			✔
Volvo		✔	✔
Waste Connections	✔		
Weg			✔
Weichai Power	✔		
Weir Group			✔
Wienerberger			✔
Wolseley			✔
Zodiac Aerospace			✔
Information Technology			
ALFA FINANCIAL SOFTWARE			✔
ALTRAN TECHNOLOGIE			✔
Amadeus IT			✔
ASM International			✔
ASM Lithography			✔
Computacenter			✔
Criteo			✔

Company	E	S	G
Dassault Systemes			✔
Dmt			✔
Electrocomponents			✔
Fidessa Group			✔
Hexagon			✔
Imagination Technologies		✔	✔
INDRA SISTEMAS			✔
Infineon			✔
Iomart Group			✔
IQE			✔
Keyence Corp	✔		
Laird	✔	✔	✔
Largan Precision	✔		
LOGITECH INTL			✔
MERKANTILDATA			✔
Micro Focus			✔
MoneySupermnaket.com			✔
Naver	✔		
Netease.com	✔		
Nokia Corporation			✔
OTSUKA	✔		
Redcentric			✔
Sabre Corp	✔		
Sage Group			✔
SAP			✔
SDL			✔
ServiceNow	✔		
SILTRONIC			✔

The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
SOITEC			✔
Sophos Group			✔
Sopra Group			✔
Spectris			✔
STMicroelectronics			✔
Tencent	✔		✔
TKH Group			✔
u-blox Holding			✔
United Internet			✔
Materials			
Albemarle Corporation	✔		
Anglo American plc			✔
Anhui Conch Cement Company Limited	✔		
Arcelor			✔
Asian Paints	✔		
BASF AG			✔
BHP Billiton			✔
BillerudKorsnas			✔
Canfor Corporation		✔	
Clariant			✔
CRH			✔
Croda International			✔
Dow Chemical		✔	
DSM			✔
Elementis			✔
Ems-Chemie	✔		
Essentra			✔

Company	E	S	G
Evonik Industries			✔
FORTERRA			✔
Gerdau			✔
Glencore			✔
Hexpol			✔
Ibstock			✔
IMERYS			✔
Johnson Matthey			✔
K+S	✔		
KGHM Polska Miedz	✔		
Korea Zinc	✔		
Lenzing			✔
Linde			✔
Metsa Board			✔
Norilsk Nickel	✔		
Norsk Hydro			✔
Packaging America	✔		
PETRONAS CHEMICALS GROUP			✔
Philips Lighting			✔
Pidilite Industries Ltd	✔		
Polyus	✔		
Reliance Steel and Aluminum Co	✔		
Rio Tinto Limited			✔
Sesa Goa	✔		
SIKA			✔
Sinofert			✔
Smurfit Kappa			✔
Steel Dynamics	✔		

The companies and sectors mentioned herein are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Symrise			✔
Thyssen Krupp			✔
UMICORE			✔
Vicat			✔
Real Estate			
Aroundtown Property Holdings			✔
Atrium European Real Estate			✔
Hispania Activos Inmobiliarios			✔
Merlin Properties SOCIMI			✔
UBM Development			✔
Telecommunication Services			
AT&T Inc		✔	
BT Group			✔
Cellnex Telecom			✔
China Unicom	✔		
Com Hem			✔
Deutsche Telekom			✔
France Telecom			✔
Hellenic Telecommunications			✔
HKT Trust	✔		
Hrvatski Telekom			✔
Iliad			✔
Infrastrutture Wireless Italiane			✔
Inmarsat			✔
Intouch	✔		
KPN			✔
MOBISTAR			✔
Orange Polska			✔

Company	E	S	G
Qatar Telecom	✔		
Talktalk			✔
TDC			✔
Telecom Italia			✔
Telefonica			✔
Telefonica Brasil			✔
TELEKOMUNIKASI INDONESIA	✔		
Telkom		✔	
T-Mobile USA		✔	
Turk Telecom			✔
Vodafone			✔
Utilities			
AEM			✔
AEM Torino			✔
ATHEN WATER SUPPLY			✔
Beijing Datang Power	✔		
Centrica			✔
CGN Power Co	✔		
China Longyuan Power	✔		
China Resources Power	✔		
CMS Energy Corp			✔
Dominion Resources	✔		
Drax			✔
E.ON			✔
Edison International	✔		
Endesa			✔
ENEL			✔
Enel Americas	✔		

Third quarter 2017

Total company engagement (continued)

Company	E	S	G
Enel Chile	✔		
Engie			✔
ENN Energy Holdings Ltd	✔		
First Energy Corp	✔		
Fortum			✔
Gas Natural			✔
Hera			✔
IN National Thermal Power	✔		
Meralco	✔		
National Grid			✔
NHPC	✔		
Pennon Group			✔
PGE	✔		✔
Power Assets Holdings	✔		
Power Grid Corporation of India	✔		
Qatar Electricity & Water Co	✔		
RWE			✔
Severn Trent			✔
Southern Co	✔		
United Utilities			✔
Veolia Environnement			✔
Westar Energy Inc	✔		

Key

E – Environment
S – Social
G – Governance

Source: Schroders as of September 30, 2017.

Third quarter 2017

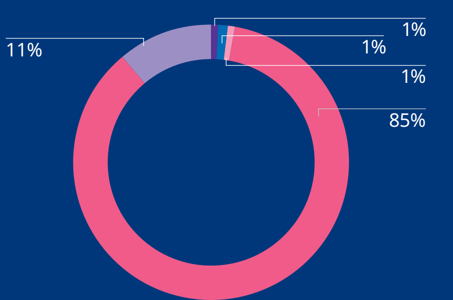
Engagement in numbers

Regional engagement

UK	209
North America	72
Asia Pacific	97
Europe (ex-UK)	289
Middle East and Africa	7
Latin America	9

Source: Schroders as of September 30, 2017.

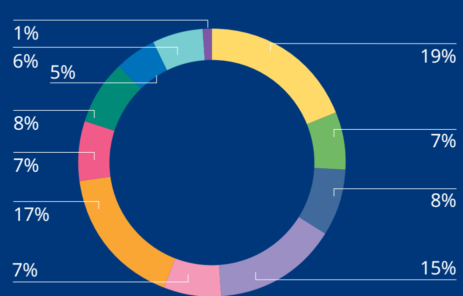
Engagement type



- Collaborative engagement (e.g. joint investor letter)
- One to one call
- One-to-one meeting
- Other (e.g. letter)
- Email

Source: Schroders as of September 30, 2017.

Engagement by sector



- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Real Estate
- Telecommunication Services
- Utilities

Source: Schroders as of September 30, 2017.

Third quarter 2017

Shareholder voting

We believe we have a responsibility to exercise our voting rights. We therefore evaluate voting issues on our investments and vote on them in line with our fiduciary responsibilities to clients. We vote on all resolutions unless we are restricted from doing so (e.g. as a result of shareblocking).

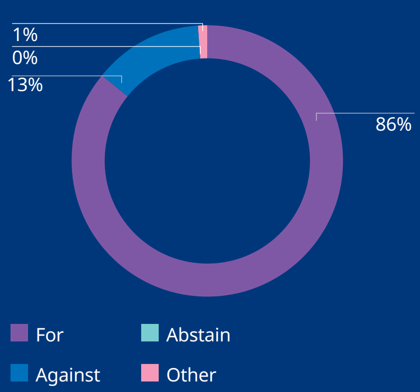
This quarter we voted on **486 companies and approximately 96% of all our holdings**. We voted on 14 ESG-related shareholder resolutions, voting with management on 12.

The charts below provide a breakdown of our voting activity from this quarter.

Company meetings voted

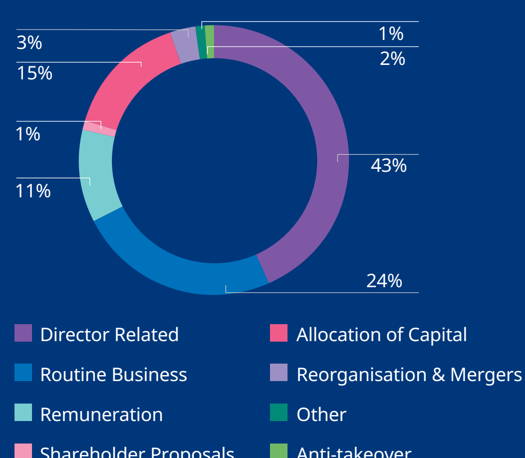
Source: Schroders as of September 30, 2017.

Direction of votes this quarter



Source: Schroders as of September 30, 2017.

Reasons for votes against this quarter

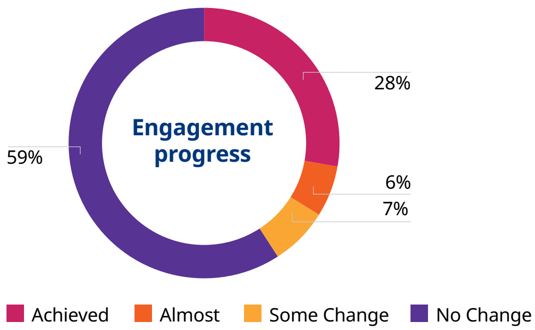


Source: Schroders as of September 30, 2017.

Third quarter 2017

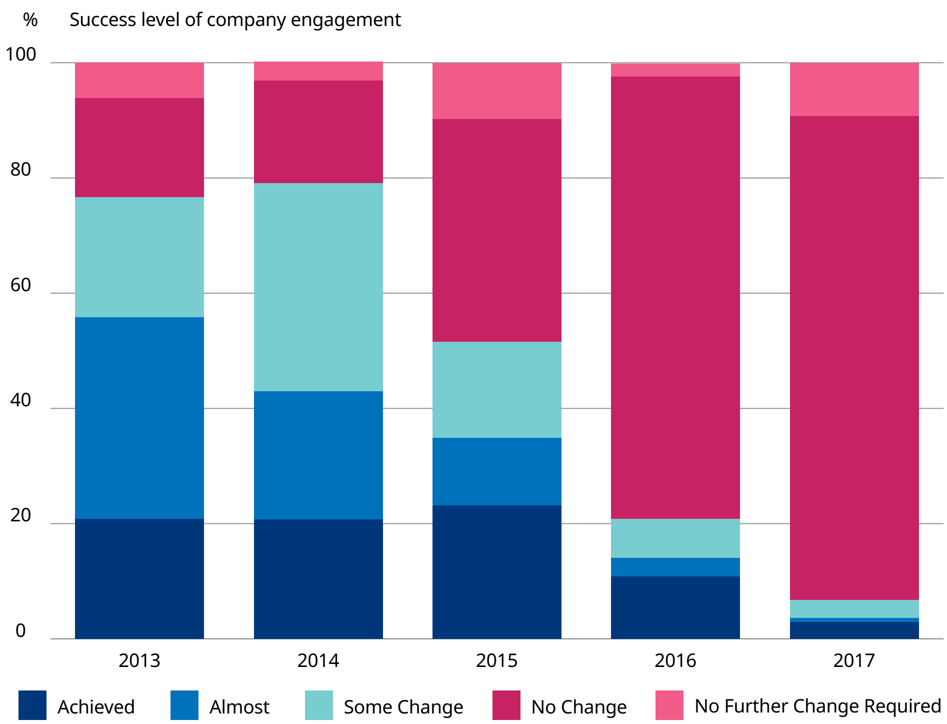
Engagement progress

This section reviews any progress on suggestions for change we made a year ago, in this case the third quarter of 2016. There are four possible results: "Achieved", "Almost", "Some Change" and "No Change". Of a total number of 80 "change facilitation" requests made, we recorded 22 as Achieved, 5 as Almost, 6 as Some Change and 47 as No Change.



The chart below shows the effectiveness of our engagement over a five-year period. We recognize that any changes we have requested will take time to be implemented into a company's business process. We therefore usually review requests for change 12 months after they have been made, and also review progress at a later date. This explains why there is a higher number of engagement successes from previous years.

Effectiveness of requests for change – 5 year period



Source: Schroders as of September 30, 2017. Level of engagements from previous periods may take several years to finalize, and cannot be accurately gauged in most recent data. Therefore such engagements may be included in 'No Change' for 2016 and 2017.

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