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Schroder

Pan European Socially Responsible Investment Policy

Schroders' approach to monitoring and taking action
on corporate social responsibility



Schroders

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Our approach to Socially Responsible Investment

This policy document outlines the approach taken by Schroders to socially responsible investment (SRI) in the Pan European Market.

Our philosophy

Schroders believes that companies have the ability to enhance their long-term performance through an understanding of the Environmental, Social and Governance (ESG) issues affecting their business. In an increasingly dynamic environment where legitimacy and credibility in the market place, as perceived by stakeholders¹, are important indicators of corporate performance, a thorough awareness of ESG issues enables companies to potentially mitigate risks and liabilities that could arise from these issues.

Stakeholders have a broad variety of vested interests and, increasingly, companies have to demonstrate accountability and a commitment to responsible behaviour to:

- **Shareholders:** to maximise the returns on their investment
- **Regulators, competitors and Government:** to operate fairly and legally within the market place
- **Consumers:** to provide goods and services that meet specified quality standards
- **Suppliers:** to respect and uphold supply chain agreements
- **Employees:** to provide a working environment which is conducive to optimal performance
- **Local communities:** to operate in accordance with their expectations
- **Charities and pressure groups:** to listen and be seen to be credible.

Corporate responsibility policies and corporate governance procedures establish a management framework across all corporate functions, from human resources to operations and supply chain management, finance, marketing and sales. Performance indicators, both financial and non-financial, can be used to provide information on corporate responsibility and corporate governance activities and their economic impact, providing consistent information over a period of time to fully understand their effects. Companies that can demonstrate a commitment to quality management in these areas can contribute to their own business success by enhancing their financial returns on investment in the long run and their long-term shareholder value.

We believe that our policy and processes comply with and support the implementation of the United Nations Principles for Responsible Investment, to which we are signatory.

¹ Stakeholders are defined as anyone who can be influenced by, or has influence on, a company's operations.

Integrating environmental, social and governance issues into investment processes

At Schroders we recognise that a broad range of both financial and ESG factors can affect the sustainability of a business and the creation of shareholder value. We look to identify and focus on issues that either are, or could become, material to corporate performance. On a routine basis our investment process researches ESG views held by company management and their related policies and performance management systems. Potential risks or opportunities that are identified are assessed and appropriately considered when constructing portfolios.

ESG Corporate Disclosure

In order for investors to research the ESG views held by company management, companies need to demonstrate and disclose how their operations take into account these issues and their relevance to the business, through their ESG policies and performance management systems. There is no common disclosure standard and levels of disclosure will vary between companies, especially between sectors, where ESG issues have different levels of importance.

At Schroders, we look for a company to make the following disclosure in its published reports; that:

- There is board level responsibility for ESG factors which significantly affect the business
- It assesses the significance of ESG related risks and opportunities and the extent to which these affect business performance and short and longer term shareholder value
- There are effective management systems in place to manage and mitigate ESG risks and develop ESG opportunities; and
- There are relevant key performance indicators to allow effective analysis of ESG performance.

Shareholder Activism

For Schroders, shareholder activism includes company engagement and voting on shareholder resolutions. We can also provide, for those clients that request it, an ethical investment service. We monitor and evaluate the performance of all these activities and regularly report back to our clients.

Engagement

We view engagement as a positive activity, an integral part of our role in managing, protecting and enhancing the value of our clients' investments that also improves communication between companies and investors. It is undertaken on a reasoned and pragmatic basis, recognising that not all companies conform to a single structure and their approach to issues will vary. We look to develop additional understanding or, where necessary, seek change that will either protect or enhance the value of our investments. We combine the perspectives of our research analysts, portfolio managers, corporate governance specialists and SRI analysts to form a balanced view of each company and the issues it faces.

Our SRI analysts engage in dialogue with companies to:

- Determine what they are doing to manage their ESG performance
- Encourage them to improve their performance on ESG issues, where these issues may represent a risk to shareholder value
- Provide guidance on developing policies and systems to manage these risks; and
- Where relevant, to set objectives for improvement.

We concentrate on each company's ability to create sustainable value and may question or challenge companies about governance issues that we perceive may affect the future value of those companies.

Voting

Shareholder resolutions of a social, environmental or ethical (SEE) nature can be tabled at a company's AGM as a form of stakeholder engagement. The use of shareholder resolutions as a tool will vary depending on the corporate governance laws of the country or region where the shares are listed. When a shareholder resolution on a SEE issue is tabled at a company's AGM, we will take into account company performance, best practice, whether the company has faced similar resolutions before and ultimately if the resolution is in the interests of shareholders before deciding how to vote. We seek to promote the adoption of suitable standards and to safeguard and enhance the long-term interests of our investments and clients.

Schroders also votes on other governance issues of a non SEE nature and our approach to voting on these issues is covered by our UK Corporate Governance and International Corporate Governance Policies.

Ethical investment

Schroders also provides ethical investment services, utilising specialist research to help develop investment universes that reflect our clients' values. Typically these would exclude companies based on certain moral criteria, for example tobacco or alcohol, however we are also able to develop more sophisticated screens for funds which can reflect the materiality of a company's exposure to certain issues.

Evaluating our Performance

We produce quarterly SRI reports that are available to our clients, which detail the companies we have met, the issues we have raised and what results, if any, were achieved. The reports also outline the SEE issues we have voted on, the research we have produced and other SRI activities that have been undertaken. We also produce an annual SRI review.

Conflicts of Interest

Schroders acknowledges that conflicts of interest may arise within the context of our work. Where these arise the matter is referred to the Global Head of Compliance, who then makes our final engagement decision, whether activism or voting, to ensure that they best serve the interests of our clients as a whole.

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