Schroders

Responsible Investment Report

2011 Annual Report

Schroders

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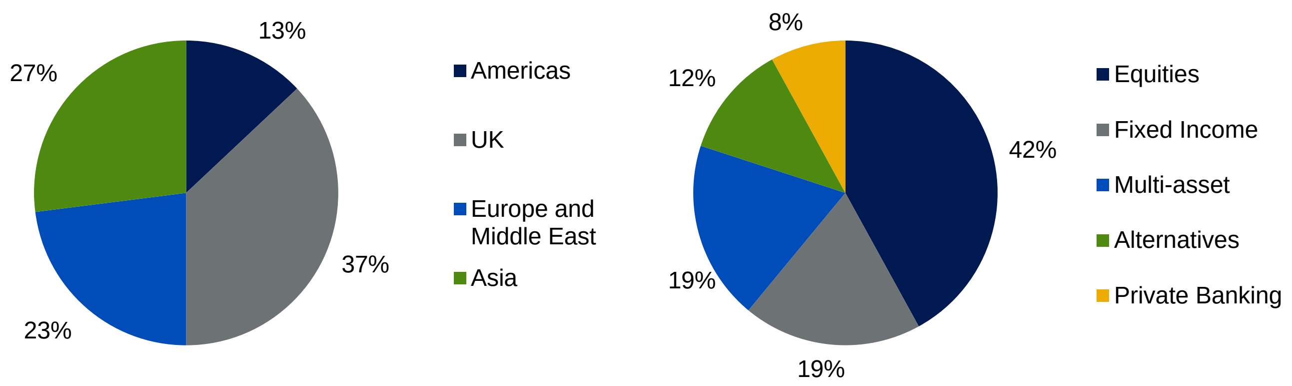
Schroders Overview

Schroders is a global asset management company which has developed under stable ownership for over 200 years. Asset management is our business and our goals are completely aligned with those of our clients – the creation of long-term value.

We are a diverse asset management company, managing £187.3bn GBP (as at YE 2011) on behalf of institutional investors, financial institutions and high net worth clients around the world, invested in a broad range of asset classes across equities, fixed income and alternatives.

Figure 1: Total FUM by region and product (December 31, 2011)



We employ more than 2900 talented people worldwide, operating from 32 offices in 23 different countries (as at YE 2011) across Europe, the Americas, Asia and the Middle East.

As responsible investors we take a consideration of the long-term risks and opportunities that will affect the resilience of the assets in which we invest. This approach is supported by the Global Equities Responsible Investment policy, the Investment & Corporate Governance: Schroders Policy, the Global Fixed Income Policy and the Responsible Property Investment Policy.

Foreword

Responsible Investment is a constantly evolving industry. Its origins date back to the Quaker's in the 17th Century who sought to avoid investing their money in companies and activities involved in the slave trade or war. At the turn of the 21st Century the focus begun to shift from ethical investing to engagement and active ownership and within the last few years we have seen a huge, global, increase in efforts to explicitly integrate a consideration of environmental, social and governance issues into the investment process.

At Schroders, 2011 was no exception to this trend, and, whilst in the 2010 report we reported on the expansion of our responsible investment equity policy to a global focus, in this year's report we can inform readers on the adoption of a responsible investment policy by the Fixed Income team. This effectively means that almost the entire range of Schroders' products is now covered by responsible investment policies which state our ambition to integrate a consideration of Environmental, Social and Governance (ESG) issues into our investment process, and this report details the efforts we have undertaken in this area over the course of 2011.

At the time of writing there is still a gross market failure to fully cost in environmental and social costs into the economic products and services on which the global economy depends. In December of 2011 we saw the insipid conclusion of the 17th round of international climate change negotiations in Durban, which put off an internationally agreed course of action to tackle climate change until 2020, with much of the disagreement centred around concerns about short term economic impacts of efforts to mitigate climate change and what this means for international competition. Whilst this result is undeniably discouraging it shouldn't draw away from the multitude of national and regional efforts to mitigate climate change; perhaps the most conspicuous being the EU's Emissions Trading Scheme which does seek to forcibly integrate an environmental cost onto national and company accounts.

However work published in 2009 by the Stockholm based "Resilience Alliance" shows that climate change is but one of the planetary ecosystem boundaries within which need to stay in order to maintain the conditions under which humanity could survive (some scientists are now referring to the current period of geological time as the A*nthropocene;* as planetary conditions are now very different to the conditions present during the *Halocene* during which humanity evolved). We are currently in over-shoot of three of ten boundaries (climate change, nitrogen cycle and biodiversity loss) with two other boundaries not yet being measured. It is clear that in order to return within these boundaries we would need to implement policy mechanisms that would ensure the true costs of depleting these ecosystem resources are recognised within our economic models. This recognition of ecosystem service impacts on company costs and revenues is one of the areas in which Schroders' responsible investment team is increasingly focussed as the urgency to address these issues grows and the costs of issues such as water scarcity can increasingly be seen on national and company accounts.

This report highlights the responsible investment activities that we have undertaken over the year. At the end of the report we highlight how these activities comply with the principles enshrined within the UN Principles of Responsible Investment.

Integration

The combination of numerous factors such as globalisation, ecosystem service depletion, urbanisation, demographics and consumer preferences creates challenging and changing markets in which companies operate. The assessment of how a company generates long-term value through adapting to these changes and capturing the opportunities is enhanced through the analysis of corporate ESG disclosure and performance; as these will help inform how a company's strategy aligns with these macro issues.

As awareness, and interest, in the ESG aspects of fund management has continued to grow, there has been a growing focus on how fund managers integrate a consideration of ESG issues into the stock selection and valuation process. However this is still an embryonic area within RI and, at present, there is no standard definition of what integration should look, or be, like.

We have identified three ways in which ESG data can be integrated in the investment process (though acknowledge that there are undoubtedly others):

1. **As a proxy for the quality of management.**
   An analysis of ESG data can be used as a qualitative indicator of a company's management practices. For example, if a company has good human capital management practices this should reduce turnover and improve productivity can reduce costs and positively influence revenue growth. This could be reflected by a company analyst in the growth forecasts that they choose to apply to a company.

2. **Linking ESG performance to financial performance.**
   It is clear that good ESG performance can have direct influences on the financial performance of a company. (E.g. a company that improves its energy efficiency will reduce the energy costs of its operations and hence the overall operating costs. Or indeed, reducing employee turnover will reduce direct costs associated with recruitment and training; as well as reducing the indirect costs such as lost productivity and increased workloads resulting from the loss of knowledge and skills caused by departing, experienced, employees). However in many instances the materiality of these impacts, when considered in isolation, is immaterial to the overall financial performance of companies with multi-billion pound market capitalisations. In these instances one would use the ESG performance as a proxy for the overall performance of a company.

   Having said this, there are an increasing number of instances where ESG performance can directly influence financial performance. For example, as national and international concerns about environmental issues increase there is an increasing amount of environmental legislation that can influence the financial performance of a company and hence be integrated directly into the financial forecasts of company analysts (e.g. climate change legislation, such as the EU Emissions Trading Scheme, puts a price on the carbon emissions of a company, which enables this environmental factor to be integrated into financial performance).

3. **Thematic approaches**
   The final tool we have identified for integration is in the use of thematic funds. These can be set up to invest in companies with material exposure to individual or collective environmental and social themes (e.g. climate change, water or healthcare).

All of these approaches are implemented to some degree at Schroders. Whilst we have always considered ESG issues within the investment process, this has not always been explicit and over the last few years we have made efforts to address this. We recognise that there is still a long way to go and would expect that as global ESG disclosure and standardisation improves the understanding of how key performance indicators influence business performance will also improve and, subsequently, how the analysis of ESG data can be integrated into the stock selection and valuation process in addition to the engagement processes. The following bullets provide a brief summary of some of the tools we believe help facilitate the integration of ESG into our investment process:

- We have a team of ESG specialists who sit with the investment teams
- Quarterly ESG ratings of portfolio holdings are sent to each equity desk
- An ESG research template has been developed through consultation between company analysts and ESG specialists, which is available to all internal investors
- Explicit ESG company analysis and comment is being undertaken by company analysts (this is supported by the ESG specialists who also undertake audits of this research)
- ESG specialists produce thematic ESG research (e.g. environmental impacts of fertilizers, water resource capacity)
- We subscribe to dedicated ESG research providers, and award commission to ESG research for brokers

Examples of integration in action

Portfolio exposure – On a quarterly basis we provide each equity desk with the ESG ratings (where available) for the companies that they hold. This provides portfolio managers and analysts with a snapshot of the ESG performance of their companies, and helps to raise general ESG awareness as well as questions on why companies were given specific ESG ratings.

Valuation & Selection – Many of our equity research teams now include explicit ESG comments about stocks under their coverage. We have shown the example of Petrobras (below), which demonstrates how ESG performance is considered by our company analysts within the investment process.

Table 1: Integrating ESG into the investment process – Samsung Electronics. Extract from an ESG note written by an emerging markets' analyst, May 2011. (This is for illustrative purposes only and is not a recommendation to buy or sell shares.)

Summary: PZE has a reasonable environmental record and operates primarily in Argentina where there is a reasonable environmental framework and few areas of unique biodiversity as opposed to say Ecuador or Peru where oil activities have been more controversial due to the damage to rainforests and indigenous communities. Argentina has neither of these problems and PZE no longer operates in Ecuador or Peru. The company has commenced offshore drilling in the Malvinas basin which raises risks but this is mitigated by the involvement of Petrobras expertise from Brazil. Socially the company fulfils its basic obligations to employees providing reasonable health and safety training and benefits. Argentina generally has laws and regulations which are protective of workers and consumer rights due to the strong left wing governments of the past decade. PZE has not suffered any significant recent strikes although sporadic action is a constant issue especially given the high rate of inflation in Argentina which prompts aggressive wage demands.

ESG factors are broadly neutral for PZE with environmental and labour issues being limited and governance is also average for the Argentine climate. It should be noted that due to strong regulation which is highly politicised in the energy sector, we should expect PZE to trade at a discount to global peers.

In summary in an Argentine context there does not appear to be any significant valuation impact for PZE from these factors since the political risk provides both upside and downside depending on the outcome of 2011's elections which are still too far away to call.

As we mentioned last year, an additional example of integration could be the inclusion of the price of carbon into the discounted cash flow models for the European Utilities and other large point sources of carbon. A similar approach is now being developed for the global airliner based on the decision of the EU to include the aviation sector within the EU ETS.

Thematic – Please refer to the Global Climate Change fund section (page 6)

RI Special Topic Reports

In order to continue to enhance our understanding of how ESG issues may create risks or opportunities to our investments we produce specific research reports into a range of topics, some of which may be topical issues, others more forward focussed pieces addressing topics that may impact the financial markets. During 2011 we have published the following special reports:

China: An Unquenchable Thirst?
Annually water issues cost China around 2-3% of its GDP and annual demand exceeds supply by around 30-40bn m^3. This report examines the materiality of water scarcity to China's economy, the responses that the Chinese government can implement (predominantly demand side management through water price reflection) and the potential investment implications this has.

The Business of Demographics
The ageing of the global population will present challenges to business in terms of dealing with the implications of an ageing workforce (e.g. defunct skills, ergonomics workstations) as well as the opportunities that this will present to companies.

Fertilized Fields Forever
This report reviews the huge potential for fertilizers in enabling humanity to feed the predicted 9bn people that are expected to be alive by 2050 (not to mention the changing dietary demands for higher protein diets) as well as covering the environmental challenges that will need to be addressed in the current unsustainable use of fertilizers and the implications that this has to companies.

Ecosystem Services – Where's the discussion?
A follow up review to our 2009 Ecosystem Credit Crunch report, which takes a look at population, economic and global ecological footprint forecasts to 2050. Which are that population will grow by 30%, the global economy by 300% though we are currently utilising 1.5 times the planets biocapacity and under business-as-usual this is projected to rise to three planets by 2050. We surveyed 14 Chief Economists of city institutions to determine their views on the implications of ecosystem decline on economic forecasting, but received a poor response which generally highlighted the lack of engagement by the city's Chief Economists with this subject.

Themed Funds

Schroders Global Climate Change

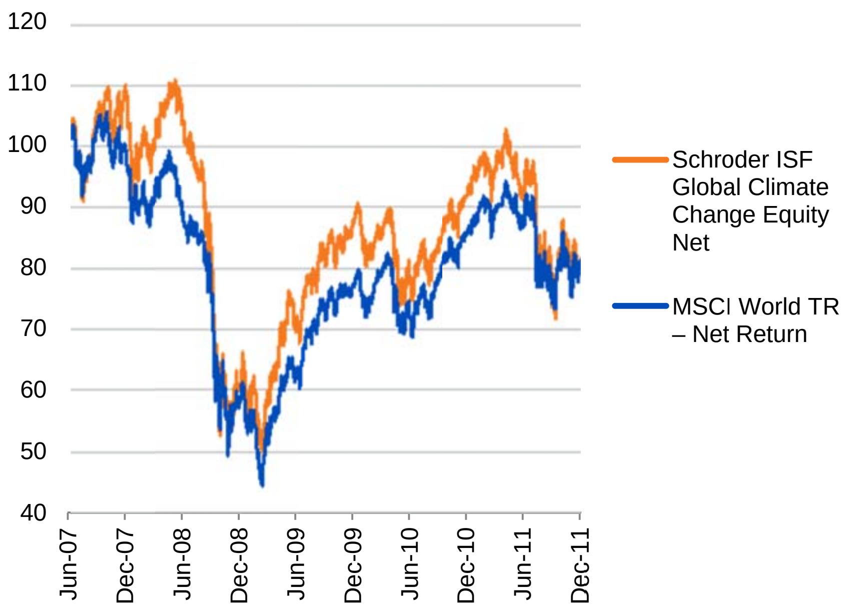
Schroders' Global Climate Change Fund was launched in June 2007 and since then it has performed broadly in line with the MSCI World Index to December 2011 (see Figure 2, below) and is comfortably ahead of its peer group for the "1 year", "3 year" and "since inception" time periods (see Figure 3).

Schroders believes that climate change will be the catalyst for a new "industrial revolution" as the world moves inextricably towards a lower carbon economy. Increasingly stringent emissions targets will necessitate large-scale capital investment alongside less costly abatement measures. The economic consequences both at a global and corporate level are becoming increasingly clear. Climate change policy and regulation will have a profound effect on most companies' revenues, operating costs, competitive advantage and ultimately, earnings growth.

Schroders' Global Climate Change fund seeks to maximise excess returns by investing in companies which are beneficiaries of efforts to both mitigate and adapt to the impact of climate change. The investment thesis for the fund is founded on the expectation that the accelerating pace of national and international policy action on climate change is creating a favourable outlook for companies involved in efforts to mitigate climate change as well as the need to adapt to the impacts of climate change. The fund draws its ideas from five broad pockets of opportunity:

1. Environmental resources (e.g. water resource management, agriculture)
2. Low carbon fossil fuels (e.g. natural gas)
3. Clean energy (e.g. solar power)
4. Sustainable transport (e.g. electric cars)
5. Energy efficiency (e.g. light weighting in transport)

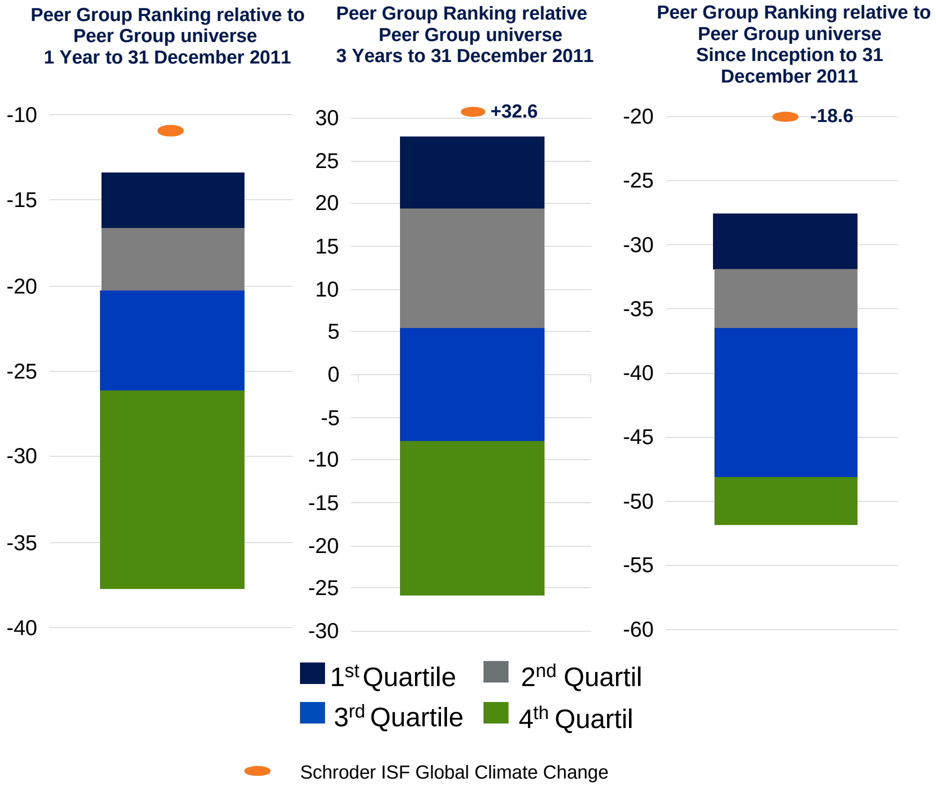
Figure 2: Schroders Global Climate Change Fund performance since inception versus the MSCI World Index



However, any company that is positively affected by climate change will be considered as a potential investment candidate for the fund.

The global nature of climate change inevitably requires a global investment perspective. It should therefore be no surprise that the fund's managers are fully integrated within Schroders' fundamental Global and International Equity team, where the belief in climate change-related investment opportunities is so strong that it forms one of the key themes harnessed by the team to identify structural growth.

Figure 3: Schroders Global Climate Change Fund peer group comparison



Source: Bloomberg, Schroders, Morningstar Micropal. Universe = Offshore and International, Sector Equity – Ecology. Fund performance represents the C Acc shareclass, net of fees, bid to bid, in USD. We have excluded the top 5 and bottom 5 percentiles from the peer group charts above.

Ethical Screens

Schroders performs a wide range of screens on its investments covering both pooled and segregated mandates.

For segregated mandates the nature of the screen is defined by the client's value preferences, fund objectives and parameters, alongside other financial and legal criteria. Segregated funds often exclude companies based on moral or ethical grounds, for example declining to invest in tobacco or pornography. Screening is not necessarily absolute, but can also assess the materiality of a certain criteria to the business as a whole, for example where in the value chain a specific business lies or how much of its overall revenue is derived from the criteria. Some clients require more sophisticated screening; this could include environmental protection concerns and social issues, such as international labour norms. Schroders utilises both in-house expertise and external specialists when developing and operating screens for clients.

Certain pooled funds also operate with ethical screens that define the investable universe. For example the Schroder Syariah Balanced Fund offers opportunities for capital growth while operating in accordance with Islamic principles in the capital market.

Table 2: Group Ethical FUM 2005-2011.

Year	Ethical FUM (£bn)	% of Group FUM
2011	11.34	6.1
2010	8.22	4.2
2009	3.85[1]	2.6
2008	3.68	3.3
2007	6.00	4.4
2006	4.22	3.3
2005	4.47	3.6

As in 2010 the increase in Ethical Funds Under Management in 2011 was primarily driven by a number of new ethical accounts, i.e. accounts that were newly opened in 2011 or did not historically have ethical restrictions attached. These funds were predominately associated with screens relating to Sudan and Cluster Munitions, consequently the number of accounts with Sudan related restrictions increased from 4% to 11% while accounts with Cluster Munitions restrictions increased from 0% to 4%.

Table 3: 2011 Ethical FUM by screen

	% Ethical FUM	% Clients
Tobacco	54%	65%
Armaments & Defence	31%	23%
Alcohol	63%	13%
Gambling Industry	64%	25%
Biotech & Environment	1%	8%
Pork	17%	6%
Banks/Financial Services	17%	6%
Interest Income	17%	5%
Healthcare/Pharma	1%	1%
Pornography	1%	3%
Human Rights	<1%	3%
Restricted List	21%	12%
Nuclear Energy	2%	7%
Israel	<1%	1%
Sudan	49%	11%
Cluster Munitions	4%	4%

Table 3 shows how the different screens are applied to the Ethical FUM. Because each screen is taken individually and more than one screen can be applied at a time the cumulative percentage is more than 100%. The table highlights that while screening against tobacco is most popular in terms of the number of accounts, alcohol and gambling are most popular in terms of FUM.

[1] Reported as £3.84bn in 2009. This was the result of failure to include one account of £11m in reporting.

Active Owners

On behalf of our clients Schroders' has share ownership rights and exercising these rights, through company engagement and proxy voting, is an integral part of our role in managing, protecting and enhancing the value of our clients' investments. In exercising these responsibilities we combine the perspectives of our portfolio managers, company and ESG analysts to form a rounded view of each company and the issues it faces. It follows that we will concentrate on each company's ability to create sustainable value and may question or challenge companies about ESG issues that we perceive may affect their future value.

The following section details our activities with regards to corporate engagement on ESG specific issues and our voting activities.

Engagement

Engagement with companies is part of our fundamental approach to the investment process as an active investor. It has the advantage of enhancing communication and understanding between companies and investors. When engaging with companies our purpose is for one (or a combination of) the following three reasons:

1. Monitoring the ongoing development of ESG practices within a company
2. Filling in gaps in our analysis
3. To seek change in ESG performance and processes that will protect and enhance the value of the investments for which we are responsible

This section of the review will only focus on instances of specific ESG engagement by ESG specialists, however, as active investors we are engaging with companies on a regular basis. In 2011 our equities teams had almost 12,000 meetings with companies, whilst the Fixed Income team had over 3,000, and whilst these meetings may focus primarily on financial performance they will also be used to address questions on ESG issues where necessary.

Table 4 provides a list of the companies that we engaged with during 2011 specifically on ESG topics. There has been a significant increase in the number of companies engaged with over the year (as shown by Figure 4), as well as an increase in the geographical breadth of the companies engaged; reflecting the impacts of the expansion of our ESG engagement policy to a global level.

Figure 4: Geographical spread of E&S engagement over 5 years

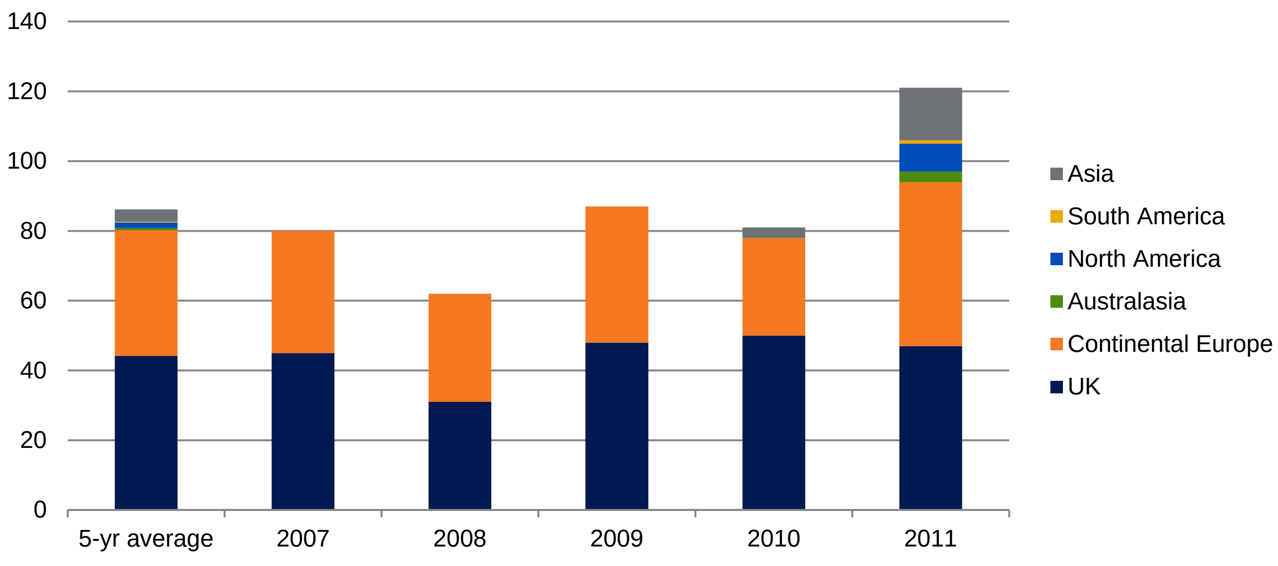


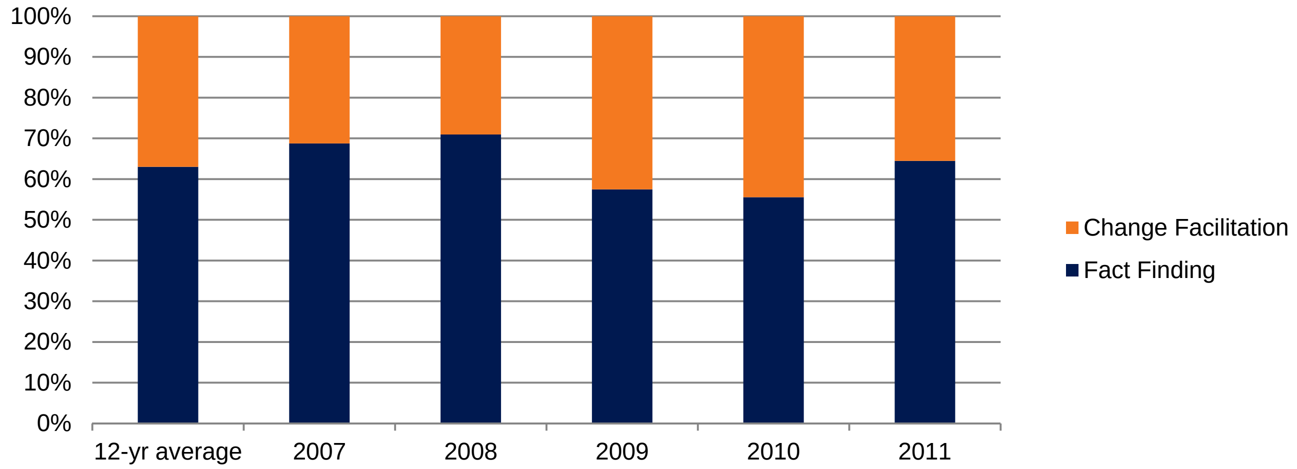
Table 4: Companies specifically engaged with on ESG topics during 2011.

Sector	Sub-sector	UK	Continental Europe	Rest of World
Consumer Discretionary	**Auto Components**		Michelin Pirelli & Co	Musashi Seimitsu
	Automobiles		BMW Renault	
	Hotels, Restaurants & Leisure	Carnival Ladbrokes		
	Internet & Catalogue retail	Experian		
	Multiline retail	Marks & Spencer		
Consumer Staples	**Food & Staples Retailing**	J Sainsburys Tesco	Ahold Delhaize	
	Food Products	Unilever	CSM	China Yurun
	Household products		Henkel	
	Personal Products		L'Oreal	
Energy	**Energy Equipment & Services**		CGG Veritas	
	Oil, Gas and Consumable Fuels	BP Royal Dutch Shell	Neste Oil Total	CNOOC Petrochina
Financials	**Commercial Banks**	Lloyds Banking Group RBS Standard Chartered		
	Insurance		ING Group	
	Real Estate			Cheung Kong Holdings GPT Group Stockland Sun Hung Kai
Health Care	**Health Care Equipment & Supplies**		Novo Nordisk	
	Pharmaceuticals	GlaxoSmithKline	Elan Corp Sanofi Aventis	
Industrials	**Aerospace & Defence**	BAE Systems	EADS	
	Building Products	Rockwool		
	Commercial Services & Supplies	G4S	Suez Environnement	
	Construction & Engineering	Kier Group	Acciona Arcadis	
	Electrical Equipment			First Solar Hon Hai Precision
	Industrial Conglomerates			Mitsui & Co
	Machinery	Bodycote Charter International Senior		
	Airlines	easyJet		
	Trading Companies & Distributors			Noble Group
Information Technology	**Communications Equipment**			Cisco Apple
	Internet Software & Services			Tencent Holding
	Software			Microsoft Quanta Computer
Materials	**Chemicals**		Air Liquide BASF DSM GPN K&S Novozymes Solvay Tessenderlo Yara	Airgas Monsanto Sinofert
	Construction Materials	AMEC	Imtech	Toto
	Metals & Mining	African Barrick Gold Anglo American Antofagasta BHP Billiton ENRC Kazakhmys Petropavlovsk Rio Tinto Xstrata	Arcelor Mittal Bekaert Salzgitter ThyssenKrupp	Barrick Gold Platinum Australia Vale
	Paper & Forest Products	De la Rue	Svenska Cellulosa	
Telecommunication Services	**Diversified Telecommunication Services**	BT Group	France Telecom KPN Telenet	
	Wireless Telecommunication Services	Vodafone		
Utilities	**Electric Utilities**	Drax National Grid Group	EDF	China resources Power
	Gas Utilities	Centrica		
	Multi-Utilities	United utilities	Veolia Environnement	Aqua America

Our engagement programme aims to closely align our engagement activities with the underlying shareholdings in our clients' portfolios. This is achieved by undertaking a quarterly review of each equity desks investment portfolios and identifying those companies which have been given a low rating, or no rating, by MSCI ESG research. This will identify companies that may potentially have a higher level of risk than their peers based on their exposure to environmental and social issues or their management of these issues. However we will also engage with companies when they are undertaking an ESG road-show.

Engagement is not always with the sole purpose of encouraging change in company ESG performance, but it could also be to improve our understanding of a company's ESG management programme ("fact finding") in order to improve our knowledge and analysis. Where we do seek change ("change facilitation"), this can be on various topics, from a simple request to encourage improved disclosure on an EGS indicator (in order to enable analysis) to encouraging the adoption of a specific performance target which would demonstrate effective management of ESG risk exposure. Figure 5 demonstrates that on average almost 40% of our company engagement activities has been to request change.

Figure 5: Aims of engagement over last five years



Once a request for change has been made we will review the company's progress in meeting that request on an annual basis (Table 5). Our assessment of the progress a company has made in meeting the request for change is subjective and ranges from "no change" to "achieved", as we do not review these requests until a year after they are made it is not appropriate to provide data for 2011 thus Table 5 only shows data from 2006 to 2010.

Table 5:Effectiveness of requests for change

	11 yr Average	2006	2007	2008	2009	2010
Achieved	11	17	12	11	5	2
Almost	5	14	7	6	6	4
Some change	4	2	1	1	16	18
No change	2	0	1	0	9	9
Ongoing	0	0	0	0	1	2
Success rate	73%	94%	90%	94%	30%	17%

The data in Table 5 clearly shows the influence of time on the success of any requests for change. As with our conclusion on this last year we put this down to one of two factors:

– Companies might take longer than 1 year to implement a response to change

– As companies continue to improve their ESG performance, any requests for change may be focussing on more specialist areas making the likelihood of achieving change smaller.

Though we note that, with any subjective assessment, there is a human factor that could be influencing the results in Table 5.

Proxy voting & shareholder resolutions

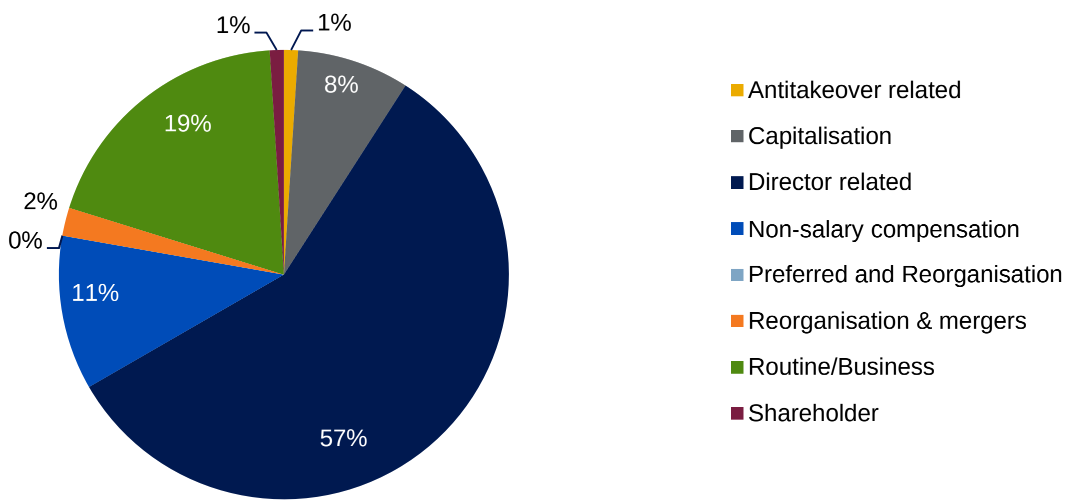
We recognise our responsibility to make considered use of voting rights. We therefore evaluate voting issues on our investments and, where we have the authority to do so, vote on them in line with our fiduciary responsibilities in what we deem to be the interests of our clients.

Table 6: Voting activity 2008-2011[2]

	2011	2010	2009	2008
Meetings	5,191	4,758	5,032	5,423
Resolutions	45,350	43,674	46,521	49,360
Votes with management	42,101	41,497	42,181	47,338
Against management	3,339	2,177	4,340	2,022

Schroders will vote for, or against, any proxy requests relating to companies listed in the UK and for companies listed outside the United Kingdom and for non-UK clients on proxy requests relating to the following securities: the largest 500 International (non-UK) holdings by value; the largest 300 UK holdings by value; European smaller company and Japanese holdings where Schroder Investment Management holds above 5% of equity market capital; and securities which local regulations require to be voted.

Figure 6: Breakdown of resolutions voted on by category, 2011 (according to MSCI ISS classifications)



As Figure 6 shows, the majority of resolutions target specific corporate governance issues which are required under local stock exchange listing requirements (e.g. approval of directors, accepting reports and accounts, approval of incentive plans) a small minority of these resolutions are tabled by shareholders in the company and focus on the social, ethical and environmental (SEE) issues that a company faces. As with previous years, the majority of these shareholder resolutions have tended to be tabled at the AGMs of US companies (due to US corporate governance regulations making this easier to achieve than in other jurisdictions). Where a shareholder resolution of a SEE nature is tabled at the AGM of a company we will take into account company performance, best practice, whether the company has faced similar resolutions before and, ultimately, if the resolution is in shareholders' interest. We normally hope to support company management; however, we will withhold support or oppose management if we believe that it is in the best interests of our clients to do so. Further details about Schroders' approach to voting are covered in *Investment and Corporate Governance: Schroders' Policy*.

[2] Please note the figures in this table do not include resolutions or meetings at which we did not vote. We aim to vote at all meetings except were there are onerous restrictions – for example, where trading is restricted prior to a meeting in shares committed to vote (share blocking), we will usually only vote in cases where the benefit of voting outweighs the ability to trade.

Table 7 provides an historical breakdown of all these shareholder resolutions we have voted on since 2002 (our records go back to 2000). Whilst it is feasible to attempt to draw conclusions from an analysis of the trends it should also be noted that the investment strategies of Schroders' fund managers will determine which sectors and companies we will have exposure to and will thus influence which resolutions we will have to vote on.

Table 7: Social, environmental and ethical shareholder resolution voting records by issue (2002-2011)

	Issues	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Ethical	Animal Testing/Welfare	6	5	8	8	13	14	18	4	1	0
	GMO	1	0	1	2	3	6	6	5	2	5
	Weapons	0	2	5	2	5	5	6	9	4	0
	Tobacco	1	3	5	2	3	8	5	8	7	2
	Miscellaneous	1	1	0	0	0	0	0	0	4	0
Environment											
	Toxic chems	3	4	0	1	3	3	3	5	3	2
	GHG/CC	9	16	15	12	14	7	5	12	6	2
	renewable energy & EE	5	4	0	1	1	5	0	5	5	3
	Nuclear Power	5	20	3	8	10	7	4	12	12	3
	Access to protected areas	0	0	0	1	1	3	2	2	0	3
	Environmental Policy/programme	2	16	0	1	0	3	1	1	2	5
	Forestry	0	0	2	0	0	1	1	1	2	1
	Miscellaneous	15	6	8	2	6	1	1	3	1	0
Social											
	Equal Opps	12	7	16	12	13	12	7	10	9	6
	Labour Standards & human rights	6	15	12	27	22	25	16	13	16	16
	HIV/AIDS	0	0	0	0	0	1	4	8	2	0
	Drug Pricing/Access	1	0	0	0	1	0	7	5	1	4
	Health Care	0	0	12	3	2	0	0	0	0	0
	Health & Safety	2	2	3	3	3	3	1	3	1	0
	Pay disparity	3	0	1	0	3	1	1	3	2	0
	Miscellaneous	2	2	2	2	5	9	2	7	4	0
Other											
	CSR/SEE/Sustainability Report	3	9	6	4	11	8	3	5	3	0
	link pay to ESG	1	0	0	0	2	1	1	2	1	0
	Miscellaneous	3	4	0	1	1	0	1	4	2	1
Number of resolutions voted on		81	116	99	92	122	123	95	127	90	53

Collaboration & Industry Involvement

Over the year we have continued to lend our support to (whether financial, intellectual or brand sponsorship), as well as participate, in several industry initiatives. These can serve, but are not limited, to promote the ongoing development and recognition of ESG within the investment industry, to provide us with learning opportunities or to improve disclosure standards within the companies in which we invest. The following section aims to categorise our involvement in these different initiatives.

Collaborative initiatives

Carbon Action Initiative – We have become signatories to the Carbon Action stream of CDP, which will provide more in-depth analysis and focus on the climate change activities and performance of key companies.

Carbon Disclosure Project – Schroders is respondent to, supporter of and special adviser to the CDP, which has been established to improve the level of disclosure around climate change issues (e.g. emissions, risks and opportunities) by the world's largest companies.

Forest Footprint Disclosure Project – we were one of the founder endorsers of this initiative, to encourage companies to assess, and disclose on, the level of their forest footprint throughout their value chains.

Institutional Investors Group on Climate Change (IIGCC) – Schroders is a founding member of the IIGCC, originally sitting on the steering committee during the IIGCC's establishment as well as leading the working group on corporate disclosure. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy.

Prince of Wales Business Leaders Forum – We continued our support for the PWBLF Communiqué on Climate Change by signing the communiqué for the Durban climate change meeting. These communiqués (also presented at Bali, Poznan, Copenhagen and Cancun) urge world leaders to agree on global climate change policy in order to provide support for business and investors in making long term investment decisions.

Sustainable Solar Initiative – we have collaborated with other investors in encouraging improved standards of ESG disclosure amongst solar power companies.

Water Disclosure Project – Schroders continued to provide its support to this initiative, encouraging companies to improve their levels of disclosure relating to their exposure to water resource issues (e.g. risks and opportunities water presents, management systems).

Industry bodies promoting ESG practices

Association of British Insurers – We are members of the investment committee

Corporate Governance Forum – We have continued our membership of this

European Fund and Asset Management Association (EFAMA) – We are members of the Responsible Investment Working group of EFAMA, which has been established to provide representations to the EU, from the asset management industry, on responsible investment.

European Social Investment Forum (EUROSIF) – we have continued our membership of EUROSIF, which represents the responsible investment industry at the European level, through lobbying, research, networking and event organisation.

UK Sustainable Investment and Finance Association (UKSIF) – we continue our membership of UKSIF, which promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.

United Nations Principles for Responsible Investment (UNPRI) – we have continued to participate in the UNPRI questionnaires, providing feedback on how they can be improved as well as the overall service provided by the UNPRI.

Seminars providing training & learning

Agricultural commodities conference – We attended a conference on agricultural commodities where food security and yield increase challenges were tackled.

Arms Trade Treaty – This seminar focussed on discussing whether there would be any implications for investors as a result of the proposed Arms Trade Treaty, which is intended to control the international trade in arms. The treaty itself is still in the negotiating stages which will be concluded in 2012, but it looks like having a minimal impact on investors.

Australian Climate Change legislation – We had a meeting to discuss the Australian Carbon scheme policy development and impacts on exposed industries. The findings from Citigroup's analysis were that the costs were relatively immaterial to business with the volatility in fuel prices being much more significant.

Basic Material Conference – We attended a conference on basic materials where the resource scarcity and environmental cost management of extracting activities were underlying themes.

Business and Biodiversity – We attended a conference held by the Natural Value Initiative and Flora and Fauna International on the need for, and the business benefits of, biodiversity management systems

CA Cheuvreux on Airlines in the ETS – We were interested in improving our understanding of the implications for airlines of joining the ETS.

Carbon Trading – We had a review of the carbon trading system

Changing climates – We hosted a meeting with Evelyn Browning Gariss, a weather specialist, to discuss natural changing climate trends, an important topic to improve our understanding of climate change, which has both man-made and natural causes.

Chemicals, Pharma & SRI – We attended a seminar with the UK Government's Chief Scientific Advisor on the role of these sectors in meeting future challenges.

Chinese Markets – The CLSA analyst team presented their work on Chinese markets and discussed recent work on Chinese farmers and an analysis of the Chinese Oil and Gas industry.

Citi Mining Reverse Roadshow – Valuable opportunity to meet a number of mining companies and understand how they individually approach the challenges of sustainable operations.

Climate change policy – A review of Indian CC policy and China's new five year plan.

CLSA – Richard Hokenson, Demographics, ageing and economic growth – We had a meeting with Richard Hokenson, a pioneer in the application of demographics to economic and financial market forecasting.

Cluster Munitions – We attended a meeting with NGOs and a representative of the UK government to discuss the implications of legislation against cluster munitions for investors in the UK.

Demographics – we have had various meetings with brokers on the implications of Demographic change in different regions

Dodd Frank Act Seminar: Implications for Investors in the Extractives Industry - Seminar organised by UKSIF in order to explore the implications of the Dodd Frank Act on Miners and Oil Companies. As whilst the Act was primarily established to improve transparency and accountability within financial services, it also includes a provision for mining companies to disclose in their report and accounts payments made to national governments and which these governments were. An additional provision specifically targets militia and rebel groups in the Congo, and we met with Global Witness to discuss this.

Ecosystem Services – We attended a seminar by Fauna and Flora International which aimed to explore the links between Ecosystem Service Risk and the Extractive Sector. Sadly it didn't provide much in terms of how to value ecosystem services into economic forecasting.

EDHEC Research Day – Presentations from a number of academics discussing the evidence for value creation from Corporate Social Responsibility and the incorporation of ESG into investment.

Employee health & wellbeing – Attended a UKSIF Employee Health and Well being seminar; it aimed to discuss how to increase and standardize reporting on employee Health and Well-being with the strong conviction that good employee management systems can help improve work productivity and positively impact the bottom line of the business.

ESG Demand – We spoke on the topic of institutional investor demand for ESG at the Envirotech & Clean Energy Investor Summit.

FairPensions Seminar – We attended a seminar hosted by FairPensions on the subject "Wealth Across the Generations". Whilst the seminar was interesting it failed to discuss sustainability which we raised during the questioning opportunity, we also sought the views of the speakers on including other measures of success within quarterly and annual pension fund performance reports (e.g. portfolio carbon profile versus the benchmark).

Food Challenge – We attended a seminar on the global food challenge with experts and professionals of the food supply chain.

Global Finance – We were asked to participate in a lunch organised by ZYen consultancy entitled "Long finance: Big questions that might get the financial system working again". The intention of the lunch was a general discussion, though it was clear that there were some participants who were keener to talk than to listen. We provided some input on the failure of GDP to measure natural capital decline and the need to have this recognised within long term modelling.

Global Food – We met with Professor Charles Godfray from Oxford University who presented his work on the global food challenge: "the Future of Food and Farming: Challenges and choices for global sustainability", a report which was carried out in the context of the UK Government's Foresight Project on global food security.

GMOs – We arranged this conference call in order to better understand the scientific evidence behind the risks associated with GMOs.

Green Leases – The seminar primarily focussed on the legal basis of green leases, rather than on the impact that they had for lessee and lessor, though much was made of the value of increased dialogue between the two parties.

Impact Investing – we have met with representatives from the following organisations to understand impact investing and to explore a role for Schroders in this evolving field. Social Stock Exchange, Bromley-By-Bow, School of Social Entrepreneurs, Divine Chocolate, Triodos, Fair Finance, Social Finance, Rianta, Jacana

Integrating ESG into your voting strategy – EIRiS was hosting a webinar providing case study evidence of how some investors integrate ESG into their voting strategies.

Labour standards in the Supply chain – we met with Impact, who provided a review of the labour market risks within India and China.

Lifestyles of Health and Sustainability (LOHAS) – This meeting provided an incite from an industry expert into the growth of the LOHAS consumer in Asia.

Microfinance and financial – A round table meeting with Micro-finance experts to explore the risks and emerging opportunities of inclusive financial services, and the challenges the micro-finance industry is facing to restore its reputation and redefine its objectives following last year events

Mobile Phone Health – In this seminar three specialists in the fields were giving their diverging viewpoints on health concerns from electro-magnetic fields and the policies and good practices to be implemented.

Natural Gas Vehicles – We participated in a seminar discussing the potential for Natural Gas vehicles, as a replacement for vehicles powered by oil based fuels.

New frontiers in Oil and Gas – We met with an expert from the industry to discuss new challenges in the Oil & Gas sector as the complexity and risk profile of exploration and production activities are increasing.

Nuclear Energy – We attended a seminar entitled "Nuclear – The real cost, safety and demand outlook in Europe, US and China" which was being given by an expert from the World Nuclear Agency.

Nuclear expert group meeting – We attended a lunch with Dr Robert Hawley, former CEO of nuclear Electric & British Energy. As an acknowledged international expert on nuclear power generation energy and the environment, Robert could give his view on the situation in Japan following the nuclear accident and what he thought would be the implications for the global nuclear industry going forwards

Palm Oil – sustainable palm oil conference call with industry experts

Palm Oil, the growing concern – We invited Société Générale to present its report on Palm Oil which tackles the ESG challenges palm oil presents from climate change, agriculture and global health perspectives.

Responsible Investment training – we held a training session with the UK equities team on developments within the RI industry. We also attended two conferences on methodologies for integrating ESG into the investment process

Rio "Earth Summit" Preparation – We participated in an event ahead of the 2012 Earth Summit being held in Rio in June. The event looked at the various investor initiatives designed to increase a focus on natural capital valuation within the investment industry.

Role of women on board – The title of this UKSIF seminar was rather misleading as the focus of discussion was on the gender representation gap of women at board level and what can be done to address this.

Shale Gas – We attended a meeting with Dr Howarth from Cornell University to hear and discuss the findings of his report on the environmental impacts of shale gas drilling.

Shale Gas Health & Safety – We met with Bank of America Merrill Lynch SRI Equity Strategy team who presented their work on HSE risks of the emerging shale gas industry.

Shipping & Offshore CSR Forum – We attended the forum which provided an outline, and discussion, of how the Shipping industry might incorporate sustainability into its business model.

Sustainable Fishing – Responsible research hosted a seminar discussing "The Future of Fish". The subject matter covered the impacts of industrial fishing, models for sustainable fisheries and the current state of the world's fisheries.

Sustainable Supply Chains – We attended a Conference on Sustainable Supply Chains covering issues such as water footprint in beverage industry and labour conditions in clothing retail sourcing

UKSIF Seminar on the Dodd Frank Act – Valuable insight into the implications of the Dodd-Frank Act on extractive industries. Representatives from investment managers, extractive companies and NGOs discussed the substance and practicalities of increasing transparency regarding company's payments to governments.

UKSIF/EUROSIF EU Policy seminar – we chaired and hosted an event on EU policy and the responsible investment community

Unburnable Carbon – We attended the launch of a report which focuses on the finite amount of carbon able to be released in order avoid dangerous climate change and then raised the point that this finite limit of carbon is surpassed many times by the embedded carbon in the world's recognised fossil fuel reserves. Raising the question over whether these reserves should be listed as assets or liabilities.

UNPRI, fixed income workshop on ESG – This workshop focussed on identifying the tools needed to help the process of integrating ESG considerations into Fixed Income. It was an initial scoping exercise to help direct the efforts of the UNPRI in the facilitation of this process.

Water – The seminar discussed how investors should try to think about businesses exposure to water risk and how this might be quantifiable.

Water risks to business – We invited UBS to present its latest report on water risks to companies. This is helping our team identity most exposed companies in our engagement programme.

World Forum on Enterprise and the environment – This two and a half day forum was a meeting of the world's experts on the economics of ecosystem services. The aim was to develop an understanding of how to continue the development of this analysis and bring it into the mainstream economic discussions, as well as focussing on the gaps in the data and the current findings of this science. Schroders was presenting on the integration of ecosystem services into the investment process.

Responsible Property Investment

Schroder Property Investment Management has been managing property funds since 1971 and operates across 9 European offices and is headquartered in London. With £9.6 (€11.5/US$14.9) billion of assets under management as at 31 December 2011 we are one of the largest institutional property investment managers in Europe.

The issues of environmental sustainability and social responsibility have long been integrated into our investment process. We believe that by incorporating these issues into the investment management process we are able to protect and enhance our client's investment returns, whilst reducing portfolio risk from issues such as property obsolescence and future government and EU legislation.

Investment management
Our commitment begins at the initial appraisal stage when seeking to identify new investment opportunities. Each new acquisition undergoes a separate RPI audit process tailored for each local market. The process is designed to identify any weakness in the building's ability to deliver future returns due to issues such as flooding, contamination, energy efficiency, water management and social occupier issues.

Asset management
Existing buildings are asset managed in accordance with our belief that through factoring environmental and social issues into the management regime of a building it will become more attractive to occupiers. Our approach is focused on delivering on-site solutions to achieve our clients' objectives effectively. Where the management of a building is undertaken on our behalf by a managing agent we ensure their policies are fully aligned with our own. Whether driven by legislation or not, we seek to find new ways to manage occupancy costs through energy savings, reducing water consumption and facilitating the disposal of waste away from landfill. Where possible we will seek to work in partnership with our existing occupiers, although a cost benefit analysis of any expenditure is important to ensure the investment objectives of our clients are protected.

New versus Old
Schroder property has limited exposure to property development, but where it does undertake schemes to deliver new buildings to occupiers we will ensure that they are built to the high standard required to obtain sustainability accreditations (such as BREEAM Excellent) as appropriate for local markets. It is generally acknowledged that by 2050,the vast majority of today's buildings will still in existence. Having a process that both assesses the challenges of obsolescence in existing buildings and can deliver solutions that can add value by future-proofing potential new acquisitions, is a key focus.

Progress in 2011
Our Responsible Property Investment (RPI) policy outlines our role and responsibilities as owners, managers and developers of property assets, in a world where issues relating to climate change and global warming have become key investment considerations. In 2010 we began to develop a portfolio reporting system in conjunction with our managing agents for the Schroder flagship UK fund, to provide key performance indicators (KPI's) across a range of issues with a process of formal monitoring and linked with an RPI plan for each asset. It had been our intention to publish these KPIs in 2011 but feel with the launch of yet more competing benchmarks and questionnaires, the industry is still some way from agreeing a normalised set of RPI metrics to measure the investment risks being faced by clients. Having restated the sound principles of RPI in our investment processes in the UK, we are working to ensure that similar KPIs are in place across Continental Europe to reinforce the importance of climate change risk and to ensure that we have policies and procedures relevant to each local jurisdiction. Our RPI Forum allows regular dialogue amongst our Pan European fund managers so that best practice experiences with stakeholders can be shared. We will continue to develop our Pan European RPI investment approach over the coming 12 months.

Responsible Fixed Income Investment

As we mentioned earlier in this report, 2011 saw the adoption of a Fixed Income ESG policy by SIM Credit Research which is provided below.

Schroders' overriding objective for integrating an ESG approach into the credit investment process is to, wherever possible, enhance returns and protect value for our clients.

Analysis

Schroders believes that an analysis and evaluation of ESG issues and their impact on investments is a fundamental part of a bond valuation and selection process. Typically ESG analysis will source information from a mosaic of sources, including (but not limited to) the issuer itself, specialist research providers, brokers and academics. We will utilize internationally recognised benchmarks, codes and standards as guidelines for best practice within our ESG analysis, but we are pragmatic in our recognition that no "one" model of ESG management can apply to a company, and that each company has to be considered in respect of the industry and markets in which it operates.

Typically good corporate ESG practice should ensure that:

- there is an empowered and effective board.
- there are appropriate checks and balances in company management systems.
- there are effective systems for internal control and risk management covering ESG and other significant issues.
- there is suitable transparency and accountability.
- management remuneration is aligned with long term shareholder value.

Integration

ESG factors will be initially addressed at the analyst level and will be discussed by the team to determine the importance to the stability of future earnings streams and the resulting ability of the issuer to meet their interest and principal obligations. ESG factors are then taken into consideration in the portfolio construction process. Whilst qualitative factors such as ESG issues are difficult to value, we consider these factors as contributing to the likelihood of both future financial success and in its impact on the risk inherent in the business. As such, while the more traditional financial indicators and the analysis of business strategy form the basis of investment decisions ESG factors will often impact the size of position, given its impact on the inherent risk to our financial forecasts. We primarily focus on the longer term impact of ESG issues rather than unduly weighting factors which are currently occupying market attention.

From a practical perspective, analysts should integrate ESG commentary as follows:

- *Initiation reports. These reports should explicitly include a commentary and ESG rating, where appropriate.*
- *On-going research reports. The process of preparing these reports should implicitly address the question "are there any significant ESG issues with this credit?"*

Engagement

Engagement with companies is part of our fundamental approach to the investment process as an active investor. It has the advantage of enhancing communication and understanding between companies and investors. We will look to engage with bond issuers and communicate any specific concerns we may have in respect to ESG practices. When engaging with companies our purpose is to either seek additional understanding or, where necessary, to seek change that will protect and enhance the value of investments for which we are responsible. We concentrate on each company's ability to create sustainable value and will question or challenge companies about issues, including those relating to ESG, that we perceive might affect the future value of those issuers' bonds.

Future actions

Our objective is to ensure the success of this policy and enable our clients to take the benefits from this best practice. We will implement internal systems and process to continuously improve the integration process, strengthening the links between Credit and ESG teams and developing ESG skills and knowledge among credit analysts. We will monitor the ESG integration process into Fixed Income investment team and will disclose on a regular basis the outcomes of the engagement programme.

Compliance with UN Principles for Responsible Investment

This section demonstrates our compliance with the UNPRI as well as highlighting the relevant pages within this report where evidence of this compliance is demonstrated, in addition to other sources not included in this report.

UN PRI Principle	Schroders compliance	Location in annual RI report
P1. We will incorporate ESG issues into investment analysis and decision-making processes	– 5 ESG specialists – 328 investment professionals – 204 years experience as active fund managers – Responsible Investment and Corporate Governance policies for property, equities and fixed income – Proprietary Global Research Investment Database – Joint (ESG and company analysts) attendance at company meetings – Collaboration between specialists and professionals – Allocation of broker commission for ESG research – ESG analysts sector twinning with financial analysts – Ad hoc internal ESG training	Pg 3-8 Pg 20 Pg 21
P2. We will be active owners and incorporate ESG issues into our ownership policies and practices	– RI policies for property, equity and fixed income – Global voting strategy – Active engagement, with regular monitoring of success	Pg 10-15 Pg 20 Pg 21
P3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.	– Engagement can address issues of disclosure, when necessary – Participation in collaborative disclosure initiatives – Submissions to regulators, trade associations, legislators and other bodies	Pg 10-13 Pg 16
P4. We will promote acceptance and implementation of the Principles within the investment industry	– Submissions to regulators, trade associations, legislators and other bodies – Membership of various bodies promoting ESG – Participating in speaker panels at conferences etc.	Pg 16-20
P5. We will work together to enhance our effectiveness in implementing the Principles	– Collaboration – Investor networks	Pg 16-20
P6. We will each report on our activities and progress towards implementing the Principles.	– Quarterly reports – Annual reports – Thematic and special reports – Responsible Investment intranet site – Responsible investment internet – Client reporting portal	

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