

# Engagement Blueprint

Our vision for active  
ownership at Schroders

February 2022



This document is intended to be for information purposes only and it is not intended as promotional material in any respect

**Schroders**

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# Engagement Blueprint

**Through constructive and committed engagement with management teams at the companies and assets we invest in, active ownership is a key element of the value we bring to our clients. Social and environmental forces are reshaping societies, economies, industries and financial markets. Approached thoughtfully and with focus, encouraging management teams to adapt to those changes, and holding them accountable for doing so, can strengthen the long term competitiveness and value of those assets and can accelerate positive change towards a fairer and more sustainable global economy.**

Schroders is a leading global investment manager headquartered in London, but operating from 37 locations across Europe, the Americas, Asia, the Middle East and Africa. As at 30 September 2021, we are responsible for managing £717 billion of assets for our clients who trust us to deliver sustainable returns. We strive to provide excellent investment performance and solutions to our clients through active management. By serving clients, we serve wider society: channelling capital into sustainable and durable businesses accelerates positive change in the world. As a large investment manager, we recognise that we have an important part to play in shaping the future of all our stakeholders.

Schroders has a long history of engagement and active ownership. We appointed our first governance resource in 1998 and have recorded and monitored ESG engagements spanning more than 20 years. Over that time we have influenced significant change, and helped the companies in which we invest improve their environmental, social and governance performance. That long standing commitment and investment across our firm has provided us with a platform we have refined and strengthened over time.

This document builds further on that foundation. It describes where we plan to focus our active ownership efforts. Establishing and articulating the guiding principles for our active ownership efforts, helps ensure a common voice across the asset classes we manage, as well as through our engagement and input to policy makers, regulators and industry groups. We have a long history of engagement with policy makers, for which sustainability factors are becoming an increasingly important focus. While this document is primarily focused on our engagement with the companies in which we invest, we will continue to develop our active ownership approach and priorities across asset classes to address new priorities and expectations.

This blueprint is forward-looking and is a compass to guide our commitment to creating value by driving transition and change. It is not a set of expectations for current practices. It is complementary to our published [ESG policy for listed assets](#) and [Sustainable Investment reports](#). We will continue to engage on traditional operational factors such as share price underperformance outside of the scope of this document.

We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. This ensures that clients understand how we plan to execute active ownership responsibilities on their behalf, and companies understand key areas on which we will focus. We expect companies, led by the board, to embrace shareholder rights and constructive engagement with both shareholders and holders of long-term debt around material long-term sustainability issues.

# Introduction

## Why do we engage?

We consider active ownership to be the influence we can apply to management teams to ensure sustainable practices in the assets in which we invest. We aim to drive change that will protect and enhance the value of our investments and we are committed to leveraging the weight of our firm to change how a company is operating for the better. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals in line with our fiduciary responsibilities.

## How will we engage?

### Scope of our approach

As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the companies in which we invest. Our active ownership priorities reflect the combined perspectives of our fund managers, investment analysts and sustainability specialists across the firm, supported centrally by the Sustainable Investment team. As a result, we are able to take a common approach across investment desks. This is important in ensuring a common voice across equity and fixed income investments, and other asset classes that do not attract voting rights.

Our approach to active ownership is also similar across geographies and market capitalisation. Differences in expectations arise from country and regional contexts, which can sometimes provide additional complexities; for example, differing socio-cultural factors, regulatory maturity and resource constraints.

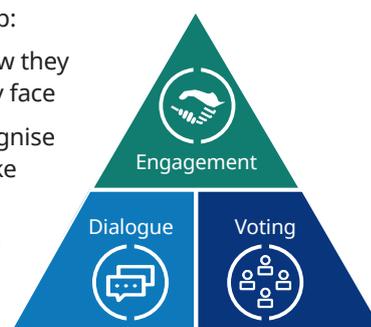
### Active ownership in practice

We identify three key methods for practicing active ownership:

- 1 Dialogue:** We speak with companies to understand if and how they are preparing for the long-term sustainability challenges they face
- 2 Engagement:** We work with companies to help them to recognise the potential impact of these challenges and to help them take action in the areas where change may be required
- 3 Voting:** We use our voice and rights as shareholders to make sure these changes are effected

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

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. We identify a number of methods to escalate our engagements below; these may take place in any order or frequency depending on the nature of the engagement.



## Methods of escalation



We seek to align our approach to voting with our wider active ownership priorities. This can include voting against management; for example, by holding directors to account on ESG topics, and supporting shareholder proposals, which we are becoming increasingly frequent and important levers for change. We will oppose management if we believe that doing so is in the best interests of shareholders and our clients.

## We examine sustainability-related resolutions on a case-by-case basis with reference to the following factors:

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**Materiality**  
We focus on issues that are relevant to a company within the context of its sector and the company's relationship with stakeholders.
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**Transparency**  
We support transparency as this helps us better understand how companies are identifying and managing the ESG issues that impact their business.
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**Asymmetric knowledge**  
We engage with companies to promote good environmental, social and governance practices. However, we recognise that it is the company that has the day-to-day operational knowledge and expertise to manage ESG issues. We do not intend to micro-manage companies, but rather provide oversight and guidance on ESG practices.
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**Alignment with evolving ESG best practice**  
We encourage companies to move towards ESG best practice. Best practice is constantly evolving and we take account of the views of investee companies' and our own stakeholders, we also consider the sector and geography, and what realistic expectations may be.
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**Evidence of policy implementation and progress**  
We want re-assurance that the policies and practices published by companies are being implemented effectively.
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**Responsible conduct**  
When sustainability-related controversies do occur, we seek evidence that companies seek to understand the causes of issues when they arise and are pro-active in strengthening management systems to minimise the probability of future controversies.

## Outcomes-based approach

Our approach to active ownership focusses on achieving real-world outcomes and achieving change - that's why we prioritise the depth and quality of our engagements over the volume of activity. When determining when to engage and setting an objective for the engagement, we consider:

- 1 Materiality:** We seek to focus our engagement on the most material sustainability threats and opportunities to the company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value. While we look at the sustainability issues companies deem material, we also apply our own understanding and judgement. This includes using our proprietary ESG tools and research, such as [CONTEXT](#).
- 2 Regional context:** The materiality of issues and the expectations we have of companies vary by country and region; for example, differing socio-cultural factors, regulatory maturity and resource constraints. Where possible we reference country or regional initiatives, regulations and leading practice from peers in our dialogue with companies.
- 3 Realistic outcomes:** We consider both leading practice and what could realistically be achieved by the company in the next few years, including considering the size of the company.
- 4 Ability to monitor progress:** We use objective, measurable metrics or indicators that can be used to assess company performance on an issue.
- 5 Length of engagement:** We aim to set short- to mid-term objectives – that can often be achieved over a 12- to 24-month period depending on the intensity of the engagement - but with a longer-term vision in mind. We recognise that some issues may require more urgent action than others, and that other objectives may take longer for a company to achieve.

We aim to set pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where they are suitable for the engagement. We regularly monitor progress against the engagement objectives, at least annually, and at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding. That said, we recognise that the length of time to achieve an objective will vary depending upon its nature, and that key strategic changes will take time to implement into a company's business processes. A measurable outcome from our engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, or a change to the governance of an issue.

We recognise that success factors may be subjective, and that Schroders' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, no matter how large or small our influence may be.



## Our priority engagement themes

We focus on sustainability issues which we determine to be material to the long-term value of our investee holdings. When material and relevant, we believe that companies that address these factors, where lacking, will drive improved financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. By strengthening relationships with that range of stakeholders, business models become more sustainable. The governance structure and management quality that oversee these stakeholder relationships are also a focus for our engagement discussions. In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement:



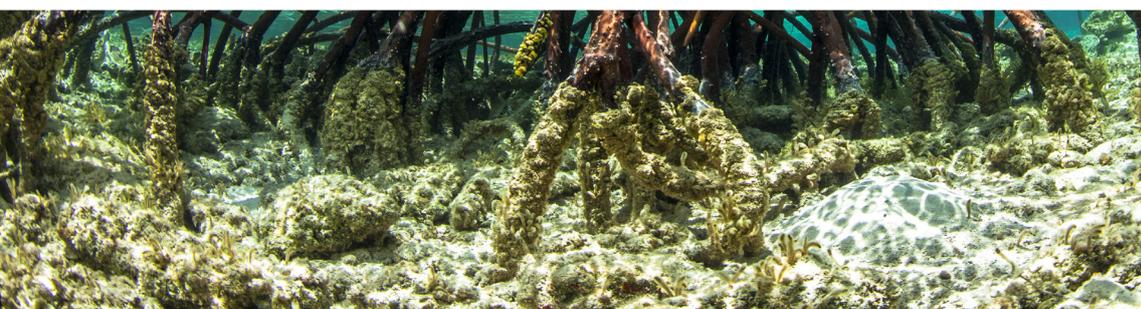
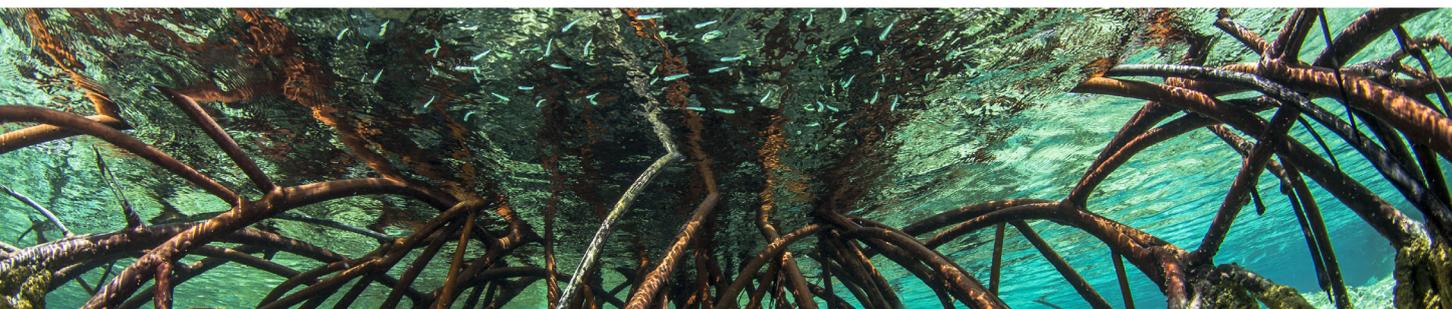
Our themes are underpinned by additional cross-cutting thematic priorities, such as business ethics, and sector specific issues, such as antimicrobial resistance (AMR) and healthy diets. We also increasingly recognise the interconnectedness of ESG themes, such as the “just transition”, which recognises the social dimension of the transition to a resilient and low-carbon economy. We seek to reflect this interconnectedness in our engagements with companies.

We plan to regularly review our priorities and update this document, at least annually, as our understanding of the issues and market best practice evolves. This will help us ensure we are pushing for change in the right areas.

Over the following pages we broadly summarise, for each of our key themes, the long-term outcomes we aim to achieve and the corresponding short- to mid-term actions. Where possible we align our desired long-term outcomes with established international goals, such as the Paris Agreement or the UN Sustainable Development Goals (SDGs). That said, the objectives we may set are unique to a specific company depending on its current practices, determination of its most material issues and broader considerations such as company size, geography and sector. As such, we don't aim to engage on all key themes for any specific company; rather, we focus on achieving positive outcomes for their most material themes, at our most material holdings.

## Feedback

We believe that engagement should be a two-way street. We welcome companies, clients and our wider stakeholders contacting us about relevant issues and providing feedback on what we have set out in this document. We also acknowledge that Schroders plc is on a similar journey to many of our investee companies regarding progressing our own ESG priorities and we explain our own approach as a public company in our [Corporate Responsibility Report](#) and [Annual Report](#). We aim to be responsive to stakeholders looking to engage with us.



# Thematic Priorities

## Climate Change



### Why do we engage?

We urgently need to transform our economy to avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises.

The global average temperature reached about 1.2 degrees Celsius above pre-industrial levels in 2020<sup>1</sup> and, according to our latest Climate Progress Dashboard, is on course for a temperature rise of over 3 degrees by the end of the century without concerted action.<sup>2</sup>

We should be able to avoid the worst impacts of climate change if we manage to limit temperature rises to around 1.5 degrees Celsius above pre-industrial levels.<sup>3</sup> We could achieve this by reducing emissions to “net” zero by 2050. This means reducing emissions to an absolute minimum and finding ways to counterbalance them (including the outright removal of greenhouse gases from the atmosphere).

Governments are taking action. By the end of COP26, the annual United Nations Climate Change Conference, 151 countries had submitted new or updated climate plans to reduce their emissions by 2030<sup>4</sup>. The final agreement also committed countries to deforestation and methane targets, and to phase-down coal power and phase-out of “inefficient” fossil fuel subsidies.<sup>5</sup>

Companies’ long-term success depends on their ability to transition their business models to a net zero or 1.5 degree pathway, and adapt to a changing climate, is vital to ensuring those businesses thrive. For companies that have already committed to act, engagement and voting is our route to holding them to account for their progress.

Schroders has joined the [Net Zero Asset Manager initiative](#) and committed to the [Science-Based Targets initiative](#). Our [Climate Transition Action Plan](#) sets out how we will manage our business toward net zero emissions in our own operations and value chain, and primarily our clients’ investments.

We define four key areas of focus for our climate engagements, each representing one of the key responses to climate change:

- 1 Climate risk and oversight:** Strong climate governance is critical to ensure companies are equipped to deal with strategic and financial risks from climate change. Our priority asks will be for the disclosure of key information on material climate factors – outlined on the following page – that could impact the company, and to hold the board to account for their oversight of climate strategies.
- 2 Climate alignment – decarbonising and minimising emissions:** The pathway to 1.5°C requires a dramatic reduction in emissions within the next 10 years and beyond. We engage to encourage companies to develop a robust and inclusive path to net zero.
- 3 Climate adaptation:** As a result of climate change, the number of weather, climate and water extremes will become more frequent and severe. With economic losses due to these extremes rising sevenfold since the 1970s,<sup>6</sup> we engage to strengthen climate resilience and adaptation to minimise such losses.

1 [https://library.wmo.int/doc\\_num.php?explnum\\_id=10618](https://library.wmo.int/doc_num.php?explnum_id=10618)

2 <https://www.schroders.com/en/lu/professional-investor/featured/climate-change-dashboard/>

3 <https://www.ipcc.ch/sr15/>

4 <https://www.wri.org/insights/cop26-key-outcomes-un-climate-talks-glasgow>

5 <https://www.un.org/en/climatechange/cop26>

6 World Meteorological Organization (2021), *Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970 – 2019)*, [https://library.wmo.int/doc\\_num.php?explnum\\_id=10902](https://library.wmo.int/doc_num.php?explnum_id=10902)

**4 Carbon capture and removal:** Climate scenarios limiting warming to 1.5°C require “negative emissions” through the removal of carbon dioxide from the atmosphere. We engage to encourage companies to develop scalable carbon capture solutions, and to protect the world’s natural carbon sinks where their business models do not allow faster emissions reductions in their existing assets and operations.

## How will we engage?

In **blue** we have identified five climate expectations that we believe large and medium companies<sup>7,8</sup>, need to adopt to align their business models with the transition to a net zero economy. Where appropriate, we have aligned our engagement expectations with those of collaborative initiatives in which we participate, including IIGCC and CA100+.

Climate risk and oversight		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Robust governance and oversight of climate-related risks	Climate risk management (including transition risk) and reporting	<ul style="list-style-type: none"> <li>– Report annually on the company’s climate-related risks, and the steps the company is taking to manage these risks (e.g. TCFD reporting)</li> <li>– Conduct climate-scenario analysis and publish the results and integrate into business strategy</li> <li>– Reflect material climate factors in the company’s annual report and accounts</li> </ul>
	Board accountability	<ul style="list-style-type: none"> <li>– Establish director responsibility for oversight of climate change, including the company’s climate transition plan</li> <li>– Where climate change is a material ESG factor for the company, hold senior management accountable for performance against appropriate emissions and other climate targets</li> </ul>
	Climate lobbying	<ul style="list-style-type: none"> <li>– Publicly disclose climate-related lobbying activity and trade association membership over the year</li> <li>– Set out how the company aligns its direct lobbying activities and trade association membership with the goals of the Paris Agreement</li> </ul>



7 There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. For this reason, we consider the largest 80% of companies we hold via public equity or corporate bonds as in scope (assessed by market cap or enterprise value). We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

8 Our desired engagement outcomes are the same across developed and emerging markets. However, we recognise that companies based in emerging markets may need more time to meet our desired outcomes due to, for example, the trajectory of Nationally Determined Contributions (NDCs) in their operating countries, limited government policy response to climate change in some countries, or limited of financial support/incentives available to help companies transition compared to those based in developed countries. When assessing a company’s progress against our desired outcomes, we do take into account regional variations in standards of good practice.

Climate alignment – decarbonising and minimising emissions		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Avoid the worst impacts of climate change by limiting global warming to 1.5°C</p>  	1.5°C alignment	<ul style="list-style-type: none"> <li>– Commit to decarbonise business models toward net zero by mid-century</li> <li>– Set long-, medium- and short-term science-based targets, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions<sup>9,10</sup></li> <li>– Publish a detailed transition plan explaining how the company will transition and meet its targets</li> <li>– Publish the company's performance and progress against its emissions targets, and wider transition plan, annually<sup>11</sup></li> <li>– Seek to verify emissions metrics and targets via an independent third-party</li> </ul>
<p>Support workers, communities, suppliers and consumers impacted by a rapid transition to a low carbon economy</p>  	Just Transition	<ul style="list-style-type: none"> <li>– Identify the social impacts of the company's transition plan (i.e. on workers, customers, communities, and suppliers) and how the company plans to consult and support impacted stakeholders</li> </ul>
<p>Accelerate the deployment of technological solutions to limit warming to 1.5°C</p>    	Climate technology, transport and innovation	<p>For relevant sectors (e.g. energy, power, basic resources, transport, etc.):</p> <ul style="list-style-type: none"> <li>– Set out how the company intends to scale-up new and existing climate technology and solutions, and/or grow renewable energy capacity across geographies, including the potential positive impact of these activities<sup>12</sup></li> </ul>
<p>Allocate capital to limit warming to 1.5°C, focusing on regions and technologies with the greatest climate impact</p>  	Climate finance	<p>For relevant sectors (e.g. financials):</p> <ul style="list-style-type: none"> <li>– Set out how the company will align its loans or investments toward technologies that will grow quickly in a transition toward net zero emissions and which will require increased financial support, and away from high emission activities that will face the greatest headwinds</li> </ul>

9 Scope 1 emissions are direct emissions that occur from sources owned or controlled by the company, Scope 2 emissions are indirect emissions from the purchase of energy, and Scope 3 emissions are all other indirect emissions that occur in a company's value chain.

10 We recognise that it may not be practical for companies to set targets across all scopes and timeframes e.g. a short-, medium- and long-term Scope 3 target. The key point is that we are looking for interim, and well as long-term, targets for all relevant emissions.

11 As an interim step, our desired short-term engagement outcome for companies that have not yet set targets, particularly smaller companies and those in emerging markets, is that they start to measure and report their emissions, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions.

12 This could include, for example, information on "Scope 4" avoided emissions, which are emissions saved indirectly by products and services through the substitution of high carbon activities with low carbon alternatives. As the emissions are saved outside the value chain of a company's activity, they are not captured under conventional Scope 1 (direct), Scope 2 (indirect) and Scope 3 (value chain) emission measures. For further information on this topic, see our 2021 report, [A framework for Avoided Emissions analysis](#), developed in collaboration with Singapore's sovereign wealth fund GIC.

**Climate adaptation**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Strengthen resilience and adaptation to adverse impacts of climate change  	Climate resilience	<ul style="list-style-type: none"> <li>– Undertake a physical risk and opportunity assessment</li> <li>– Set out how the company plans to effectively manage, monitor, and report on physical climate risk and build climate resilience</li> <li>– Disclose physical events (e.g. floods) that have damaged the company’s assets or caused disruption to business operations and value chain</li> </ul>

**Carbon capture and removal**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect, restore and create natural carbon sinks and scale up viable carbon capture technologies    	Carbon capture and removal	<p>For relevant sectors (e.g. energy, power, basic resources, etc.):</p> <ul style="list-style-type: none"> <li>– Set out the company’s policy to limit negative impacts of its activities on natural carbon sinks, such as peatland and forests</li> <li>– Disclose the contribution of any nature-based solutions towards 1.5°C alignment</li> <li>– Disclose the contribution of any technology-based carbon removal projects (e.g. carbon capture, utilisation and storage) towards 1.5°C alignment</li> </ul> <p>For companies using offsets:</p> <ul style="list-style-type: none"> <li>– Prioritise reducing emissions before offsetting emissions, and provide transparency on the company’s offset strategy</li> <li>– Disclose how the company selects, verifies and accounts for offsetting projects</li> </ul>



## Natural Capital and Biodiversity



### Why do we engage?

The services that nature provides often go unpriced, resulting in their excess use. This is why we are seeing ecosystem decline and degradation as well as rising ecological scarcity. In 2022 the World Economic Forum (WEF) identified biodiversity loss as one of the top three most severe risks on a global scale over the next 10 years.<sup>13</sup> The WEF estimates some \$44 trillion of economic value generation, over 50% of global GDP, is somewhat or highly dependent on nature.<sup>14</sup> The potential economic impacts of inaction are large: the World Bank estimates that a partial ecosystem collapse could cost 2.3% of global GDP (or \$2.7 trillion) per year by 2030.

In practical terms this could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Sectors such as agriculture, food and marine, which are heavily reliant on ecosystem services that are either currently not valued or undervalued, may see company valuations affected when these are eventually accurately valued. Furthermore, regulatory and policy pressures, which could have direct revenue impacts, are already beginning to build and crystallise.

Schroders is a member of the [Natural Capital Investment Alliance](#). Our [Group Environment Statement](#) sets out our position in relation to the environmental management of our operations.

We prioritise four key engagement sub-themes within the broad topic of biodiversity and natural capital. These reflect the key natural capital and biodiversity issues faced by our investee companies:

- 1 Natural-related risk and management:** The degradation of natural capital, including the loss of biodiversity and depletion of renewable stocks, poses a risk for businesses, their earnings and their value. We engage to encourage companies to develop strong governance on this issue, and adopt emerging good practices on nature-related financial disclosures and target setting.
- 2 Circular economy, pollution and waste:** Creating a circular economy that limits pollution and waste, such as plastic pollution, and promotes re-use and recycling is critical in reducing the intensity of natural resource consumption and alleviating environmental pressures. We engage to encourage companies to minimise waste and pollution, and to promote circularity.
- 3 Sustainable food and water:** The world's food system must transform to meet population growth, and address malnutrition and other health risks. Moreover, the food and water system is both at risk from climate change and is a significant contributor to greenhouse gas emissions and other environmental pressures; for example, through the use of fertilizer and pesticides. We engage to promote a food and water system that is more environmentally sustainable, healthy, and better able to meet the needs of a growing population.
- 4 Deforestation:** Forests are an important carbon sink and they also play a critical role in the earth's water cycle and in sustaining biodiversity. Deforestation is a major contributor to greenhouse gas (GHG) emissions and biodiversity loss. We expect companies to eliminate exposure to commodity-driven deforestation and to promote the sustainable management of forestry assets.

<sup>13</sup> [https://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2022.pdf](https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf)

<sup>14</sup> [https://www3.weforum.org/docs/WEF\\_New\\_Nature\\_Economy\\_Report\\_2020.pdf](https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf)

## How will we engage?

In blue are the five priority natural capital and biodiversity actions for our engagement with large and medium companies<sup>15</sup>. Where appropriate, we will seek to align our engagement expectations with those of major collaborative initiatives such as the Taskforce on Nature-related Financial Disclosures, Science-Based Targets for Nature and NA100+.

Natural-related risk and management		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Reduce biodiversity loss and protect and restore nature capital  	Management and oversight	<ul style="list-style-type: none"> <li>Establish board level responsibility and accountability for biodiversity and natural capital</li> </ul>
	Policy and strategy	<ul style="list-style-type: none"> <li>Put in place comprehensive policies to manage and reduce negative impacts on nature and biodiversity through the full value chain</li> <li>Set targets to reduce negative impacts on nature, in line with the science-based targets for nature as this emerges</li> </ul>
	Measurement and disclosure	<ul style="list-style-type: none"> <li>Establish measurement systems to understand impacts and dependence on nature</li> <li>Disclose in line with emerging best practice</li> </ul>
Circular economy, pollution and waste		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop sustainable consumption and production practices  	Circular economy and waste	<ul style="list-style-type: none"> <li>Implement responsible waste disposal, recycling and lifecycle management practices</li> <li>Engage with downstream implications of products</li> <li>Set waste reduction and recycling targets (both for ensuring recyclability of waste produced by the company or by the use of the company's products, and using recycled inputs in the manufacturing processes)</li> </ul>
	Plastics	<ul style="list-style-type: none"> <li>Set targets on use of recycled plastics (rPET) as a raw material or on the recyclability of products</li> </ul>
	Pollution	<ul style="list-style-type: none"> <li>Measure and disclose non-greenhouse gas pollutants</li> <li>Set targets to reduce non-greenhouse gas pollutants</li> </ul>



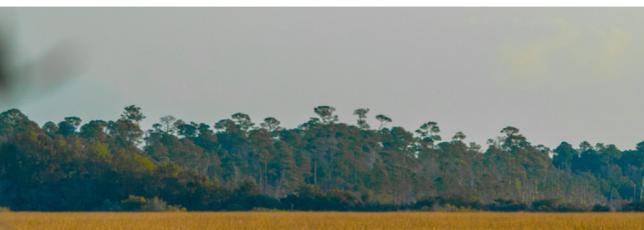
<sup>15</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

### Sustainable food and water

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
A more resource-efficient, healthier and sustainable food and water system	Agriculture	<ul style="list-style-type: none"> <li>– Adopt sustainable agricultural practices and efforts to increase sustainable sourcing</li> <li>– Practice sustainable use of fertilizer and pesticides</li> <li>– Make efforts to increase share of healthy products and alternative proteins, and to reduce food waste</li> </ul>
	Fishing	<ul style="list-style-type: none"> <li>– Adopt sustainable fishing practices and efforts to increase sustainable sourcing</li> </ul>
	Water	<ul style="list-style-type: none"> <li>– Implement a water stewardship strategy including efforts and targets to reduce water consumption and manage wastewater treatment</li> <li>– Disclose operations in water stressed areas</li> </ul>

### Deforestation

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote sustainably managed forests and end deforestation	Commitments and targets	<ul style="list-style-type: none"> <li>– Publish a publicly available comprehensive no-deforestation policy</li> <li>– Set targets to end deforestation and increase sustainable sourcing</li> </ul>
	Traceability and supply chain management	<ul style="list-style-type: none"> <li>– Demonstrate efforts to trace forest-risk commodities through the supply chain</li> <li>– Maintain enforcement mechanisms to ensure compliance through the supply chain</li> </ul>
	Sustainable management of forests	<ul style="list-style-type: none"> <li>– Demonstrate sustainable management of forests</li> <li>– Disclose carbon sink value per year</li> </ul>



# Human Rights



## Why do we engage?

All companies have the potential to impinge on the rights that are inherent to us as human beings<sup>16</sup>. There is increasing recognition of the role that businesses can and should play to respect human rights. Businesses involved in human rights controversies could face higher operational and financial risks, and could suffer damages to their reputation. Respect for human rights is also an important foundation in building resilient supply chains and forging business stability.

The global standard for preventing and addressing the risk of human rights abuses is the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the UN Human Rights Council in 2011<sup>17</sup>. The Guiding Principles provide operational clarity for the two human rights principles that are championed by the UN Global Compact, and help businesses adhere to the OECD's Guidelines for Multinational Enterprises, as well as national and sub-national laws and regulations related to human rights.

The Guiding Principles state that companies should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. Moreover, the principles are increasingly reflected in national legislation, with financial penalties for non-compliance, forcing companies to establish and disclose processes to eliminate modern slavery from their businesses and supply chains. This responsibility applies across operations and to all business relationships, including those throughout a value chain. We recognise that there are regional differences in human rights practices which we consider in our engagement and expectations of companies.

Our engagement aims to work with companies to implement the Guiding Principles. This means that businesses should formally commit to respect human rights, carry out effective human rights due diligence, and provide access to effective remedy for any victims of human rights abuses. [Schroders' Group Human Rights Statement](#) and [Slavery and Human Trafficking Statement](#) set out Schroders' position for its entities and employees in relation to the respect of human rights and the remedy of any infringements relating to its employees, supply chain, clients and investments.



<sup>16</sup> The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

<sup>17</sup> Other UN instruments elaborate further on the rights of indigenous peoples, women, national or ethnic, religious and linguistic minorities, children, persons with disabilities and migrant workers and their families.

There are also specific groups on which we focus particular attention for our engagement:

- 1 Workers:** It is estimated that on any given day 25 million people are in forced labour<sup>18</sup>, including 16 million in the private sector<sup>19</sup>. We engage to encourage companies to adhere to relevant global laws, and conduct the necessary supply chain human rights risk assessments and effective due diligence to protect and uphold the rights of workers in supply chains. This also includes reporting on workforce metrics across supply chains<sup>20</sup>.
- 2 Communities:** The UN estimates that there are over 370 million indigenous peoples living around the world, and in 2017 four people a week were killed worldwide protecting their land from business exploitation<sup>21</sup>. We engage to encourage companies to uphold and respect internationally recognised human rights, including land and resource rights, and use the mechanism of free, prior and informed consent (FPIC) to protect the rights of those in the communities in which companies operate.
- 3 Customers and consumers:** Companies have an important role to play in driving human rights and sustainable development through access to basic products and services, while also ensuring that products and services do not cause harm and adversely affect human rights. We expect that companies respect and uphold the rights of consumers and users of their products and services.

## How will we engage?

In **blue** are the six priority human rights actions for our engagement with large and medium companies<sup>22</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the Investor Alliance for Human Rights and the Find It, Fix It, Prevent It campaign.

Overarching approach to human rights		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote human rights for sustainable development  	Implementing the UN Guiding Principles	<ul style="list-style-type: none"> <li>– Establish and implement a human rights policy in line with the UNGPs, ILO and other international frameworks which commits to respect human rights</li> <li>– Establish board responsibility for oversight of human rights policies and processes, and for this responsibility to be engrained in relevant governance documents and charters</li> <li>– Introduce robust human rights due diligence processes in place in line with the human rights policy, including:                             <ol style="list-style-type: none"> <li>a. Identifying and assessing actual or potential adverse human rights impacts</li> <li>b. Integrating findings in processes and taking appropriate action</li> <li>c. Tracking effectiveness of the measures</li> <li>d. Communicating how impacts are being addressed</li> </ol> </li> <li>– Provide for or cooperate in remediation where the company identifies that they have caused or contributed to adverse impacts</li> <li>– Strive to conduct meaningful engagement with rights holders</li> <li>– Assess the effectiveness of the human rights due diligence process</li> </ul>

18 [https://www.alliance87.org/global\\_estimates\\_of\\_modern\\_slavery-forced\\_labour\\_and\\_forced\\_marriage.pdf#page=5](https://www.alliance87.org/global_estimates_of_modern_slavery-forced_labour_and_forced_marriage.pdf#page=5)

19 <https://www.ilo.org/global/topics/forced-labour/lang--en/index.htm#:~:text=Out%20of%20the%2024.9%20million,labour%20imposed%20by%20state%20authorities>

20 Workers in the direct operations of a company are captured within our human capital management theme

21 <https://www.globalwitness.org/en/campaigns/environmental-activists/defenders-earth/>

22 There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

**Workers**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect labour rights and promote safe and secure working environments in the supply chain	Supply chain working conditions	<ul style="list-style-type: none"> <li>- Develop a responsible sourcing policy and make it publicly available</li> <li>- Conduct supply chain human rights risk assessment</li> <li>- Conduct effective human rights due diligence and remediation (where appropriate), prioritising areas of supply chain most at risk (as identified in the human rights risk assessment)</li> </ul>



**Communities**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect fundamental freedoms and provide equal access to economic resources and control over land and property for all	Indigenous and community rights	<ul style="list-style-type: none"> <li>- Commit to apply the UN guiding principles to protect Indigenous Rights</li> <li>- Apply the principle of Free Prior and Informed Consent (FPIC)</li> <li>- Commit to address grievances and disputes constructively and proactively</li> </ul>
	Operations in high-risk and conflict-affected areas	<ul style="list-style-type: none"> <li>- Take adequate steps to identify the interaction between the company's core business operation and conflict dynamics to prevent causing harm</li> <li>- Adapt existing policies and due diligence measures to the specific needs of conflict-affected and high-risk contexts, performing enhanced due diligence in these contexts</li> </ul>



**Customers and consumers**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Respect for fundamental rights and universal provision of basic needs	Access to fundamental products and services	<ul style="list-style-type: none"> <li>- Develop clear strategies for access to fundamental products and services in low and middle income countries, for example medicines and finance</li> </ul>
	Responsible and ethical products and services	<ul style="list-style-type: none"> <li>- Ensure company human rights policy encompasses the protection of rights in products and services (entire value chain)</li> <li>- Conduct an assessment of the potential salient human rights risks from the company's products and services and take steps to mitigate against these where relevant</li> <li>- Encourage business partners and businesses associated with the company to respect human rights in line with the company's policy</li> </ul>



# Human Capital Management



## Why do we engage?

Human capital management refers to people working within the direct operations of a company and includes the practices to recruit, retain and develop human capital. We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage<sup>23</sup> and that effective human capital management is essential to drive innovation and long-term value creation<sup>24</sup>. We also recognise a number of links between high standards of human capital management and the achievement of the SDGs.

Not every company is exposed to the same human capital risks, or exposed to an equal degree. There are also significant regional differences in human capital management expectations which we consider in our engagement and expectations of companies. Schroders' people strategy aims to develop an agile and diverse workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs. This is outlined in our [Annual Report](#).

We prioritise five key sub-themes within the broad topic of human capital management:

- 1 Corporate culture and oversight of human capital:** We have seen that negative organisational culture has featured prominently in numerous corporate failures in recent years. We engage with companies to develop an understanding of the desired culture and oversight of the workforce in place to drive all other aspects of human capital.
- 2 Investment in the workforce:** 19% of the world's wage earners, 327 million workers, are paid at or below their countries' minimum wage<sup>25</sup>. This excludes workers in the informal economy. Evidence shows that paying workers a living wage leads to better health outcomes, and increased ability to recruit and retain staff, and increased productivity<sup>26,27</sup>. We encourage companies to go beyond compliance with local minimum wages to pay a living wage that allows for workers to live a decent life free from poverty. We also encourage companies to consider employee compensation and benefits holistically to ensure the broad financial wellness of the workforce, recognising that basic wage levels are not the sole driver of worker financial wellness. Moreover, almost one-third of jobs will need to reskill by 2030<sup>28,29</sup>; we therefore engage to ask that companies invest in the development of the workforce and aligning workforce skills with long-term strategy.
- 3 Engagement and representation:** There is evidence that strong employee engagement contributes to increased profitability<sup>30</sup> as engaged employees support innovation and growth. We engage to ask that companies proactively solicit input from their workforce and monitor their engagement and motivation.
- 4 Health, safety and wellbeing:** Almost 2 million people die from work-related causes each year<sup>31</sup>. Employers have a duty of care to their workers; we therefore engage to encourage companies to provide safe and secure working environments for workers, in terms of both physical and mental health.

23 <https://hbr.org/2007/03/maximizing-your-return-on-people>

24 <https://www.icgn.org/human-capital-management-why-investors-should-care-and-what-they-should-look-for-in-corporate-disclosure>

25 <https://www.ilo.org/infostories/Campaigns/Wages/globalwagereport#minimum-wages>

26 <https://www.livingwage.org.uk/sites/default/files/IWFM-Living-Wage-Guidance.pdf>

27 <https://www.qmul.ac.uk/geog/media/geography/livingwage/docs/FINALReportLWFsurvey2013.pdf>

28 <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/>

29 <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/#:~:text=As%20jobs%20are%20transformed%20by%20are%20expected%20to%20change>

30 <https://news.gallup.com/poll/188144/employee-engagement-stagnant-2015.aspx>

31 <https://www.who.int/news/item/16-09-2021-who-ilo-almost-2-million-people-die-from-work-related-causes-each-year>

## How will we engage?

In blue are the three priority human capital actions for our engagement with large and medium companies<sup>32</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the Workforce Disclosure Initiative (WDI) and Human Capital Management Coalition (HCMC).

Corporate culture and oversight of human capital		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote a strong ethical culture which provides decent work and drives long-term sustainable growth	Board oversight of human capital management (HCM)	<ul style="list-style-type: none"> <li>– Establish clear board responsibility for human capital management oversight</li> <li>– Clearly define the HCM factors and information that the company should measure, monitor, disclose and set targets for</li> <li>– At a minimum disclose: the total number of people employed (broken down by contract type), the total cost of the issuer’s workforce (including wages, benefits and other expenses), turnover or another stability metric, and workforce diversity data across different levels of seniority.</li> </ul>
	Corporate culture	<ul style="list-style-type: none"> <li>– Articulate the company’s corporate culture and values and explain how the board ensures that these are being applied throughout the organisation</li> </ul>
Investment in the workforce		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Foster a culture where all workers can afford a decent and secure standard of living for their families	Financial wellness	<ul style="list-style-type: none"> <li>– Assess the financial wellness of the company’s workforce to understand how the company can support workers</li> <li>– Commit to pay all direct employees a living wage (or equally valued equivalent) and in the mid-term, commit that all workers (including contractors in direct operations) are paid a living wage (or equally valued equivalent)</li> <li>– Assess if the benefits provided by the company sufficiently support the financial wellness of employees</li> <li>– Commit to extending to all employees a decent notice for shifts and a guaranteed number of working hours a week (living hours), while ensuring that working hours are reasonable and comply with the law and industry standards</li> </ul>
	 <p>Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship</p> 	Training and development <ul style="list-style-type: none"> <li>– Assess and disclose the effectiveness of training and development initiatives</li> <li>– Conduct assessments of future skills gaps of the company in line with long-term strategy, and plan to address these</li> </ul> Sector specific: <ul style="list-style-type: none"> <li>– Disclose programmes to upskill and reskill workers in preparation for economic transitions</li> </ul>

<sup>32</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

**Engagement and representation**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect labour rights 	Worker voice	<ul style="list-style-type: none"> <li>- Establish clear mechanisms for worker voice in corporate governance</li> <li>- Put effective grievance mechanisms in place and support remediation</li> <li>- Create a culture of actively embracing freedom of association</li> </ul>
	Employee engagement	<ul style="list-style-type: none"> <li>- Establish regular employee feedback channels with demonstration of actions taken as a result of feedback</li> </ul>

**Health, safety and wellbeing**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote safe and secure working environments for all workers and promote mental health and well-being  	Mental health	<ul style="list-style-type: none"> <li>- Acknowledge mental health as an important issue</li> <li>- Assess and establish a strategy that addresses the root causes of poor mental health in the workforce and provides resources and support for workers on mental health</li> </ul>
	Physical health and safety	<ul style="list-style-type: none"> <li>- Establish a health and safety policy and ensure it is implemented as intended</li> <li>- Adopt a strong culture of safety in the conduct of business and have safety considered alongside all business strategy decisions</li> <li>- Set measurable targets, using both lagging and leading indicators for safety and disclose progress</li> <li>- Assess the effectiveness of the health and safety measures</li> </ul>



# Diversity and Inclusion



## Why do we engage?

We believe that companies should strive to create diverse, equitable, and inclusive organisations. Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction<sup>33</sup>. Inclusion is what allows diversity to thrive. Moreover, we identify increasing regulatory pressures around diversity and inclusion; however, progress on this topic remains slow.

We encourage companies to consider diversity broadly, in terms of both demographics and professional diversity. We recognise that there are significant regional differences in diversity and inclusion definitions and expectations, which we consider in our engagement and expectations of companies. [Schroders' Workforce Diversity Report](#) is an important step to being transparent with data about the diversity of our workforce, so that we can aim for meaningful and relevant aspirational targets (operating lawfully) and be held to account for our progress.

We breakdown our engagement on diversity and inclusion into four key sub-themes:

- 1 Board diversity and inclusion:** We believe that directors with diversity across multiple dimensions bring a valuable range of outlooks and opinions, and when coupled with an inclusive board culture, ultimately bring about better decision-making, debate and problem-solving on boards. We expect genuine diversity to be present on the board.
- 2 Executive diversity and inclusion:** We want to promote a diverse representation in key decision-making positions which allows for greater breadth of experience and perspective. We believe this allows for a greater ability to relate to employees, clients and consumers.
- 3 Workforce diversity and inclusion:** We ask that the workforce broadly represents the communities that the company operates in and the customers that it serves, and that the company creates an inclusive culture which increases employee engagement and productivity.
- 4 Value chain diversity and inclusion:** We encourage companies to extend their diversity practices across the value chain, ensuring that the products, services and procurement opportunities they provide do not discriminate and are inclusive for all.

## How will we engage?

In **blue** are the four priority diversity and inclusion actions for our engagement with large and medium companies<sup>34</sup>. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the WDI and HCMC.

Board diversity and inclusion		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Full and effective participation and equal opportunities for leadership for women and underrepresented minorities   	Board composition	<ul style="list-style-type: none"> <li>- Disclose board diversity characteristics, perspectives and approaches</li> <li>- Implement a policy requiring each board vacancy to consider at least one or more diverse candidates</li> <li>- Commit to improving and seeking genuine board diversity</li> <li>- Articulate how the company seeks to create an inclusive board culture</li> </ul>

<sup>33</sup> <https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case>

<sup>34</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

### Executive diversity and inclusion

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Full and effective participation and equal opportunities for leadership for women and underrepresented minorities   	Diversity in decision making	<ul style="list-style-type: none"> <li>- Disclose diversity characteristics of executive committee</li> <li>- Set targets for increasing diversity of executive committee</li> <li>- Outline a robust strategy to achieve the targets set</li> <li>- Implement a policy requiring each vacancy to consider at least one or more diverse candidates for executive recruitment</li> <li>- Consider diversity in CEO and C-suite succession planning</li> </ul>

### Workforce diversity and inclusion

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Empower and promote the inclusion of all  	Workforce composition and Inclusive culture	<ul style="list-style-type: none"> <li>- Publicly state leadership commitments and expectations for action on diversity and inclusion</li> <li>- Collect and disclose of workforce diversity data (while respecting local regulation)</li> <li>- Set time-bound targets for workforce diversity and inclusion and disclose a strategy to achieve the targets, including disclosure of family and parental leave policies</li> <li>- Disclose gender and ethnicity pay gap information for the key markets it operates in (where data is available)</li> <li>- Disclose metrics to assess inclusive culture and set targets for increasing inclusivity (e.g. turnover, retention and promotion rates)</li> <li>- Assess effectiveness of diversity and inclusion programmes in creating an inclusive culture</li> </ul>

### Value chain diversity and inclusion

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Empower and promote the inclusion of all  	Supplier diversity	<ul style="list-style-type: none"> <li>- Disclose policy on sourcing from 'diverse suppliers' to ensure that all relevant, potential suppliers have the fair and equal opportunity to compete for business within the supply chain</li> <li>- Engage major suppliers on diversity and inclusion performance and expectations</li> </ul>
	Inclusive products and services	<ul style="list-style-type: none"> <li>- Assess impact of products and services on diverse populations</li> <li>- Disclose approach to ensuring fair and equitable access to products and services (e.g. technology, communications, finance, healthcare, nutrition, affordable housing, etc)</li> </ul>

## Corporate Governance



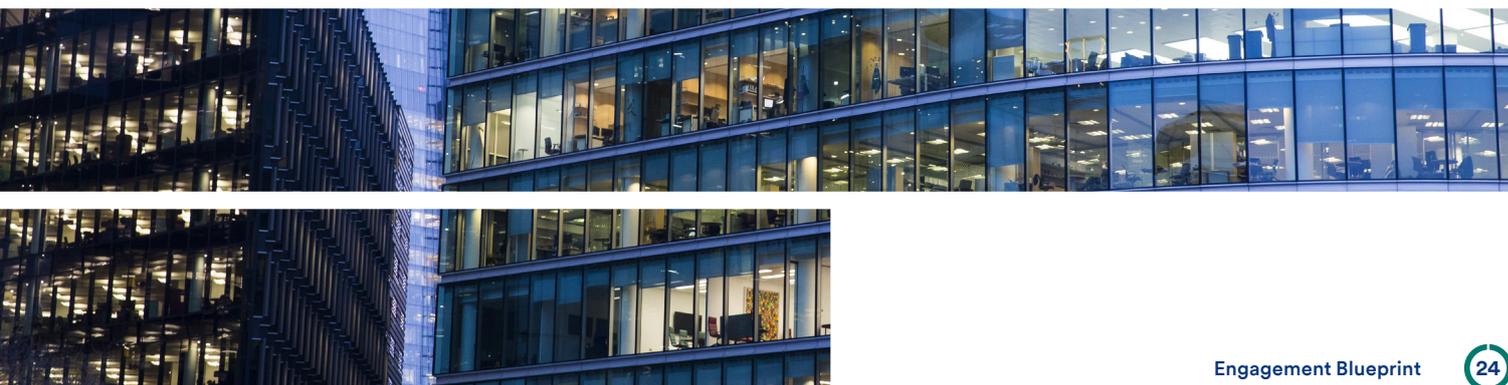
### Why do we engage?

It is essential that strong governance policies and practices are in place to ensure that businesses act in the best interest of shareholders and other key stakeholders, in order to drive long-term sustainable value creation. We also recognise that, in most cases, in order to see progress and performance on other material ESG issues, strong governance structures need to first be in place.

We believe boards should play an active role in engagement with shareholders on long-term strategy, board composition, executive remuneration and capital allocation topics, alongside broader material environmental and social matters. Schroders plc's approach to corporate governance is described in the governance section of our [Annual Report](#).

We define five key aspects of corporate governance that we prioritise for our engagement:

- 1 Boards and management:** Through their fiduciary duty, boards represent the interests of shareholders and play a critical role in overseeing the company's management and strategy. We expect companies to have strong board structures and directors in place to carry out these duties, including ensuring diversity in characteristics and thought to promote better decision-making.
- 2 Executive remuneration:** Executive remuneration can be an important tool in driving long-term sustainable returns to shareholders, delivery on strategy, and creating the desired culture and behaviour within organisations. We engage to strengthen the links between these three components while ensuring quantum is limited.
- 3 Relationship with shareholders:** Companies should hold a continuous dialogue with shareholders on material issues, including significant dissent before or after shareholder meetings. We encourage companies to do this all year round, and not just in the wake of their annual meetings. In the case of controlled companies, there should be an independent member of the board specifically responsible for addressing minority shareholders concerns.
- 4 Purpose, strategy and capital allocation:** Boards are responsible for the governance and oversight of a company's strategy, performance and management of risk. We believe it is important that the board takes responsibility for oversight of a company's purpose and long-term strategy, and is effectively overseeing the material and salient risks that can affect long-term sustainable returns to shareholders. We encourage boards and management to deploy capital efficiently on behalf of shareholders.
- 5 Transparency and reporting:** Auditors are expected to provide robust, transparent and objective assessments of companies' financial health. We engage to discuss the company's relationship with the auditors and the quality of the audit, as well as review the fees paid, ensuring independence and impartiality is maintained. We also engage on the responsible payment and transparent disclosure of taxes.



## How will we engage?

In blue below are the four priority corporate governance actions for our engagement with large and medium companies<sup>35</sup>. Where appropriate, we have aligned our engagement expectations with regional best practice, legislation and relevant Corporate Governance Codes. We also participate in a number of industry initiatives, collaborative projects and investor groups.

Boards and management		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop effective, accountable, inclusive and transparent board structures	Board leadership	<ul style="list-style-type: none"> <li>– Explain the role of the board in ensuring the highest ethical standards, including how management of ethics, culture and compliance is overseen by the board</li> <li>– Provide meaningful disclosure about how the board fulfils its risk oversight role, including an explanation of internal and external audit programmes</li> <li>– Implement a strong CEO and executive succession planning processes led by the board</li> </ul>
	Board structure	<ul style="list-style-type: none"> <li>– Maintain a majority independent board at companies with a dispersed ownership structure. For controlled or family-owned companies, independence should be proportionate to the percentage of free float and at least a minimum of a third of the board should be independent. There should also be a lead independent director appointed to best represent the interests of minority shareholders</li> <li>– Disclose levels of independence on the board and how independence is assessed</li> <li>– Seek a healthy mixture of tenures on the board</li> <li>– Seek to split combined chair and CEO roles and appoint an independent chair; in the interim, companies should appoint a strong lead independent director</li> </ul>
	Board effectiveness	<ul style="list-style-type: none"> <li>– Regularly assess board performance and make-up, both of committees and each director through robust and regular assessments.</li> <li>– Disclose director biographies and diverse characteristics and skills</li> <li>– Constantly review board members’ external commitments, and ability to fulfil their duties.</li> </ul>
Executive remuneration		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Fair and balanced executive compensation which drives long-term value creation and the desired corporate culture	Philosophy	<ul style="list-style-type: none"> <li>– Explain how remuneration policies promote the desired culture at all levels of the organisation, including the executives, management and the entire workforce</li> <li>– Conduct an annual vote on compensation and compensation committee accountability</li> <li>– Set clear and understandable pay structures</li> <li>– Develop compensation schemes with a focus on long-term value creation</li> <li>– Maintain ability to apply discretion to avoid overly formulaic outcomes</li> <li>– Incorporate robust risk mitigation measures, such as clawback and bonus deferral</li> </ul>

<sup>35</sup> There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

Structure	<ul style="list-style-type: none"> <li>- Shift towards simpler remuneration structures</li> <li>- Focus on long-term strategic goals, with the remuneration committee cognisant of Total Shareholder Return and ESG performance</li> <li>- Ensure, as with financial measures, that ESG metrics are reflective of the company's strategy, well-articulated, clearly measurable and rigorous</li> <li>- Ensure pay packages are long-term and aligned with the shareholder experience</li> <li>- Disclose targets and pay outcomes, showing clear alignment between pay and performance</li> </ul>
Quantum	<ul style="list-style-type: none"> <li>- Have in place significant and long-term shareholding requirements for executives and directors with prohibition of share hedging and limits on pledging, in particular for non-founders.</li> <li>- Set measures to monitor CEO pay so as to align pay with company performance.</li> <li>- Prevent use of special retention awards</li> <li>- Develop severance pay arrangements which are reflective of the departing executive's performance with the ability for discretion to be applied by the board</li> </ul>

**Relationship with shareholders**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Deliver long-term sustainable value creation for shareholders	Engagement	<ul style="list-style-type: none"> <li>- Conduct shareholder dialogue at the board level on various topics. Various board directors should be accessible depending on topic (e.g. remuneration committee chair)</li> <li>- Maintain an open dialogue year round, and not only related to the annual meeting</li> <li>- Consult shareholders on key decisions, such as new strategy, climate targets and succession planning.</li> </ul>
	Shareholder rights	<ul style="list-style-type: none"> <li>- Set measures to have directors attend and participate in shareholder meetings</li> <li>- Set measures to have directors elected by a simple majority in annual elections</li> <li>- Justify the use of different classes of equity share capital</li> <li>- Set measures such that significant change to the company's capital structure, material M&amp;A etc. require shareholder approval.</li> <li>- Ensure shareholders have the unfettered ability to file shareholder proposals, and/or call a special meeting with reasonable ownership.</li> <li>- Incorporate reasonable proxy access provisions</li> <li>- Provide sufficient and timely information about any voting proposal</li> </ul>
	Minority shareholder representation	<ul style="list-style-type: none"> <li>- Put measures in place, particularly where there is a controlling shareholder, in order to protect minority shareholder interests. This could be in the form of a independent chair or a lead independent director, sufficient good quality independent directors, engagement with shareholders and a single class share structure</li> <li>- Deliver long-term sustainable value creation for shareholders</li> <li>- Name a member of the board to be available to discuss minority shareholder concerns</li> </ul>

Consideration of stakeholders	<ul style="list-style-type: none"> <li>– Consider the interests of stakeholders, including shareholders, in all board and executive team decision making</li> </ul>
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**Purpose, strategy and capital allocation**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Long-term value creation through the effective use of capital in line with the company purpose	Purpose	<ul style="list-style-type: none"> <li>– Publish the company's purpose, owned by the board, which is inclusive of all key stakeholders</li> <li>– Take responsibility at the board level for ensuring management fulfils the stated purpose</li> </ul>
	M&A	<ul style="list-style-type: none"> <li>– Set measures such that M&amp;A decisions can be voted on by both parties' shareholders. An independent committee within the board should oversee any M&amp;A, and any director with potential conflict of interest recuses themselves</li> </ul>
	Efficient use of capital	<ul style="list-style-type: none"> <li>– Put measures in place to not overly expose the balance sheet to risk when making capital allocation decisions</li> <li>– Provide pre-emption rights for share issuance, in accordance with the guidelines set out by the UK Pre-Emption Group or regional best practice</li> </ul>

**Transparency and reporting**

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop effective, accountable, inclusive and transparent business practices	Disclosure	<ul style="list-style-type: none"> <li>– Provide useful, informative and comprehensive disclosure on all the governance issues listed in this table to enable all stakeholders to make informed judgements and decisions</li> </ul>
	Audit	<ul style="list-style-type: none"> <li>– Put in place an objective audit process to examine a company's financial position</li> <li>– Have the audit committee oversee the audit process; the whole board should be responsible for financial statements</li> <li>– Designate that the audit committee chair be responsible for overseeing the internal audit function, as well as whistleblowing procedures and speak-up facilities</li> <li>– Encourage the audit committee chair to be open and approachable for engagement with stakeholders on audit related matters</li> <li>– Report in a way that allows investors to understand the main risks and how the company manages and mitigates them</li> <li>– Strive for high quality, independent and effective audits</li> <li>– Provide a clear breakdown and explanation of the audit fees paid during the year</li> <li>– Implement the regular refreshment or tender of external auditors in line with local regulations and market best practice</li> </ul>
	Tax	<ul style="list-style-type: none"> <li>– Comply with all tax laws and the intentions behind them and disclose the full extent of taxes paid or collected in each country</li> <li>– Publish a global tax policy and ensure that policies do not damage social licenses to operate</li> </ul>



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**Schroder Investment Management Limited**  
**1 London Wall Place, London EC2Y 5AU, United Kingdom**  
**T +44 (0) 20 7658 6000**

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