Sustainable Investment Report

Annual Report 2019

Marketing material

Environmental, Social and Governance
is referred to as ESG throughout

Schroders

About Schroders

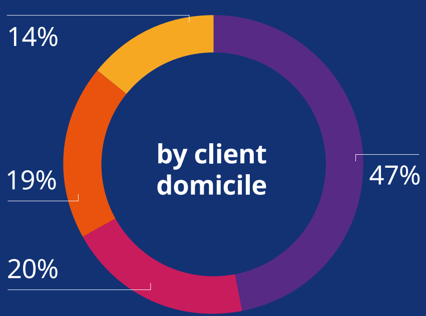
At Schroders, asset management is our only business and our goals are completely aligned with those of our clients: the creation of long-term value to assist them in meeting their future financial requirements. We have responsibility for £500.2 billion (€590.3 billion/$662.6 billion) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested across equities, fixed income, multi-asset, alternatives and real estate.

As responsible investors and signatories to the UN's Principles for Responsible Investment (PRI) we consider the long-term risks and opportunities that will affect the resilience of the assets in which we invest. This approach is supported by our Environmental, Social and Governance (ESG) Policy for Listed Assets and our Schroder Real Estate Responsible Investment Policy.

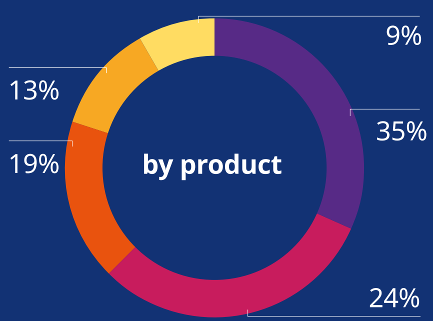
Presence in 34 locations

5,000+ employees

£500 billion assets under management and administration



- United Kingdom
- Asia Pacific
- Continental Europe, Middle East and Africa
- Americas



- Equities
- Multi-asset
- Fixed income
- Wealth management
- Private assets and Alternatives

Source: Schroders, as at 31 December 2019.

The value of investments and the income from them can go down as well as up and investors may not get back the amounts originally invested.

A message from our CEO

As an industry we have become very good at talking about sustainability issues and their importance. Already part of the client conversation, ESG now regularly features in the financial press, is entering into the regulatory process and has become a major strand of policy activity. As we debate the finer nuances of sustainability it is important that we do not neglect the doing and innovating – it is action rather than words that will help us deliver a more sustainable future for our clients.

This is why I went public with our strategic target to achieve full ESG integration across all investment desks by the end of 2020. While we have 20 years of integrating ESG already behind us, this has largely focused on corporates. We are now turning our attention to more fully understanding the impacts on sovereign and municipal risk, on strategic asset allocation and on counterparty risk. These areas have typically been under-researched and we are sharing our findings as we progress towards our goal. This work will enable us to be totally transparent to all stakeholders about the role that ESG plays in each investment process.

Peter Harrison
Group Chief Executive,
Schroders plc

Many investors rightly claim that ESG analysis has always implicitly been part of their investment process. However, the speed of environmental and social change in our society coupled with the increasing volume of ESG data that is available means that ongoing research and development is essential to ensure that practices remain best in class. To this end, our in-house measure of environmental and social externalities, SustainEx, which was unveiled in last year's report, has been recognised with a number of external awards. We are still in the process of innovating how we use SustainEx in investing, in monitoring, and working across asset classes. Similarly, Context, our proprietary tool for ranking companies on the strength of their stakeholder relationships, has been rolled out to more desks and now draws on over 150 unconventional data sources. We are also developing tools for niche asset classes as the case study of our municipal dashboard "MUSE" in this report demonstrates.

However, the better identification of ESG risks and opportunities is not the only way we are taking action. Engaging with companies and encouraging them to adopt more sustainable practices are often overlooked. We are reporting a year early against the new UK Stewardship Code requirements in a desire to shed light on this activity which this year covered over 1,750 recorded interactions with over 1,420 companies.

One of the most exciting developments in 2019 was the acquisition of a majority stake in Blue Orchard, the impact investing firm, which offers solutions in credit, private equity and sustainable infrastructure. Focused on emerging markets, it has enabled us to better serve clients looking to generate positive social returns alongside financial ones.

I'm sure you have noticed the plastic turtles on the cover of this report. This was part of a plastic awareness project we ran during 2019. As our understanding of the challenges facing our world grows, so too does our conviction that we as a public limited company have a greater role to play. Therefore we have announced that from 2020 we are running our global operations on a net zero carbon basis through reducing our emissions and buying offsets.

Finally, our experience shows that strong ESG performance makes good business sense, and we converted our corporate credit facility into an ESG-linked one over the year. The pricing is dependent on how we perform on diversity targets, ESG investment integration, and our use of renewable energy.

We still have headway to make; as our Climate Progress Dashboard shows, we are a long way off a sustainable path when it comes to temperature rises alone. I hope that this letter, and more importantly the report that it introduces, demonstrates that we are wholeheartedly committed to action.

Schroders 2019 Sustainability Overview

Recognition

A+ UNPRI rating for overall approach to responsible investment for the fifth consecutive year

Active engagement

1,750+ engagements across 57 countries

Top five engagement sectors

Industrials	15%
Financials	15%
Consumer Discretionary	14%
Information Technology	14%
Materials	12%

Active governance

5,870+ company meetings voted on

Instructed a vote against management at 47% of meetings

Source: UN PRI, Schroders as at 31 December 2019

Contents

Integration in practice

At Schroders, we see ourselves as long-term stewards of our client's capital and this philosophy naturally leads us to focus on long-term prospects for companies in which we invest. That's why we seek to integrate ESG considerations into our research and overall investment decisions across investment desks and asset classes.

In 2019 we announced our commitment to integrate ESG across all of our investments by the end of 2020. As at 31 December 2019 over 60% of Group AUM has successfully been integrated.

We recognise that different asset classes, portfolio strategies and investment universes require different lenses to most effectively strengthen decision-making. Our integration approach spans the breadth of the investment process, from identifying trends, analysing securities and constructing portfolios, through to engagement, voting and reporting.

This section includes case studies to clearly show how ESG factors are being considered and integrated in different parts of our businesss.

Integration in practice

Integration in Equities

Insight from our European Equity team

The Blend European Equity team's investment process focuses on detailed stock-specific analysis to identify mispriced companies with positive inflection points to generate alpha for clients.

The process is grounded in fundamental research, and is centred around three main questions:

– What is implied in the current share price?
– What do we believe that is different to the market?
– What is the inflection point which will cause the market to change its mind?

ESG factors are key in answering these questions both in terms of the analysts' research on individual companies and the fund managers' decision-making around portfolio construction. While ESG issues are sometimes difficult to quantify, the fund managers recognise these factors can have a material impact on a company's performance both in the short and long term, as well as affect the inherent risk of investing in a company. Examining ESG strengths or weaknesses provides deeper insight into the core characteristics of a company and its financial prospects by supplementing our traditional fundamental research.

Collaboration with the Sustainable Investment team

The Blend team work closely with the Sustainable Investment team to develop an understanding of the sustainability profile of specific sectors. For example, we collaborated to publish a report on increasing awareness around sugar consumption and its impact on the food and beverage industry. We are also engaging with companies in the oil field services sector to better understand the potential impacts of the transition to a low carbon economy.

ESG analysts also attend relevant stock specific research meetings, where Blend equity analysts present their investment thesis. This facilitates an informed discussion around pertinent ESG topics.

ESG analysis

The core of the Blend team's ESG evaluation stems from Schroders' proprietary quantitative research tool CONTEXT. CONTEXT provides a systematic framework for analysing a company's relationship with its key stakeholders, thus assessing the sustainability of its business model. CONTEXT's interactive and customisable nature allows analysts to forensically assess and understand a company's sustainability profile, while its 260+ data points help move ESG analysis beyond an antiquated anecdotal model. In practice, CONTEXT aids analysts in identifying key stakeholders and ESG trends, quantifying company performance against them, and producing a final score which serves as the basis for an intra-sector comparison. CONTEXT enables analysts and fund managers to focus on and debate the most pertinent ESG issues which are most likely to impact a company's valuation. For instance, we looked at two auto suppliers as potential investments. Our analysis of the key stakeholders and governance structure led us to demand a greater pricing differential between the two and a more imminent inflection point.

The fund managers weigh up the importance of each ESG factor and how they have been captured in the analyst's research before making investment decisions relating to portfolio construction.

Engagement and stewardship

Engagement with companies is a crucial part of our investment process that not only enhances our fundamental research analysis but can also be used to drive positive change at the corporate level. The Blend team work in conjunction with the Sustainable Investment team and the Corporate Governance team to make the maximum impact with our capital. Below are two examples of successful engagements we made in 2019:

Standard Chartered

The Blend team collaborated with the Corporate Governance team to voice our concerns over the Chief Executive Officer (CEO) and Chief Finance Officer's (CFO) pension and bonus at financial services company Standard Chartered. After a series of engagements with the Remuneration Committee in 2019, the pressure from which was compounded by media scrutiny, the CEO and CFO's pension were cut in half and aligned with the wider workforce. We were also pleased to see a more stretching target applied to the 2019-21 long-term incentive plan. These changes give us conviction that the company is responsive to shareholder input.

Leonardo

Leonardo is a global technology services provider to the aerospace, defence and security sectors. We met with the CEO in July 2018 to receive an update on Leonardo's strategy, governance practices, climate change approach and its commitment towards the UN Sustainable Development Goals. After initial discussions we expressed two primary concerns: lack of succession planning for senior staff and dearth of cybersecurity experience at board level.

In November 2019, at another face-to-face meeting, Leonardo confirmed they had implemented succession plans for approximately 1,500 of the company's most senior employees and that they were looking to add cybersecurity experience at its supervisory board refresh in March 2020. Whilst we are pleased with Leonardo's efforts, we will monitor the situation closely to ensure they follow through on what they have said. These changes gave the fund managers and analyst confidence that the company is on an improving path, but the stock's portfolio positioning remains capped due to other governance issues related to the control the Italian government has over senior management and board appointments.

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Integration in practice

ESG Integration in Fixed Income

Insight from our Global Multi-Sector team

ESG factors form an integral part of the Global Multi-Sector's top-down macroeconomic thematic investment process and are applied across both sovereign (emerging and developed markets) and credit allocation decisions.

We believe that an ESG framework is a natural complement to our existing macroeconomic fundamental considerations. Our view is that countries and companies with better (or improving) ESG factors should make better long-term investments and have sustainable cash flows. Our belief is grounded in the fact that as fixed income investors we need to focus, first and foremost, on any borrower's ability and willingness to pay both the interest and principal on the bond issued. In the sovereign space it is clear that countries with stable governments, strong political and legal institutions and effective democratic processes, are likely to be more willing to service their debts. Likewise those countries that are most likely to have sustainable cash flows will have sustainable fiscal and budgetary models and will be looking to improve growth dynamics through progressive reform and fostering innovation.

While default risk is a crucial consideration for all sovereign investors, the prospect of the 'real' value of sovereign debt is also a key variable in achieving positive risk adjusted returns. We believe that ESG factors influence a country's inflation and currency profile, having a marked impact on the real value of debt. For sovereigns in particular, we think that governance and social factors are most relevant in the short term. While environmental factors are also relevant to our analysis, they are least correlated with sovereign risk.

While the decision to allocate to credit is the responsibility of the Global Multi-Sector investment team, we delegate the credit selection decisions to our specialist credit investment teams. They too, recognise the importance of integrating ESG factors into their analysis of expected cash flows. For corporates, ESG factors are pertinent in any number of ways, from changing consumer expectations and behaviour and increasing regulation, to supply chain risk and brand reputation to name a few. These have a material impact on the sustainability of issuer cash flows.

ESG factors are integrated into every step of our three stage investment process:

Thematic research

ESG drivers form an important part of our macroeconomic discussions, helping us to identify market opportunities and risks in the global macroeconomic environment and find trades that will best express/offset them through our thematic research process. Our research framework reconciles economic views (the "Economic Roadmap") with views on market valuations, sentiment and positioning (the "Market Roadmap"). For example, one of our recent themes was related to how wealth inequality is driving a rise in populist support, which is having an impact on governments' willingness to employ an easier fiscal stance.

Portfolio construction

We have a risk budgeting approach to portfolio construction. We allocate risk to themes based on conviction, and we allocate risk to alpha sources and time horizons based on factors including portfolio-specific return objectives, risk limits, expected risk/reward and conviction. ESG factors are incorporated into the risk assessment of the relative attractiveness and valuation metrics of each proposed trade. For example, shorter term social factors across countries may impact election dynamics or risks of improving/deteriorating governance in some emerging markets may influence which trade provides the best level of risk/reward.

Risk management

Risk management is embedded throughout our investment process and is rigorously applied, from the total portfolio level down to individual positions. We often use offsetting positions to limit risks (if the market were to move against an investment theme, for example) and to ensure that no single investment theme dominates the portfolio. We find that the integration of ESG factors into our process is useful in highlighting shorter-term risks and trends, and may provide opportunities or underscore risks around specific events. We also consider ESG factors in determining longer-term tail risks.

Case Study: China deep dive

Growth stability is key to Chinese policy, and its importance eclipses all other macroeconomic aims due to its link with social stability. Labour market indicators are a key policy gauge, reflecting the authorities' cognisance of the importance of social stability. Economic weakness will prompt an easing of policy and – as a consequence – a reversal of some of the last 18 months' deleveraging efforts. Despite the slowdown, employment remains within target, partly due to the growing dominance of the service sector, which is quite labour-intensive in its infancy. However, regional imbalances are stark in China, with the rural agricultural areas suffering from a lack of infrastructure and low wages, compared to the urban east coast.

- Social stability is the overarching aim of policy, although we also expect fiscal spending will be employed in response to trade headwinds to help ensure economic stability.
- The very process of aiming to create growth stability and by extension social stability has led to a rapid accumulation of debt, as credit expansion has constantly been used as a tool to smooth the cyclicality of the economy.
- We expect divergence between local Chinese debt and foreign exchange. A weaker currency is helpful for the economy, while accommodative monetary policy, along with the market's inclusion in the index and related passive flows, constructive for the bond market.

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Integration in Private Equity

Insight from Schroder Adveq

Schroder Adveq is a leading global private equity asset manager. With $10.3 billion in assets under management as of 31 December 2019, Schroder Adveq focuses on specialised investment solutions that provide our institutional clients access to select private market segments through primary, secondary and direct/co-investments. Based in Zurich, we have investment teams in Beijing, New York City and Zurich.

Schroder Adveq's commitment to ESG and responsible investment starts with our mission of "making investments that our investors can be proud of". This is the guiding principle for all Schroder Adveq investments. We believe that the most stable, influential and reliable predictor of a private equity fund manager's approach to ESG is its values and belief system, including its corporate culture and the integrity of its team members. For this reason we undertake in-depth analysis of past portfolio company investments, past media coverage, background checks, reference calls and extensive personal face-to-face interaction during the due diligence process.

Integration of ESG assessment into investment process

We are highly convinced that adopting ESG principles is crucial for the long-term success of our clients, investments and business. The firm's proactive approach to ESG is core to our values and embedded throughout our operations. Schroder Adveq assesses ESG issues throughout the evaluation and monitoring of target fund managers, the funds they manage, and the portfolio companies in which they invest. We use RepRisk for pre-investment due diligence and post-investment monitoring on a quarterly basis, involving the investment management team when an issue arises.

As part of our due diligence process we look at a fund manager's broader understanding of ESG, how they monitor and manage potential ESG risks, and how they implement positive ESG changes to portfolio companies. Our approach has three pillars; identify investment opportunities that will meet our return expectations through the active implementation of ESG elements (positive selection), manage downside ESG related risks (exclusion), and actively seek the adoption of ESG practices among our fund managers and portfolio companies (engagement). As part of this latter pillar, we seek to identify areas for improvement among our fund managers and make recommendations on how to raise levels of expertise, or ways that reliable external experts could be brought in to help. We will work with any fund managers that don't have a clear ESG policy to help define one and advise how this can be built into the fund manager's broader strategy. One of our key recommendations is that fund managers become signatories of the United Nations Principles for Responsible Investment (PRI).

Case study: From ESG concerns to investment

During due diligence on one fund manager, we were concerned about some product claims of an investee skincare company that could be considered incomplete or misleading. We successfully engaged with the fund manager and the portfolio company; the company amended its claims on products and in marketing material. We subsequently invested with the request that a dedicated ESG section be included in the quarterly report. The fund manager also became a signatory of the UN PRI, achieving the highest possible ranking for its private equity module.

Case study: RepRisk demo on Italian manufacturer of large-size ceramic slabs

In 2019 our monitoring tool, RepRisk, flagged an issue with one of our portfolio companies, an Italy-based manufacturer of large-size ceramic slabs. Local newspapers accused the company of polluting the environment with odours that might cause nausea. We engaged with the fund manager, who acted immediately and hired an ESG consultant to undertake environmental, health and safety due diligence on the company. The assessment involved interviews with site management, a tour of the main operations, storage and auxiliary areas, and a review of environmental and health and safety documents. During this assessment, no potential material liabilities or red flags were appointed to the company, which alleviated our concerns.

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Integration in practice

Integration in Real Estate

Insight from Schroder Real Estate

Schroder Real Estate has managed real estate funds since 1971. Our real estate business is headquartered in London with offices across Europe, Asia and North America, and currently has £15.7 billion (€18.5 billion/US$20.7 billion) of gross real estate assets under management (at 31 December 2019) across direct real estate, real estate securities and real estate capital partners.

Sustainability is an integral part of what we do and we have embedded a formal sustainability policy, "Real Estate with Impact", into our investment process. We believe it is our responsibility as real estate investors to understand the environmental, social and economic impacts of our investments in order to deliver resilient, long-term returns and to manage exposure to material risks. We are evolving our investment philosophy to incorporate "positive impact" investing moving beyond ESG to proactively seek to improve situations.

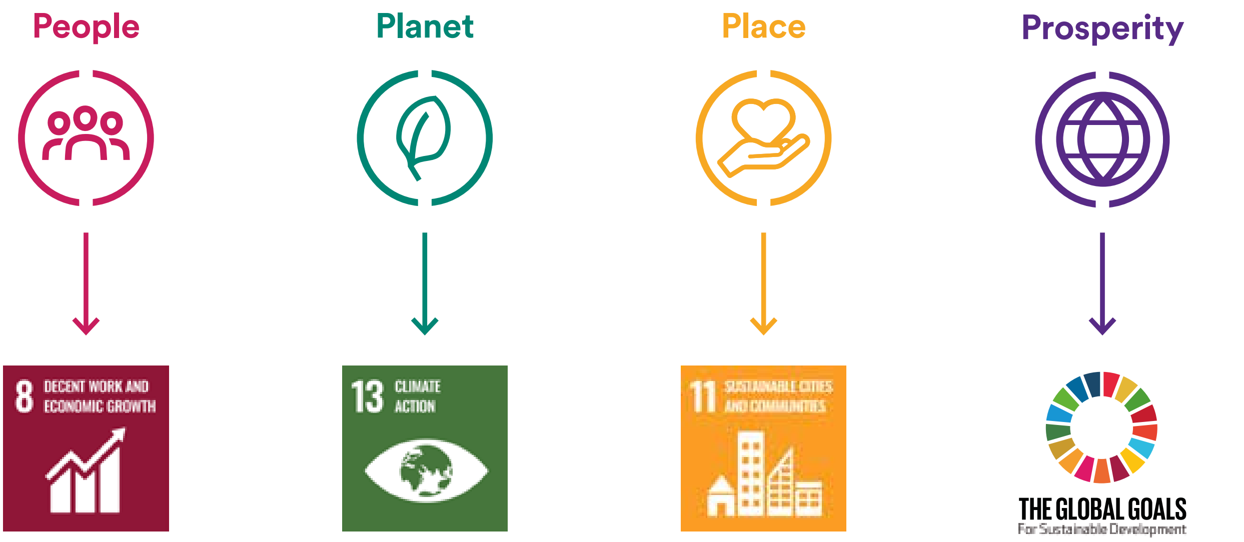
Our Real Estate With Impact sustainability policy is embedded in our investment process. We have referenced our key pillars of our Real Estate with Impact policy reference three UN Sustainable Development Goals which align with our investment management activities. We use these pillars to consider the impacts of our funds and assets. The fourth pillar relates to building prosperity. We believe our sustainable investment programme should deliver enhanced long-term returns for our clients, contribute to our tenants' business performance and deliver positive impacts to communities, the environment and society for the long term.

Schroder Real Estate's pillars of impact

We are evolving our investment philosophy to incorporate "positive impact" investing, moving beyond environmental, social and governance (ESG) factors to proactively seek to improve and make a positive impact with our investments. The built environment supports people in many aspects, therefore real estate investment offers the potential to understand contributions to society and the environment alongside financial returns.

We participate in the Global Real Estate Sustainability Benchmark "GRESB" which is the global standard for assessing the ESG performance of real estate funds and companies. We have participated in GRESB since 2011 and achieved Green Stars for all funds submitted to GRESB in 2019. We produce annual sustainability reports which include environmental performance data for our funds. Our programme involves looking at building level data and improvement objectives on an ongoing basis with formal six month and annual reviews.

Figure 1: Schroder Real Estate's pillars of impact



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Case study: Schroder Real Estate signs the Better Buildings Partnership Climate Change Commitment to net zero carbon real estate

In recognition of the responsibilities we have as real estate investment managers and the crucial role real estate has in combatting climate change, we signed a ground-breaking commitment to tackle the growing risks of climate change through the delivery of net zero carbon real estate portfolios by 2050. One of the first actions of the commitment is to set out our zero carbon pathway during 2020. The commitment is a natural extension of our energy and carbon reduction programme which includes country targets to improve energy consumption and green house gas emissions for buildings in our portfolios.

The commitment has been signed by 24 Better Buildings Partnership members, covering over £300 billion in assets under management and more than 11,000 commercial properties globally, which together account for over 1.2 million tonnes of carbon emissions per annum.

Case study: London office awarded first 'Fitwel for Workplace: Multi-Tenant Whole Building' Certification in Europe

The quality of internal and external environments provided by buildings and how they support the health, wellbeing and productivity of users is becoming an increasingly important consideration for real estate investment. We have developed a Health and Wellbeing Framework to support wellbeing for buildings in our portfolios. This includes consideration of the potential for wellbeing building certifications and we achieved the first Fitwel for Workplace Multi-Tenant Whole Building Certification in Europe for an office building in London.

The Fitwel standard, operated by the Center for Active Design, is a US-based third-party health and wellbeing assessment and certification framework. It measures and scores buildings against 63 evidence-backed design and operational strategies – each of which is proven to improve and promote building user health and wellbeing.

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Integration in practice

Integration in Wealth Management

Insight from Cazenove Capital

Cazenove Capital is the wealth management and charity investment business of Schroders plc in the UK and Channel Islands. We offer personalised, discretionary investment services and wider wealth management services to a broad range of clients.

At the end of 2019, £3.5 billion (c. 10%) of Cazenove Capital's assets under management incorporated mandated ethical or sustainability requirements.

Adopting ESG integration for the benefit of all clients

2019 was an exciting year for us, as we saw Cazenove become internally accredited as fully ESG integrated across its core investment offering. The way we approach ESG analysis within our core pooled funds offering is to understand how committed a fund house is to sustainable investment at the firm-level, as well as how it is embedding ESG analysis alongside traditional financial metrics into its investment selection at the strategy level. This includes an examination of the firm's responsible investment resources, its approach to ESG integration and how it reports on engagement and voting activities.

Where we identify managers lagging behind what we consider to be best practice, we will engage and encourage them to strengthen their capabilities. We have received positive responses from these engagements and have seen a number of firms take steps to improve their responsible investment resources and approach to ESG integration.

Case study: engaging for best practice

Having identified a fund house that lacked an ESG integration process, we engaged with the managers to advise them of our concerns. We highlighted our belief that ESG integration can identify key investment risks and opportunities and could lead to more informed investment decisions. The manager acknowledged their process was behind best practice and industry standards. Our engagement contributed to the establishment of a new Responsible Investment Policy and an ESG scoring platform. They visited our offices to present the platform to one of our sustainability specialists and receive our feedback. They have since launched the ESG platform from which all analysts are required to pull data and include within their investment assessments. The managers are also now launching an ESG version of their flagship fund that utilises the platform to identify ESG-linked credit metrics.

Case study: acting on our analysis

When capabilities at the strategy level don't match the firm level, we will query the disconnect. Following a fund meeting to discuss an emerging markets strategy, it became clear that this specific fund had a very robust ESG analysis framework, despite the wider firm ESG capabilities being limited. After querying the discrepancy, the asset manager recognised that it needed to increase its firm wide capabilities and incorporate ESG analysis across all of their funds. The firm subsequently created and published an ESG policy. We continue to engage with the firm and are encouraging it to publish its voting track record, join more industry initiatives, and report more centrally on engagements.

Cazenove charities

At year end, Cazenove Charities looked after £8.7 billion for over 1,500 charities. We provide a broad range of sustainable investment services to meet charities' financial and social objectives.

Over the year we have helped an increasing number of trustees develop their charity's responsible investment policies to align with their charitable missions. Our investment strategies look to mitigate the risks posed by climate change and shifting social behaviours, while using our influence as a large asset owner to encourage businesses to make positive changes.

In addition to the investment management service, the team offer support to trustees in the form of ongoing investment advice and education. We are committed to providing support to the charity sector and run trustee training events reaching around 1,000 trustees. Partnering with chartered accountants Haysmacintyre and charity lawyers Farrer and Co., we have complemented our investment training with a series of events covering charity law, an introduction to charity finance and reporting, as well as full and half day sessions on "What every trustee should know". Our flagship event in November attracted over 300 attendees, and featured a range of high quality presentations from investment experts and charity specialists.

Philanthropy and social investment

Over £1 billion of assets are held within various philanthropic structures for over 450 of our private clients. During the year we worked with those clients to define their philanthropic ambitions and spending plans, and manage the assets of their philanthropic structure to deliver the income and capital they require. We created and implemented a number of new bespoke ethical investment mandates, including a 100% total impact portfolio for a family charitable foundation.

Our Head of Philanthropy and Impact Investment sits within our wealth planning division and guides clients how to formally structure charitable giving and tax efficient giving, as well as how to align charitable investment portfolios and missions. Our representative sits on the board of Philanthropy Impact, a charity aiming to up-skill professional advisers in the UK.

As signatories to the UK government's Social Investment Implementation Task Force, we were delighted to continue our support of this market, becoming a founding partner of the newly formed Impact Investing Institute. Our work continues via our partnership with Big Society Capital to mobilise capital into this area.

Philanthropy is very important to the large families we work with and we also provide introductions to philanthropy and the responsibility of wealth via our next-generation investment days and events throughout the year.

We invite you to view our ESG Policy and Sustainable Investment brochure online for further information.

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Integration in Microfinance

Insight from BlueOrchard

BlueOrchard is a global impact investment manager and member of the Schroders Group. As a pioneering impact investing asset manager, BlueOrchard is dedicated to fostering inclusive and climate-smart growth in emerging and frontier markets.

Founded in 2001, by initiative of the UN, BlueOrchard was the first commercial manager of microfinance debt investments worldwide. BlueOrchard offers a range of impact investment solutions to qualified investors across the globe and manages regional and global mandates and funds in debt, listed debt and private equity. BlueOrchard finances institutions in emerging and frontier markets that seek environmental, social and financial returns. Being an expert in innovative blended finance mandates, BlueOrchard is a trusted partner of leading global development finance institutions. Headquartered in Zurich, BlueOrchard counts offices in Africa, Asia, Europe and Latin America, close to the markets in which its investees are.

Impact investments are those made with the intention to generate positive, measurable social and environmental impact alongside the aim of a financial return. Still a relatively new term, it is used to describe investments made across a wide range of asset classes, sectors and regions, with an estimated marked size of $502 billion.

As a growing asset class, impact investing taps into new and creative sources of capital, and unlocks the potential to solve today's most difficult environmental and societal challenges. To that end, impact investing plays a key role in contributing to the achievement of the UN Sustainable Development Goals (SDGs).

Case study: improving social performance

BlueOrchard has invested in financial technology firm Aye Finance. From the outset, BlueOrchard had worked with the company via the Microfinance Initiative for Asia (MIFA) Technical Assistance (TA) facility sponsored by the German government (BMZ) and the German Development Bank (KfW). The TA facility funds have been pivotal to support Aye Finance and other investees in improving their social performance management practices. Together, BlueOrchard and Aye Finance defined objectives and priority actions, which included aligning with the Universal Standards for Social Performance Management, developing capacities within the institution via training and coaching, and conducting an impact assessment survey with 1,600 end-clients. As a result of BlueOrchard's engagement, social performance management is now part of the company's business plan, it has developed its internal capacities and designed and published a report to share the results. In addition, the social performance rating of this institution – as measured by SPIRIT – has improved.

Impact investing themes

BlueOrchard's work contributes to 13 SDGs across nine different impact themes. The figure below illustrates how BlueOrchard's investment portfolio addresses ESG aspects, selected impact themes and respective SDGs, and how these are interconnected.

In line with its vision to foster inclusive growth and shared prosperity, BlueOrchard's strategy targets four core impact areas – financial inclusion, education, climate and governance & capacity building – aligning in many key aspects with the strategy of leading development institutions such as the World Bank and its affiliates.

SPIRIT

Since its inception nearly 20 years ago, BlueOrchard has measured the social and environmental impact of its investments alongside the financial returns achieved for investors. The Social Performance Impact Reporting & Intelligence Tool (SPIRIT) is an integral part of BlueOrchard's investment analysis process. The social performance policies and processes of current or prospective investees are assessed effectively and objectively in SPIRIT. This proprietary analysis focuses on six key areas of social impact, aligned with the Universal Standards of Social Performance Management, plus a seventh on environmental protection, to create an eligibility score out of 100.

Figure 2: BlueOrchard's Social Performance Impact Reporting & Intelligence Tool

Source: BlueOrchard

Stewardship

At Schroders, we believe that we are owners - rather than renters - of capital. Effective and responsible active ownership has long been part of our fundamental approach to investment.

We recognise that our investments play a critical role in societies and the environment. It is essential to question and challenge companies about issues that we perceive may affect their value as appropriate. As such, we actively exercise voting powers and engage on issues such as strategy, risk, performance and governance. Through our engagement, we can improve our understanding of the issues our investments face, and influence improvements – and ultimately, protect or enhance the value of our investments.

The overriding principle governing our approach to voting is to act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we are not afraid to vote against resolutions.

Engagement at Schroders does not occur in silos. Our engagement activities combine the perspectives of our portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces. This section details our corporate engagement activities on ESG-specific issues and our proxy voting activities.

Stewardship

Demystifying Stewardship: How is it really done?

In a world where the word "sustainability" features everywhere and is in everyone's mind, the word "stewardship" seems almost old-fashioned. We think it is anything but. It is an inseparable part of investment and sustainable investing cannot occur without it. But there is also lots of confusion about what it means and how it works in practice. In this paper, we bust ten of the most common myths and set the record straight for how Schroders holds companies to account.

Myth 1: Stewardship is a compliance exercise

Stewardship is a complex, umbrella term that incorporates distinct activities that interconnect and feed into each other. Based on our day-to-day work, we identify eight 'faces' of stewardship, shown in Figure 3.

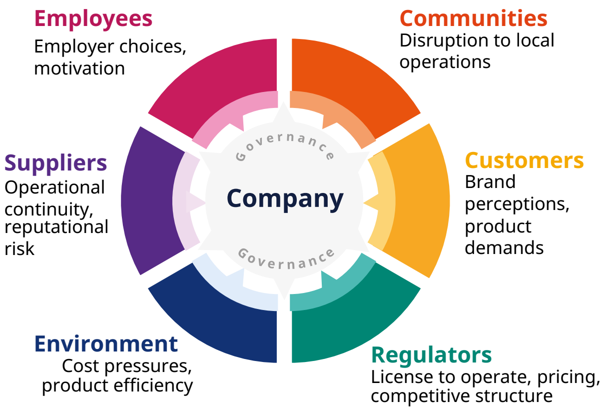
This shows that stewardship involves substantially more than developing a policy to comply with a code. It is about analysing, engaging on both a micro and a macro level, and working with others to affect change. The purpose is the creation of sustainable, long-term value for clients and not simply "doing good" at the cost of returns. It is an essential component of managing risk in order to maintain long-term value. If it is effective, it will lead to better investment decisions, improved client value and there will be an indirect benefit for the economy and the environment, although this is not the primary driver of stewardship.

Myth 2: Stewardship is all about shareholder primacy

Although a commonly held view is that the main goal of every company is to maximise returns for its owners – sometimes referred to as "shareholder primacy" for listed companies – our stewardship activities are driven by the principle that companies must deliver long-term value for shareholders and have due regard for other stakeholders including lenders, employees, communities, customers, suppliers, regulators and the environment (see Figure 4).

Indeed, it is questionable whether companies can deliver shareholder value if they do not have due regard for other stakeholders. Analysing how companies deal with all their stakeholders provides vital clues to a company's long-term viability. After all, companies do not operate in a vacuum.

Figure 4: Key stakeholders for sustainable business models



Source: Schroders.

Figure 3: The eight faces of stewardship

STEWARDSHIP

Allocate
Getting to know a company before investing

Monitor
Analysis of current and potential holdings

Engage
Communication with companies for fact finding or to facilitate change

Vote
Exercising voting right as shareholders

Research
Thematic research into targeted areas such as sugar, plastics and climate change

Educate
Training for internal and external stakeholders e.g. independent directors

Collaborate
Work with other investors to engage on specific topics

Influence
Involvement in industry groups, responding to consultations and broader policymaker advocacy

Source: Schroders.

Myths about stewardship

Defining stewardship

1. Stewardship is a compliance exercise
2. Stewardship is all about shareholder primacy
3. Stewardship varies across holdings of the same company

Exercising stewardship

4. There is a "typical" way to engage
5. Engaging is about escalating
6. Divestment is the only way to affect real change
7. Voting against company management is the only proof of an engaged investor

Stewardship and investment

8. Stewardship is run separately from investment
9. Sustainable investment is not about stewardship

Communicating stewardship

10. Stewardship is opaque and takes place behind closed doors

Myth 3: Stewardship varies across holdings of the same company

One of the most important lessons we have learned by doing, is that, in stewardship, there is strength in numbers. Aggregating our holdings of the same company across funds gives us greater clout and increases the chances that that company listens and reacts to our engagement.

In some cases, this goes even beyond the confines of asset classes and we have had cases where our fixed income and equity investment managers have worked together to deliver a message. It may even go beyond the confines of Schroders where we engage collectively with other investors.

This does not preclude that clients have a say in how we frame our stewardship activities. Each year we seek out the views of both retail and institutional clients worldwide through our Global Investor Study to gain insight into their preferences on stewardship and investment. We take these insights, and particularly what we think is financially material, into account for all our activities. But these stewardship activities are exercised in relation to holdings and not the vehicle through which these holdings are managed.

Myth 4: There is a "typical" way to engage

No two engagements are the same and there is no such thing as a "typical" engagement.

First, there are different drivers that help flag and prioritise companies with which to engage; for example, following an ESG rating downgrade or key risks identified through thematic research. Second, there are different ways in which we (proactively and reactively) engage with companies. This could cover emails, telephone or in-person meetings (on a one-to-one or group basis), or collaborative engagements, where we pool forces with other investors to increase our influence. We also conduct mass engagements, often in response to trends identified during thematic research, such as the phase out of plastic, or to highlight changes to our policies.

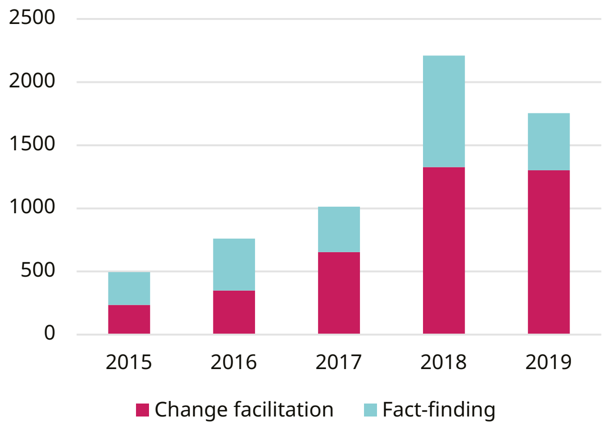
The mechanism through which we engage will depend on the circumstance of each case. We will often refer to past experience to determine what has proved to be most effective in similar cases.

The complexity does not end there. The approach for engagement can vary across geographies given differences in social norms, best practice and regulation. Similarly, there are differences in the approach taken across different asset classes.

Myth 5: Engaging is about escalating

Engaging is not just about escalating. Relationship building is essential for holding companies to account and that is why our stewardship activity is focused on both fact-finding and change facilitation (see Figure 5). Fact-finding involves seeking additional understanding and gaining insights about business models. This is complemented by "change facilitation" engagement, where we aim to effect meaningful change within the company as a result of identifying weaker practices or emerging risks.

Figure 5: Reasons for engagement



Source: Schroders as at 31 December 2019.

Nevertheless, there is a process for escalation, and we do escalate where necessary. One prominent example was our engagement with Unilever in 2018. The company was planning to discontinue its dual listing on the London and Amsterdam stock exchanges and list solely in the Netherlands. We objected as it would force many of our clients to sell, likely at a discounted price but our engagement was at first unsuccessful. However, Unilever did abandon their plans following our escalation that involved engaging with other investors and making our concerns public. It is important to note that what worked in this case may not work for others and we may use different means to escalate depending on what experience has shown is most likely to deliver our desired outcome.

Although this was a positive outcome, there is a time and a place for escalation and what worked in this case, may not have worked for others.

Myth 6: Divestment is the only way to affect real change

Divestment is sometimes quoted as the only way in which real change can be achieved, particularly regarding issues like climate change. Divestment can be a powerful tool for active managers but should not be used lightly. One alternative is engagement and stewardship, in other words managing the existing holdings rather than exiting our positions in the face of the first issue that arises. This is especially relevant where the holdings may pass into the hands of other, potentially uninformed and disengaged, investors.

Myth 7: Voting against company management is the only proof of an engaged investor

One of the most common misconceptions about stewardship relates to voting against company management and the tendency to view this strictly as the only proof of an engaged investor.

We believe that making full use of our voting rights is part of our fiduciary duty. We therefore engage and vote on any issue affecting the long-term value of a company. It is about holding management and board to account to ensure they are managing the business for the long term. That is why it is our policy to vote on all resolutions (including those brought forward by shareholders) at all AGMs/EGMs globally unless we are restricted from doing so.

Voting against or abstaining from voting are ways of escalation and we do so if we believe it is in the best interests of our clients; for example if a proposal diminishes shareholder rights or we consider that the remuneration incentives are not aligned with the company's long-term performance and creation of shareholder value.

However, voting against management typically follows engagement that has not achieved the desired outcome and there is no indication that it will.

Myth 8: Stewardship is run separately from investment

A rather "legacy" misconception is about the integration – or rather lack thereof – between stewardship and investment. "Legacy" because this arose from the early days of dedicated stewardship teams within asset management firms that in some cases seemed to operate separately from investment.

At Schroders, there is only one voice between stewardship and investment. Not only do we integrate ESG into investment processes but our stewardship team also works with investment teams across the organisation, using the insights gained from thematic engagements to inform investment decisions.

Myth 9: Sustainable investment is not about stewardship

Sometimes stewardship and sustainability are viewed as distinct issues with separate agendas but in practice stewardship is a key component of sustainable investment. It is a way in which sustainability can be delivered.

Sustainable investing can describe investment approaches that target a specific outcome such as excluding tobacco from a portfolio, choosing companies that follow best practice or targeting concrete social and environmental objectives. But it also describes the process of overseeing companies and holding them to account, which is what active ownership and stewardship is all about. This is the way in which sustainable business practices can be promoted across the spectrum and not only for those companies that are part of a concrete environmental or social strategy.

Myth 10: Stewardship is opaque and takes place behind closed doors

The vast majority of communication with investee companies is private. But this does not mean that it is opaque. There is more transparency than ever before not only towards our clients, who usually wish to receive tailored reports, but also publicly.

We disclose our firm-wide stewardship activities on both a quarterly and annual basis in our Sustainable Investment Reports. More specifically, we report on the total number of engagements and the companies engaged with, broken down by region, type and sector. We also highlight engagement case studies after these have come to a close, as it is our view that ongoing engagement is most effective on a confidential basis. These reports are complemented by monthly reports outlining our voting activity, listing how votes were cast globally, including votes against and abstentions, along with the rationale for these decisions.

Successful engagement takes time. During that time, we list the companies we are engaging with and categorise whether the engagement relates to "environmental", "social" or "governance" issues. The more granular details are kept for until after the engagement has been completed.

Conclusion

Turning the ten myths around, we can state that the Schroders experience from years of practicing stewardship has taught us the following ten truths:

1. Stewardship is an integral part of investment and not a box-ticking exercise.
2. Stakeholder interests play a big part in companies' ability to deliver long-term value.
3. Stewardship is best when it takes place at a firm-level, aggregating all the different holdings of the same company across products.
4. No two engagements are the same.
5. The foundation of effective stewardship is regular, non-confrontational communication with companies.
6. Divestment will occur if it is in clients' best interests but there are many, potentially value-creating, ways to escalate concerns before it comes to that.
7. Voting against management is an indication that preceding engagement has been rather ineffective.
8. There is only one voice between stewardship and investment.
9. Stewardship is an integral way to implement sustainability.
10. The details of each discussion may not be disclosed but the goals and outcomes of engagement as well as voting decisions are published regularly.

What is clear, is that the existence of stewardship codes is helpful to indicate best practice but it is not a guarantee for effective or successful investment outcomes. Analysis of the fundamentals is more reliable in this respect.

2019 Stewardship Review

One of the most fascinating aspects of stewardship is the sheer scope of the activities and companies that it encompasses. Each situation is unique, albeit underpinned by a thesis that strong governance practices encourage the creation of long-term value. 2019 saw us involved in a range of stewardship activities across the world

UK

One of the most high profile events in 2019 was our public rejection of the bid by Non Standard Finance (NSF) for Provident Financial Group (PFG) in the spring. Both companies are UK specialist lenders. PFG was showing signs of recovery, after historical poor performance, and we felt that the bid risked destabilising this while bringing additional regulatory risk especially given the bid deadline before the Competition and Markets Authority was opining on the consolidation. We were also concerned about minority shareholder protection, with shareholders of PFG who were also collectively majority shareholders in NSF spearheading the bid. Other shareholders endorsed our views, with the result that NSF abandoned their offer. Our stewardship objectives in this case were achieved in a relatively short period of time.

Other engagements are of a longer duration. We participated in the 2018 collective engagement with Centrica, the UK electricity and gas supplier, that was facilitated by the Investor Forum. This covered a range of issues, including capital allocation, succession planning, strategy, operational performance and reporting. In 2019 we continued our dialogue bilaterally with the new chair as the chief executive officer (CEO) succession process has begun outlining what we believe are the desired characteristics.

Europe

In Europe, we finally saw some progress made on our efforts to improve governance standards at Hellenic Telecommunications' ("OTE") majority shareholder Deutsche Telekom. We wrote to the company in 2018 expressing our support for the election of an independent candidate to the OTE board but OTE's 2018 annual general meeting (AGM) saw no changes to the board. However, the 2019 AGM saw a proposal for the election of independent candidate Eelco Blok. Ahead of the AGM we were given an opportunity to interview Eelco Blok. We supported the election and the resolution passed at the company's 2019 AGM.

US

Excessive executive pay in the US continued to prevail in 2019. Schroders voted against 52.1% of resolutions regarding executive remuneration. Average CEO pay ratios across Russell 3000 companies hiked up to 157:1 (from 143:1 in 2018), with consumer cyclicals at the top (478:1). "Boards also sometimes have the ability to adjust short term incentives (for example, bonus payments). Using this discretionary right to adjust incentives upwards is not considered best practice, however more than $20 billion in discretionary compensation was paid out over the past five years, 80% of which was not performance based."

There are many systemic compensation issues that need to be addressed in the US. We now seek to vote against "say-on-pay"[1] proposals when there is pay for performance disconnect. We also send letters to our largest holdings outlining our expectations, focusing on enhanced communication of long-term strategy and how this is supported by near-term goals and pay incentives.

Asia

In the Asia Pacific region, our votes against management increased from 2018 – driven predominantly by concerns over independence, attendance and overboarding. This reflects our tougher stance against companies where we had ongoing concerns and unsuccessful engagement, or tightened up our policy.

Board independence thresholds in the region largely sit at one-third of the board or lower, but we've observed higher standards over the past year. Recent examples include Singapore requiring at least half of the board to be independent when the chair is not independent.

Investment stewardship standards radically tightened the definition of an "overextended director" in 2019. For example, the Securities and Exchange Board of India (SEBI) is reducing maximum directorships for directors, whilst the newly revised Hong Kong code has introduced disclosure requirements around board nomination policies and the justification of overboarded independent directors. Schroders has long taken a robust stance with overboarding and in 2019 our global policy applied stricter thresholds than many of our peers. These service limits have been implemented holistically, taking into consideration local market practice and other factors reflective of director quality. We do not consider the number of directors' board seats to qualify as a measure of director effectiveness.

1 US "say-on-pay" proposals are mandatory resolutions put forward by management asking investors to approve executive compensation packages.

Thematic and systematic

We believe that governance should never be a tick box exercise, and while codes are useful, adherence to codes alone is not a guarantee of good governance. Perhaps this is one of the reasons why there is significant variation regionally between codes. Increasingly companies are approaching us overwhelmed about what they should prioritise. We published thought leadership on this topic in 2019, in which we outlined our belief in the importance of boards focusing on strong business oversight, capital allocation and minority shareholder protection. Supported by analysis, we drew up a list of both conventional and unconventional indicators that appear to link to equity returns and lower volatility. We have shared this work extensively with our investee companies, including a presentation to which all UK companies we invest in were invited.

Climate change has been a long standing thematic area for engagement. We realise that understanding the implications of this complex issue is still nascent among the boardrooms of many companies outside the extractive or utility sectors. We have sought to improve this by sharing our tools and, in 2019, briefed company directors on using our Climate Progress Dashboard on the likely scale of the challenge ahead. We also took a deep dive into physical risk, based on our research and internal model of the short-term impacts.

Collaborative engagement: Climate Action 100+

We are also participating in the collaborative engagement, Climate Action 100+, a five-year, global investor-led initiative to engage with the world's largest greenhouse gas emitters, which together account for around two thirds of annual global industrial greenhouse gas emissions[2]. Schroders signed up to the initiative at its launch in 2017. Since then it has grown to over 370 investors with more than USD 35 trillion in assets under management.

The goals of Climate Action 100+ are threefold:

1. To encourage companies to implement a strong governance framework articulating the board's accountability for climate risk and opportunity;
2. To take action to reduce greenhouse gas emissions across the value chain; and
3. To provide enhanced corporate disclosure in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD).

Leading climate scientists have warned that urgent action needs to be taken to curb emissions, to avoid catastrophic environmental breakdown. We believe that the most effective way to respond to this urgency is by pooling resources and assets with our peers, to ensure companies respond effectively. Furthermore, it helps us to ensure that our investments are shielded from the risks of climate change in the future.

Significant progress has been made collaboratively by the group, as highlighted in the latest progress report[3]. Examples include:

- Royal Dutch Shell committing to a range of industry-leading climate commitments;
- Glencore, the world's largest exporter of thermal coal, agreeing to cap coal production to current levels of about 145 million tonnes per year;
- Petrochina developing a climate change strategy and signalling an intention to align its climate policy to the goals of the Paris Agreement; and
- PTT Public Company Limited (Thailand) releasing a report aligning with the TCFD.

Schroders is leading engagement with a China-based cement company. 2019 saw a ramp-up in communication with the company, including an initial call, emails, and a letter on behalf of all participating investors, which called for specific action to set emissions targets, promote alternative fuel use and improve climate-related financial disclosures.

We have also been collaboratively involved in engaging several other companies across sectors and regions, including Anglo American, Volkswagen, Bayer, Centrica and CNOOC.

2 Climate Action 100

3 Climate Action 100 progress report

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

Preventing tragedy: Global initiative on tailings storage facilities

January 2019 saw one of the worst recorded dam failures in history when the Brumadinho dam – holding mining waste from a major mining company's Brazilian operations – collapsed, claiming around 300 lives. The tragedy prompted ground-breaking action from investors, led by the Church of England Pensions Board and the Swedish Ethics Council, to apply pressure to mining companies to ensure similar failures do not occur again. The new group, the Investor Mining and Tailings Safety Initiative (IMTS), convenes institutional investors that have active investments in extractive industries, including Schroders, and now represents more than USD 13 trillion[4] in assets under management.

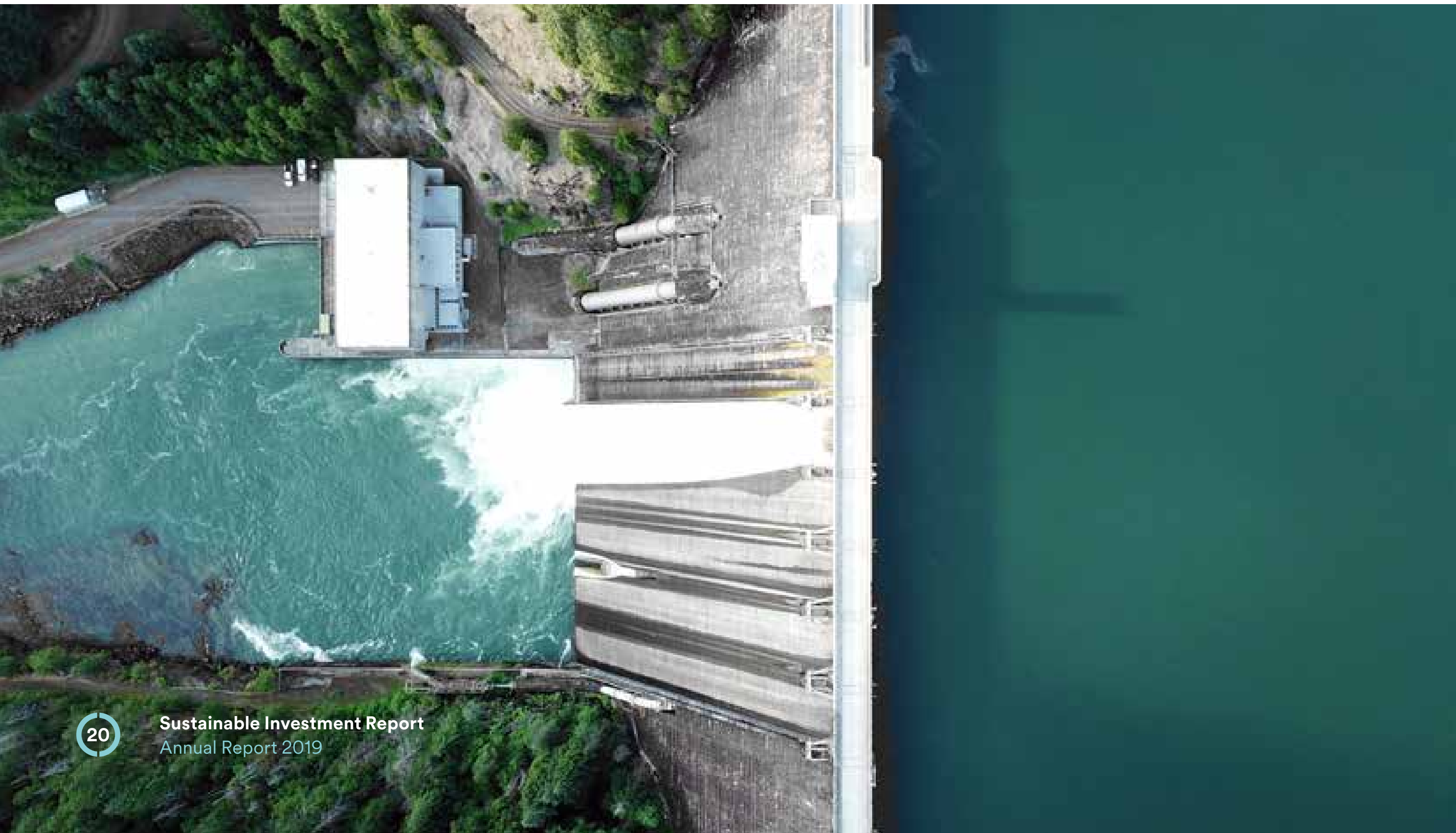
Several roundtables were held by the group during 2019, resulting in a number of outcomes, including:

1. **Global standards:** The IMTS called for a new independent and publicly accessible international standard for tailings dams. Presently there is no global standard. A global review has since been announced, led by the International Council of Mining and Metals, the Principles for Responsible Investment and the United Nations Environment Programme.
2. **Improved disclosure:** Presently there is no global public register that links tailings storage facilities (TSFs) to who owns them. With around 18,000 TFSs worldwide, but no global register, it is difficult for stakeholders (including investors) to assess the scale of the risks. Letters were sent during 2019 on behalf of the investor group to 726 extractive companies. Following an excellent response, the initiative has resulted in a new Global Independent Tailings Database.

The pioneering work of the initiative continues, with additional focuses on how the risk posed by tailings dams appear in companies' annual reports, and how to consider the role of the banking and insurance industries in reducing tailings risk. We will continue to support the initiative, and have engaged a number of our investee companies in the mining industry directly to ensure appropriate management of TSFs, and to understand potential financial implications associated with TSF management.

4 Church of England Investor Mining and Tailings Safety Initiative

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



The 2020 UK Stewardship Code

Stewardship: the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The UK Stewardship Code (the 'Code'), first published in 2010 and updated in 2012 and 2019, sets out the definition and principles for effective stewardship by institutional investors. The Code is overseen by the Financial Reporting Council, the independent regulator that supervises financial reporting, accounting and auditing and corporate governance in the UK. Schroders fully supports the UK Stewardship Code and complies with all its principles. The Code establishes a standard of stewardship for all investments and we seek to apply the same principles globally, taking into account local practice and law.

We acknowledge the stewardship codes in other jurisdictions in which we invest but use this statement and our disclosures relating to stewardship as our response to other such codes. The exceptions to this are Schroder Investment Management (Japan) and Schroder Investment Management (Australia) which have their own statements covering locally managed funds that comply with local regulations, but operate using similar principles.

Our Environmental, Social and Governance (ESG) Policy should be read in conjunction with this statement of compliance and provides additional detail on a number of relevant practices.

Principle 1: Purpose, strategy and culture

As active fund managers it is central to our investment processes across asset classes to consider each investment's ability to create, sustain and protect value. We believe that analysing exposure to, and management of, ESG factors, in addition to traditional financial analysis, enhances our ability to deliver long-term sustainable returns. We have publicly declared a commitment that all of our investment desks will explicitly integrate ESG into their investment processes by the end of 2020. This target has been embedded into the objectives of asset class heads.

In order for an investment desk to be accredited as having done so, they must complete an ESG "explainer sheet" outlining exactly how ESG is integrated into their investment philosophy and practice. This is a living document, that is refreshed annually and case studies on how ESG has impacted investment decisions and stewardship activity are key. Accreditation is granted following sign off from our Global Head of Stewardship and Head of Sustainable Research. The same approach is used across asset classes.

Principle 2: Governance resources and incentives

We have a centrally resourced sustainable investment team that supports ESG integration and stewardship (including proxy voting and engagement) across teams and asset classes. The team reports into the Head of Investment. Please see p81-82 of this report for our team profiles.

Below we outline how each aspect of the stewardship process is resourced and in particular how the process works with investment teams.

Engagement and monitoring

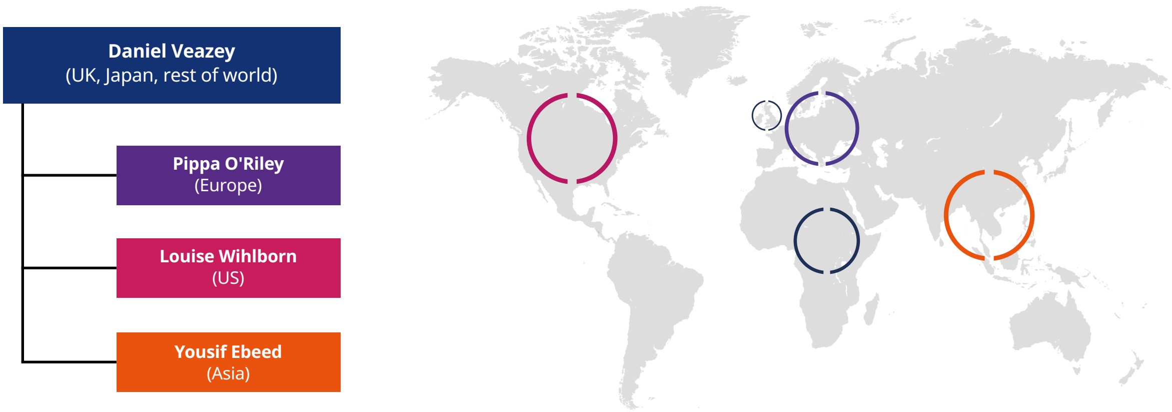
As active investors, we continually monitor an investment's management and performance across a range of measures as part of our investment process. Monitoring is the responsibly of all investors across asset classes with additional support and tools provided by the Sustainable Investment team as detailed below.

We take an evidence-based, data-driven approach to monitoring and engagement. Company specific monitoring occurs around reporting events, general meetings, and in connection with news and company announcements. We draw on a wide range of data, such as reports from non-governmental organisations (NGOs) and third party research to build up a comprehensive view of performance. We have an in-house tool, Context, which identifies material sector-level ESG issues, and examines both conventional and unconventional data to assess performance of an individual company against a relevant peer group. This enables investors to identify laggards and the specific areas to push for improvements. In addition, listed asset portfolios are reviewed regularly against third party ESG data providers to identify any weak or declining performers or controversies.

The extent and frequency of engagement will partly depend on the type and size of investment; those holdings where we have investing significant absolute amounts or are able to exert large amount of influence will be monitored more frequently and in greater depth, for example, than a small percentage holding or invested amount. The level of contact will increase where we have specific long-term concerns about performance.

We conduct thematic research on emerging issues, including those related to systematic risks, often drawing on academic studies to ensure that we are analysing future risks that are not being discounted in valuations. An outcome of this work is often a series of engagement and education of investors on the topic. We also work closely with investment desks to identify relevant engagement projects.

Figure 6: Global coverage of Schroders' Corporate Governance Analysts



Source: Schroders March 2020

We record all our engagement activities in our in-house database and share it across our internal research platform. This ensures that this data is accessible to investors globally to help the flow of information and enables stewardship activity to influence investment decisions.

Individual analysts on the Sustainable Investment team are given the target of undertaking at least one thematic engagement project and 100 engagements each year. We are also trying to internationalise our activity by increasing the range of countries. These targets have led to substantial increases in volumes in recent years; we have engaged with companies in over 55 countries. However going forward, we will look to maintain rather than expand activity; in 2019 we conducted over 1,750 engagements.

Proxy voting and corporate governance engagement

The majority of our corporate governance engagement and proxy voting activities involves our specialists working with analysts and fund managers, so that we can use their knowledge of, and relationship with, companies to effect better outcomes. We organise our resources regionally, believing that local context is essential if we are going to effect change. Each regional corporate governance analyst organises regular meetings that involve senior equity investors. The agenda will include a review of voting and engagement activity and practice. Together, the group will identify names that are priority engagement targets, decide on thematic areas of research and engagement as well as discuss how voting should be executed. The diagram below names the individuals involved and their regional responsibilities:

During 2020 we have been improving the quality of materials that are circulated in advance of this meeting. We have also been working within the regional investor groups on prioritising companies for more intensive engagement. We also made a significant step forward by on-shoring our Australian voting to ensure greater consistency between local and global teams.

Principle 3: Conflicts of interest

Schroders accepts that conflicts of interest arise in the normal course of business. We have a documented Group-wide policy, covering such occasions, to which all employees are expected to adhere, on which they receive training and which is reviewed annually. There are also supplementary local policies that apply the Group policy in a local context. More specifically, conflicts or perceived conflicts of interest can arise when voting on motions at company meetings which require further guidance on how they are handled. Outlined below are the specific policies that cover engagement and voting.

Schroders' corporate governance specialists are responsible for monitoring and identifying situations that could give rise to a conflict of interest when voting in company meetings.

Where Schroders itself has a conflict of interest with the fund, the client, or the company being voted on, we will follow the voting recommendations of a third party (which will be the supplier of our proxy voting processing and research service). Examples of conflicts of interest include (but are not limited to):

- where the company being voted on is a significant client of Schroders,
- where the Schroders employee making the voting decision is a director of, significant shareholder of, or has a position of influence at the company being voted on;
- where Schroders or an affiliate is a shareholder of the company being voted on;
- where there is a conflict of interest between one client and another;
- where the director of a company being voted on is also a director of Schroders plc;
- where Schroders plc is the company being voted on.

Separation of processes and management between Schroder Investment Management and our wealth management division helps to ensure that individuals who are clients or have a business relationship with the latter are not able to influence corporate governance decisions made by the former.

If Schroders believes it should override the recommendations of the third party in the interests of the fund/client and vote in a way that may also benefit, or be perceived to benefit, its own interests, then Schroders will obtain the approval of the decision from the Schroders' Global Head of Equities with the rationale of such vote being recorded in writing. If the third party recommendation is unavailable, we will vote as we see fit in the interests of the fund. If, however, this vote is in a way that might benefit, or be perceived to benefit, Schroders' interests, we will obtain approval and record the rationale in the same way as described above.

In the situation where a fund holds investments on more than one side of the transaction being voted on, Schroders will always act in the interests of the specific fund. There may also be instances where different funds, managed by the same or different fund managers, hold stocks on either side of a transaction. In these cases the fund managers will vote in the best interest of their specific funds.

Where Schroders has an actual or potential conflict of interest that is identified, it is recorded in writing, whether or not it results in an override by the Global Head of Equities.

Principle 4: Promoting a well-functioning market

One of the reasons we have committed substantial resources to ESG research is the potential that this work has to identify systematic risks that are not being recognised by other market participants. We have a track record of not only conducting our research into these areas but also sharing this work more broadly so that it can be consumed by other stakeholders.

As well as the work shared in this annual sustainable investment report, in 2019 our quarterly reports covered the following topics:

- Climate change
- Sustainable travel
- ESG in emerging market debt
- Energy transition
- Waste
- ESG in global cities
- Sugar
- Corporate governance
- ESG in multi-asset
- Sustainable fashion
- Stewardship
- ESG in value investing

We have a long-standing commitment to engaging with a wide range of stakeholders who are impacted by financial markets to ensure that they function effectively; these range from exchanges, to auditors and regulators. We also view engagement with regulators and policymakers as an important part of our role in supporting a well-functioning market. Please see details of activity that was conducted in 2019 on pages 54-56 of this report.

Schroders is a founder, member, participant or signatory to a number of reputable industry organisations which enable us to collaborate with other investors to ensure the effective functioning of the market. We also contribute to their market-wide engagement and regulatory response activity. These include:

- Pensions and Lifetime Savings Association (PLSA, formerly NAPF)
- International Corporate Governance Network (ICGN)
- Asian Corporate Governance Association (ACGA)
- Principles for Responsible Investment (PRI)
- Investment Association (IA)
- UK Sustainable Investment Forum (UKSIF)
- FRC Financial Reporting Lab steering group
- Sustainability Accounting Standards Board (SASB)
- European Fund and Asset Management Association (EFAMA)

Principle 5: Review and assurance

We regularly review our ESG Policy and Stewardship Code Statements to ensure that we are following local and international best practice as well as being accurate in how we describe our activities. Significant changes are signed off by our Group Management Committee.

In 2019 we made the following changes to our published policies:

- Expanded the policy's scope to include multi-asset
- Clarified how we define ESG integration and sustainable investment products
- Acknowledged the existence of local codes for Japan and Australia and the additional requirements to which we comply in these regions
- Expanded the firm-wide exclusions from cluster munitions and anti-personnel mines to also capture biological and chemical weapons in line with international conventions
- Acknowledged the additional exclusions for nuclear weapons and tobacco applied to locally managed funds in Australia
- New sections outlining our views and approach to the following topics:
  - Climate change
  - United Nations Global Compact
  - Biodiversity
  - Water use
  - Taxation
  - Oppressive regimes
  - Board diversity

We are subject to internal independent audit and risk assessments on the effectiveness of our processes. Schroders obtains an independent opinion on our UK engagement and voting processes based on the standards of the AAF 01/06 Guidance issued by the Institute of Chartered Accountants in England and Wales.

Principle 6: Client and beneficiary needs

Annually we conduct two detailed surveys that give us insight into our client and beneficiary needs on stewardship and investment. These help us to calibrate our stewardship activity to ensure that as well as engaging on issues that our investors view as being material to generating long-term sustainable value, we take into account our clients' needs.

Global Investor Study

We survey in excess of 25,000 investors across 32 countries on an annual basis. These insights are crucial to our understanding of the sustainability landscape at a global and regional level.

In 2019, we asked these investors to rank the UN's four Sustainable Development Goals. Their priorities, by importance, are planet, prosperity, people and peace. The message seems clear: respondents want fund managers to act on the environment, including the pressing issue of climate change.

Figure 7: Protecting the planet is a key issue for asset managers to engage on

1. Planet
Protect the planet from degradation, including through sustainable consumption and production, sustainably managing natural resources and taking urgent action on climate change

2. Prosperity
Ensure that everyone can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature

3. People
Ending poverty and hunger, ensuring everyone can fulfil their potential in dignity, equality and in a healthy environment

4. Peace
Foster peaceful, just and inclusive societies, which are free from fear and violence

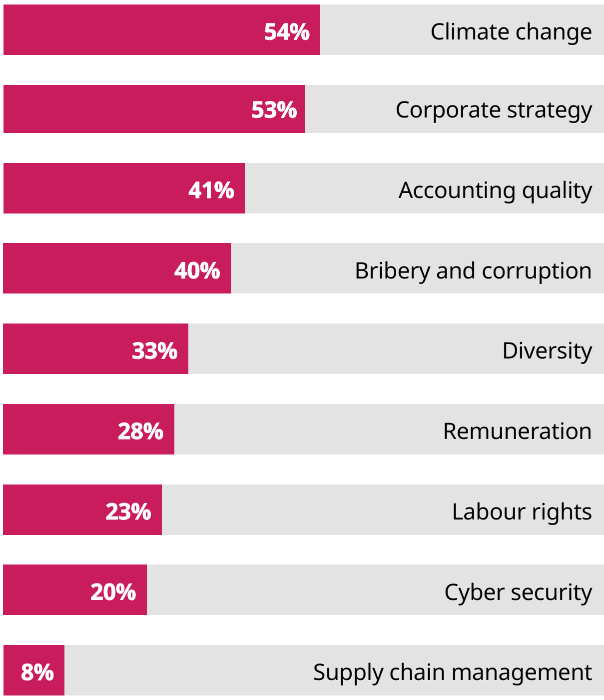
Source: Schroders Global Investor Study 2019.

While climate change has become the most important engagement topic, regional differences are stark. It has risen up the agendas of North American investors in particular; in Latin America it's become less of an engagement issue in 2019 compared to the 2018 survey while in the other regions climate change has retained its importance as a topic for engagement.

Figure 8: Climate change tops the engagement agenda

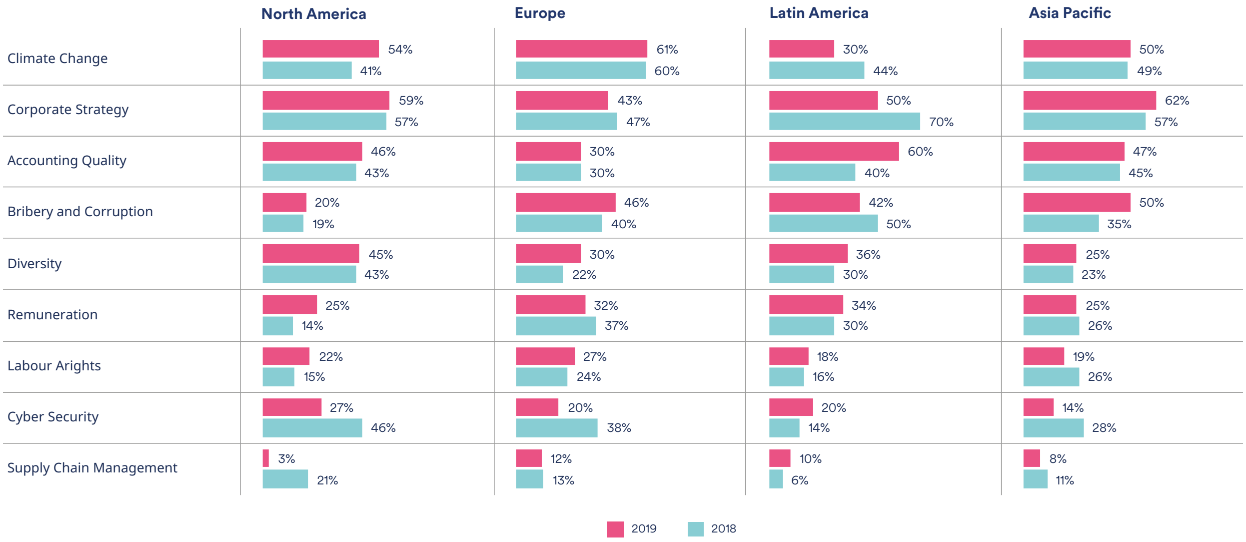
Key topics to engage on

Rank in order of importance the areas that you believe it is important for investment managers and asset owners to engage on



Source: Schroders Institutional Investor Study 2019.

Figure 9: Engagement priorities vary across regions



Source: Schroders Institutional Investor Study 2019. Please rank in order of importance the areas that you believe it is important for investment managers and asset owners to engage on (% Rank 1+2+3

Each quarter and annually we publicly disclose the following:

- List of companies engaged with and if the issues was related to E,S or G
- A geographical and sector breakdown of engagement
- Overall statistics on the progress of historic engagement by year
- Case studies of regional engagement and proxy voting activity

In addition our clients' receive a more detailed report on our engagement achievements which is outlined on a company by company basis. As the table shows in figure 16 on page 35, there is good overlap between our most frequent areas of engagement and the priority areas that have been identified through our client survey.

Principle 7: Stewardship, investment and ESG integration

We seek to integrate ESG considerations into our research and investment decisions across all our investment desks and asset classes. Our integration approach spans the breadth of the ownership lifecycle, from identifying trends and analysing investments through engagement, voting and reporting. We recognise that different asset classes, portfolio strategies or investment universes will require different lenses to most effectively strengthen decision-making.

We facilitate the integration of ESG factors into investment processes through the following:

- Individuals from the Sustainable Investment team are mandated to work alongside specific investment teams, which facilitates regular dialogue.
- Our dedicated ESG specialists have a sector focus, enabling them to gain a deep understanding of sector-specific ESG issues and work in tandem with our analysts and portfolio managers to identify and assess ESG risks and opportunities, and incorporate consideration of these factors into their forecasts. Regular sector updates are sent out. ESG specialists lead relevant company engagements with involvement as necessary from investors across asset classes.
- Our team has developed over ten proprietary tools ranging from a country sustainability dashboard to a physical risk of climate change model to provide unique insights into ESG risks.
- The team provides ongoing training to all existing and new investment analysts to ensure that all investment desks are aligned in their efforts to integrate ESG considerations into their analysis. The team also provides tailored training for individual investment teams.
- Our specialists produce regular multi-sector and multi-region thematic research to ensure our analysts and investors keep abreast of the latest ESG trends and how they can impact a valuation and how engagement can mitigate the risk.
- Our equity and fixed income analysts are tasked with analysing relevant ESG risks and opportunities for stocks under their coverage within their research notes. Our ESG specialists review a proportion of these research notes periodically to highlight where ESG analysis can be enhanced and to promote best practice.
- All of our research is shared on our in-house research platform. In addition, where applicable, our ESG tools are available to portfolio managers on our Aladdin platform.
- Each quarter the Sustainable Investment team screens desk portfolios against third-party ESG ratings from specialist ESG research providers to identify holdings deemed to have poor ESG performance. These ratings are distributed to investment desks so that each desk can assess the potential ESG risks in their portfolios.

For more information on how investors integrate on corporate governance and engagement please see Principle 2.

Principle 8: Monitoring managers and service providers

Cazenove Capital: Cazenove Capital is a whole-of-market investor and therefore enabled to improve responsible investment practises across the industry. Cazenove systemically evaluates third party fund managers at a firm level on their ESG integration processes and resources and stewardship activities. Cazenove has adopted a consistent framework to compare approaches across structurally different firms. During 2019 Cazenove worked with a number of managers outlining expectations and identifying areas of weakness with potential for improvement. Cazenove received pleasing responses from these engagements and a number of firms have already taken steps to improve their responsible investment resources and approach to ESG integration.

Proxy advisors: Every three years we undergo a process with the help of Group Procurement to tender for proxy advisors, and this last took place over the course of 2019. Both the governance and the procurement teams put together an RFP. Answers are evaluated and a shortlist of providers is engaged with by both teams to reach a decision.

Among other things, the RFP process evaluates the resources, governance, and systems of the possible providers. A thorough assessment is made on the quality of the research and the ability of a firm to execute on the complex needs of our institution.

During the year the governance teams feed back to our proxy advisors through regular formal meetings and daily calls. The team also attends industry events held by proxy advisors to directly influence policy and give investor views.

Please see Principle 10 for more details on how proxy advisors are used in our voting process.

ESG information and data: Our preference is for raw ESG data, which we consume from a range of sources including Refinitive, MSCI and Bloomberg. In our experience ESG data quality lags that of other financial datasets. We therefore conduct a degree of our own cleaning of the data before using it.

We have written extensively on the dangers of relying solely on third party ratings, and their shortfalls largely due to a lack of agreement on what is “good”. However we will use these scores to gain a better understanding of market thinking on a particular name. Where we do see missing data we will feed back to the providers.

Principle 9: Engagement

Effective and responsible active ownership is part of Schroders’ fundamental approach to investment. We believe that by engaging with companies we can improve our understanding of the issues they face and their approaches to managing them, helping us to protect and enhance the value of our investments on behalf of our clients.

It is essential to question and challenge companies about issues that we perceive may affect their value. Schroders will engage and vote on any issue affecting the long-term sustainable value of a company in which it is invested.

Issues may include, but are not limited to, business strategy, performance, financing and capital allocation, management, acquisitions and disposals, operations, internal controls, risk management, the membership and composition of governing bodies/boards and committees, sustainability, governance, remuneration, climate change, environmental and social responsibility.

Schroders' resources used for each engagement will be managed according to the circumstances, size of our holding and potential impact of each case.

Our engagement activities combine the perspectives of our portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces. Intervention will generally begin with a process of enhancing our understanding of the company and helping the company to understand our position. The extent to which we would expect to effect change will depend on the specific situation. Our focus will be on issues material to the value of the company's shares.

We generally engage for one of three reasons:

1. To seek improvement in performance and processes in order to enhance and protect the value of our investments
2. To monitor developments in ESG practices, business strategy and financial performance within a company
3. To enhance our analysis of a company’s risks and opportunities

Our mechanism for engagement varies but typically involves one of the following:

- One-to-one meetings with company representatives (e.g. members of the board including committee chairs, senior executives, investor relations, managers of specialist areas) either collaboratively with our financial analysts and fund managers, or focused ESG engagements undertaken by the ESG specialists
- Written correspondence
- Phone calls
- Discussions with company advisers and stakeholders
- Voting
- Collective engagement with other investors

We rarely attend company general meetings in person as we believe there are usually more effective means of communicating with, and offering support to, companies. We prioritise our engagement activities based on the materiality of the issue, and the size of our exposure to the individual company, either by the total amount of assets invested on behalf of clients or by the percentage of shares held.

We proactively arrange meetings with any companies that we see as ESG laggards. We also undertake reactive engagement as a result of any negative incident involving a company, in order to understand why it may have occurred, the actions the company is taking as a result, and what the current and future investment risks may be.

Our equity research, fixed income research, ESG and data teams frequently work together to identify areas that warrant discussion with companies.

We also welcome companies contacting us about relevant issues. We recognise that many value a dialogue concerning resolutions likely to be tabled at their AGM. Please be aware that because of the concentration of AGMs, early engagement is recommended, especially when issues are likely to be contentious, or involve a significant amount of change or new practice.

As an active fund manager we are generally reluctant to be in receipt of price sensitive information from companies or their advisers. Receiving such information places us 'inside' and therefore puts us in a position where we are unable to trade shares in the stock(s) concerned. We make companies aware of our position to ensure we do not inadvertently receive sensitive information without our prior agreement. We may agree to be made an insider, typically for only a short period of time.

We record all of our stewardship activities in our proprietary research database to facilitate the monitoring of companies in which we are invested. This database is available to all of our investors globally. To ensure effective monitoring, we define expected timeframes for milestones and goals, track progress against these, and revise them as necessary. We review the company's progress against all engagement requests a year after they have been made, and subsequently on an ongoing basis, recognising that key strategic changes will take time to be implemented into a company's business process. We acknowledge that success factors may be subjective, and that Schroders' influence may not have been the sole driving force for this change. However, we believe it is important to measure the outcomes of our engagement on a systematic basis.

Each quarter we produce a public Sustainable Investment report which highlights our engagement and voting activities over the period. The engagement section includes detailed case studies as well as the total number of engagements, the companies engaged with broken down by region, type and sector, and progress achieved.

This annual report should be read in conjunction with these quarterly reports to get a full impression of the scope of our activities. We have augmented this disclosure with the Stewardship Study that you will find earlier in this document as well as the case studies on our plastics work.

We believe transparency is an important feature of effective stewardship. We are cognisant however, that some disclosures may be counterproductive. Details are only reported on after engagements have come to a close or there has been substantial progress.

Principle 10: Collaboration

There may be occasions when it is more effective to work with other institutional shareholders to influence company management and effect positive change. For example, where our discussions with management have failed to achieve the desired outcome or where we own a very small percentage of the company.

We review collaborative engagements on a case-by-case basis to ensure that the objectives of such engagements are aligned with our ESG policy. All of the collaborative engagements are subject to our recording and monitoring processes.

Schroders works with other institutional investors, either bilaterally or through various industry forums. Our collective engagement may involve meeting companies jointly with other shareholders, via membership organisations or other more informal groupings.

Any institutional shareholders who have not yet spoken with Schroders about stewardship of investee companies are encouraged, in the first instance, to contact Jessica Ground, our Global Head of Stewardship.

We are a member of a number of industry organisations that allow for collaborative engagement, In addition to the organisations mentioned in the answer on Principle 4 these include:

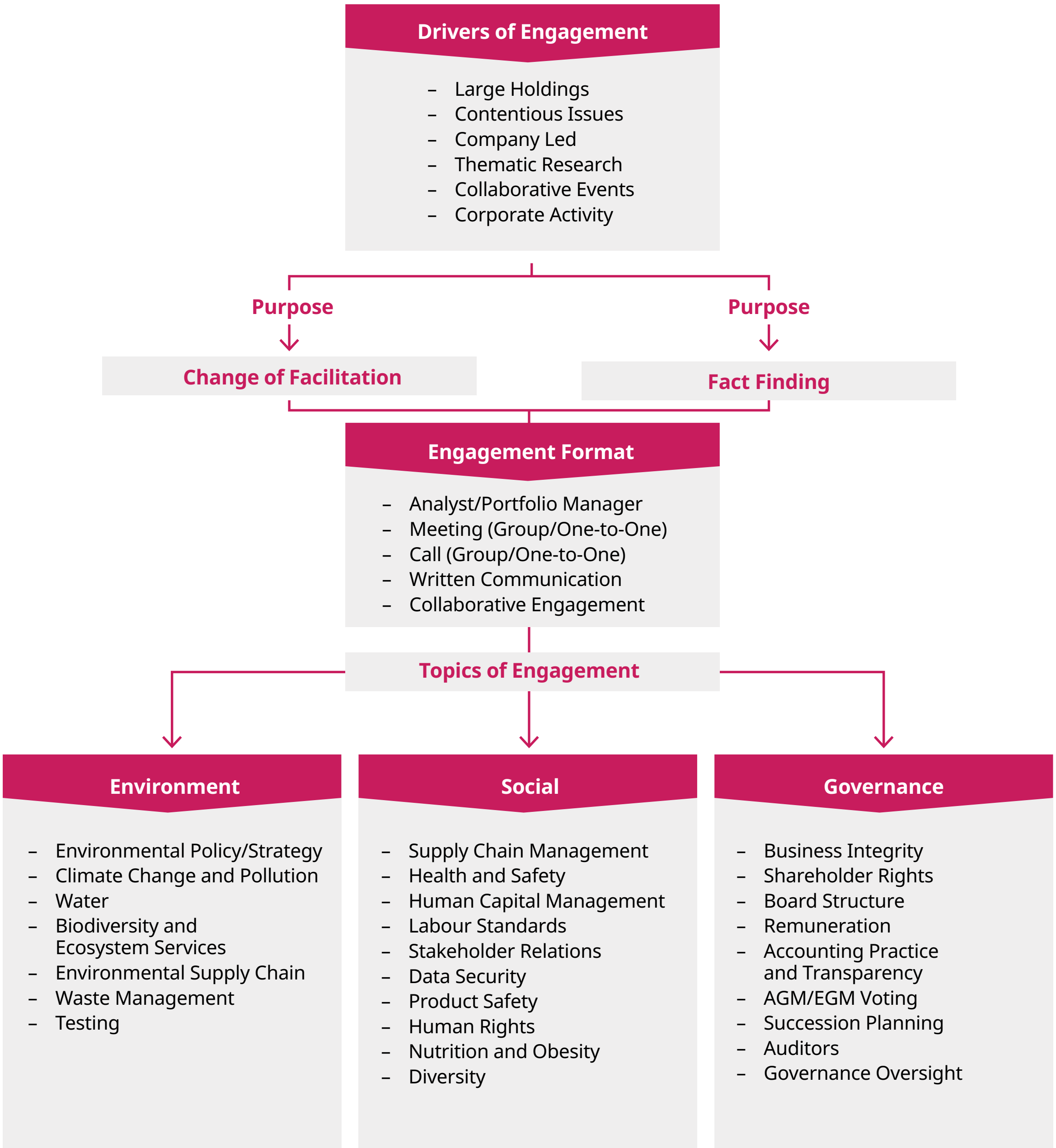
- Investor Forum (IF)
- Asian Corporate Governance Association (ACGA)
- Eumedion
- Assogestioni

We may also join collaborative engagements launched by the industry or co-ordinated by NGOs where we feel confident about the materiality of their concerns and their methods of engagement. In 2019 we participated with:

- Carbon Disclosure Project
- Climate Action 100
- Transition Pathway Initiative
- Workforce Disclosure Initiative
- Powering Past Coal Alliance
- The Business Benchmark on Farm Animal Welfare
- Living Wage Foundation

Principle 11: Escalation

Our engagement activity is summarised in the following chart and we detail our escalation process below.



Source: Schroders

We operate a joined-up approach to engagement with fund managers, financial analysts and ESG specialists participating in engagements and exchanging views. Engagements may be firm-wide or collaborative, depending on what we view as the most effective solution given individual circumstances. All of our engagement is tracked on our in-house database and reviewed by our Sustainable Investment team to determine the efficacy of our activities.

We ordinarily hope to address our concerns through the regular meetings our analysts, investors and ESG specialists hold with company management. However, there may be instances where a company does not respond constructively, our concerns have not been sufficiently addressed or we do not feel confident that the company intends to address these concerns. Under these circumstances, we may decide to extend our engagement activity and/or escalate specific areas of concern in order to effect the change we are seeking.

Intervention will generally begin with a process of holding additional meetings with company management to enhance our understanding of their stance and help the company to understand our position. Should this initial step fail, we may consider further escalation by:

- Meeting or otherwise communicating with non-executive directors or the chairman
- Expressing our concerns via company advisers or brokers
- Withholding support or voting against management
- Collaborative intervention with other institutional investors
- Submitting resolutions at general meetings
- Requisitioning extraordinary general meetings
- Divestment of shares

We prefer to engage confidentially with company management to discuss issues and concerns, as we believe this is the most constructive and effective approach. However, if we feel that we are not being heard, we may express these concerns publicly.

Where we plan to vote against the management of a company we have been in dialogue with, we will ensure management is made aware of our concerns and our voting intention prior to casting our vote.

For all companies where we have voted against a management recommendation we inform them of our decision, the reason behind it and invite future dialogue.

Principle 12: Exercising rights and responsibilities

Voting processes

As active investors, we recognise our responsibility to make considered use of voting rights. It is therefore our policy to vote all shares at all meetings globally, except where there are onerous restrictions – for example, shareblocking. We do not lend stock.

We utilise the services of the proxy voting agency Institutional Shareholder Services (ISS) to advise and deliver our proxy votes to the companies we invest. All proxy vote instructions in all markets are submitted using the ISS global voting platform. ISS carry out the individual processing of vote instructions with the custodians and/or company/company agents. For certain holdings of less than 0.5% of share capital in the US, Australia, New Zealand, Japan, and Hong Kong we have implemented a custom policy that reflects the views of our ESG policy and is administered by our proxy voting provider. We vote on both shareholder and management resolutions. We may attend annual or extraordinary general meetings to submit our votes in person.

Voting policy

The overriding principle governing our approach to voting is to act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we are not afraid to vote against resolutions.

Our corporate governance specialists assess each proposal, applying our voting policy as outlined in our ESG Policy to each agenda item. We have detailed internal guidance that outlines how these principles are applied on a country by country basis, which has been developed with and agreed by fund managers. In applying the policy we consider a range of factors, including the circumstances of each company, the progress of any engagements, local regulatory requirements and corporate governance codes. We continue to review our voting practices and policies to ensure that we are raising the bar on good governance practice.

Any company which in our opinion meets the spirit of the UK Corporate Governance Code should, in the absence of other factors, expect to be supported on corporate governance issues covered by the Code. Where a company does not comply with the spirit of the Code, we will consider the company's explanation and circumstances, and then react accordingly in the manner we deem most appropriate. If the company provides a convincing justification and/or the issue is not material to the value of its shares, we would ordinarily expect to support the company. Where we are not satisfied with the explanation and we view the departure from the Code as material, we will engage further with the company and may vote against management.

Use of proxy research

We receive research from both ISS and the Investment Association’s Institutional Voting Information Services (IVIS) for upcoming general meetings; however, this is only one component that feeds into our voting decisions. In addition to relying on our policies we will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts.

It is important to stress that our own research is also integral to our final voting decision; this will be conducted by both our financial and ESG analysts.

Why do we vote against company management and why is this significant?

We will oppose management if we believe that doing so is in the best interests of shareholders and our clients. For example, if we believe a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company’s long-term performance and creation of shareholder value. Such votes against will typically follow an engagement and we will inform the company of our intention to vote against before the meeting, along with our rationale. Where there have been ongoing and significant areas of concerns with a company’s performance we may vote against individuals on the board.

However, as active fund managers we usually look to support the management of the companies that we invest in. Where we do not do this, we classify the vote as significant and will disclose the reason behind this to the company and the public.

Why might we abstain?

Our preference is to support or oppose management and only use an abstention sparingly. We may abstain where mitigating circumstances apply, for example where a company has taken some steps to address issues.

Disclosure of our voting activity

It is our policy to disclose our voting activity publicly. On a monthly basis, we produce our voting report which details how votes were cast, including votes against management and abstentions. We classify the latter as being significant so also publish the rationale behind these decisions. The reports are available on our website: http://www.schroders.com/sustainability.

We release publicly a quarterly Sustainable Investment Report which highlights our engagement and voting activities over the period. The voting section summarises our voting activities, including the number of companies we voted, the percentage of our holdings voted, votes per region, the direction of our votes and main reasons for our votes against. These are available on our website: https://www.schroders.com/en/about-us/corporate-responsibility/sustainability/interpret/

Client oversight and influence of voting

Institutional clients receive a tailored report which includes their personal voting activity and detailed information on the progress of company engagements that are ongoing. Given our focus on ESG integration and stewardship that aims to enhance returns, we believe it is appropriate for clients to give voting discretion to Schroders. We welcome a dialogue with our clients on voting policy and its application. Clients may elect to retain all or some discretion in relation to voting, engagement and/or corporate governance issues. In these cases we suggest such clients use an external voting service to vote their interests.

Redefining engagement: Measuring more than company meetings

As expectations rise for asset owners to demonstrate their active ownership we wanted to take a fresh look at our approach to engagement.

Like many of our peers, meeting the corporates we invest in to question them on their sustainability practices and hold them to account has been a fundamental part of our ESG strategy since the beginning, with our own engagement records dating back almost two decades. Since the global financial crisis pressure has been mounting for investors to respond to the criticism of being absent landlords and show they're active owners. This means demonstrating that they are holding companies to account for poor governance practices, aggressive sales practices, human rights risks along supply chains and failure to act on climate risk. Today, with expectations of the industry's stakeholders at a new high we stand at a cross roads; do we carry on business as usual and increase the volume of engagements or do we have the opportunity to re-assess our engagement approach and effectiveness?

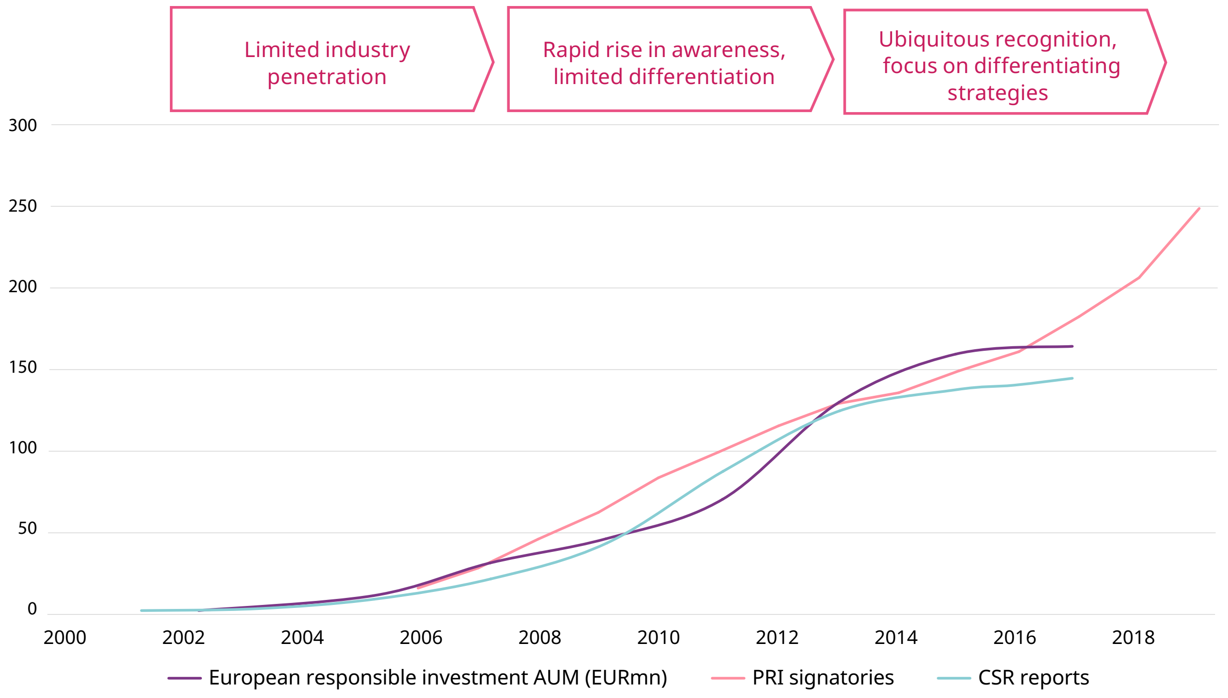
Purpose

Going back to basics, the purpose of engagement is gain insight into a company's approach to its stakeholder relationships, whether these are with employees and customers, the environment or the governance structure that oversees these relationships. This is done by questioning and challenging the company on issues relating to the longer term sustainability of the company's business model. This is not just a company meeting, but an engagement as it signals an investors desire for more disclosure on sustainability topics. As illustrated by the graph below, investors should be able to claim some success in the dramatic increase in corporate transparency, alongside the pressure from regulators, non-governmental organisations (NGOs) and customers.

The second, more powerful aim of engagement is to directly influence company change to reduce risk, help identify opportunities and generate stakeholder value. This can be achieved either through voting activity or a face to face meeting with management requesting measureable, tangible change to a particular business practice, whether it be increasing board diversity above 30% or phasing out the use of virgin plastics in packaging over the next three years.

Figure 10: Corporate engagement and transparency

Indexed, 2008 to 2018 average = 100



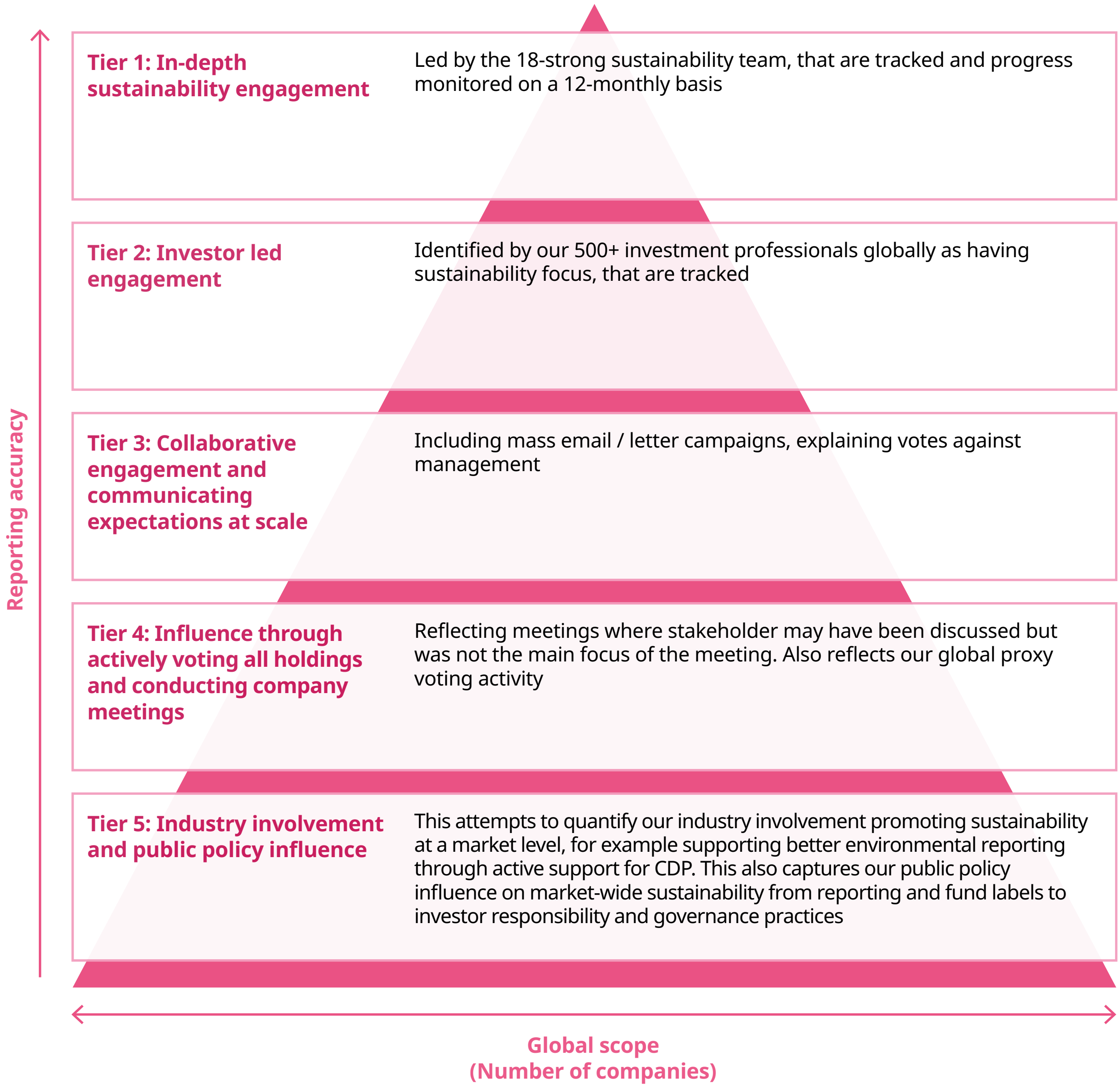
Source: MSCI, Thomson Reuters, Sustainalytics

Quantifying our influence

If we think about engagement in terms of pushing the agenda on sustainability, whether its increasing transparency in company reporting or making a tangible change in the business, then we need to look more broadly at how we influence the companies we invest in. As a result, we plan to report on our full sphere of influence in 2020. We want to move away from just reporting numbers on engagements undertaken by our dedicated sustainability team, to also capturing how our integrated approach to sustainability is a powerful force in influencing investee companies. Furthermore, as we make progress against our goal to integrate sustainability across all our investment desks by the end of 2020, we think it's important to capture the ESG-focused meetings led by these investors, without direct support from the sustainability team. We also need to reflect the influencing power of our voice through proxy voting and acknowledge how our involvement in industry bodies and public policy work also push the sustainability agenda at a market level. These efforts help to shape industry best practice, new governance norms and reporting practices. To acknowledge all these tools we have, and the scope of our influence, we will start to report our engagements through a tiered structure.

We believe this approach provides a fuller picture of our engagement efforts in keeping with the level of integration we have achieved across Schroders to date. Our approach will continue to evolve as we deepen our integration across further investment desks and our thinking on measuring engagement impact develops.

Figure 11: Schroders' new engagement tiers



Stewardship

Engagement

Engagement approach

As an active manager, company engagement happens on a daily basis across Schroders. In 2019, our equity and fixed income teams held over 8,500 meetings with companies, often together in a collaborative effort. While these meetings tend to focus primarily on financial performance, we have seen an increasing focus on ESG topics. We track ESG conversations across some of these meetings, and are currently developing tools to better capture the data across Schroders.

In addition, our ESG team undertook over 1,750 specialist ESG engagements with companies in 2019, interacting with a total of over 1,420 companies across 57 countries. Figure 12 below demonstrates the global outreach of our engagement.

Why do we engage?

The aim of our engagement is threefold:

1. To encourage companies to adopt longer-term approaches to their stakeholder relationships;
2. To improve investment insights on emerging risks and opportunities; and
3. To generate better returns.

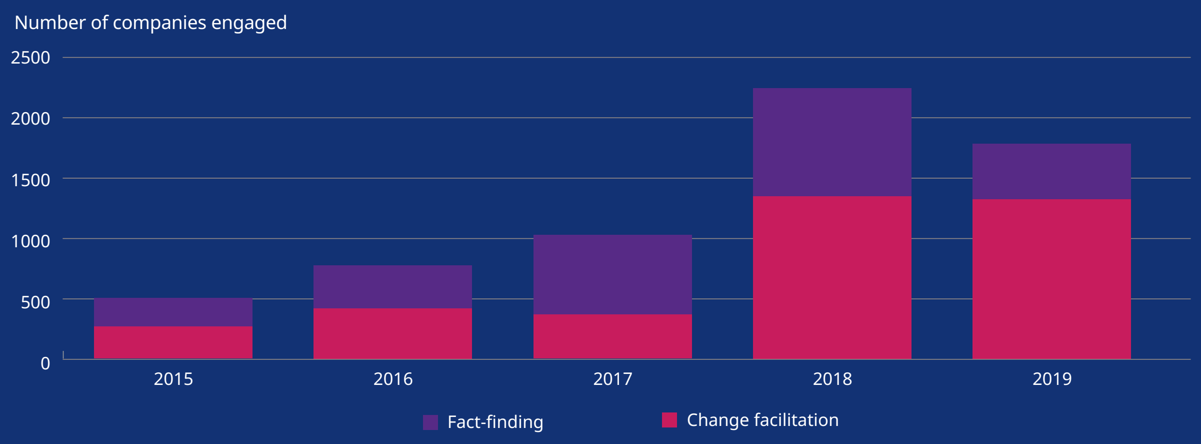
We divide our engagement into two categories: fact finding and change facilitation. Figure 13 below shows how this has been split over the past five years.

Figure 12: Company engagement by region

Europe ex UK	29%
Asia Pacific	34%
UK	17%
North America	13%
Latin America	5%
Middle East & Africa	2%

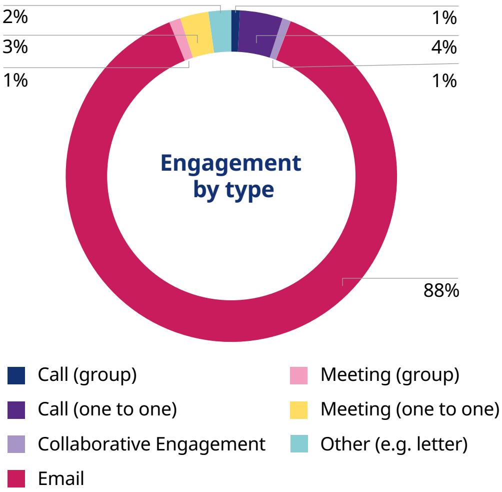
Source: Schroders as at 31 December 2019

Figure 13: Reasons for ESG engagement over the past five years



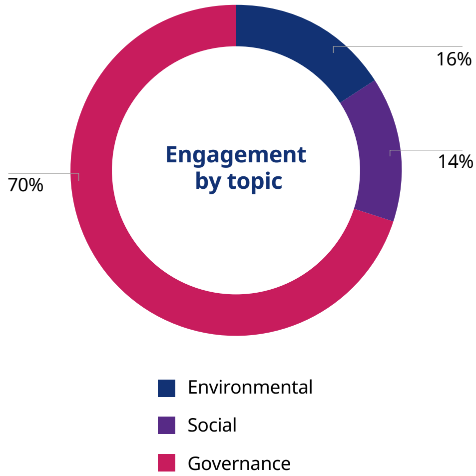
Source: Schroders as at 31 December 2019

Figure 14: Company engagement by type in 2019



Source: Schroders as at 31 December 2019

Figure 15: Company engagement by topic in 2019



Source: Schroders as at 31 December 2019

How do we engage?

Our mechanism for engagement with company representatives varies but typically involves one of the following methods:

- One-to-one meetings with company representatives
  - E.g. members of the board, senior executives, investor relations, specialist managers such as sustainability or environmental managers
  - These meetings are either undertaken collaboratively with our financial analysts and investors, or are focused ESG engagements undertaken by our ESG specialists;
- Written correspondence or phone calls;
- Discussions with company advisers and stakeholders;
- Joint engagement with other investors (further information on our collaborative approach can be found on p27).

Figure 14 illustrates the split of company engagement meetings by type during 2019.

How do we prioritise engagement?

Our engagement activities are prioritised based on several factors:

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

Our equity research, fixed income research, ESG and data teams frequently work together to identify areas that warrant discussion with companies. Engagement can be proactive or reactive.

What issues do we engage on?

Our engagement activity covers numerous companies, sectors and regions across a range of issues. Figure 15 breaks down our engagements by overall topic and Figure 16 provides an indicative list of the specific issues we engaged on during 2019, with the top ten issues in pink. During the year, we focused on a number of topics. We engaged with a large number of companies on issues highlighted in the multi-region, multi-sector thematic research produced by our Sustainable Investment analysts. Topics such as gender diversity in the workforce, modern slavery, single use plastics, and thermal coal (among other climate change issues) featured heavily in our 2019 engagement activity. We also identified key governance issues such as excessive executive remuneration and engaged with all the holdings where the issues where applicable. The appendix on page 59 provides a full list of the companies we engaged with in 2019.

Figure 16: Indicative list of ESG topics engaged during 2019

Environmental	Social	Governance
Biodiversity	Customers	Accounting practices
Climate change	**Data security**	Auditors
Environmental policy / strategy	Health and safety	Board committees
Environmental products and services	**Human capital management**	**Board structure**
Environmental supply chain	Human rights	Business integrity
Forests	Labour standards	**Corporate strategy**
Pollution	Nutrition and obesity	ESG governance and sustainability strategy
Waste management	Product safety	**Governance oversight**
Water	Social policy / strategy	**Remuneration**
	Supply chain management	**Shareholder rights**
		Succession planning
		Transparency and disclosure
		Voting

Source: Schroders as at 31 December 2019

What are the outcomes of our engagement?

We log all instances where we have requested change at companies on ESG-specific issues. We review company progress on an annual basis (Figure 17). We categorise progress in five ways:

1. Achieved
2. Almost
3. Some change
4. No change;
5. No further change required.[5]

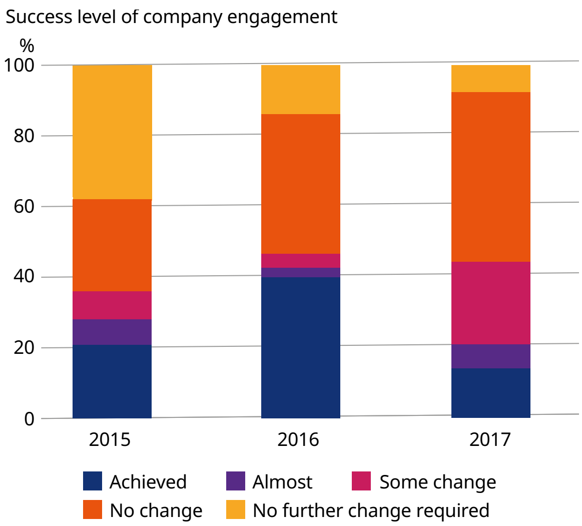
We recognise that these success factors may be subjective, and that Schroders' influence may not have been the sole driving force for this change. However, we believe it is important to track companies' progress and measure the outcomes of our engagement.

We review requests for change a year after they have been made, and subsequently on an ongoing basis, recognising that key strategic changes will take time to implement into a company's business process.

We realise that effective engagement requires continuous monitoring and ongoing dialogue.

The chart below shows the effectiveness of our engagement over a three-year period. In our experience it takes an average of two to three years for companies to effect the change requested. It is for this reason that data from the most recent two years are omitted.

Figure 17: Effectiveness of requests for change (by company engaged)



Source: Schroders as at 31 December 2019.

5 This category is used if, for example, a company has divested the business in question, or if the company has provided a valid reason for not implementing the change requested

Stewardship

Proxy voting

Why do we vote?

As stewards of our clients' capital, we believe that making full use of our voting rights is part of our fiduciary duty. It is about holding management and boards to account to ensure that they are managing the business for the long term. In order to create, sustain and protect the value of our investments, we encourage companies to follow corporate governance best practice. Put simply, as equity holders we have a responsibility to act like owners of companies.

Engagement with companies is also a critical part of our process. We ensure that there is an ongoing dialogue, and form long-term relationships that reflect an in-depth understanding of companies. Corporate governance best practice is an evolving area and we want to encourage rather than mandate improvements. We take a proactive approach in engaging with our significant holdings to convey our reasoning and policies prior to voting at general meetings.

It is our policy to vote on all resolutions at all AGMs/EGMs (extraordinary general meeting) globally except where there are restrictions that make it onerous or expensive to vote compared with the benefits of doing so. For example, shareblocking practice whereby restrictions are placed on the trading of shares which are to be voted upon.

Further information on our voting policy and monthly disclosure of our global voting can be found on our website. This includes a short reasoning behind situations where we have voted against management, which we hope provides helpful clarity.

In 2019, we voted on approximately 99% of total resolutions, and instructed a vote against management at 47% of meetings. In total, we voted on over 5,870 meetings.

Where do we vote?

As a global investor, Schroders votes across all regions in which we invest. The majority of voting is conducted from our London office; however our offices in Australia, Japan, Taiwan and Indonesia make their own voting decisions. We try to ensure a consistent house view is given to companies, but in order to maintain the necessary flexibility to meet client needs, these local offices may determine a voting policy regarding the securities for which they are responsible. Japan and Australia have their own voting policy, both of which are publically available. Figure 19 represents our regional voting activity in 2019.

We submit electronic votes for all meetings, however, on occasion we may attend annual or extraordinary meetings to submit our vote in person.

What issues do we vote on?

Schroders will engage and vote on any issue affecting the long-term sustainable value of a company in which we are invested. To the right, Figure 20 shows the resolution breakdown of topics that we vote on. The majority are targeted around issues required by local stock exchange listing requirements (e.g. director elections, acceptance of reports and the allocation of income, approval of remuneration policies and reports). We also actively engage and vote on shareholder resolutions and have dedicated Sustainable Investment analysts who use their sector specific knowledge to make these voting decisions.

Why do we vote against company management?

As long-term, active investors we hope to support management on all resolutions, but our pragmatic approach means that we will oppose management if we believe that it is in the best interests of our clients to do so.

For example, we will vote against management if we believe a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company's long-term performance and creation of shareholder value. Such votes against will typically follow an engagement and we will inform management of our intention to vote against them before the meeting, along with our rationale.

In recent years we have been increasingly voting against individual directors. For example where we have had ongoing concerns about remuneration we may vote against the chair or other members of the remuneration committee. Also, where there have been ongoing and significant areas of concerns with a company's performance we have chosen to vote against individuals on the board who have served long tenures. We still support the principle of collective board responsibility, but believe that there should also be some individual accountability.

Reflecting the growing number of environmental and shareholder resolutions, in 2019 we introduced new policies to address such issues. For example, we will generally vote against directors at companies where we feel that climate change is a major risk and the boards cannot demonstrate publicly that they are preparing sufficiently for it. Where we consider companies' business practices may be unsustainable we regularly engage with management teams to better understand their plans, and to promote more responsible behaviour, and if we believe the action taken is not appropriate will vote against individual directors. We invite you to read the new additions to our ESG policy.

Figure 18: Voting Activity 2015-2019

Year	Meetings	Resolutions	% of resolutions voted with management	% of resolutions + abstentions against management
2019	5,876	61,156	87%	13%
2018	5,227	56,510	86%	14%
2017	5,378	62,058	82%	18%
2016	5,168	61,114	84%	16%
2015	5,151	57,942	85%	15%

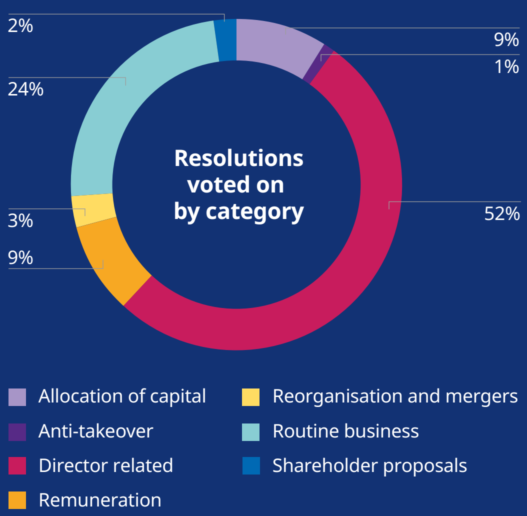
Source: Schroders as at 31 December 2019

Figure 19: Global voting

Europe (ex-UK)	26%
Asia Pacific	31%
UK	15%
North America	21%
Latin America	4%
Middle East and Africa	3%

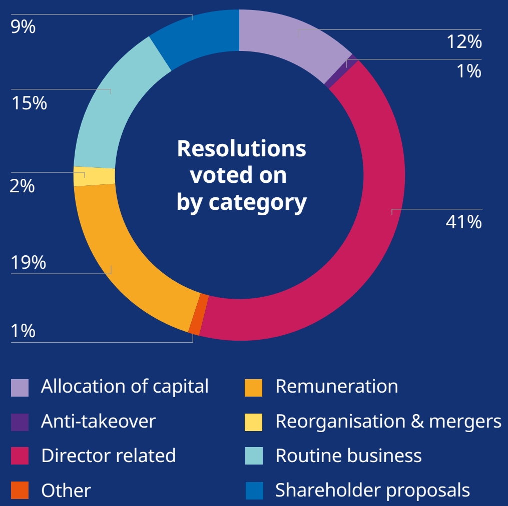
Source: Schroders as at 31 December 2019

Figure 20: 2019 breakdown of resolutions voted on by category



Source: Schroders as at 31 December 2019

Figure 21: Reason for "against" votes 2019



Source: Schroders as at 31 December 2019

Sustainability insights

Better investment insights come from creative and innovative research. At Schroders, we strive to be at the very forefront of thinking on existing and emerging sustainability topics. Our thematic research aims to enhance our understanding of the material ESG risks and opportunities that may impact a company's valuation and risk profile.

To fully understand a company's potential you need to look beyond the annual report. Analysis of how companies deal with all their stakeholders – such as customers, clients, and employees - are all vital clues to a company's long-term ability to grow and deliver consistent returns.

Schroders' Sustainable Investment team produces insightful multi-sector and multi-region research on a range of ESG issues. During 2019, we examined topics such as:

- Sugar
- Cannabis
- Renewable energy
- Sustainable protein
- Fast fashion
- Corporate Governance

We also publish papers to help educate clients and the broader public. During 2019, we published the following papers:

- 50 terms every sustainable investor should understand
- Multi-asset investments: managing sustainability from a total portfolio perspective
- Divestment: does it drive real change?
- The alignment of Shariah and sustainable investing

In the following section we highlight climate change, plastics and our proprietary sustainability investment tool for municipal bonds.

Sustainability insights

Climate Progress Dashboard : one step forward, two steps back

Author: Andrew Howard, Head of Sustainable Research

The disconnect between pedestrian political action on climate change and mounting evidence of the urgency of the challenge became starker during the closing months of 2019. The 25th Conference of Parties – the key annual event on the political climate timetable – passed without making significant progress.

On the other hand, warnings of the tangible effects of climate change are ringing around us. Greenland's ice sheet is melting much faster than expected, one-quarter of the world's population is at risk from water supply disruptions as mountain glaciers run down[6] and the devastation of Australia's bushfires is clear.[7]

The slight uptick in long run temperature rises implied by our Climate Progress Dashboard analysis reflects a similar stagnation in progress. That implied increase stands at 3.9 degrees, up from 3.8 degrees last quarter.

The Climate Progress Dashboard provides a bird's eye view of the speed and scale of climate action across the spectrum of areas that will drive decarbonisation. Schroders created the dashboard to provide our analysts, fund managers and clients with an objective measure of the pace of climate action, helping them to navigate a challenge that will have a dramatic impact on financial markets, but which is too often dominated by sound bites, emotion and rhetoric.

Figure 22: Climate progress dashboard

3.9°

Aggregate implied temperature rise

Aspiration → Action

Political change	Business and finance	Technology solution	Entrenched industry
Political ambition 2.8°	Corporate planning 3.4°	Electric vehicles 3.1°	Oil & gas investment 4.5°
Public concern 3.3°	Climate finance 5.5°	Renewable capacity 2.5°	Fossil fuel reserves 4.9°
Political action 3.0°	Carbon prices 3.3°	CCS capacity[8] 4.9°	Fossil fuel production 5.9°

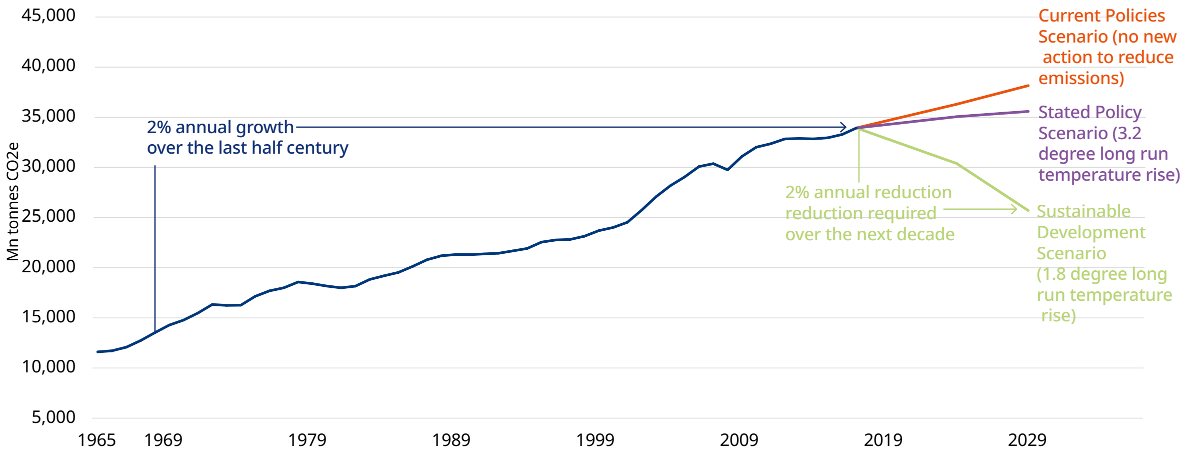
Temperatures are measured in degrees celsius. Source: Schroders 31 December 2019.

6 Cogley, J. The future of Asia's glaciers, Nature Research Journal, September 2017 https://www.nature.com/articles/549166a

7 The Climate Progress Dashboard assesses the long run temperature rise implied by comparing action across a range of emissions mitigation indicators to the levels required to limit long-term temperature rises to selected levels. The analysis focuses on relatively short-term measures of action and the long-term (2100) temperature rises implied, compared to a pre-industrial baseline.

8 Carbon capture & storage (CCS)

Figure 23: Global carbon emissions need to turn a corner



Source: BP Statistical Review, IEA, Schroders calculations.

A lot more political, social and corporate disruption lies ahead to bring greenhouse gas emissions down to levels consistent with the commitments global leaders made in Paris in 2015. Global carbon emissions have risen in 27 of the last 30 years, at an average rate of 1.6% annually. Limiting temperature rises to under 2 degrees Celsius from industrial levels requires cuts in annual emissions averaging 2% annually over the next decade.

When we reach that apex is debatable. We created the Climate Progress Dashboard to avoid having to make forecasts for the timing of policy action, social change or corporate action, emphasising tracking changes rather than hanging our analysis on fixed but probably flawed forecasts.

Looking forward, however, the prospect of larger steps forward during 2020 looks strong to us. The 26th Conference of Parties will take place in Glasgow toward the end of this year. Coming five years after the Paris Agreement was struck, it will provide an opportunity for countries to strengthen their commitments, as well as putting a spotlight on their individual or collective failure to do so. With a number of major economies, including the EU, UK and Japan, already considering or making carbon neutral commitments, policy measures could ratchet up quickly.

Bigger steps backward than forward in the last quarter

Since launching the Climate Progress Dashboard in mid-2017, the gains have generally exceeded the losses through a combination of forward and backward steps each quarter, pushing the long run temperature trajectory down from 4.2 degrees in that first assessment. Last quarter though, the headwinds overran the tailwinds.

The biggest step back resulted from the disappointing level of investment in clean energy reported in the most recent study by the UN Environment Programme and Bloomberg New Energy Finance. The study found a 12% drop in global investment in renewable energy capacity in 2018, leaving annual spending at its lowest level since 2014[9]. This data point compounds growing evidence of under-investment in climate solutions in recent years.

Slower growth in electric car sales also pushed the implied temperature rise upward, albeit to a lesser extent. Global sales grew by under 20% in 2019[10], down from the two-thirds rise in sales in the previous year. The setback was linked to cuts in Chinese subsidies for electric cars, as policymakers there seek to push the country's increasingly fragmented industry to consolidate around its strongest players.

On the positive side, major economies' governments made some moves to close the gap between their national targets or current policies and the commitments they made under the Paris Accord. Analysis from Climate Action Tracker shows a slight strengthening of both policies and targets over the last quarter, mirroring the growing number of countries committed to fully decarbonising their economies over coming decades.

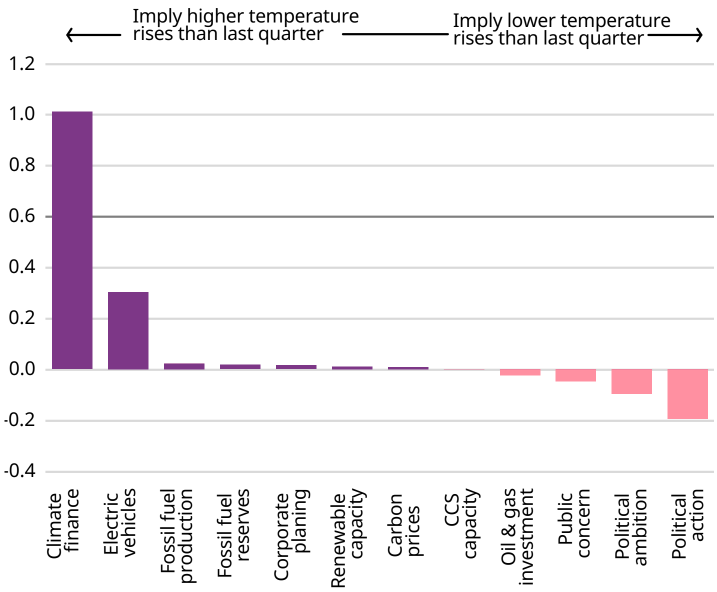
9 Global trends in renewable energy investment 2019, United Nations Environment Programme and BloombergNEF
10 Source: EVSales, EVObsession

Summary of changes

The chart below plots the changes in each indicator relative to the last update (Q3 2019).

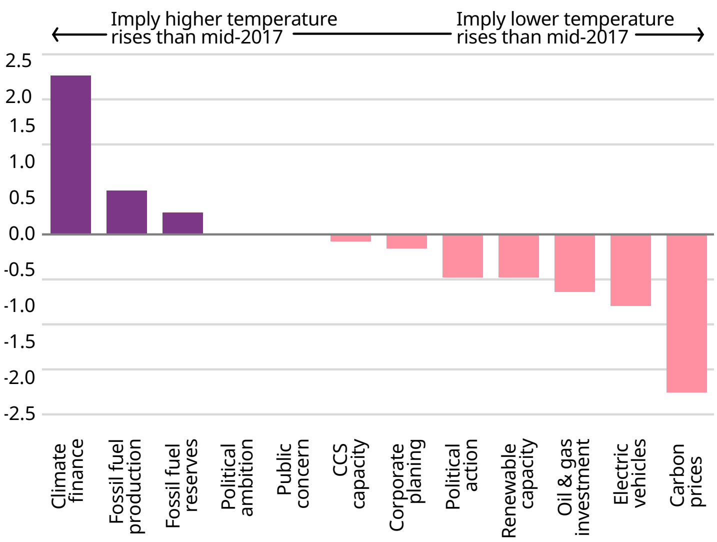
The second chart below plots changes in each indicator since we launched the Climate Progress Dashboard in mid-2017.

Figure 24: Changes in temperature implied by each measure relative to last quarter, °C



Source: Schroders calculations using inputs from various sources. Please see https://www.schroders.com/en/uk/tp/markets2/markets/climate-progress-dashboard-marking-progress-one-year-on/?utm_source=ExactTarget&utm_medium=Email&utm_campaign=Article_Publish_Global_Market for more details. Data updated as of start-January 2020

Figure 25: Changes in temperature implied by each measure since inception (mid-2017), °C



Source: Schroders calculations using inputs from various sources. Please see https://www.schroders.com/en/uk/tp/markets2/markets/climate-progress-dashboard-marking-progress-one-year-on/?utm_source=ExactTarget&utm_medium=Email&utm_campaign=Article_Publish_Global_Market for more details. Data updated as of start-January 2020

Conclusion

The last quarter marks the second time the Climate Progress Dashboard has pointed to a higher long run temperature than the quarter before. We have made the point before that much more urgency is needed to meet the commitments leaders made in Paris in 2015, and that remains truer than ever. Nonetheless, while the headlines are disappointing, we believe there are signs of gathering momentum. The economics of clean energy and electric cars – which together represent over one-third of global carbon emissions – have improved to the point that their growth will continue without policy support. Social pressure on governments continues to grow; the Extinction Rebellion effect shows no signs of passing. Governments are beginning to respond, and with the key COP26 climate conference ahead at the end of 2020, significant steps in policy are possible.

Is Bill Gates right about the "zero" climate impact of fossil fuel divestment?

Author: Belinda Gan, Investment Director - Global Sustainability

Billionaire Bill Gates claims selling shares of fossil fuel companies is ineffective in the fight against climate change and has had "zero" effect on emissions. We think he has a point.

Billionaire Bill Gates, known for his many philanthropic initiatives, is becoming increasingly vocal on climate change. He's made it clear that he believes fossil fuel divestment – selling share of fossil fuel companies – is ineffective in the fight against global warming. This is an area where Schroders has recently undertaken in-depth research.

Our view? There's some truth to it.

Gates is quoted in the Financial Times as having said: "Divestment, to date, probably has reduced about zero tonnes of emissions".

In reality, the picture is far more complex than a simple link between divestment and carbon emissions. Yes, we agree that divestment is not necessarily the best way to promote positive change. We believe that investors looking to influence fossil fuel companies' operations can be more effective through other means. We propose a new model to drive change that centres on tactical engagement and which restricts the supply of new capital to the industry.

Has divestment worked?

Fossil fuel divestment campaigners believe that divesting will starve companies of capital. Since its genesis on a handful of US college campuses in 2011, the fossil fuel divestment movement has continued to spread globally, and now includes pension funds, foundations, cities and municipalities. Research by Oxford University suggests that it has become the fastest growing divestment campaign in history. While campaigners have done a great job of raising public awareness and stigmatising companies, divestment itself has not had the desired impact on companies' operations or viability.

According to Gates: "It's not like [divestment has] capital-starved [the] people making steel and gasoline" and we agree: our research shows that attempts to remove capital sources have had a limited effect.

Take the stock market. The nature of the market means that when you divest, you sell your fossil fuel shares to a willing buyer. In this way, equity divestment doesn't actually impact the operations of those companies, especially if there are profit-seeking investors who are willing to buy them.

Focusing on debt can have a greater impact operationally. Companies rely on bonds and bank loans to fund their exploration, development and production activities, or to refinance existing debt. The debt funding for the industry dwarfs any new capital provided by shareholders.

Some banks have ceased or have committed to cease financing for fossil fuel projects and companies but other banks have been more than willing to step in; similarly, investors are still willing to lend. The numbers say it all: the amount of debt financing provided to the oil and gas sector between 2010 and 2018 is estimated at more than $5 trillion, according to research by technology and content provider Dealogic.

Clearly, divestment campaigns have had little to no impact on companies' operations or ability to raise financing.

If divestment doesn't work, what can be done?

If divestment strategies have limited impact on effecting real change, what other options are available to investors?

Engage with companies

Investors should be holding companies to account by actively engaging with them to influence their behaviour rather than washing their hands of the situation. This approach requires patience - it can take years for a company to transition its business model to one that is less carbon-intensive. And of course asset owners can have even greater impact by engaging with companies collectively.

File shareholder resolutions and vote against management

If engagement on a more informal basis fails to have the desired effect, shareholders can take more formal action. And they're already doing it. The number of shareholder resolutions related to climate change has risen significantly in recent years. The scope of the resolutions varies, but includes things like reporting annually on carbon emissions and adding a climate change expert to the board. While many of these resolutions are being supported, some of the largest asset owners in the world are voting against them. Having these asset owners on board could make a meaningful difference in getting companies to transition their business models sooner.

Focus on the new supply of capital

To impact the companies' operations and profitability investors can focus their efforts on credit markets, as well as on the banks that supply capital to, and the insurers who underwrite, the industry. We believe this is more likely to move the needle than divestment.

Put pressure on public policymakers

Investors can only do so much; the real power lies with public policy and much more effective public policy is needed. If we are to have a chance of meeting the 2 degree target, we need to see higher carbon prices, incentives to reduce consumer demand for fossil fuels, a phasing out of the sale of petrol and diesel vehicles and an end to the significant subsidies and export finance for the industry as a whole. Taken together, the subsidies and export finance provided to the industry by G20 nations total nearly $138 billion annually between 2013 and 2015. A mere $3 billion of export finance was directed to clean energy projects each year over that same period, according to research by Oil Change International, Friends of the Earth US and WWF.

These are clearly large and important sources of finance for the industry. Redirecting the funds towards clean energy will help countries transition to a lower-carbon world.

There are better ways to protect our planet

Clearly we broadly agree with the gist of Gates' argument: fossil fuel divestment is not the best way to curb global warming. Divestment itself hasn't had a meaningful impact on companies' operations or profitability so far but campaigners have successfully tainted its reputation.

Gates' suggestion that investors rather back technology firms that are working towards a greener world is one option. We believe there are also effective ways to promote change in the fossil fuel industry. Investors should be actively pushing companies to improve their practices through engagement and voting efforts. They can also put financial pressure on operations by restricting the new supply of debt capital. But politicians can have a far greater impact on the industry than individual investors, and so asset owners should also be demanding more on the policy front to ensure economic incentives and environmental goals are more closely aligned.

While none of these are quick fixes, there can be no denying that more action is needed to really and truly protect our planet, and that investors can be more effective in bringing about change.

Sustainability insights

Disruption from climate change is only just beginning for investors

Author: Simon Webber, Portfolio Manager - Global and International Equities

We are just at the beginning of a very long period in which climate change will have a significant, and increasing, effect on markets. New research suggests investors are not ready.

Financial markets remain unprepared for the extent of disruption that climate change will bring, according to a new report. In September, the United Nation's Principles for Responsible Investment (PRI) - a network of investors whose members include 500 global asset managers - released a report concluding markets have not priced in the coming policy response to climate change. More importantly, it concluded that investors should expect a response by 2025 "that will be forceful, abrupt and disorderly because of the delay".

The Schroders Global Climate Change team has long believed that climate change disruption is not factored in by markets. It is generally well perceived that financial markets are fairly good at factoring in short-term, minor changes to company prospects quickly, but bad at factoring in uncertainty, inflection points, and disruption. Climate change represents all of these things.

Uncertainty

How long will it take voters and policy makers to recognise that the long-term consequences of inaction dwarf the costs of a fast transition away from fossil fuels? Will voters sustain support for 2050 net-zero carbon government policies or will they turn away from them in periods of economic stress?

Inflection points

Inflection points are rarely clear at the time. All that is apparent are the early indicators of change. It is often hard to have conviction in a radically different situation to the current one, and comforting to identify reasons why change may be slow. The substitution of renewable energy and electric vehicles for fossil fuel power and mobility is arguably at this inflection point, and it is now possible to see a complete decarbonisation of these industries with available technology. Even so, few investors appreciate the scale of change underway.

Disruption

Markets are very bad at pricing in disruption, as we have written about before. Management teams often fall into the "incumbents' dilemma". That is to say, even if they recognise a threat to their business, they often feel compelled to protect their existing revenue streams. Investors also tend to focus too much on near-term cash flows of a disrupted business, comforting themselves that the shares are 'cheap' relative to current earnings, only to be surprised when things start to decline. Businesses in decline generally do not make for good investments, as it is very costly to restructure a business, the whole process saps workforce morale, and fixed costs usually result in profit disappointments.

Until recently, most of the market attention on climate-disrupted assets has focused on coal. These are the most obvious "stranded assets" as the developed world moves away from coal-fired power. Coal prices have fallen to multi-year lows, every week there is another announcement of early retirements of coal-fired power stations.

At the end of December 2019, Spanish utility company Endesa announced it is closing its two remaining coal-fired generation plants in Spain, likely resulting in a booked loss of most, if not all, of the €1.3 billion value of these assets. However, much less attention has been given to other parts of the economy that will be disrupted by climate change. Property and aerospace are two examples where asset prices might just be at the beginning of factoring in the consequences of climate change.

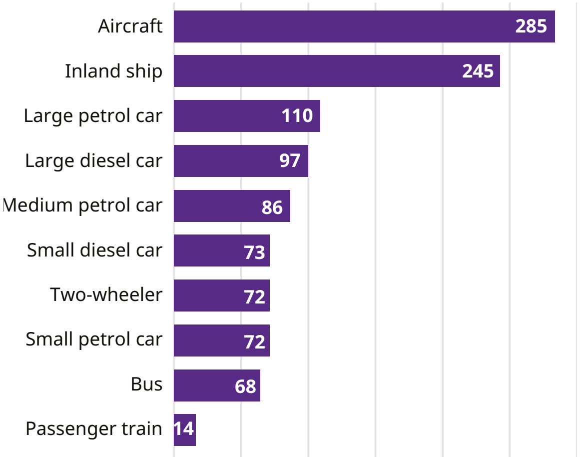
Aerospace

The aerospace industry has had a fantastic run. A record long economic expansion and growth of global tourism have driven very steady growth in the industry. Over the last 10 years, the MSCI World Aerospace and Defence industry produced an annual total return of 13.8%, double the 6.8% annual return on the MSCI World.

The assets in this industry (mainly airports and aircraft) are very long-lived and so future industry conditions are critical to their value. Yet, unlike the automobile industry, the commercial aerospace industry has no commercially viable technological solution to substantially reduce its emissions. Its continued expansion is thus entirely inconsistent with many of the new long-term targets and ambitions being put in place by governments. After decades of declines in the cost of air travel that have promoted its growth, prices will need to be raised to either curtail demand growth, or simply to price in the costs of CO_2 emissions produced by the industry. The CO_2 emissions per passenger kilometre for air travel are very high.

Research from Sanford Bernstein suggests that if the airline industry had to pay the CO_2 costs of its emissions, it would have wiped out 40% of last years' industry profits. In future, as carbon rises further, the burden will grow much bigger.

Figure 26: CO2 emissions (per passenger km)



Source Bernstein Research, September 2019

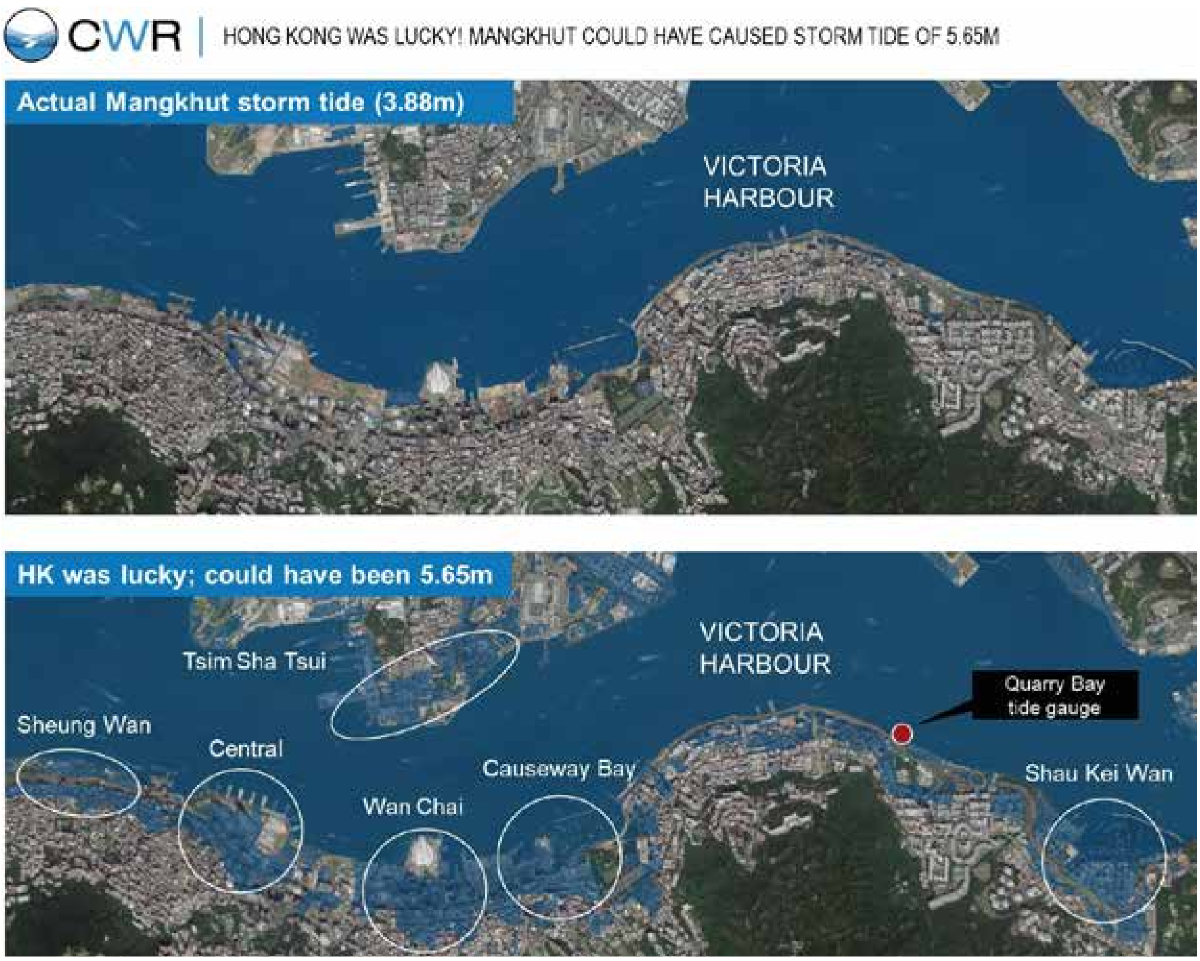
At the same time, video conferencing technology has matured to the point that it can be a substitute for a significant portion of business travel. Business travel is the most profitable part for airlines, and with more and more corporates embracing plans to become net carbon neutral, the use of air travel is in the cross-hairs. The next 10 years does not look as good for this industry as the last.

Physical property asset values

Until recently, the physical effects of climate change have seemed largely theoretical to many people. However, increasing extreme weather events and accelerating sea level rise are raising public awareness to a level where property asset prices are likely to be affected. For example, this month a report by investment group CLSA (Credit Lyonnais Securities Asia) and CWR (China Water Affairs) looked at the vulnerability of Hong Kong to storm surges under rising sea levels. In particular, they looked at the 2018 Super Typhoon Mangkhut, which caused a storm surge of 3.9m in Hong Kong's Victoria Harbour, and Super Typhoon Hato, which reached 5.6m in Macau's Inner Harbour. The research concludes that Hong Kong was lucky.

"Mangkhut could have caused a storm tide of 5. 7m, which would have inundated Central, Hong Kong's financial district. According to our mapping, storm surges could have reached past Des Voeux Road, which would have been extremely costly and disruptive."

Figure 27: Potential storm surge from Super Typhoon Mangkhut



Source: CWR, "New Atlantis", Sept 2019. Based on digital terrain model (5m) from the Lands Department of Hong Kong, Google Maps. Tide gauge location from the HKO website. Infographic from China Water Risk, copyright, all rights reserved.

Turning to another region highly vulnerable to climate change, Schroders' Data Insights Unit and Global Cities Team have recently undertaken an analysis of hurricane trajectories in the Atlantic. The work was part of an ongoing project to integrate climate change risk into models for evaluating urban property values. The image below shows a simulation of 100 years' worth of hurricane paths stacked on top of each other, highlighting the clear vulnerability of Florida and North Carolina to Hurricanes.

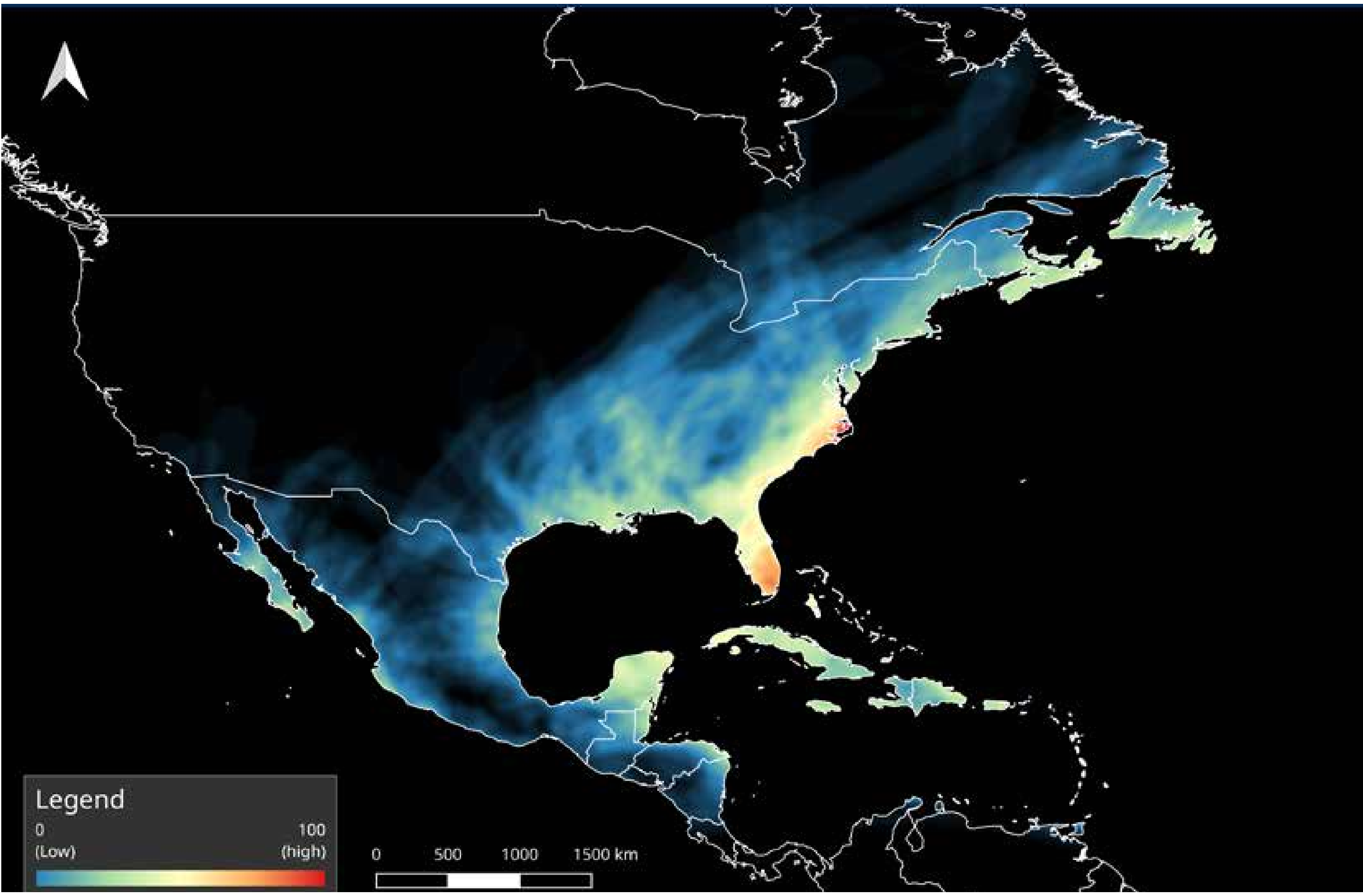
Gillian Tett, in a recent article for the Financial Times[11], has also noted the vulnerability of Florida to increased flooding risk as rising sea levels and more frequent hurricanes increase the frequency and severity of property damage.

The article described the organisational barriers that exist in financial banking institutions to factoring in this information properly. This matters when flooding-related losses are expected to triple in Southern Florida over the coming decades, precisely the timeframe that corresponds to the duration of the typical new US mortgage. While the insurance industry will reprice its premiums relatively rapidly (annually) as flooding incidence and losses rise, homeowners will face rising costs to insure, assets values will come under pressure, and some may even need to be relocated/reconstructed.

Asset values often seem immune to emerging factors until a critical mass of participants recognise the new information and start factoring it into their investment decisions. At that point, there can be quite dramatic impacts on valuation. We are likely just at the beginning of a very long period in which climate change drivers have an increasing and significant effect on asset prices.

11 Gillian Tett, 'Climate change could cause a new mortgage default crisis - FT',

Figure 28: 1919 – 2019 Scaled intensity of tropical storms



Source: Schroders Data Insights Unit

Sustainability insights

The fund industry's wake-up call: how investors want us to act

Author: Jessica Ground, Global Head of Stewardship

Like Greta Thunberg crossing the Atlantic, sustainability has gone global.

But the future of our planet doesn't just dominate news and social media, it is part of our conversations at home, around the water cooler and in the coffee shop. Every flight we take, every meal we order, every item of clothing we buy can tug at our conscience.

For companies, sustainability is no longer a "nice to have", it's an imperative. That's if they want to thrive, attract talent, and relate to customers. Ultimately it's essential to staying profitable in the long term.

So has this tectonic shift moved beyond the reusable coffee cup or ubiquitous water bottle to individuals' finances? When we sought the answers, the results were more conclusive than we could have imagined. They are a call to action for the entire investment industry.

A global and widespread phenomenon

In the 2019 Schroders Global Investor Study, we spoke to 25,000 people with more than €10,000 to invest, from 32 locations around the world. It was one of the largest surveys we've carried out, and across all countries and generations the message was clear. Investors care about sustainability more than ever.

A huge 60% will consider sustainability factors when investing. Two thirds believe their investment choices can make a real difference towards building a more sustainable future.

Perhaps most remarkably, concern isn't concentrated among the younger generation. In fact, it is Generation X – now in their forties and early fifties – who are most likely to be concerned about their investments' sustainability.

In the responses to one of the questions, we found 61% of Gen X will always consider sustainability factors when selecting an investment product, compared with 59% of millennials. Perhaps the parents of Thunberg's generation are absorbing her message, concerned for the future of their own children.

Most importantly, these Gen X investors are squarely in the phase of their lives when they are meant to be accumulating savings. For them to worry about how their portfolios will affect the planet suggests a real shift in attitude – possibly a tipping point for us all.

But how do they want us, the investment industry, to act on their behalf?

We asked investors to rank the four overarching categories of the United Nation's Sustainable Development Goals. Their priorities, by importance, are planet, prosperity, people and peace. The message seems clear - they want fund managers to act on the environment, including the pressing issue of climate change.

There's a growing awareness of how investors want to become sustainable investors. The old world of screening stocks – building a portfolio that leaves out "sin stocks" (stocks in companies involved in activities that are considered unethical, such as alcohol, tobacco, gambling, adult entertainment or weapons) – is the least popular choice with only 21% of investors favouring it. Investors now prefer more proactive approaches: investing in companies because they are best-in-class on environmental or social issues (40%); or investing in companies that are ahead of the curve in preparing for such changes and are therefore likely to be more profitable (39%).

This shift in attitudes to different investment approaches is important and is, perhaps, underpinned by a growing awareness that sustainability doesn't mean sacrificing profitability. In fact, quite the opposite.

Historically, those who expressed an interest in sustainable investing were asked: "What don't you want to invest in?" The result was a fund built from the leftovers, rather than looking for companies that were attractive because they were sustainable.

As a Gen X-er myself, I want my investments to build a more sustainable world. I want rigour and analysis to identify the best companies. I also realise that my investments exist in a pretty imperfect world, and that unless we are focused on encouraging all companies to be more sustainable we won't get very far. To achieve this, we need a new conversation about the true meaning of sustainability. The industry must ensure we have it.

How can the industry help?

The response to our survey indicated that investors believe the whole financial industry could do far more to help them invest sustainably. They are looking for practical steps, such as lobbying for regulatory change to encourage sustainable investing, and working towards a set of easy-to-understand sustainability ratings from a trusted independent body.

Respondents also want better information on sustainability from financial advisers, and for investment managers to use their own in-house ratings to reassure customers that the funds they choose actually are sustainable. Well over half (57%) believed that such ratings would encourage them to invest in line with their values.

In it for the long term

How are we reacting to this demand from investors? One example is our SustainEx tool, which can quantify the social and environmental impacts of each company. It gives us visibility on all of a company's activities, both positive and negative. This means we can construct portfolios knowing that the companies within them are fit for the long term.

Instead of focusing on a single issue, SustainEx allows us to understand wide-ranging issues from sugar taxes, to water shortages to the impact of online gambling.

The same tool allows us to engage with businesses whose practices are unsustainable, because the investment risks are quantified in dollars. As active managers, we can hold companies to account, encouraging them to adapt and improve.

Ultimately, I hope SustainEx will contribute to making every one of our portfolios sustainable.

A sustainability revolution

We are on the brink of a sustainability revolution as significant to the global economy as the arrival of the internet. Without the right conversations now, we risk repeating exactly the same mistakes of the dotcom boom and bust. This isn't just about replacing your coffee cup today, but realising if the world is to progress it needs to clamp down on a range of unsustainable behaviours. All of our investments will be impacted as a result.

Over the next 20 years, sustainability risks will affect every part of the value chain and every sector of industry, just as the internet has changed every part of our lives.

Finding winners and losers will not just be about picking a few wind turbine firms, just as it wasn't about picking a few dotcom start-ups in the mid-1990s.

Equally, the biggest fallout from the internet boom was felt by incumbent businesses, who failed to wake up to the revolution.

So long-term success will mean looking at how existing businesses deal with the risks confronting us, and choosing those that are moving towards a sustainable approach in everything they do.

Investors take sustainability seriously. The asset management industry must live up to their expectations. Whether from a financial or environmental perspective, we can no longer afford to operate in a vacuum.

This is a wake-up call.

Sustainability insights

Plastics phase-out: How prepared are companies across the value chain

Authors: Holly Turner and Louise Wihlborn, Sustainable Investment Analysts

Since our initial assessment of the plastics challenge in 2018 we have seen accelerated changes in consumer usage and the introduction of 60 new regulations globally. Together they are catalysing the transition towards a more circular plastics economy.

In April 2018, Schroders' Sustainable Investment team tackled the hot topic of plastics, looking through the value chain to assess potential risks, the companies exposed to them and the readiness of some leaders to respond. We found consumer companies to be the most visibly affected by increased scrutiny, but that impacts elsewhere, particularly among packaging companies and raw material suppliers, are beginning to emerge through regulation.

A year later, in late 2019, the landscape has changed swiftly with changes in consumer usage and tightening regulatory developments reflecting a growing focus on producer responsibility extending across the product lifecycle. We expect pressure to escalate and companies will need to respond. Even though consumers are growing increasingly determined to reduce their dependence on single-use plastics, bans will not be enough to address the reduction of plastic pollution alone.

Plastics not going away; a circular economy is the optimal long-term solution

As suggested by the Ellen MacArthur Foundation's 'New Plastic Commitment', we believe companies need to do three things to achieve this vision, captured across three key pillars:

1. **Eliminate**: eliminating problematic or unnecessary plastic packaging is pivotal in the shift towards greater circularity.
2. **Innovate**: To phase out all avoidable waste generation, innovation is required to provide alternatives and move towards a circular economy. Companies need to ensure that every unit of packaging is recyclable or compostable and, where possible, also reusable.
3. **Circulate**: Companies across the value chain face shared responsibility to strengthen waste collection, sorting and recycling technologies. Currently, societies struggle to collect, sort, process and recycle efficiently due to different types of plastic, the presence of contaminants (adhesives, food waste, etc.), and small format packaging).12% of plastic waste is currently collected for mechanical recycling and after yield loss only 8% of plastics value is retained for reuse.

While it is too early to assess the scale of change, our proprietary analysis and engagement with more than 100 companies against these three pillars has provided for a more nuanced understanding of which companies are well or poorly placed to respond.

On the right track but accelerated progress needed

Overall, we are pleased to see that firms with the most obvious and direct plastics-related risks are strengthening disclosure and their practices/management. Promising traction has been made across the three necessary pillars, although continued scaling of disclosure, ambition and action is needed across the value chain.

As the spotlight on plastics becomes brighter, it will be those firms that are further advanced in making concrete plans to eliminate problematic packaging items that are likely to be least vulnerable to changes in consumer usage and regulatory requirements.

Major investments, innovations, and transformation programmes must start now in order to address plastic waste and pollution at source — and at the very least have an impact by 2025 as well as meet government targets. This is particularly important as we believe the regulatory spotlight reflects a growing focus on producer responsibility that is extending across the lifecycle of a product. Already we are observing growing headwinds over problematic iterations of 'hidden plastic' in the apparel and textile industry (washing clothes releases 500,000 tons of microfibers into the ocean each year — the equivalent of 50 billion plastic bottles[12]); the automotive industry (emissions regulations are increasing the need for lightweight vehicles; plastics are considered an indispensable ingredient); household and personal goods (governmental bans on microbeads are increasingly common, but they represent the tip of the iceberg with cosmetic products containing between 1 and 90% plastic)[13].

As active owners we need to continue to engage with the companies to encourage them to strengthen their practices.

Figure 29: The three pillars of the plastic problem

12 Source: UNEP

13 Source: UN Environment Programme, 2015, Plastic in Cosmetics, Are we polluting the environment through our personal care?

Sustainability insights

Should municipal bonds be considered a sustainable investment?

Few investors outside of the US give much thought to the US municipal bond market ("munis"). This is, despite it being a $3.8 trillion asset class with over 1 million outstanding bond issues. Munis also play a vital role in funding key social and environmental projects across the US. As such, we believe investors should factor environmental, social and governance (ESG) factors into their decision-making. Our proprietary framework helps investors examine and assess the sustainability risks and opportunities of investments in the municipal market.

Is the muni market implicitly an ESG asset class?

Municipal bonds are debt securities issued by local authorities, most commonly found in the US. Investors can be forgiven for believing the muni market to be an ESG asset class. However, they should be more circumspect given the risk of "greenwashing"[14]. Investors should undertake their own research into the sustainability merits of an investment rather than simply relying on assumptions.

In some ways yes...

Beyond ESG credit tools, the municipal market is vital in funding key social and environmental projects across the US. Many provide the opportunity to allocate to assets aligned with ESG priorities and contribute to positive social and environmental improvement. Projects can be implemented as proactive attempts to manage ESG risks, or reactively to avoid ESG-related problems in the future. Investors have begun to see the viability of the municipal market as a way to make an impact on communities instead of traditional philanthropy efforts. However, this often leads to investors mistakenly assuming the muni market implicitly incorporates ESG factors.

Example: hurricane Sandy
An authority in New York City recently issued debt to address specific climate change resilience projects following the damage caused by Hurricane Sandy. The main focus of the funding was to create a network of barriers well above sea level in neighbourhoods that are susceptible to flooding.

Example: affordable student housing
University bonds are a type of US bond issued by both public and private universities to fund infrastructure with long life spans, such as libraries, student housing, and research facilities. Massachusetts Institute of Technology (MIT) recently issued bonds to fund graduate housing to help address growing living costs for students.

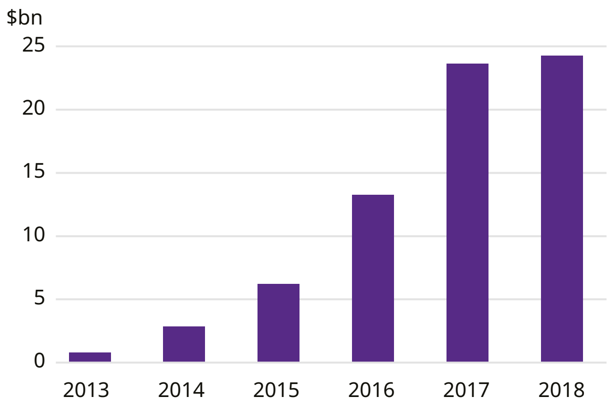
The emergence of "green bonds" (bonds whose proceeds are specifically used to fund environmentally friendly projects) in the US has highlighted the ESG characteristics of muni bonds since the first green muni bond issued by a Massachusetts municipality in June 2013. Green bonds are issued to fund environmentally-friendly infrastructure projects such as public transportation, renewable energy, and affordable housing.

With the US projecting an increase in infrastructure spending from $700 billion in 2014 to more than $975 billion by 2025, more state and local governments will look to the municipal bond market for funding. Many will look to obtain a green bond label as ESG cognisance is becoming more and more prominent in the US.

Not all that sparkles is gold

However, hand in hand with increasing interest comes the risk of "greenwashing". Green bonds are largely a self-regulated market, and most issued in the US are not currently labelled.[15] Investors that believe the muni market is an ESG asset class and that they don't need to take such factors into consideration are at risk of falling prey to such unsavoury practices.

Figure 30: The US green bond market continues to grow (in issuance outstanding)



Source: Bloomberg, as of 31 May 2018

14 Greenwashing refers to the act of a company misleading consumers by embellishing the environmental qualities and/or benefits of its products.

15 In order to qualify as a "labelled" green bond, an issuer must meet certain green bond standards such as having a portion of proceeds earmarked for climate or environmental projects.

Schroders' Municipal US Sustainability Explorer (MUSE): Replacing anecdotes with data

Given a significant data lag inherent in the muni market, we believe investment opportunities and risks are better understood using an integrated (fundamentals and ESG) research approach. We believe ESG analysis should be used to analyse the credit fundamentals of all municipal bonds (not just "green bonds") with non-financial, yet quantitative, data.

Pioneered by a local credit analyst, Emily Gervasi, and working across desks, including Schroders' Sustainable Investment team and Data Insights Unit, we have developed a proprietary ESG municipal model – MUSE. It examines and assesses regional, state and local issuers based on over 40 unique factors across four buckets (environmental, social, governance and other) from a variety of sources, including several proprietary metrics. We believe these factors provide greater insight, higher conviction, and a longer-term perspective on an issuer's sustainability risk.

As an example, the Sustainable Investment team has written extensively on the obesity epidemic, and nowhere is this more of a concern than in North America. The Dashboard is able to plot areas where there is a statistical prevalence of obesity concerns and use these data to normalise it versus other factors to determine if an issuer is at risk (Figure 32 overleaf).

Another key factor, sadly, is the prevalence of drug addiction and overdose deaths in the US. Here too, the ESG research we've done in recent years helped shine a spotlight on just how significant this epidemic is on societies and the municipalities which support them. MUSE gives our investors a much more accurate, visual picture of this specific risk factor.

16 According to the NHTSA based on current available data through 2018.

The Dashboard offers visual and statistical interpretation for all of the 40+ factors, including motor vehicle crashes/deaths, which technically don't count as an E, S or G risk by most standards. However, over 36,000 people were killed in 2018 due to motor vehicle accidents.[16] In addition, with over 275 million cars registered in the US (according to Statistica Research) there clearly is a real risk to municipalities in which there's a high concentration of vehicular-related accidents, which surprisingly our research shows is more prevalent in rural areas across the largest geographical states like Texas and Alaska. The Dashboard helps us monitor this risk in a more meaningful way.

Figure 31: The MUSE dashboard

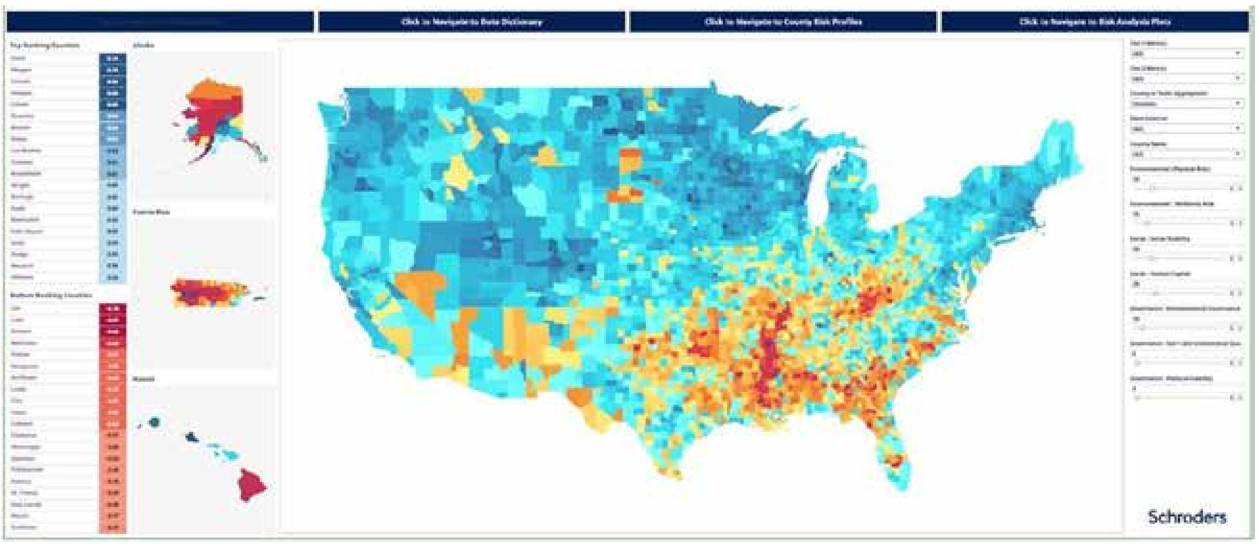
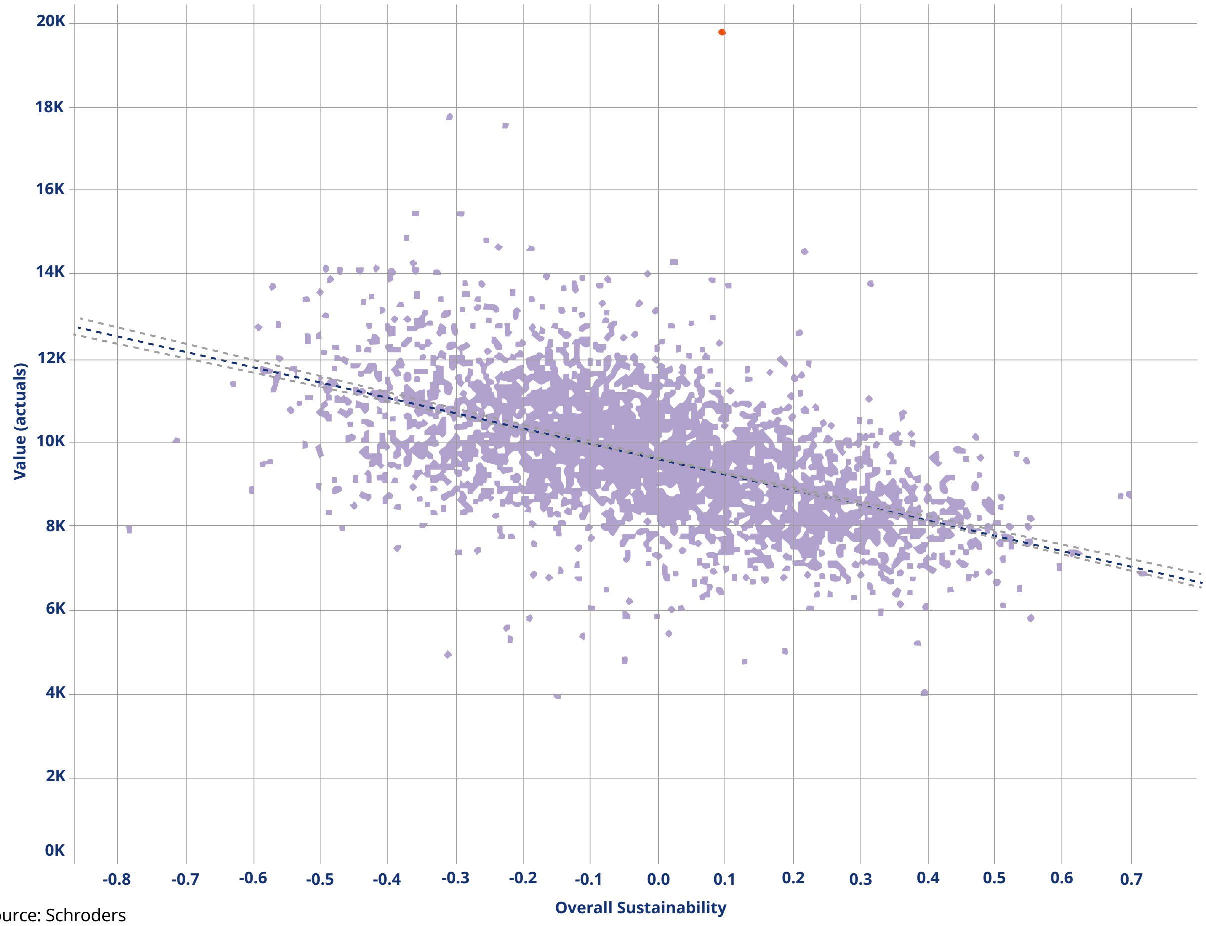
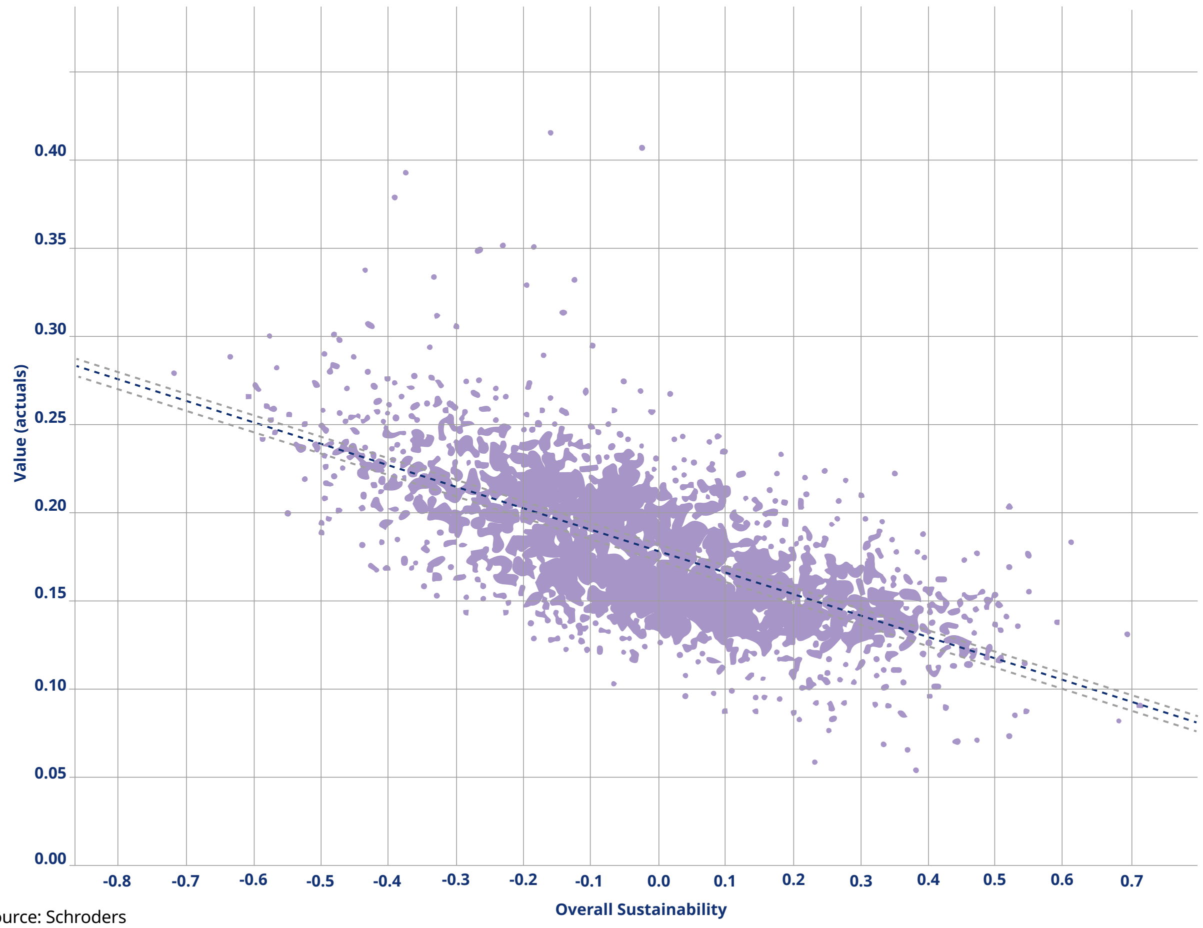


Figure 32: Obesity risk is one of 40+ factors comprising the MUSE Dashboard



Source: Schroders

Figure 33: Drug-related deaths plotted against the impact of each county within the Dashboard



Source: Schroders

Conclusion

The US municipal market represents a potential investment opportunity for investors looking to impact society and/or the environment. However, it's sustainability merits cannot be assumed and investors should be undertaking in-depth research into ESG risks and opportunities themselves. Our proprietary framework helps us integrate fundamental and ESG research to delve deeper than traditional financial analysis. Our model helps yield a more complete picture of the viability and sustainability of a muni market investment and could aid in improving downside protection and potentially a better valuation assessment.

Collaboration, industry involvement and public policy

We support, and collaborate with, several industry groups, organisations and initiatives.

These are important in improving responsible investment standards across sectors, establishing a consistent dialogue with companies, and in promoting the ongoing development and recognition of sustainability and ESG within the investment industry. We also work with organisations that we are members of, and with national and regional trade associations, to develop their submissions on various regulatory issues around the world. A full list of organisations and initiatives of which Schroders is a member or signatory is available on our website.

We believe that working with peers and policymakers on sustainability and ESG issues is an important activity and regularly respond to public consultations both as a firm and working with investor groups.

Advocacy and public policy

Financial Conduct Authority (FCA)

Schroders submitted a response to the FCA on the implementation of the Shareholder Rights Directive. Our response sought more guidance on defining a "significant vote against". We also expressed our concerns around extending the scope of the framework beyond that envisaged by the Directive.

Schroders also met with the FCA in response to their discussion paper on climate change and green finance. As part of the discussion, we explained our approach to climate change and sustainability.

GC100 and Investor Group (the Group)

Schroders is a member of the Group and contributed to guidance on pay gap disclosure. In 2013, new UK regulations gave shareholders a binding vote on companies' remuneration policies and introduced a range of new disclosures. The Directors' Remuneration Reporting Guidance document published by the Group in 2019 alongside the regulations is designed to assist companies and their investors in the interpretation of the regulations.

Financial Reporting Council (FRC) Stewardship Code

Schroders provided feedback to the FRC's consultation on the revised UK Stewardship Code. We suggested that the definition on Stewardship be aligned more closely with the UK Corporate Governance Code's first principle which refers to "the long-term sustainable success" of a company in turn "generating value for shareholders and contributing to wider society."

Technical Expert Group's (TEG) preliminary recommendations for an EU Green Bond Standard

Schroders submitted a response to this invitation for feedback. Our submission focused on the need for stringent standards going forward to ensure the integrity of the market.

Independent review into the quality and effectiveness of audit (Brydon review)

Schroders responded to the UK Government's call for views on the quality and effectiveness of audit. We understand that concerns over audit quality and the expectations gap should be addressed and trust re-established in the audit product. We support the need for the quality of viability statements to be improved and for this to be included in the auditor's opinion.

Competition and Markets Authority's (CMA) review of audit

Schroders submitted a response this consultation from the UK Government which sought views on the CMA's recommendations to improve audit quality, competition and reliance in the statutory audit services market. We expressed our desire for better governance of audit firms and explained our concerns around joint audit.

Asset Management and Investors Council (AMIC) Sustainable Finance Working Group

Schroders became a participating investor to the AMIC Sustainable Finance Working Group, which involves regular phone calls and meetings to discuss market and regulatory developments. The initiative provides a dedicated platform for buy-side members to discuss the trends and development of the ESG market and regulatory files to identify concerns/priorities to be conveyed to the International Capital Markets Authority's (ICMA) Sustainable Finance Committee; issue positions and answer to upcoming consultations, in particular on disclosure, the Ecolabel, integration of sustainability risks and factors in the UCITS and AIFMD; and exchange views on applicable market developments and innovations.

Investment Association of Japan

Schroders discussed stewardship issues with Japanese policymakers, focusing specifically on the likely impacts on Japan following revisions to the UK Stewardship Code.

Investment Management Association in Asia (IMAS) working group

IMAS are establishing a working group to enhance the ability of managers to deliver on ESG via teleconference to be held quarterly for the foreseeable future

The Monetary Authority of Singapore (MAS)

MAS is working with Schroders and a wider core set of asset managers to determine a set of best practice guidelines that would enhance portfolio management, risk management and reporting when it comes to environmental issues.

Committees or initiatives promoting responsible investment

Trade associations

Investment Association (IA)

Our Chief Executive Officer chairs the IA and our Global Head of Equities Management sits on the Investment Committee

Our Global Head of Stewardship Chairs the Stewardship Committee. The committee engages actively with policymakers and other stakeholders in the UK on how the investment management industry and capital markets can best serve their needs. In 2019 we contributed to a roundtable on annual general meetings (AGMs), discussing our processes for voting and engagement to improve attendees' understand of the AGM season.

Our Investment Director is a member of the IA's Sustainability and Responsible Investment Committee. At the start of 2018, the IA identified sustainability and responsible investment as a dedicated policy area in its own right to help firms in thinking about their wider role in society and to promote all forms of responsible investment. The IA's Sustainability and Responsible Investment Committee was established to provide strategic direction to this policy area and has a broad mandate to consider and lead on all issues affecting member firms in sustainability and responsible investment. In 2019 the committee has responded to various EU sustainable finance consultations and developed a framework for common approaches to responsible investment.

Schroders participated in the 2019 Sustainable and Responsible Investment Conference - this new event designed to promote responsible and sustainable investment in the UK. We specifically contributed to a panel on regulation.

European Fund and Asset Management Association (EFAMA)

We manage our influence through our membership on EFAMA's Board as well as serving on the Public Policy Committee and Standing Committee on ESG and Stewardship. EFAMA is the representative association for the European investment management industry.

We make ongoing contributions to EFAMA's responsible investment consultations and reports. In 2019 we have contributed to a number of ESG initiatives through EFAMA and helped shape responses to public policy consultations. Examples of EFAMA activity in 2019 include:

- Position on the EU taxonomy in view of trialogues
- Response to the TEG's consultation on the EU taxonomy
- Feedback on the TEG's interim report on EU climate transition benchmarks and EU Paris aligned benchmarks
- Comments on the technical report on EU ecolabel draft criteria and product scope and questionnaire response on the product scope and criteria definition
- Comments to the European Commission's proposal for a sustainable finance package
- Letter to the European Commission outlining our concerns on the application timeline of the Regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU)2016/2341
- Statement welcoming the trialogue agreement on low carbon benchmarks

Principles for Responsible Investing (PRI)

Schroders hosted a Q&A with Securities and Exchange Commissioner Robert Jackson to discuss the latest developments in US securities regulation and opportunities for progress to advance sustainable investing.

Additionally, as part of a research trip organised by the PRI, Schroders met with Chinese Regulators to provide an investor perspective to sustainable investment and how it can be implemented.

Schroders also met with fellow investors and the PRI to discuss current and future progress for ESG integration in credit.

Pensions Age Sustainability Summit

The Sustainability Summit offers pension funds, insurance companies, charities and corporates the opportunity to both learn and network alongside their peers at such a key time for the sustainable investment industry. With trustees required to update their Statement of Investment Principles in relation to financially material ESG considerations and stewardship by October 2019, Schroders spoke at this event to 150 clients from pension funds, insurance companies, charities and corporates. Our session discussed the importance of sustainability considerations in the context of investment, how we can overcome some of the barriers to sustainable investing, and how we can integrate sustainability risks of the future in our investment analysis today.

Centre for the Study of Financial Innovation (CSFI)

Schroders spoke at two CSFI panels in 2019. The panels discussed myths surrounding the green economy, the practical aspects of climate change investing, and the reform of the Financial Reporting Council.

The Chartered Governance Institute (ICSA) consultation on the effectiveness of board evaluation for listed companies

Schroders formed part of the steering group of consultation. The review was commissioned by the Department of Business, Energy and Industrial Strategy (BEIS) and aims to assess the quality of evaluations and identify ways in which board evaluation might be improved.

Sustainability Accounting Standards Board (SASB)

Established in 2011, SASB is an independent, private-sector standards setting organisation based in San Francisco, California. In 2019 Schroders was invited to become a member of the exclusive SASB Investor Advisory Group (IAG) and our Global Head of Stewardship now sits on the board. SASB established the IAG in 2016 to provide investor feedback and guidance for the organization, and to demonstrate investor support for a market standard for investor-focused sustainability disclosure. Following our new membership our Global Head of Stewardship spoke at the annual SASB conference on the importance of ESG data and disclosure in financial analysis.

Financial Reporting Council (FRC)

We are members of the Financial Reporting Lab Advisory group. The group sets the agenda for the Financial Reporting Lab and the areas of corporate reporting that they should look to improve.

Powering Past Coal Alliance (PPCA) Finance Principles

Schroders became a signatory to the PPCA Finance Principles in 2019. The principles give greater clarity to the role of financial institutions in advancing the objectives of the PPCA; help align financial services and investments with the Paris Agreement; build upon and complement the accounting and transparent reporting of climate risks by member organisations; and complement responses to the guidelines proposed by the Taskforce for Climate-Related Financial Disclosure (TCFD). Schroders has committed to offer products that avoid exposure to equity and debt instruments of companies that plan to generate electricity from unabated coal, as well as engage on unabated coal fire generation and encourage information providers to track this data.

Swiss Sustainable Finance (SSF)

Schroders became a member of SSF in May 2019. SSF strengthens the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalysing growth. The association, founded in 2014, has representation in Zurich, Geneva and Lugano. Currently SSF unites 140 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested organisations.

Collaborative engagement with companies on specific ESG issues

Climate Action 100+

In 2017, we became a founding signatory to the Climate Action 100+ initiative, a five-year collaborative engagement project to engage over 100 of the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions consistent with a 2 degree scenario and strengthen climate-related financial disclosures in line with TCFD recommendations. Schroders is leading engagement with a China based cement company. 2019 saw a ramp-up in communication with the company, including an initial call, emails, and a letter on behalf of all participating investors, which called for specific action to set emissions targets, promote alternative fuel use and improve climate-related financial disclosures. We have also been collaboratively involved in engaging several other companies across sectors and regions, including Anglo American, Volkswagen, Bayer, Centrica and CNOOC.

Workforce Disclosure Initiative (WDI)

Schroders hosted the WDI investor forum in 2019 at our head office in London. The event discussed plans for the public launch of the findings in March 2019, company engagement strategy for 2019, the investor engagement stream on living wages in companies' supply chains, and the introduction of a two tier approach to investor involvement. We were heavily involved in the planning of this investor forum and in discussions around 2019 plans, particularly the format of the two tier investor approach.

Farm Animal Investment Risk & Return (FAIRR)

Schroders became a member of FAIRR in 2017 and has followed the initiative closely since its launch. The initiative provides research and engagement opportunities around the material investment risks and opportunities connected with intensive livestock farming and poor animal welfare standards. In 2019 Schroders participated in a roundtable discussion with both companies and investors to identify meaningful metrics to facilitate tracking a portfolio transition that supports lower-emitting and sustainable diets for food retailers and manufacturers respectively.

Compliance with UN PRI

This section demonstrates our compliance with the UN PRI, and highlights 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	How we comply	Location in annual RI report
P1: We will incorporate ESG issues into investment analysis and decision-making processes	– We seek to integrate ESG considerations across investment desks and asset classes	pg 5, 82-83
	– Dedicated Sustainable Investment team comprising 16 ESG specialists	pg 5, 82-83
	– Long-standing ESG training programme for financial analysts and portfolio managers	pg 83
	– Sector focus allows close working relationship between ESG and financial analysts	pg 83
	– Joint company meetings between ESG, credit and equity analysts	pg 33-35
	– Multi-sector and multi-region thematic research produced on key sustainability trends to educate investors	pg 38
	– Proprietary investment-driven ESG analysis tools for our investors	pg 83
	– All research shared on our proprietary global research platform	pg 83
P2: We will be active owners and incorporate ESG issues into our ownership policies and practices	– Engaging with companies and actively voting at AGMs since 1998	pg 14-37
	– ESG policies for listed assets and real estate	pg 1, 9
	– Global voting strategy	pg 21-30, 36-37
	– Actively engage with company management and monitor our success	pg 33-35, 59-80
P3: We will seek appropriate disclosure on ESG issues by the entities in which we invest	– Active engagement with companies to encourage greater transparency	pg 33-35, 59-80
	– Participation in collaborative disclosure initiatives to improve disclosure standards	pg 19, 54-56
P4: We will promote acceptance and implementation of the principles within the investment industry	– Members, leaders and participants of various forums and networks – Collaboration with other investors to promote and develop responsible investment principles and practices, including the PRI, International Corporate Governance Network, Asian Corporate Governance Association, and CDP – Sponsorship and support of responsible investment initiatives, including hosting conferences, seminars and workshops – Submissions to regulators, trade associations, legislators and other bodies – Working with clients who are considering becoming members of the PRI to help them understand the benefits and practicalities of membership – Publicising responsible investment events to clients and encouraging attendance – Trustee training and ongoing client education on responsible investment and ESG trends	} pg 54-56
P5: We will work together to enhance our effectiveness in implementing the principles	– Collaboration with other investors, sharing information and exchanging our views – Active participation in industry networks such as the PRI, International Corporate Governance Network, Asian Corporate Governance Association, UK Sustainable Investment and Finance Association and CDP	} pg 54-56
P6: We will each report on our activities and progress towards implementing the principles.	– Responsible investment activities detailed in our publicly available quarterly and annual reports – Best practice case studies included in our reports and publications such as Schroders Investment Horizons – Thematic and special ESG reports published on our website	Throughout this report

Screening and ethical exclusions

Ethical exclusions (or negative screening) refers to a strategy that involves the removal of specific companies or sectors from the investible universe of a portfolio based on a client's ethical criteria.

This remains an important area for our clients. We have continued to see a steady increase in the value of assets under management (AUM) to which some form of ethical exclusion is applied. As of 31 December 2019, Schroders managed £69.4 billion in ethically screened assets, representing 13.9% of our total AUM.

Figure 34: Group ethical assets under management (2015-2019)

Year	Ethical AUM (GBP billion)	% of Group AUM
2019	69.4	13.9
2018	47.0	11.2
2017	46.6	10.7
2016	33.2	8.6
2015	29.9	9.6

Source: Schroders as at 31 December 2019. Ethically screened AUM incorporates the AUM of all strategies with exclusions beyond those on the firm wide exclusion list.

Of the £69.4 billion of AUM with ethical constraints in 2018, approximately £3.5 billion was managed by Schroders' Wealth Management business (including charities).

These ethical mandates vary from excluding stocks on a single issue to incorporating a variety of ethical issues. In addition, they often define a degree of materiality (e.g. percentage of revenues) a stock derives from its exposure to a particular issue. Tobacco, gambling and alcohol are among some of the most commonly applied screens.

Controversial weapons

Schroders fully support the following international conventions:

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

We will not knowingly hold any security that is involved in the production, stockpiling, transfer and use of these weapons.

Schroders will apply this policy to all funds that we directly manage. On occasion, there may be additional securities recognised by clients or local governments; these will be added to the Schroders Group exclusion list for those relevant jurisdictions or specific mandates.

The following companies are on our Group exclusion list (February 2019):

- Anhui Great Wall Military Industry Co Ltd
- Aryt Industries
- Ashot Ashkelon Industries
- Avibras
- Bharat Dynamics Ltd
- China Aerospace Science and Technology
- China Aerospace Science and Industry
- China North Industries Group Corp (Norinco)
- Hanwha Corporation
- LIG Nex1
- Motovilikha Plants JSC
- Poongsan Corporation
- Poongsan Holdings Corp.
- Roketsan
- Sichuan Academy of Aerospace Technology
- Splav State Research

Terrorist financing

As a result of the Patriot Act and the Anti-Money Laundering and Counter Terrorism Financing law in the US, many US state pension funds request that their fund managers divest from any companies that could be undertaking business within countries that the US government considers terrorist states.

Schroders meets its US clients' requests to screen out these companies.

Appendix

Figure 35: Companies specifically engaged with on ESG topics during 2019

Company	E	S	G
Consumer Discretionary			
361 Degrees			✓
ABC Mart			✓
Accor			✓
Aisin Seiki			✓
Amazon	✓	✓	✓
Anta Sports			✓
Antena 3			✓
Aramark			✓
Aston Martin			✓
Autins	✓		✓
Autoneum			✓
Autozone		✓	
BAIC Motor			✓
Barratt Developments			✓
Berkeley		✓	✓
BMW		✓	
Booking	✓	✓	
BorgWarner			✓
Bovis Homes			✓
Brembo	✓		✓
Brilliance China Automotive			✓
BTG Hotels			✓
Buckle			✓
Burberry	✓		✓
Burlington Stores			✓
Cairo Communications			✓
Carnival			✓
CCC			✓
Charter Communications	✓		✓
Cheesecake Factory	✓		
China CYTS Tours			✓

Company	E	S	G
China Lilang			✓
China Motor			✓
China Zhengtong Auto Services			✓
Chow Sang Sang			✓
Compagnie Financiere Richemont			✓
Compass	✓		✓
Consorcio			✓
Continental	✓		
Corona			✓
Crystal International			✓
Cyrela Brazil Realty			✓
DaikyoNishikawa			✓
Daily Mail and General Trust			✓
Daimler	✓		
Dalata Hotel			✓
Debenhams			✓
Depo Auto Parts Industrial			✓
Dillards			✓
Discovery Communications			✓
Dometic			✓
Dongfeng Motor			✓
Dufry			✓
Eagle Industry			✓
Ez Tec			✓
Faurecia			✓
Feng Tay			✓
Ferrari			✓
Fiat Chrysler			✓
Forbo			✓
Ford Otosan			✓
Fu Shou Yuan International			✓
Fuji Media			✓

Source: Schroders, 31 December 2019

Company	E	S	G
Future Enterprises			✓
Galaxy Entertainment			✓
Galeries Lafayette			✓
Garmin	✓		
Geely Automobile			✓
Giant MFG			✓
Goals Soccer Centres			✓
Golden Eagle			✓
Gourmet Master	✓		✓
Gree Electric Appliances			✓
Greene King	✓		
Guangzhou Auto			✓
GVC		✓	✓
H.I.S.		✓	
H2O Retailing			✓
Halfords			✓
Hangzhou Robam Appliances			✓
Hanssem			✓
Henry Boot			✓
Hermes			✓
Hero Honda			✓
Hi-Lex			✓
Holiday Entertainment			✓
Home Depot		✓	
HT&E			✓
Huayu Automotive Systems			✓
Husqvarna			✓
Inditex			✓
Industria Macchine Automatiche	✓		
Informa		✓	✓
Ipsos			✓
ITV		✓	✓
J D Wetherspoon			✓

Company	E	S	G
Jardine Cycle & Carriage			✓
Jason Furniture Hangzhou			✓
Jc Decaux			✓
Jollibee Foods			✓
Kaufman & Broad			✓
Kering			✓
Kindred			✓
Li Ning			✓
Lifestyle International			✓
Linamar			✓
Lojas Americanas			✓
Lojas Renner			✓
Lotte Shopping			✓
LVMH			✓
M J Gleeson			✓
Maisons du Monde			✓
Mango Excellen Media			✓
Marks and Spencer	✓		✓
Marriott International		✓	
Marshall Motor			✓
McDonalds		✓	✓
Media Nusantara Citra			✓
Mediaset			✓
Metall Zug			✓
Metro			✓
Metropole			✓
MGM China			✓
Midea			✓
Mitchells and Butlers			✓
Modern Times			✓
MRV			✓
NAFCO	✓		✓
Naga			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Nasionale Pers			✓
Next		✓	✓
Nexteer Automotive			✓
NHK Spring	✓		
Nien Made Enterprise		✓	
Nike		✓	
Nokian			✓
Nordic Entertainment			✓
Ocado	✓	✓	✓
Omnicom			✓
Overseas Education			✓
Paddy Power Betfair		✓	
Pandora			✓
Pearson		✓	✓
Pendragon			✓
Persimmon		✓	
Peugeot			✓
Plastic Omnium			✓
Playtech			✓
Publicis			✓
Qingdao Haier	✓	✓	
Quixant			✓
Rainbow Department Store			✓
Redrow			✓
Relx		✓	
RTL			✓
Samsonite International			✓
Sands China			✓
Schaeffler		✓	
Shakey's Pizza Asia Ventures			✓
Shangri-La Asia			✓
Shenzhou International			✓
SIIX			✓
SMCP			✓

Company	E	S	G
Sogefi	✓		✓
Sports Direct		✓	✓
Starbucks	✓		
Subaru			✓
Sun TV Network			✓
Suofeiya			✓
Superdry			✓
Suzuki Motor			✓
Taylor Wimpey		✓	
TCL Multimedia Technology			✓
Technogym			✓
Ted Baker			✓
Telenet			✓
Television Francaise			✓
Telford Homes			✓
The Swatch Group			✓
Tianneng Power International			✓
Tofas			✓
Toung Loong Textile Manufacturing			✓
Toyota			✓
TPR			✓
Trinity			✓
TS Tech			✓
Tsutsumi Jewelry			✓
URBI			✓
Valeo		✓	
Veoneer			✓
Vitec			✓
Vivendi Universal			✓
Volkswagen		✓	✓
Walt Disney			✓
WH Smith			✓
Whitbread	✓	✓	✓
WPP		✓	✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Wynn Macau			✓
Xingda International			✓
Xinyi Glass			✓
Yue Yuen Industrial			✓
Yum China	✓		
Consumer Staples			
Accrol			✓
AG Barr	✓		
Alicorp	✓		✓
Ambev			✓
Amorepacific	✓		✓
Anheuser Busch Inbev			✓
Arca Continental			✓
Associated British Foods		✓	
Astral Foods			✓
Austevoll Seafood			✓
Beiersdorf	✓		
BIM Birlesik Magazalar			✓
Britannia Industries	✓		
British American Tobacco			✓
Britvic	✓		✓
Carrefour	✓		✓
Casino Guichard-Perrachon et Cie	✓		✓
Changshouhua Food			✓
Chemical and Allied Products			✓
China Mengniu Dairy	✓		
China Resources Beer			✓
Church & Dwight		✓	
Clorox	✓	✓	
Coca Cola	✓		
Coca Cola Amatil	✓	✓	
Colgate Palmolive	✓		
Convenience Retail Asia	✓		

Company	E	S	G
Cosmecca Korea	✓		
Costco		✓	✓
Cranswick	✓		
Dali Foods			✓
Danone	✓		✓
Diageo	✓		✓
Elior			✓
Emmi			✓
Essity			✓
Estee Lauder	✓		
First Resources			✓
Fuji Oil	✓		
General Mills	✓		
Glanbia			✓
Godrej Consumer Products	✓		
Greggs	✓		
Gruma			✓
GS Retail			✓
Heineken Malaysia			✓
HelloFresh			✓
Hengan International	✓		
Henkel			✓
Hershey Foods	✓		
Hypermarcas			✓
Hyundai Greenfood			✓
Imperial Brands		✓	✓
Imperial Tobacco			✓
Indofood	✓	✓	
Industrias Bachoco			✓
Inner Mongolia Yili Industrial	✓		
J Sainsbury	✓		✓
Japan Tobacco			✓
Jeronimo Martins			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Jiangsu Yanghe Brewery			✓
Juhayna Food	✓		
Kellogg	✓		
Kerry	✓		
Kimberly-Clark de Mexico	✓		✓
Koninklijke Ahold Delhaize	✓		
Korea Kolmar	✓		✓
Lamb Weston		✓	
L'Oreal			✓
Magnit			✓
Marie Brizard Wine and Spirits			✓
Marine Harvest			✓
MatsumotoKiyoshi			✓
Metcash	✓		
Mondelez International	✓		
Nestle	✓		✓
OCI			✓
Opple Lighting			✓
Oriflame			✓
Origin Enterprises			✓
Orior			✓
Performance Food	✓		
Philip Morris		✓	✓
Raia Drogasil			✓
Reckitt Benckiser		✓	
RFM			✓
SalMar			✓
Sampoerna	✓	✓	
São Martinho			✓
Springland International	✓		✓
SSP			✓
Svenska Cellulosa Aktiebolaget	✓	✓	✓
TCI			✓

Company	E	S	G
Tesco	✓		✓
Tingyi	✓		✓
Treatt	✓		✓
Unilever	✓	✓	✓
Uni-President China			✓
Uni-President Enterprises	✓		
Viet Nam Dairy Products	✓		
Vinda International			✓
Walgreens Boots Alliance		✓	
Walmart		✓	
Want Want China	✓		
Wesfarmers	✓		
Wilmar International			✓
Wm. Morrison	✓		✓
Woolworths	✓		
Wuliangye			✓
X5			✓
Yakult Honsha	✓		
Energy			
Adaro Energy	✓		✓
Agritrade Resources	✓		✓
Aker BP			✓
Aker Solutions	✓		
Alliance Resource Partners	✓		✓
Arch Coal	✓		✓
Banpu	✓		✓
Baytex Energy			✓
Bogdanka	✓		✓
BP	✓		
Bumi Resources	✓		✓
Cairn Energy	✓		✓
Centennial Resource Development			✓
CGG	✓		

Source: Schroders, 31 December 2019

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

Company	E	S	G
China Coal Energy	✓		✓
China Oilfield Services			✓
China Shenhua Energy	✓		✓
CNOOC	✓		✓
Coal India	✓		✓
CONSOL Energy	✓		✓
Contura Energy	✓		✓
Copec	✓		✓
Core Laboratories	✓		
Delta Dunia Makmur	✓		✓
Dno	✓		
Enerflex	✓		
Energy Fuels	✓		✓
Enquest	✓		✓
Ente Nazionale Idrocarburi	✓		✓
Erg			✓
Euronav			✓
Exmar			✓
Formosa Petrochemical	✓		
Fugro			✓
Gazprom			✓
Gaztransport et Technigaz			✓
Geo Energy Resources	✓		✓
Guanghui Energy	✓		✓
Hallador Energy	✓		✓
Harum Energy	✓		✓
Hellenic Petroleum			✓
Hunting	✓		✓
Husky Energy			✓
Idemitsu Kosan	✓		✓
Indika Inti Energi	✓		✓
Indo Tambangraya	✓		✓
Inner Mongolia Yitai Coal	✓		✓
Japan Petroleum Exploration			✓

Company	E	S	G
Jastrzebska Spolka Weglowa	✓		✓
Kvaerner			✓
Lamprell			✓
MOL	✓		✓
Motor Oil			✓
Natural Resource Partners	✓		✓
New Hope	✓		✓
NexGen Energy	✓		✓
Noble			✓
Organizacion Terpel			✓
Peabody Energy	✓		✓
Petrobras			✓
Petrobras Distribuidora			✓
PetroChina			✓
Petrofac	✓		✓
Peyto			✓
Phillips 66	✓		✓
PKN			✓
Premier Oil			✓
PTT Global Chemical	✓		✓
Reliance Industries	✓		
Repsol	✓		
Royal Dutch Shell	✓	✓	
Saipem	✓		
Sasol	✓		✓
SBM Offshore	✓		
Semirara Mining	✓		✓
Shaanxi Coal Industry	✓		✓
Shanxi Lu'an Environmental Energy	✓		✓
Shanxi Xishan Coal and Electricity Power	✓		✓
Sinopec	✓		✓
Soco International			✓
Statoil			✓

Source: Schroders, 31 December 2019

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

Company	E	S	G
Subsea7	✓		
Tambang Batubara Bukit Asam	✓		✓
TECHNIPFMC	✓		
Tecnicas Reunidas	✓		
Tenaris			✓
Terracom	✓		✓
Tethys Oil			✓
TGS Nopec Geophysical	✓		
Total			✓
Total Gabon			✓
Transportadora de Gas del Sur			✓
Tullow Oil			✓
Voltalia			✓
Whitehaven Coal	✓		✓
Wood	✓		✓
Yanzhou Coal Mining	✓		✓
Financials			
ADO Properties			✓
Airesis			✓
Akbank			✓
Aldar Properties			✓
Amundi			✓
Anima			✓
Apartment Investment and Management	✓		✓
Arch Capital			✓
Arrow Global			✓
Arrowhead Properties			✓
Assicurazioni Generali			✓
Assura			✓
Attijari Wafa Bank			✓
Aviva			✓
AWA Bank			✓
AXA			✓

Company	E	S	G
Axis Bank			✓
Axis Capital			✓
Ayala Land			✓
Bajaj Finance			✓
Bajaj Finserv			✓
Baloise			✓
Banca Farmafactoring			✓
Banca Generali			✓
Banca Sistema			✓
Banca Transilvania			✓
Banco Bradesco			✓
Banco do Brasil Seguridade			✓
Banco do Brasil			✓
Banco Frances			✓
Banco Macro			✓
Banco Santander			✓
Bank Central Asia			✓
Bank Hapoalim			✓
Bank Leumi			✓
Bank Muscat			✓
Bank Negara Indonesia			✓
Bank of China			✓
Bank Of Kyoto			✓
Bank Pembangunan			✓
Bank Rakyat Indonesia			✓
Bankinter			✓
Barclays			✓
Barclays Africa			✓
BBVA			✓
Beazley			✓
BM&F Bovespa			✓
BNP Paribas			✓
BolsaMexicana de Valores			✓
British Land			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Bruxelles Lambert			✓
BTG Pactual			✓
Capital Shopping Centres			✓
Catal Occidente			✓
Cerved Information Solutions			✓
China Cinda Asset Management			✓
China Citic Bank			✓
China Evergrande			✓
China Life Insurance			✓
China Literature			✓
China Merchants Bank			✓
China Minsheng Bank			✓
China Pacific Insurance			✓
China Resources Land			✓
China Trust Financial			✓
China Vanke			✓
CIMB			✓
CITIC Securities			✓
Close Brothers	✓		✓
Close Brothers			✓
CLS			✓
CMC Markets			✓
CNP Assurances			✓
Coface			✓
Commercial International Bank			✓
Compass Diversified			✓
Country Garden			✓
Credit Agricole			✓
Credit Suisse			✓
Credito Emiliano			✓
CYBG			✓
Dah Sing Banking			✓
Dah Sing Financial			✓
Daibiru			✓

Company	E	S	G
Daiwa House Industry			✓
Danske Bank			✓
DBS Bank		✓	✓
Derwent London	✓		✓
Deutsche Bank	✓		✓
DLF			✓
Dubai Islamic Bank			✓
East West Banking			✓
Egypt Kuwait			✓
E-L Financial			✓
Emlak			✓
Equity Bank			✓
Equity Lifestyle Properties			✓
Erste Bank			✓
Euronext NV			✓
Fairfax India			✓
Fibra Uno			✓
FinecoBank			✓
First Interstate Bancsystem			✓
First Merchants			✓
Five Point			✓
Fonciere des Regions			✓
Franklin Resources			✓
Frasers Commercial Trust			✓
Genworth Mortgage			✓
Gjensidige Forsikring			✓
Grainger			✓
Great Portland Estates	✓		✓
Guaranty Trust Bank			✓
Gulf Bank			✓
Habib Bank			✓
Hachijuni Bank			✓
Haci Omer Sabanci			✓
Haitong International			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Halkbank			✓
Hammerson			✓
Hang Lung			✓
Hang Lung Properties			✓
Hannover			✓
Hansteen			✓
Hitachi Capital			✓
Hong Leong Finance			✓
Hongkong Land			✓
HSBC	✓		✓
Hua Nan Financial			✓
ICBC			✓
ICICI Prudential Life Insurance			✓
iFast			✓
IGM Financial			✓
Independence Realty Trust			✓
ING			✓
ING Life Insurance Korea			✓
Inmobiliaria Colonial			✓
Intergroup			✓
Intermediate Capital	✓		✓
International Personal Finance			✓
Intesa Sanpaolo			✓
IRB Brasil Resseguros			✓
IS Gayrimenkul YAT			✓
Iyo Bank			✓
James River			✓
Jeju Bank			✓
Joy City Property			✓
JP Morgan Chase			✓
Jupiter Fund Management	✓		✓
KBC			✓
Kenya Commercial Bank			✓
Kerry Properties			✓

Company	E	S	G
Klepierre			✓
Kuwait Finance House			✓
Legal & General			✓
Leopalace21			✓
Lloyds Banking Group	✓		✓
Loews			✓
Logan Property			✓
Longfor Properties			✓
LSE	✓		✓
Man Goup			✓
Manulife US Real Estate Investment Trust			✓
Mapfre			✓
Mapletree Commercial Trust			✓
Mapletree Industrial Trust			✓
Max Limited			✓
Medinet Nasr Housing			✓
Metrovacesa			✓
MLP			✓
National Bank of Kuwait			✓
New China Life Insurance			✓
New World Development	✓		✓
NewRiver Retail			✓
Nexity			✓
Nomura			✓
OTP			✓
Paragon			✓
Pargesa			✓
Parque Arauco			✓
Partners Group			✓
Pekao		✓	✓
PICC Insurance			✓
Ping An Insurance			✓
PKO Bank			✓

Source: Schroders, 31 December 2019

Company	E	S	G
Plus500			✓
Poly Real Estate			✓
Power Canada			✓
Provident Financial			✓
Public Bank			✓
Public Financial			✓
PZU			✓
Qualitytech			✓
Raiffeisen Bank International			✓
RenaissanceRE			✓
Rexford Industrial Realty			✓
RIT Capital Partners			✓
Robinsons Land			✓
Ronshine China			✓
Royal Bank of Scotland	✓		✓
S & U			✓
Safestore			✓
Saga			✓
Santander			✓
Sberbank			✓
Schroders			✓
SEB			✓
Segro			✓
Seventy Seven Bank			✓
Shaftesbury	✓		✓
Shimao Property			✓
Shizuoka Bank			✓
Shui On Land			✓
Sino-Ocean			✓
Societa Cattolica di Assicurazione			✓
Societe Generale			✓
Sofina			✓
Spar Nord Bank			✓
St Galler			✓

Company	E	S	G
St James Place Capital			✓
Standard Chartered			✓
Sumitomo Realty & Development			✓
Suning Appliance	✓		
Svenska Handelsbanken			✓
Swire Pacific	✓	✓	✓
Swire Properties			✓
Swiss Life			✓
Swiss Re			✓
Technological & Commercial Joint-stock Bank			✓
The Yamanashi Chuo Bank			✓
Tokai Tokyo Financial			✓
Topdanmark			✓
TP ICAP			✓
TPG Real Estate Finance			✓
Turkiye Garanti Bankasi			✓
Turkiye Is Bankasi			✓
Turkiye Sinai Kalkinma Bankasi			✓
UBS			✓
Unicredit	✓		✓
United Bank			✓
United Overseas Bank	✓		
UOL			✓
Urban Edge Properties			✓
Vakifbank			✓
Valiant			✓
Value Partners			✓
VICI Properties		✓	✓
VZ			✓
Warsaw Stock Exchange			✓
Westamerica Ban			✓
Weyerhaeuser	✓		✓
Wharf Real Estate Investment			✓

Source: Schroders, 31 December 2019

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

Company	E	S	G
Witan Investment Trust			✓
Wiz Solucoes e Corretagem de Seguros			✓
WORKSPACE			✓
Wuestenrot & Wuerttembergische			✓
Yanlord Land			✓
Yapi Kredi Bankasi			✓
Yuzhou Properties			✓
Zenith Bank			✓
Zug Estates			✓
Health Care			
Abbott Laboratories			✓
Abcam	✓		✓
Advanced Medical Solutions			✓
Al Noor Hospitals			✓
Alembic Pharmaceuticals			✓
Ambea			✓
Amplifon			✓
Arjo			✓
AstraZeneca	✓	✓	✓
ATTENDO AB NPV			✓
Aust Pharmaceut			✓
Bayer			✓
BioGaia			✓
Celgene			✓
Cerner		✓	
Chemed			✓
China Medical System			✓
Coltene			✓
Consort Medical			✓
Consun Pharmaceutical			✓
CorVel		✓	
CSL		✓	
Danaher			✓

Company	E	S	G
Dawnrays Pharmaceutical			✓
DiaSorin			✓
EISAI			✓
EssilorLuxottica			✓
Galapagos			✓
Galenica Sante			✓
Genmab As			✓
Georgia Healthcare			✓
Getinge		✓	✓
GlaxoSmithKline		✓	✓
H LundBeck			✓
Hualan Biological Engineering			✓
Humana			✓
Hutchison China MediTech			✓
IHH Healthcare Berhad			✓
Industri Jamu dan Farmasi Sd Mncl			✓
Innovent Biologics			✓
Ipsen			✓
Johnson & Johnson			✓
Kuros Biosciences			✓
Lees Pharmaceutical			✓
Lilly, Eli & Co			✓
Lonza	✓	✓	✓
Mallinckrodt			✓
Mednax			✓
Mylan			✓
New Century Healthcare			✓
Novartis		✓	✓
Novo Nordisk			✓
Odontoprev			✓
Paltac			✓
Phonak			✓
Pihlajalinna Oyj			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Qiagen			✓
Quali			✓
Raffles Medical			✓
Recordati			✓
Roche		✓	
Sartorius Stedim Biotec			✓
Shandong Weigao			✓
Shanghai Pharma			✓
Sihuan Pharmaceutical			✓
Sino Biopharmaceutical			✓
Sinopharm			✓
Smith & Nephew			✓
Straumann			✓
Takeda Pharmaceutical			✓
Thermo-Fisher			✓
UCB			✓
Vifor Pharma			✓
WuXi AppTec			✓
Wuxi Biologics Cayman			✓
Industrials			
3M Company	✓	✓	
ABB	✓		✓
Adani Enterprises	✓		✓
AerCap			✓
AGCO			✓
Aggreko			✓
Agility			✓
Air China			✓
Air France			✓
Air Partner			✓
Aircastle			✓
AKR	✓		✓
Amadeus			✓

Company	E	S	G
Anhui Expressway			✓
Arwana Citramulia			✓
Ashok Leyland			✓
Ashtead		✓	
Assa Abloy			✓
Atlas Copco	✓		✓
AVIC Jonhon Optronic Technology			✓
BAE Systems			✓
Balfour Beatty			✓
Baoye			✓
Beijer Ref			✓
Beijing Capital International Airport			✓
BEIJING ENTERPRISE			✓
Beneteau			✓
Bouygues			✓
Brambles	✓		✓
Bravida			✓
Bucher Industries			✓
Bufab publ			✓
Bunzl		✓	
Burckhardt Compression	✓		✓
Bureau Veritas			✓
Capita Group (The)			✓
Caterpillar			✓
Central Japan Railway Company			✓
Changsha Zoomlion Heavy Industry			✓
China Eastern Airlines			✓
China Liansu			✓
China Yuchai International			✓
Cia Concessoes Rodoviarias			✓
CITIC Pacific	✓		✓
Cleanaway Waste Management	✓		

Source: Schroders, 31 December 2019

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

Company	E	S	G
Cobham			✓
ComfortDelgro			✓
Conzzeta			✓
Coor Service Management			✓
Correios de Portugal		✓	
CRRC			✓
Daetwyler			✓
Dassault Aviation			✓
DCC			✓
Deutsche Lufthansa			✓
Dialight			✓
DKSH			✓
DMCI	✓		✓
Dogan Sirketler Grubu			✓
Dong Yang E&P			✓
Doosan Heavy Industries			✓
Dormakaba	✓		✓
Duerr			✓
EasyJet		✓	
Enav			✓
Enka Insaat			✓
Epiroc			✓
Escorts			✓
Feintool International			✓
Ferrey			✓
First			✓
FISCHER			✓
Flughafen Zuerich			✓
GEA			✓
Geberit	✓		
Generac	✓		
General Dynamics			✓
General Electric			✓
Georgia Capital			✓

Company	E	S	G
GlobalData			✓
GlobalTrans			✓
Goldwind			✓
Grupo Mexico Transportes			✓
Guangshen Railway			✓
Haitian			✓
Hans Laser Technology			✓
Harris			✓
Hazama Ando			✓
Hillenbrand			✓
Hirano Tecseed			✓
Hitachi Transport System			✓
Hochtief			✓
Homeserve			✓
HRnet			✓
Human Soft			✓
Hyundai	✓		✓
Impellam			✓
Implenia			✓
Inabata			✓
Indutrade			✓
International Consolidated Airlines		✓	
Interpump			✓
Interroll			✓
Intertek		✓	
Intertrust			✓
Intrum Justitia			✓
Irish Continental			✓
Itochu	✓		✓
James Latham			✓
JB Hunt Transport Services			✓
Jiangsu Hengli Hydraulic			✓
Johnson Electric			✓
Kanamoto			✓

Source: Schroders, 31 December 2019

Company	E	S	G
Kardex			✓
Kerry Logistics Network			✓
Kintetsu World Express			✓
Kion			✓
Knorr Bremse	✓	✓	✓
Koc	✓		✓
Koninklijke Philips		✓	
Korean Air Lines			✓
Kuehne & Nagel			✓
Kyodo Printing			✓
LATAM Airlines			✓
Legrand	✓		
LG International	✓		✓
Lixil			✓
Lockheed Martin			✓
Lonking			✓
Loomis			✓
Lung Kee			✓
M.P. Evans	✓		✓
Maire Tecnimont	✓		✓
Management Consulting Group			✓
Marubeni	✓		✓
Melrose Industries			✓
Metallurgical of China			✓
Metro Performance Glass			✓
Michael Page			✓
Mirle Automation			✓
Mistubishi	✓		✓
Mitsubishi Heavy Industry			✓
Mitsui	✓		✓
Mitsui Matsushima			✓
Moctezuma			✓
Morgan Sindall	✓		✓
Munters			✓
Nabtesco			✓
Nak Sealing Technologies			✓
Nibe Industrier		✓	
Nippon Densetsu Kogyo			✓
Nippon Thompson			✓
Nitta			✓
Nobina			✓
Norfolk Southern	✓		✓
Norma			✓
Northgate			✓
Parker Hannifin			✓
Peab			✓
Pfeiffer Vacuum Technology			✓
Pinfra			✓
Poenina			✓
Posco Daewoo	✓		✓
PostNL			✓
Prestige International			✓
Prosegur Cash			✓
Qinetiq			✓
Ramirent Oyj			✓
Rational			✓
Recruit			✓
Renew			✓
Rentokil Initial		✓	✓
Rolls-Royce		✓	
Royal Mail		✓	✓
Rps			✓
Ryanair		✓	✓
Safran			✓
Sandvik	✓		✓
SAS			✓
Schindler			✓
Schneider Electric	✓		

Source: Schroders, 31 December 2019

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

Company	E	S	G
Schweiter Technologies			✓
Securitas			✓
Sensata Technologies			✓
SFS Group			✓
Shenzhen Expressway			✓
Shenzhen Inovance Technology			✓
Sig			✓
Sinmag Equipment			✓
Sinotrans			✓
SK Holdings	✓		✓
SK Networks	✓		✓
Skanska			✓
SKF AB	✓		✓
Skil Ports And Logistics			✓
Smiths			✓
Societe B I C			✓
Sojitz	✓		✓
Spie			✓
Stericycle			✓
Sumitomo	✓		✓
Sumitomo Densetsu			✓
Techno Associe			✓
Tekfen			✓
Teleperformance		✓	✓
Thoresen Thai Agencies	✓		✓
Tomra Systems			✓
Toshiba Machine			✓
Toyota Tsusho	✓		✓
TPI Composites	✓	✓	✓
Trakya Cam			✓
Travis Perkins			✓
Trelleborg			✓
Troax			✓
United Tractors	✓		✓

Company	E	S	G
Vallourec	✓		
Valmet			✓
V-Guard Industries			✓
Weichai Power			✓
Wincanton			✓
Wizz Air			✓
Xinyi Solar		✓	
Yangzijiang Shipbuilding			✓
Yuexiu Transport Infrastructure			✓
Zardoya-Otis			✓
Zehnder			✓
Zhejiang Expressway			✓
Zhejiang Sanhua Intelligent Controls			✓
Zhuzhou CRRC			✓
Information Technology			
2CRSI			✓
AAC Technologies			✓
Advanced Micro Devices		✓	
Alps Electric		✓	
Also			✓
Amphenol			✓
AMS		✓	
AOI Electronics			✓
Appen			✓
Applied Materials		✓	
ASM International		✓	
ASM Lithography		✓	
ASM Pacific Technology		✓	✓
Asse			✓
Atos			✓
Aurora			✓
Austria Technologie & Systemtechnik			✓
Avaya		✓	
BE Semiconductor Industries		✓	

Source: Schroders, 31 December 2019

Company	E	S	G
Blancco Technology			✓
Brother Industries			✓
BYD Electronic (International) Co			✓
Canon		✓	
Cardtronics			✓
Catcher			✓
Chaozhou Three-circle			✓
Chin-Poon Industrial			✓
Chroma ATE		✓	
Cielo			✓
Cisco Systems		✓	
Citrix Systems		✓	
CML Microsystems			✓
Cognizant Technology Solutions		✓	
Comet			✓
Compal Electronics		✓	
CRSC		✓	
Cyan			✓
Dassault Systemes		✓	✓
Dialog Semiconductor		✓	
Elite Advanced Laser			✓
Facebook		✓	
First Solar		✓	
Fiserv		✓	
Flexium Interconnect			✓
Focus Media Information Technology			✓
GCL Poly Energy		✓	✓
Genpact			✓
Gigabyte Technology	✓		
Globant SA			✓
Halma		✓	
HCL Technologies		✓	
Hexagon		✓	
Hexaware Technologies			✓

Company	E	S	G
HikVision			✓
Holtek Semiconductor			✓
Hua Hong SemiConductor		✓	
Hynix Semiconductor		✓	
Infosys			✓
Innolux			✓
Inside Secure			✓
Intel		✓	✓
Iress Market Tech			✓
Itochu Techno Solutions		✓	
Keyence			✓
Kingboard Chemical			✓
Kingsoft			✓
Kruk			✓
Lenovo			✓
LG Innotek		✓	
Lite-on Technology			✓
MasterCard	✓		
Melexis			✓
Micro Focus		✓	✓
Microsoft		✓	
Motorola Solutions		✓	✓
Nanya Technology		✓	
Neopost			✓
NetApp			✓
NetEnt			✓
Netmarble Games			✓
Nippon Electric Glass		✓	
Nokia		✓	✓
Novatek Microelectronics		✓	
NVIDIA		✓	
NXP Semiconductors			✓
OBIC Business Consultants			✓
OKI Electric Industry		✓	

Source: Schroders, 31 December 2019

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

Company	E	S	G
On-Bright Electronics			✓
Palo Alto Networks		✓	
Parade Technologies			✓
PAX Global Technology			✓
Paycom Software			✓
Pegatron		✓	
Powertech Technology		✓	
PTC			✓
Qualcomm		✓	
Quanta Computer	✓	✓	
Renishaw	✓	✓	
Reply			✓
S&T			✓
Sabre			✓
Sage Group		✓	
Samsung Electro-Mechanics		✓	
Samsung Electronics		✓	
Samsung SDI		✓	
Science Applications International		✓	
Sensirion			✓
Sensyne Health			✓
SFA Engineering			✓
Shinko Electric Industries		✓	
Siltronic		✓	
Sino-American Silicon Products		✓	
Skyworks			✓
Softcat		✓	
Software		✓	
Sophos		✓	✓
Spectris			✓
Spirent		✓	✓
STMicroelectronics			✓
Sumco		✓	
Sunny Optical Technology			✓

Company	E	S	G
Symantec		✓	
Tata Consultancy Services			✓
Tbea	✓		✓
TE Connectivity		✓	✓
Tech Mahindra			✓
Tech Mahindra		✓	
Telefonaktiebolaget LM Ericsson		✓	✓
Temenos			✓
Tencent			✓
The Ultimate Software			✓
Tianma Microelectronics		✓	
Tokyo Electron		✓	
Tongcheng-elong			✓
Tongda			✓
Total System Services		✓	
Totvs			✓
TPK			✓
Travelport Worldwide			✓
TSMC		✓	
TT Electronics			✓
U-blox			✓
UMS			✓
Universal Display		✓	
Visa	✓		
VMware Inc		✓	
Wandisco			✓
Wasion			✓
Win Semiconductors			✓
ZTE		✓	
Materials			
Adeka			✓
African Rainbow Minerals	✓		✓
Akzo Nobel	✓		
Alamos Gold			✓

Source: Schroders, 31 December 2019

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

Company	E	S	G
Alliance Resources			✓
Alpek	✓		
Altius Minerals	✓		✓
Altri SGPS	✓		
Aluminum of China	✓		✓
Amcor Limited	✓		
Aneka Gas			✓
Angang Steel			✓
Anglo American	✓	✓	✓
Anglo Pacific	✓		✓
AngloGold Ashanti			✓
AngloGold Ashnti			✓
Anhui Conch Cement	✓		✓
Aptar	✓		
Arkema	✓		
ASAHI KASEI	✓		
Ashland Global	✓		
Barrick Gold			✓
BASF SE	✓		
Bekaert			✓
Berry Plastics	✓		
BHP Billiton	✓	✓	✓
BillerudKorsnas	✓	✓	✓
Boliden			✓
Braskem	✓		
Canfor Pulp Products			✓
CAPSTONE MINING COMMON NPV			✓
Cemex			✓
Centamin	✓		✓
CF Industries			✓
China BlueChemical			✓
China Jushi			✓
China National Building Materials			✓
China Oriental			✓

Company	E	S	G
China Resource Cement			✓
China Steel			✓
China XLX Fertiliser	✓		✓
Chongqing Zaisheng Technology			✓
Clariant	✓		✓
CRH		✓	✓
Croda International	✓		
Daicel	✓		
Dainichiseika Color & Chemicals Manufacturing Co			✓
DIC	✓		
Dowa			✓
DowDuPont	✓		
DS Smith	✓	✓	
Eastman Chemical	✓		
Elementis	✓		
En+	✓		
Engro	✓		✓
Eramet			✓
Eregli Demir			✓
Ferguson		✓	
Ferrexpo			✓
Formosa Plastic	✓		
Franco-Nevada	✓		✓
Fresnillo		✓	✓
Fufeng			✓
Glencore	✓	✓	✓
Godrej Industries			✓
Grange Resources			✓
Grupo Argos	✓		✓
Grupo Cementos			✓
Grupo Empres Ence			✓
Grupo Mexico	✓		✓
Gujarat Ambuja			✓

Source: Schroders, 31 December 2019

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

Company	E	S	G
Gujarat Nre Minerals	✓		✓
HEG			✓
HeidelbergCement			✓
Hexpol			✓
Hindalco	✓		✓
Hindustan Zinc			✓
Hochschild Mining			✓
Holcim Philippines			✓
Holmen	✓		
Huchems Fine Chemical			✓
Ibstock	✓		✓
Imerys	✓		✓
India Cements	✓		✓
Indorama Ventures	✓		
JFE			✓
Jindal Steel & Power	✓		✓
JSR	✓		
JSW Steel	✓		✓
KAZ Minerals	✓		✓
Klabin			✓
Korea Petro Chemical			✓
Korea Zinc			✓
Kumba Iron Ore			✓
Kumho Petro Chemical			✓
Kumiai Chemical Industry			✓
Kureha			✓
Lafargeholcim			✓
Lanxess	✓		
Lee & Man Paper Manufacturing			✓
Lenzing	✓		✓
LG Hausys			✓
Linde	✓		
Lotte Chem			✓
LyondellBasell	✓		

Company	E	S	G
Mechel PJSC	✓		✓
Metsa Board	✓	✓	✓
Mexichem			✓
Mitsubishi Chemical	✓		
Mitsubishi Materials	✓		✓
Mitsui Chemicals	✓		
Mondi	✓	✓	
Mpact	✓		
Nan Ya Plastics	✓		✓
Nickel Asia			✓
Nihon Parkerizing			✓
Nippon Steel & Sumitomo Metal	✓		✓
Norbord			✓
Nutrien		✓	
Orora	✓		
Petropavlovsk			✓
Polymetal	✓		✓
PT Timah	✓		✓
Resolute Mining			✓
Rio Tinto	✓		
Rio Tinto Limited	✓	✓	✓
Sealed Air	✓		
Semen Indonesia	✓		✓
Severstal	✓		✓
Shikoku Chemicals			✓
Shougang Fushan Resources	✓		✓
Showa Denko			✓
Sibanye Gold			✓
SIG Combibloc	✓		✓
Sika	✓		
Silgan	✓		
Sk Kaken			✓
Skshu Paint			✓
Smurfit Kappa	✓	✓	✓

Source: Schroders, 31 December 2019

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

Company	E	S	G
Smurfit Kappa		✓	
Sociedad Quimica y Minera			✓
Soda Sanayii			✓
Sonoco			✓
South32	✓	✓	✓
Stora Enso Oyj	✓	✓	
Sulzer			✓
Sumitomo Chemical	✓		
Suzano			✓
Synthomer	✓		✓
Taekwang Industrial			✓
Ternium			✓
Toray Industries	✓		✓
Tosoh	✓		
Umicor		✓	
UPM - Kymmene	✓	✓	
Vale	✓	✓	✓
Vicat			✓
Voestalpine			✓
Yara International			✓
Zeon	✓		✓
Zhaojin Mining Industry			✓
Zijin Mining	✓		✓
Zotefoams			✓
Real Estate			
Allied Properties Real Estate Investment			✓
Altisource Portfolio Solutions			✓
Ascendas REIT			✓
Ascott Residence Trust			✓
Deutsche EuroShop			✓
Empiric Student Property			✓
Frasers Logistics and Industrial Trust			✓

Company	E	S	G
Fortune REIT			✓
Highwealth Construction			✓
Howard Hughes			✓
Keppel REIT			✓
LXB Retail Properties			✓
Morguard Real Estate			✓
Raven Russia			✓
Secure Income REIT			✓
Soundwill			✓
Suntec REIT			✓
UK Commercial Property Trust			✓
UOA Development			✓
Telecommunication Services			
Alphabet		✓	
Boyaa Interactive International			✓
BT			✓
China Communication Services			✓
China Mobile			✓
China Telecom			✓
France Telecom			✓
Global Telecom			✓
Hellenic Telecommunications			✓
HKT Trust			✓
Iliad			✓
Link Net			✓
Magyar Telekom			✓
Maroc Telecom			✓
Mayora	✓		
Megacable Cominicaciones			✓
Mobile Telecommunications			✓
Okinawa Cellular Telephone			✓
Orange Polska			✓
Pacific Online			✓
Pearson			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Proto			✓
STV			✓
Sunrise Communication			✓
Talktalk			✓
Telecom Italia			✓
Telefonica			✓
Telefonica Deutschland			✓
Troy Income and Growth Trust			✓
Turk Telekomunikasyon			✓
Turkcell Iletsim			✓
Vodafone	✓		✓
Xing			✓
Utilities			
Acea			✓
Adani Power	✓		✓
AGL Energy	✓		✓
Aguas Andinas			✓
Alette	✓		✓
Alupar			✓
American Electric Power	✓		✓
Athens Water Supply & Sewerage			✓
Ausnet Services			✓
Aygaz			✓
Beijing Datang Power	✓		✓
Beijing Jingneng Clean Energy			✓
BKW Energie			✓
Black Hills	✓		✓
Centrica	✓	✓	✓
CESC	✓		✓
CEZ	✓		✓
CGN Power			✓
Cheung Kong Infrastructure			✓
China Longyuan Power			✓

Company	E	S	G
China Power International Development	✓		✓
China Resources Gas			✓
China Resources Power	✓		✓
China Yangtze Power			✓
Chugoku Electric Power			✓
CLP	✓		✓
Colbun			✓
Contact Energy	✓		
Drax			✓
E.ON	✓		
EDF			✓
EDP	✓		
Electric Power Development	✓		✓
Electricity Generating Company	✓		✓
Electro Power Systems			✓
Empresa Nacional de Electricidad			✓
Enea	✓		✓
Glow Energy			✓
Hera			✓
HK Electric Investments			✓
Hong Kong & China Gas	✓		✓
Huadian Fuxin Energy			✓
Huadian Power	✓		✓
Iberdrola			✓
Idacorp	✓		✓
India Grid Trust			✓
Inter Rao	✓		✓
Inversiones Aguas Metropolitanas			✓
Iren			✓
JSW Energy	✓		✓
Korea Electric Power	✓		✓
Meralco			✓

Source: Schroders, 31 December 2019

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Company	E	S	G
Naturgy Energy	✓		✓
NTPC	✓		✓
Orsted	✓		
PGE	✓		✓
Power Assets	✓		✓
Public Power	✓		✓
Reliance Power	✓		✓
Romande Energie			✓
Rushydro	✓		✓
RWE	✓		✓
Sabesp			✓
Samchully	✓		✓
Severn Trent		✓	
SJW			✓
Southern Co	✓		✓
SSE		✓	
Suez	✓		
Suez Environment			✓
Tata Power	✓		✓
Tauron Polska Energia	✓		✓
Tenaga Nasional			✓

Company	E	S	G
Tianjin Development			✓
Transalta	✓		✓
Transmissora Alianca de Energia Eletrica			✓
TTW PCL			✓
United Utilities			✓
Veolia Environnement	✓		
Vistra Energy	✓		✓
Xcel Energy	✓		

Source: Schroders, 31 December 2019

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

Our Sustainable Investment team profiles

Schroders has a long-serving and well-resourced Sustainable Investment team. It is comprised of ESG specialists who are responsible for analysis, engagement, voting and facilitating ESG integration into investment processes across teams and asset classes. We also employ dedicated data, product and client resources.

Jessica Ground
Global Head of Stewardship

- Head of team
- 22 years in investment.

Andrew Howard
Head of Sustainable Research

- Thought leadership and integration, climate change
- 22 years in investment.

Hannah Simons
Head of Sustainability Strategy

- Strategy and client focus
- 20 years in investment.

Stephanie Chang
Head of Integration

- ESG Integration
- 15 years in investment.

Elly Irving
Sustainable Investment Analyst

- Consumer goods and services
- 12 years in investment.

Seema Suchak
Sustainable Investment Analyst

- Healthcare and materials
- 16 years in investment.

Ovidiu Patrascu
Sustainable Investment Analyst

- Industrials and IT
- 8 years in investment.

Louise Wihlborn
Sustainable Investment Analyst

- Consumer goods and US
- 2 years in investment.

Holly Turner
Sustainable Investment Analyst

- Climate change
- 2 years in investment.

Source: Schroders

The team provides ESG training to all existing and new investment analysts to ensure that all investment desks are aligned in their efforts to integrate ESG considerations into their analysis. The programme includes general ESG training as well as sector-specific and tailored training for individual investment teams.

The Sustainable Investment team has developed a proprietary investment-driven ESG tool, CONTEXT, that provides a systematic framework for analysing a company's relationship with its stakeholders and the sustainability of its business model. It is designed to support our investors' understanding of the sustainability of companies' business models and profitability, and provides structured, logical and wide-ranging data to support our analysts' views. This consistent structure makes information sharing easier and allows us to identify market wide trends and insights.

Our specialists also produce regular multi-sector and multi-region thematic research (please see the "Sustainability special topics" section on p32 for examples). This research is published on our proprietary global research platform, presented at investment team meetings and is easily accessible to all of our analysts and portfolio managers across all investment teams.

Daniel Veazey
Head of Corporate Governance Analysts

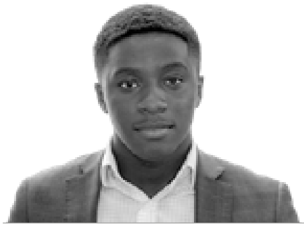
- Corporate Governance
- 18 years in investment.

Pippa O'Riley
Corporate Governance Analyst

- Corporate Governance
- 4 years in investment.

Megan Theobald
Governance and Product Support

- Corporate Governance
- Product support
- 2 years in investment.



Lamin Tarawally
Trainee

- Corporate Governance
- 1 year in investment.

Dominic Tonge
Data Analyst

- Data Management
- 5 years in investment.

Belinda Gan
Investment Director

- Product and client focus
- 15 years in investment.

Sarah Bratton
Head of Sustainability, North America

- Product and client focus
- 12 years in investment.

Claire Herbert
Product Executive

- Product and client focus
- 4 years in investment.

The team also works with Cleo Fitzsimmons (Wealth Management) and Charlotte Jacques (Real Estate).

Source: Schroders

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