Schroders

Responsible Investment Report

2010 Annual Report

In this booklet we provide general information on our asset management services.
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Schroders

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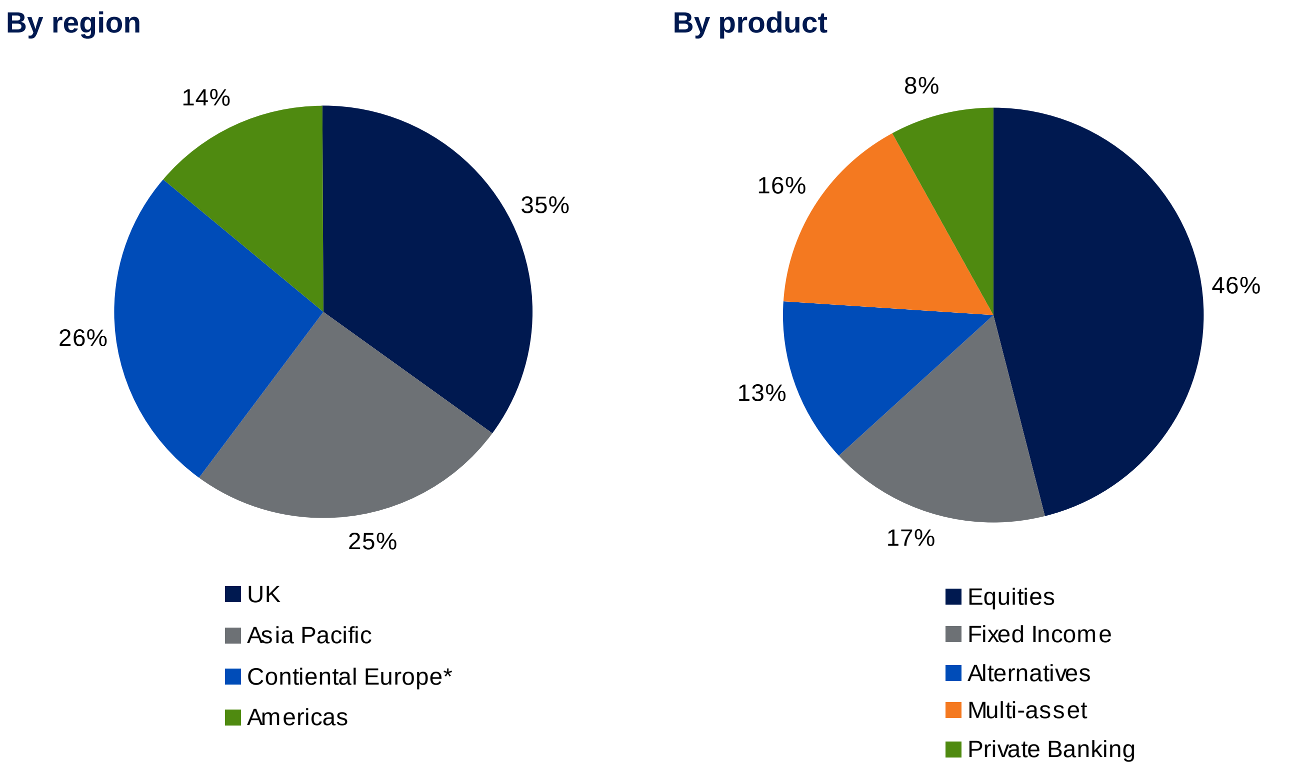
Schroders Overview

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

We are a diverse asset management company, managing £196.7bn GBP (as at YE 2010) on behalf of institutional investors, financial institutions and high net worth clients around the world, invested in a broad range of asset classes across equities, fixed income and alternatives.

Figure 1: Total FUM by region and product (December 31, 2010)



*Including Middle East

We employ more than 2700 talented people worldwide, operating from 32 offices in 23 different countries (as at YE 2010) across Europe, the Americas, Asia and the Middle East.

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

Forward

This report details our activities with regards to our Responsible Investment activities over 2010. It covers our approach to integrating ESG into the mainstream investment process, our activities as active investors (e.g. engagement and voting) and our wider involvement in the RI industry.

We have defined Responsible Investment as the process by which we take into account environmental, social and governance (ESG) issues into our investment process; whether this is directly into the stock selection and valuation process or through shareholder advocacy with companies.

Over the course of 2010 we have continued to expand our RI process to our Global Equity product range with the majority of our global company equity analysts producing explicit comments on the ESG performance of the companies they cover. 2010 has also seen the existing Pan-European SRI policy updated to a Global RI policy which has been approved by the board, we have also published our response to the Stewardship Code (available at schroders.com) and updated the international corporate governance policy. Finally, recognising the increasing need for a global engagement programme we have recruited an additional ESG analyst to the team to help facilitate this.

RI continues to be a growth area within Schroders and during 2011 we plan to adopt a RI policy for our fixed income business, and continue to integrate ESG into all our investment processes, we hope that this report demonstrates the success of our actions to date and underlines our commitment in this area.

Integration

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

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

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

1. **As a proxy for the quality of management.**
   At its most basic, ESG data can be used as a qualitative indicator of the quality of a company's management practices and how these affect financial performance. This sort of analysis can be used to assess the ability of a company to expand into new markets, attract knowledgeable and skilled employees and access key resources, for example.

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

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

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

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

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

Examples of integration

Training – We invited Sir David King (former Chief Scientific Adviser to the UK Government) to present to an employee forum on the issues of resource shortages and climate change. The forum proved to be very useful in increasing awareness and encouraging debate amongst investors. This helps to improve awareness and thinking, within Schroders, about company exposure to long term issues which aren't customarily addressed in financial analysis.

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

Valuation & Selection – Many of our equity research teams now include explicit ESG comments about stocks under their coverage. We have shown the example of China Resources Power (below), which demonstrates how ESG performance can be used as a proxy for management quality and hence integrated into the investment process.

Case Study 1: Integrating ESG into the investment process – China Resources Power. **ESG note written by Global Sector Specialist, 2010. (This is for illustrative purposes only and is not a recommendation to buy or sell shares.)**

Environment: CRP coal plants are more efficient relative to competition, but China's energy policy is set to dramatically shift in favour of cleaner forms of energy, representing clear risk to profitability levels over the medium term for coal generation.	**Social:** Employee investment and operational efficiency factors are good relative to domestic industry. However whenever inflation risk appears, prices for IPPs are capped by the government leading to poor profitability. Regulation consequently is very opaque, and skewed unfavourably for operators.	**Governance:** while operational management is good, control rests with SOE parent company and national policy objectives are frequently prioritised over returns. Balance sheet is stretched as a result of aggressive investment to grow production despite low returns on existing capacity.
Conclusion: standards high relative to direct peers, but multiple ESG risks are not adequately reflected in market valuation. Avoid.		

An additional example would be the inclusion of the price of carbon into the discounted cash flow models of European utilities due to the inclusion of this sector in the EU Emissions Trading Scheme (EU ETS).

Thematic – Please refer to the Global Climate Change fund section (page 8)

RI Special Topic Reports

In order to continue to enhance our understanding of how ESG issues may create risks or opportunities to our investments we produce specific research reports into subjects as diverse as "child labour in the Cocoa supply chain" to "Ecosystem Credit Crunch" in addition to company and sector ESG reviews. This year we have published the following special reports:

Canadian Oil Sands: As demand (and price) for oil continues to grow, the economics of sourcing oil from unconventional sources (e.g. oil sands) becomes more feasible. However these unconventional sources present ecological, social and regulatory challenges. This report explores the development of the Alberta oil sands, the issues these raise and the investment implications of these projects.

Nanotechnology: Nanotechnology essentially refers to technology which applies at the molecular or atomic level. It is not actually a new technology, just a new word to describe it and can refer to anything from the suspension of fat molecules in milk, to the use of molecular robots to repair cells. As the technology and its applications continue to develop there are growing concerns about the implications of this especially in the absence of any international regulations for nano products and technologies. This report explores the definitions of nanotechnology, the concerns about it and the potential legislative risks associated with it.

Aviation and the EU ETS: With the international aviation sector set to be included, for the first time, within the EU Emissions Trading Scheme (in 2012), this report assesses the potential costs of this to the sector; how these might be translated at a company level and how we could use this information to inform our stock valuations and engagement programmes.

Human Capital Management: This report explores the topic of Human Capital Management; the attempts that have been made to link it to corporate performance and the various key performance indicators that are available before concluding that there is still a great deal of progress needed in establishing standardized indicators within sectors to enable comparison, as well as the need for better disclosure by companies.

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

Themed Funds

Schroders Global Climate Change

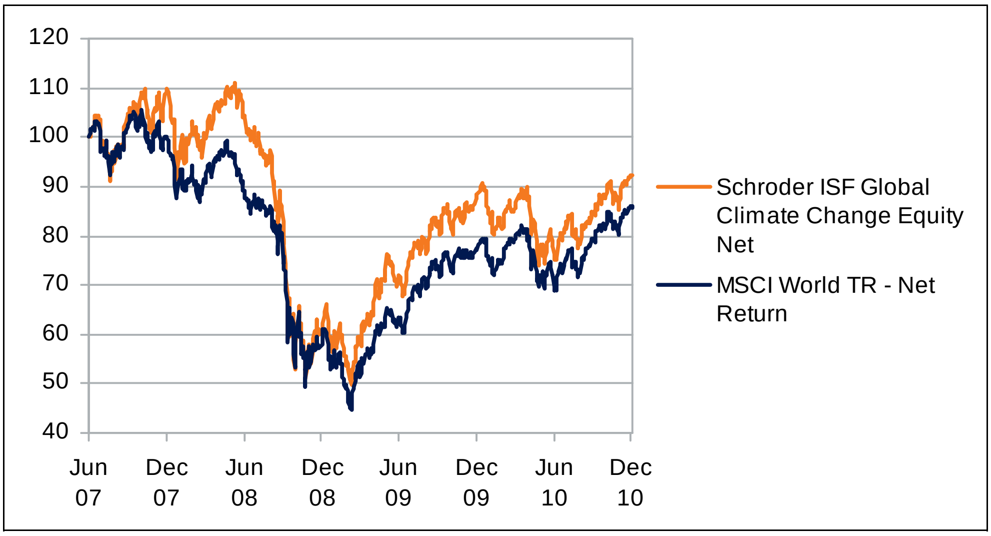
Schroders' Global Climate Change Fund was launched in June 2007 and since then it has outperformed the MSCI World Index by 6.37% (up to December 2010. see Figure 1, below). It is also ranked in the 1st quartile within its peer group for "1 year", "3 year" and "since inception" periods (see Figure 2).

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

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

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

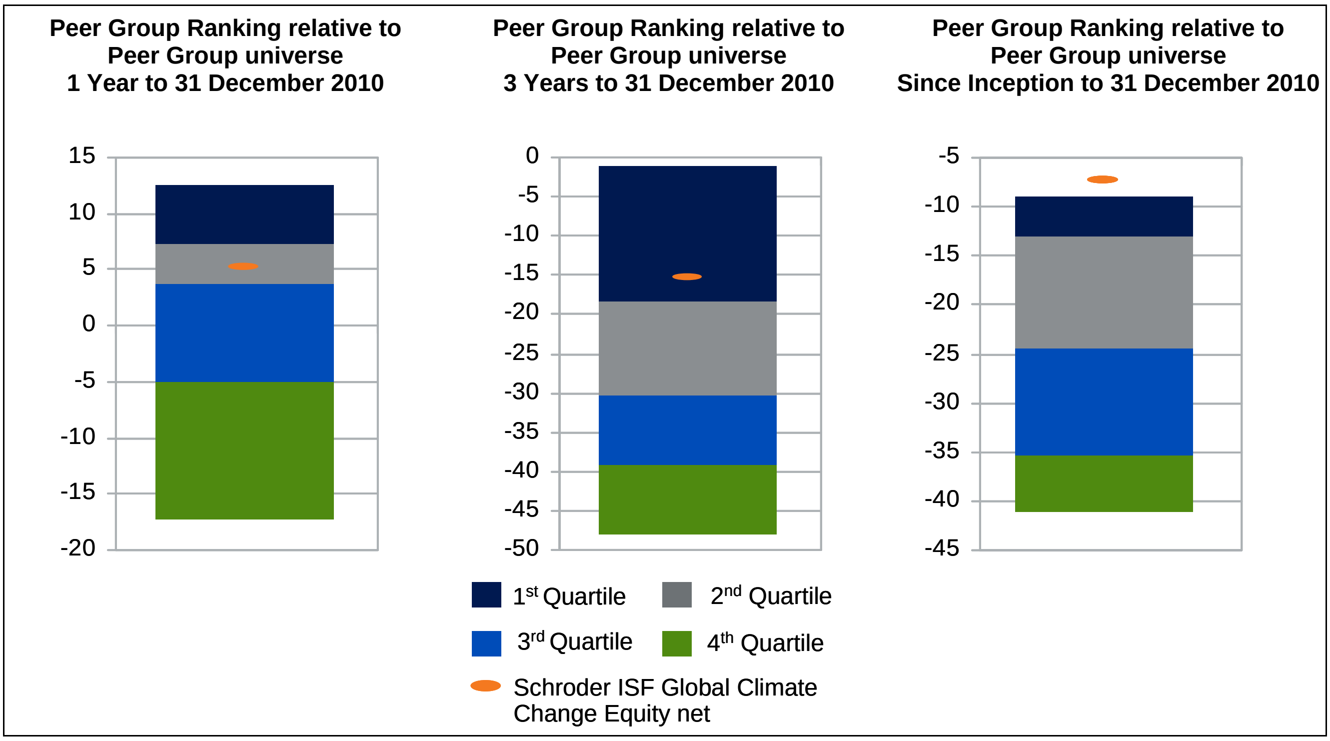
Figure 2: Schroders Global Climate Change Fund performance since inception versus the MSCI World Index



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

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

Figure 3: Schroders Global Climate Change Fund peer group comparison



Source: Morningstar Micropal, Offshore, Sector Equity - Ecology, Bid to Bid in USD using C class share. Net of fees .We excluded the top 5 and bottom 5 percentile for the chart above. Bloomberg. Schroder International Selection Fund is referred to as Schroder ISF

Ethical Screens

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

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

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

Table 1: Group Ethical FUM 2005-2010.

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

2010 saw a large increase in Ethical Funds Under Management (FUM), this was predominately resultant from a number of new ethical accounts, e.g. either did not historically have ethical screens applied or were newly opened in 2010.

Table 2: 2010 Ethical FUM by screen

	% Ethical FUM	% Clients
Tobacco	12%	63%
Armaments & Defence	17%	20%
Alcohol	43%	18%
Gambling Industry	43%	29%
Biotech & Environment	2%	12%
Pork	<1%	2%
Banks/Financial Services	<1%	2%
Interest Income	<1%	1%
Healthcare/Pharma	1%	2%
Pornography	<1%	3%
Human Rights	<1%	2%
Restricted List	13%	8%
Nuclear Energy	2%	7%
Israel	1%	1%
Sudan	40%	5%

Table 2 shows how the different screens are applied to the Ethical FUM. Because each screen is taken individually and more than one screen can be applied at a time the cumulative percentage is more than 100%. The table highlights that while screening against tobacco is most popular in terms of the number of accounts, alcohol and gambling are most popular in terms of FUM.

In addition to the £8.22bn Ethical FUM which are actively screened a further £10bn of FUM are 'monitored' for their exposure to companies with investments in Sudan. Where it has not always been possible to exclude companies from funds, for legal and financial reason, clients have chosen, instead, to be informed of their exposure on a regular basis.

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

Active Owners

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

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

Engagement

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

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

This section of the review will only focus on instances of specific ESG engagement by ESG specialists, however, as active investors we are engaging with companies on a regular basis. In 2010 our equities teams had 12,380 meetings with companies, and whilst these meetings may focus primarily on financial performance they will also be used to address questions on ESG issues where necessary.

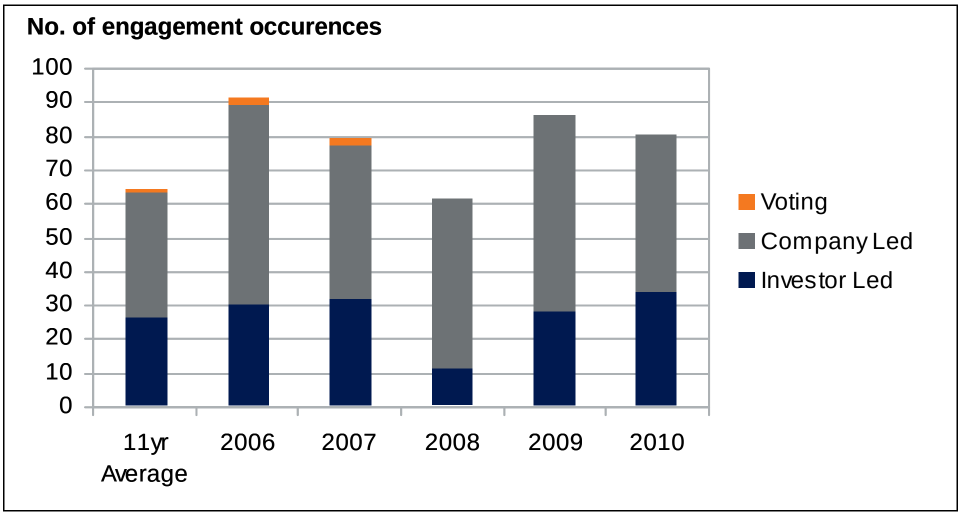
Table 3 provides an overview of the companies that we have engaged with during 2010 specifically on ESG topics. Around 62% of engagements have been with UK registered companies, and 36% with continental Europe. We have recognised the need to expand our engagement activities to a global scale and have recruited an additional ESG specialist to help facilitate this and therefore expect the geographic coverage for 2011 to be markedly different.

Table 3: Companies specifically engaged with on ESG topics during 2010.

Sector	Sub-sector	UK	Continental Europe	Rest of World
Consumer Discretionary	Auto Components	GKN		
	Hotels, Restaurants & Leisure	Millennium & Copthorne		
	Media	Pearson		
	Multiline retail	Marks & Spencer WH Smiths		
Consumer Staples	Food & Staples Retailing	Tesco		
	Food Products	Unilever		
	Household products		Henkel	
	Personal Products		L'Oreal	Shiseido
	Tobacco		Swedish Match	
Energy	Energy Equipment & Services	BP Royal Dutch Shell	Statoil	
	Oil, Gas and Consumable Fuels	Dana Petroleum		
Financials	Commercial Banks	Barclays Lloyds Banking Group RBS Standard Chartered HSBC	Danske Banks Deutsche Bank Santander	
	Diversified Financial Services	Provident Financial	Zurich Financial Services	
	Insurance	Brit Insurance Old Mutual Prudential	Generali Group Irish Life & Permanent	
Health Care	Health Care Equipment & Supplies		Fresenius Gettinge Novo Nordisk	
	Pharmaceuticals	AstraZeneca GlaxoSmithKline	Bayer AG	
Industrials	Aerospace & Defence	BAE Systems Qinetiq Ultra Electronics		
	Air Freight & Logistics	Easyjet		
	Commercial Services & Supplies	G4S		
	Construction & Engineering	Charter International Kier Group		
	Machinery	Morgan Crucible Weir Group	EADS	
Information Technology	Communications Equipment	CSR	Prysmian	
	Software		SAP	
Materials	Chemicals	Filtrona Johnson Matthey	Akzo Nobel BASF DSM Novozymes Syngenta	
	Construction Materials	Carillion		
	Metals & Mining	African Barrick Gold Anglo American BHP Billiton Rio Tinto Vedanta Xstrata	Arcelor Mittal ERAMET	
	Paper & Forest Products	De la Rue		Sino Forest
Telecommunication Services	Diversified Telecommunication Services	Vodafone	Deutsch Telekom France Telecom	
Utilities	Electric Utilities	National Grid Group Scottish & Southern Energy	E.On	China Resources Power
	Gas Utilities	Centrica		

Our activity (see Figure 4) with regards to 2010 engagement performance is in line with previous years, and above the 11 year average. With an additional analyst joining the team in 2011 we expect to see the number of engagement occurrences increase further.

Figure 4: Engagement activity over the last five years.

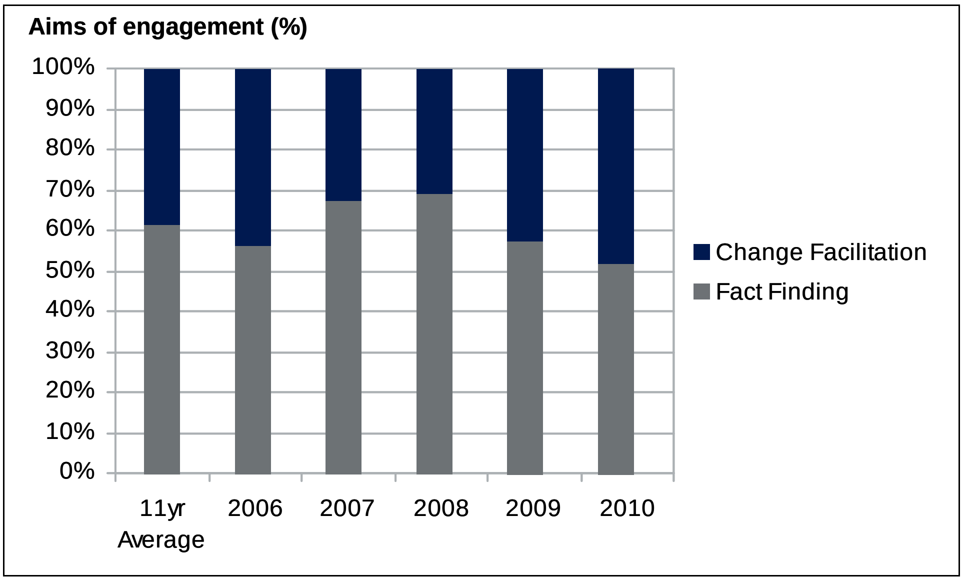


Over the last couple of years we have increasingly sought ways to align our engagement activities more closely with the underlying shareholdings in client portfolios. This has been achieved by conducting a quarterly review of the ESG performance of each company within a desk's portfolio, utilising specialist external ESG research providers.

We then endeavour to analyse and engage with the lowest ESG rated companies in the portfolio in order to improve our understanding of their business and also to encourage changes in strategy to improve ESG performance. We believe this both reduces portfolio risk and can help to improve companies' resilience to ESG issues.

This active approach to engagement has seen the proportion of "requests for change" to "fact finding" engagements increase over the last few years (see Figure 5), as historically a lot of our engagement had been around sector research and so was dominated by fact finding. However if a company is presenting its ESG performance to the market then we will meet with the company to continue our understanding of its progress and add to our research (this is reflected in the company led engagement bar in Figure 4).

Figure 5: Aims of engagement over last five years



Once a request for change has been made we will conduct an annual review on a company's progress in meeting the request (Table 4). Our assessment of the progress a company has made in meeting the request for change is subjective and ranges from "no change" to "achieved", as shown in Table 2. As we do not review these requests until a year after they are made it is not appropriate to provide data for 2010 thus Table 4 only shows data from 2005 to 2009.

Table 4: Effectiveness of requests for change

	10 yr Average	2005	2006	2007	2008	2009
Achieved	10	21	12	7	6	3
Almost	5	13	13	7	3	3
Some change	4	4	10	5	3	16
No change	2	1	2	2	7	9
Ongoing	1	0	0	0	0	6
Success rate	68%	87%	68%	67%	47%	16%

The improvement in effectiveness over time is potentially indicative of two things: firstly that companies might take longer than a year to implement changes, hence 2009's 16% effectiveness rate and; secondly a reflection of the change in the engagement process with there being an increased focus on lower rated ESG companies which may still be needing to establish ESG practices within the organisation, making requests for change tougher to achieve.

Examples of engagement

Case Study 2: Example of fact finding engagement – Unilever and the launch of its Sustainable Living Plan

Paul Polman (CEO) was presenting Unilever's Sustainable Living Plan. This is a far reaching set of targets aimed at redefining the way Unilever undertakes its business, with a greater focus on the improving the social benefits of its activities (e.g. nutrition, health) whilst reducing the environmental impacts (e.g. pollutants, sustainable sourcing of raw materials). It is an ambitious set of targets to reach by 2020, but underlines Polman's statements last year that "it is no longer enough to have an eco-efficiency model, but also need a new business model" as well as demonstrating the long term focus of management by building resilience into their business model for future environmental and social challenges. This serves to emphasise why we strongly rate Unilever's ESG approach.

Case Study 3: Example of change facilitation engagement. Tesco and the lack of year-on-year ESG performance data.

Tesco was presenting its latest corporate responsibility report. We continue to be impressed with Tesco's commitment to corporate responsibility and the climate change strategy it has adopted, in analysing where it can mitigate climate change impacts throughout its value chain, is sector leading. More encouraging still is the announcement of its intention to undertake similar efforts with water and ecosystem services. Whilst we recognise the ongoing improvements in Tesco's corporate responsibility programme we remain disappointed with the lack of performance data it publishes and have asked the company to provide consistent, year-on-year data, specifically highlighting human capital management reporting.

Case Study 4: Example of a review of a request for change. Autonomy and increased disclosure on human capital management.

In Q3 2009, we met with the chairman of Autonomy to discuss the company's ESG disclosure amongst other issues. Autonomy has a very low social and environmental impact, but does have very poor levels of disclosure on corporate responsibility. A key issue for the firm is the management of its workforce as it is the intellectual capital that ensures the products' success. There is very little disclosure on how the company monitors staff satisfaction and the efforts that the company puts in to recruiting, retention and training consequently we have encouraged Autonomy to improve this.

A review of the 2010 Annual Report and Accounts shows that the company is now providing data on productivity, gender, retention, training and seniority within its workforce. As this develops into year on year disclosure it will enable a better understanding of how the company is managing its key asset and how this may impact performance (analysis against revenue per employee, which is also disclosed, could enable this comparison). We therefore rate this request for change as achieved.

Proxy voting & shareholder resolutions

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

Table 5: Voting activity 2008-2010

	2010	2009	2008
Meetings	4,758	5,032	5,423
Proposals	43,674	46,521	49,360
Votes with management	41,497	42,181	47,338
Against management	2,177	4,340	2,022

Schroders will vote for, or against, any proxy requests relating to companies listed in the UK and for companies listed outside the United Kingdom and for non-UK clients on proxy requests relating to the following securities: the largest 500 International (non-UK) holdings by value; the largest 300 UK holdings by value; European smaller company and Japanese holdings where Schroder Investment Management holds above 5% of equity market capital; and securities which local regulations require to be voted. Table 5, below provides a record of our global voting activity for 2010.

Figure 6: Voting decisions with or against management 2008-2010

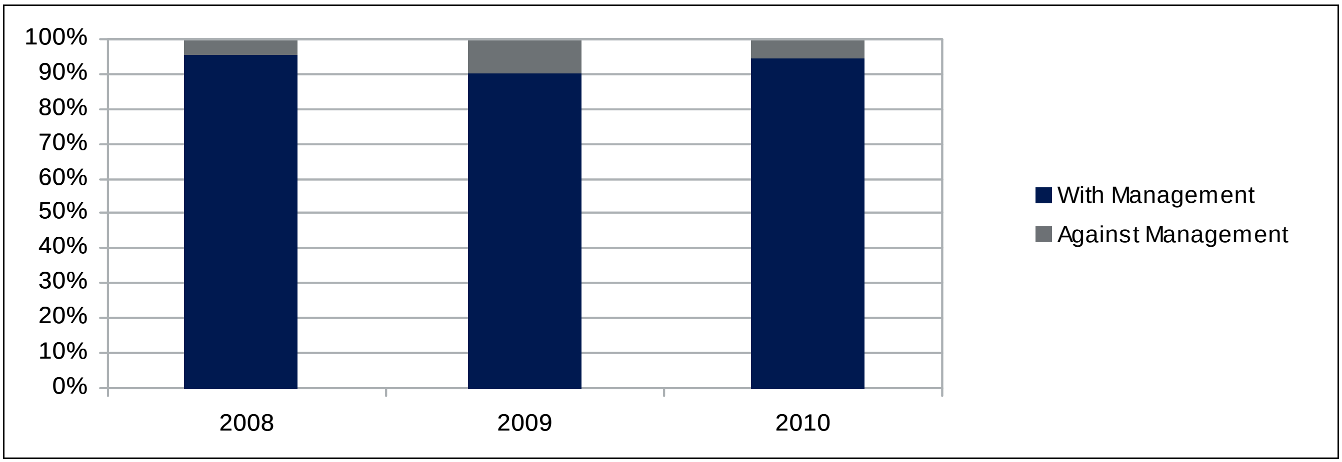
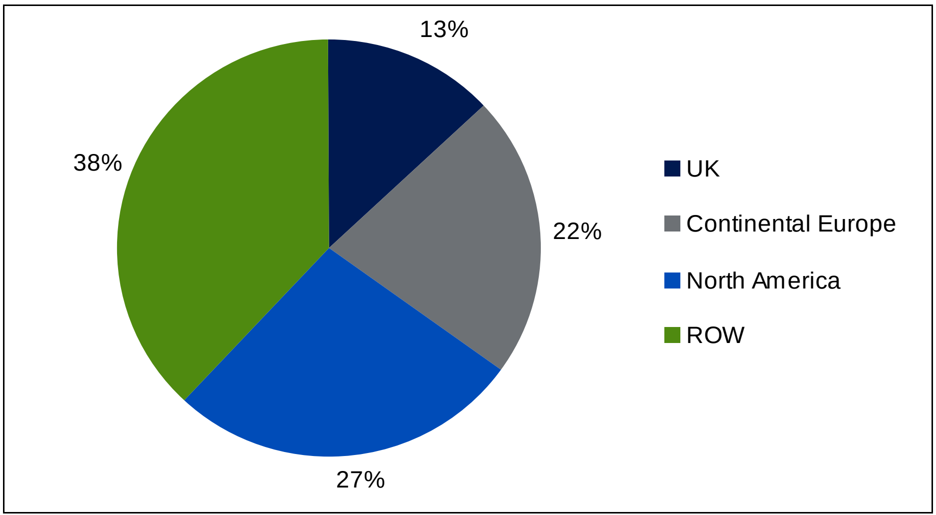


Figure 7: Geographical breakdown of 2010 voting activity.



Whilst the majority of these resolutions target specific corporate governance issues which are required under local stock exchange listing requirements (e.g. approval of directors, accepting reports and accounts, approval of incentive plans) some of these resolutions are tabled by shareholders in the company and focus on the social, ethical and environmental (SEE) issues that a company faces. As with previous years, the majority of these shareholder resolutions have tended to be tabled at the AGMs of US companies (due to US corporate governance regulations making this easier to achieve than in other jurisdictions). Where a shareholder resolution of a SEE nature is tabled at the AGM of a company we will take into account company performance, best practice, whether the company has faced similar resolutions before and, ultimately, if the resolution is in shareholders' interest. We normally hope to support company management, however, we will withhold support or oppose management if we believe that it is in the best interests of our clients to do so (Figure 8, below) shows our voting activities on shareholder resolutions for the last 10 years). Further details about Schroders' approach to voting are covered in "*Investment and Corporate Governance: Schroders' Policy*".

Figure 8: 10 year voting record (by votes cast) on social, ethical and environmental resolutions.

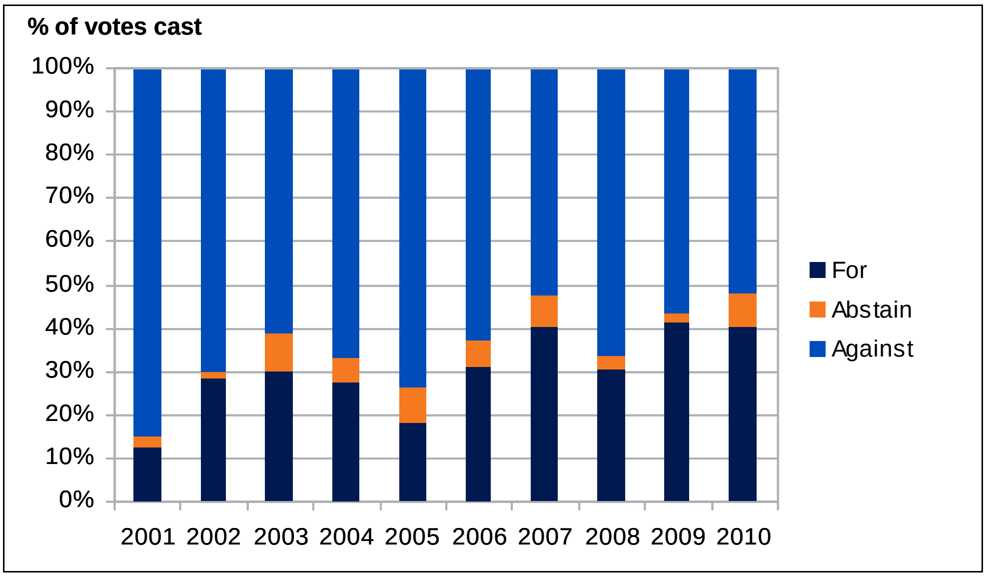


Table 6 provides an historical breakdown of all the issues we have voted on since 2001 (our records go back to 2000). This enables some trend analysis to detect which issues may be increasing in societal expectations (it should be noted though that an investment strategy, which may underweight a particular sector, will reduce our exposure to a sector and hence, potentially tilt the trend analysis). Looking at the ethical issue data, all the topics have been in decline since around 2004/2005 with perhaps the steepest decline occurring in the number of resolutions on animal welfare/testing. Whilst a review of resolutions of an environmental nature, indicates a strong positive growth in resolutions associated with climate change and greenhouse gas emissions, as well as resolutions we class as miscellaneous, which could imply the need for a new set of indicators. Nuclear power continues to attract attention, but these resolutions tend to be specifically targeted at the AGMs of Japanese nuclear power companies, and so our voting on the issue is volatile, depending on whether we hold stock in these companies at the time of the AGM. One other area that has shown a distinct increase over the year is in resolutions requesting companies establish or report on environmental policies and programmes. With regards to social topics, the issues of labour standards, and equal opportunities both remain the most common social issue raised, and both continue to grow since our records began, whilst the other issues remain predominantly flat.

If one were to draw conclusions from this, it is that there is a general increase from investors into how companies are building resilience into their operations with regards to climate change, a desire to see increased environmental disclosure from companies as well as to know how companies are treating their workforce and those of their suppliers.

Table 6: Social, environmental and ethical shareholder resolution voting records by issue (2001-2010)

	Issues	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Ethical	Animal Testing/Welfare	5	8	8	13	14	18	4	1	0	0
	GMO	0	1	2	3	6	6	5	2	5	5
	Weapons	2	5	2	5	5	6	9	4	0	3
	Tobacco	3	5	2	3	8	5	8	7	2	4
	Miscellaneous	1	0	0	0	0	0	0	4	0	1
Environment											
	Toxic chems	4	0	1	3	3	3	5	3	2	4
	GHG/CC	16	15	12	14	7	5	12	6	2	2
	renewable energy & EE	4	0	1	1	5	0	5	5	3	4
	Nuclear Power	20	3	8	10	7	4	12	12	3	4
	Access to protected areas	0	0	1	1	3	2	2	0	3	2
	Environmental Policy/programme	16	0	1	0	3	1	1	2	5	3
	Forestry	0	2	0	0	1	1	1	2	1	0
	Miscellaneous	6	8	2	6	1	1	3	1	0	0
Social											
	Equal Opps	7	16	12	13	12	7	10	9	6	9
	Labour Standards & human rights	15	12	27	22	25	16	13	16	16	17
	HIV/AIDS	0	0	0	0	1	4	8	2	0	0
	Drug Pricing/Access	0	0	0	1	0	7	5	1	4	6
	Health Care	0	12	3	2	0	0	0	0	0	0
	Health & Safety	2	3	3	3	3	1	3	1	0	1
	Pay disparity	0	1	0	3	1	1	3	2	0	0
	Miscellaneous	2	2	2	5	9	2	7	4	0	2
Other											
	CSR/SEE/Sustainability Report	9	6	4	11	8	3	5	3	0	0
	link pay to ESG	0	0	0	2	1	1	2	1	0	1
	Miscellaneous	4	0	1	1	0	1	4	2	1	5
Number of resolutions voted on		116	99	92	122	123	95	127	90	53	73

Collaboration & Industry Involvement

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

Collaborative initiatives

Access to Medicines (AtM) – We are part of the stakeholders consultation group in the AtM initiative. The AtM was established to rank pharmaceutical companies with respect to their ability to enhance global access to medicines.

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

European Social Investment Forums' ESG Mining report – we have been regular participants in the development of these sector reports which aim to highlight the key ESG issues that sectors face, and this year sat on the steering committee for the development of the mining sector report.

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

Institutional Investors Group on Climate Change (IIGCC) – Schroders is a founding member of the IIGCC, originally sitting on the steering committee during the IIGCC's establishment as well as leading the working group on corporate disclosure. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy. We continue to actively participate in the policy, property and company work-streams. The IIGCC produced an investor statement on climate change which was distributed to policy makers at the Cancun climate change negotiations in December 2010.

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

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

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

Industry bodies promoting ESG practices

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

Corporate Governance Forum – We have continued our membership of this

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

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

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

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

Seminars providing training & learning

Bribery and corruption in the extractives sector – We attended a meeting hosted by EUROSIF and UKSIF on Corruption in the Extractives Industry looking at the challenges posed by corruption and how SRI investors can identify and assess those companies most exposed to this risk.

Carbon capture & storage seminar – This seminar explored the practicalities, progress and economic viability of CCS technology. Of particular value was the in depth analysis of the implications for energy prices in applying CCS technology.

Ecosystem and biodiversity valuation – we attended a seminar which discussed the issue of how to place a value on ecosystems and how this can be integrated into investment decision making.

Electric vehicles – We attended a seminar by Citigroup which was discussing the challenges involved in developing the infrastructure needed to support the roll out of electric vehicle fleets.

EU Emissions Trading Scheme and the Aviation Sector – this was a seminar hosted by the Carbon Trust to present its research into this topic as well as to stimulate further discussion on it.

Internal ESG training & audits - We have held various internal seminars for investment teams on the subject of ESG. In addition the ESG team has undertaken audits of the emerging market and global small cap ESG research, in order to provide feedback and to encourage the continual development of the integration of ESG into the investment process.

Mining safety in Kazakhstan - At this seminar, hosted by Citigroup, Dr. Alistair Clark of the European Bank for Reconstruction and Development discussed the work that his organisation has done in trying to improve safety in Kazakh mines.

Nanotechnologies – We attended an UKSIF event on the potential risks and opportunities from investing in companies involved in nanotechnology.

UNPRI "Diversity" Seminar – we participated in a UNPRI conference call which was setting out the business case for diversity in the work place.

Water – we hosted, and presented on, a panel at an event co-sponsored by UKSIF and the Water Disclosure Project, exploring how the issue of water scarcity, and company water management practices could be integrated into the investment process. Following on from this seminar we met with the Experts in Responsible Investment Solutions (EIRiS) to provide input into the development of its corporate water assessment criteria, which will be made available to its clients to use in company analysis. We also attended a round table discussion between scientists from the Centre for Ecology and Hydrology and the British Geological Society and representatives of the financial sector to discuss how scientific data could be made more effective in financial analysis.

Responsible Property Investment

Schroder Property Investment Management has been managing property funds since 1971 and operates across 9 European offices and is headquartered in London. With over £9 billion of assets under management we are one of the largest institutional property investment managers in the UK.

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

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

Asset management
In 2010 we ensured that each property now has its own Responsible Property Investing (RPI) plan which supplements the existing asset management plan. Existing buildings are asset managed in accordance with our belief that through factoring environmental and social issues in the future refurbishment plans of a building it will become more attractive to occupiers. Our approach remains focused on delivering on-site solutions to achieve our clients' objectives effectively. Where the management of a building is undertaken on our behalf by a managing agent we ensure their policies are fully aligned with our own.

Development
Schroder property has limited exposure to property development, but does undertake schemes to deliver new buildings to occupiers. In 2010 we undertook the development of a 120,000sq ft office building in the Chiswick Park office complex. Working with project managers Stanhope and building contractors Bovis practical completion of the building is due in April 2011. The design and build quality employed on the project is targeting a BREEAM Excellent rating.

Reporting
Two years ago we developed a Responsible Property Investment (RPI) policy that outlines our role and responsibilities as owners, managers and developers of property assets. In 2010 we began to develop a portfolio reporting system in conjunction with our managing agents, to allow key performance indicators (KPI's) across a range of issues to be developed through a process of formal monitoring, linked with the RPI plan for each asset. With a diverse range of both properties and occupiers across our portfolios, collating accurate and timely data is ongoing. We aim to publish these KPI's in 2011, and will continue to use our membership of industry bodies to lobby for greater reporting standardisation against a backdrop of competing benchmarks, questionnaires and voluntary codes that may often conflict with regulations.

Legislation
The most immediate legislative requirement facing property owners is the introduction of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC). Originally a mandatory emissions trading scheme designed to improve energy efficiency and reduce the amount of carbon dioxide emitted. The 2010 budget changed the operating model of the legislation and is now effectively a carbon tax. CRC will affect large electricity and gas consumers who will be required to participate in the scheme, monitor their emissions and purchase allowances sold by the Government, for each tonne of CO2 they emit. The legislation makes it clear that property investors would be failing in their fiduciary responsibility if the energy efficiency of property assets was not a key consideration when making buy or sell decisions.

We continue to lobby for simple changes to the scheme to allow reporting to be completed at an individual fund level (rather than aggregated at a corporate level) to facilitate greater ownership of a portfolio's energy consumption by both landlords and occupiers.
We still anticipate regulation to control the acquisition of buildings with poorest (G) Energy Performance Certificates (EPC) rating and continue to monitor both UK and EU policy debates which may influence future regulation.

Compliance with UN Principles for Responsible Investment

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

UN PRI Principle	Schroders compliance	Location in annual RI report
P1. We will incorporate ESG issues into investment analysis and decision-making processes	– 5 ESG specialists – 328 investment professionals – 203 yrs experience as active fund managers – Responsible Investment and Corporate Governance policies for property and equities – Proprietary Global Research Investment Database – Joint (ESG and company analysts) attendance at company meetings – Collaboration between specialists and professionals – Allocation of broker commission for ESG research – ESG analysts sector twinning with financial analysts – Ad hoc internal ESG training	Pg 6-11 Pg 22
P2. We will be active owners and incorporate ESG issues into our ownership policies and practices	– RI policies for property and equity – Global voting strategy – Active engagement, with regular monitoring of success	Pg 12-20
P3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.	– Engagement can address issues of disclosure, when necessary – Participation in collaborative disclosure initiatives – Submissions to regulators, trade associations, legislators and other bodies	Pg 12-20 Pg 21
P4. We will promote acceptance and implementation of the Principles within the investment industry	– Submissions to regulators, trade associations, legislators and other bodies – Membership of various bodies promoting ESG – Participating in speaker panels at conferences etc.	Pg 21-22
P5. We will work together to enhance our effectiveness in implementing the Principles	– Collaboration – Investor networks	Pg 21-22
P6. We will each report on our activities and progress towards implementing the Principles.	– Quarterly reports – Annual reports – Thematic and special reports – Responsible Investment intranet site – Responsible investment internet – Client reporting portal	