

**Schroders**

# **Global Fixed Income Responsible Investment Policy**

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## Schroders' ESG Philosophy

Schroders provides investment management services to a wide range of clients and as part of that function, we purchase, hold and sell securities in order to earn returns for clients. Schroders' aggregate holdings in a company or its bonds will vary over time as a result of both the flow of client assets into, or out of, our management and of our own portfolio allocation and bond or stock selection decisions.

The idea that good quality companies, operating at an environmentally and socially sustainable level, are more likely to deliver long term sustainable earnings, suggests that an analysis of issuers' quality of management structures, the suitability of internal controls and the ability to manage operational performance, environmental and social risks and opportunities will affect our bonds valuation and selection strategies, actually offering additional assistance in identifying long term outperformers.

At Schroders we believe the responsibility of investors includes protecting the interests of our clients from the impacts of financial and non-financial risks. This can notably be achieved through engaging companies on non-financial issues as it helps in maintaining and increasing the understanding of these risks.

## Our ESG Process

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

### Analysis

Schroders believes that an analysis and evaluation of ESG issues and their impact on investments is a fundamental part of a bond valuation and selection process. Typically ESG analysis will source information from a mosaic of sources, including (but not limited to) the issuer itself, specialist research providers, brokers and academics. We will utilise internationally recognised benchmarks, codes and standards<sup>1</sup> as guidelines for best practice within our ESG analysis, but we are pragmatic in our recognition that no “one” model of ESG management can apply to a company, and that each company has to be considered in respect of the industry and markets in which it operates.

Typically good corporate ESG practice should ensure that:

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

### Integration

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

### Engagement

Engagement with companies is part of our fundamental approach to the investment process as an active investor. It has the advantage of enhancing communication and understanding between companies and investors.

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

<sup>1</sup> These include, but are not limited to, the Institutional Shareholders Committee, the Global Reporting Initiative, the Association of British Insurers, the United Nations Global Compact and the UK Stewardship Code.

## Future actions

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