Annual Sustainability Report

2023

Schroders

Contents

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Sustainability is integral to the way we advise many of our clients, solve their investment problems, and manage their investments for the long term – it is not a standalone activity.

Our ambition

A message from our Chief Executive

Peter Harrison
Group Chief Exectuive

> For us, sustainability is not an isolated product range or team. It is embedded in our thinking, processes, technologies and services.

Sustainability is embedded in how we support a large portion of our clients and help them meet their long-term investment goals. For us sustainability is not an isolated product range or team. It is embedded in our thinking, processes, technologies and services.

In the last 12 to 18 months, perspectives on sustainable investment have become increasingly polarised. In the US, there are concerns that about potential clashes with investment objectives. At the same time, in the UK, there is a rising worry that zealous investors might impede companies' management.

Despite these differing views we remain steadfast in our approach to sustainability. This is grounded in our belief that social and environmental change is accelerating, creating more complexity for investors – and the need for more sophisticated solutions.

This fundamental belief, coupled with decades of experience, will continue to guide our approach, and enable us to deliver the outcomes our clients expect.

A message from our Global Head of Sustainable Investment

Andy Howard
Global Head of Sustainable Investment

> There is a paradox in that the disruption posed by social and environmental pressures has never been greater, but sustainable investing faces a more challenging backdrop than for many years.

There is a paradox in that the disruption posed by social and environmental pressures has never been greater, but sustainable investing faces a more challenging backdrop than for many years.

2023 was a year in which armed conflict grew – or broke out afresh – in many parts of the world. It was also the hottest year on record, with average global temperatures reaching 1.5°C above pre-industrial levels. That is a frighteningly rapid rise in the eight years since the Paris Agreement was signed in 2015, targeting a maximum of 1.5°C. These and myriad other pressure points underline the increasingly complex, challenging and fluid world into which we invest and in which the need for thoughtfully directed capital is growing. Our industry is unavoidably exposed to those trends; the key question is whether firms like ours proactively engage with those challenges and seek to navigate them effectively or wait for them to play out.

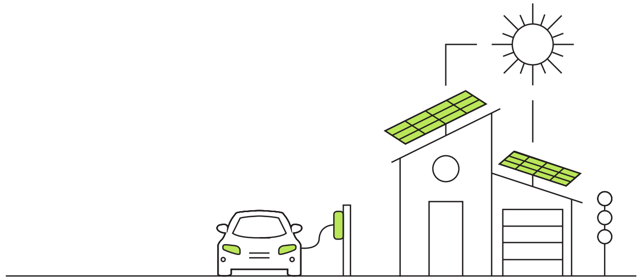
Despite those clear warning signs, we are seeing a growth in anti-ESG rhetoric in many parts of the world. In the US, where this trend is strongest, 2023 saw more States introduce rules seeking to limit or prohibit the consideration of ESG factors when investing public funds.

Our conviction that sound investment decisions cannot be taken without considerations of sustainability is unshaken. Many of our clients share our view: they see that the costs, risks and opportunities arising from ESG factors – either directly or indirectly via regulation or political reaction – are too material to ignore.

We believe the sustainable investing capabilities we have developed over many years put us in an excellent position. We aim to identify investment risks and opportunities through a detailed understanding of the companies and assets we invest in and the social and environmental forces affecting them.

Active management – supporting change and transition in the companies and assets we invest in – is crucial to our investment principles. In 2022 we launched our Engagement Blueprint, laying out the key issues we expect companies and management teams will face, and changes that may help them navigate those trends. Our analysis shows that engagement can support changes that lead to outperformance. The same principles apply across our investments in both public and private markets.

2023 saw growing scrutiny of investment managers' relationships with the Boards of investee companies. We try to focus on constructive dialogue and engagement to support management teams rather than confrontational conflict. We do not treat resolutions as a statement of our general stance on that issue. We think about the resolution in the context of the company and our other engagements with it. There are no shortcuts to doing this well: real change derives from thoughtful and constructive relationships with investee businesses. In 2023, our survey of over 350 global companies asked for their view on investor engagement and our approach specifically. We were encouraged to hear that our efforts have been recognised as thoughtful and constructive.
Find out more here.



Our sustainability strategy

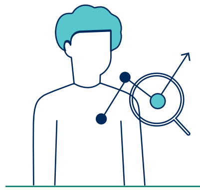
Focus on delivering for our clients, through insights built on our investment expertise

Our Group sustainability framework in summary

Sustainability is integral to the ways we advise many of our clients, solve their problems, and manage their investments for the long term. Sustainability factors are reflected in the way we manage investments and engage with our clients and other stakeholders. The same principles are also reflected in our approach to sustainability and impact within our own business.

Our sustainability commitment is reflected in four key areas across Schroders:

We understand and meet our clients' sustainability needs through:

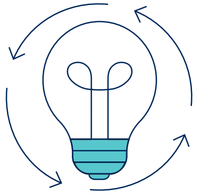


Insights

Our dynamic sustainability insights and analysis

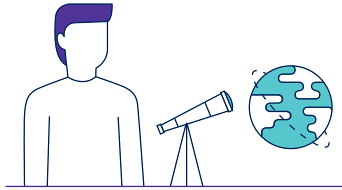
Influence

Our ability to engage with companies and assets to operate moresustainably



Innovate

Our differentiated services and innovative solutions in sustainability



Inspire

Our ability to lead by example in our own corporate actions

Our leadership in sustainability, combined with our heritage of thoughtful active management and strong conviction in our views and priorities, delivers for all our stakeholders

Insights

At Schroders, sustainability is embedded in our investment approach. More than five years ago, we began a journey toward ensuring that sustainability factors were considered in our investment decisions. This means that all in scope strategies can demonstrate how material sustainability factors are identified and examined, and how the results of that analysis are incorporated into investment decisions and active ownership efforts. In practice, this means >60 desks are assessed annually on: (i) how ESG informs their investment philosophy; (ii) how they integrate sustainability into investment and portfolio construction decisions; (iii) how they approach active ownership; (iv) what sustainability resources and training they draw on; and (v) whether they can provide a minimum of three integration case studies from the previous 12 months.

We have continued that journey, refining the accreditation framework we apply to assess the rigour of investment teams' integration. In 2023, we included a greater focus on climate change risks, asking investment teams to articulate how they identify climate-related risks and opportunities and measure climate exposure. Secondly, we placed more emphasis on sustainability-focused engagement, asking the teams to provide a "focus list" of engagements they will carry out over the following year, linked to themes set out in our award-winning Engagement Blueprint.

In 2024, we are continuing to deepen that framework and the foundation it provides. Our approach was awarded the Excellence in ESG Integration award by Investment Week in 2023.

We are proud of our track record on integration. The update that we have made to our accreditation framework is helping to raise our standards and remain at the cutting edge. We showcase case studies of our Integration 2.0 framework in practice on page 9.

A big focus throughout 2023 was in continuing to provide our investment teams with actionable insights to help investment decision-making. This included further developing our suite of proprietary tools, as well as delivering high quality research for our investors and clients.

Key initiatives in 2023

Proprietary materiality mapping

We rolled out our proprietary materiality mapping framework, which identifies tangible issues with the most wide-reaching financial implications across sectors for each of our priority sustainability themes.

If we take climate change as an example, the materiality assessment was developed for two main reasons: firstly, to aid investor analysis of the most material climate-related risks and opportunities for companies in different sectors, but also to guide climate-related engagement with companies. It can be used alongside our climate engagement toolkit, which sets out the questions that we believe are most pertinent to ask companies to dig deeper into their specific climate materiality, beyond metric data.

ThemEx™

We continued to roll out our new proprietary tool, ThemEx™, across investment teams. ThemEx™ aligns 6,000 products and services across 16,000 companies to sustainable investment themes or the UN Sustainable Development Goals (SDGs).

The tool aims to identify goods and services that make a material contribution (positive or negative) to solving world problems – whether you prefer this to be expressed in terms of UN SDGs or Schroders Super Themes is up to you.

On a practical level, the largest component of ThemEx is a "simple" aggregation of thematically relevant goods and service segments into relatively homogenous business activities. These activities can then be translated into thematic/SDG exposure through a sparce matrix of weights. This matrix allows for positive and negative weights and for activities to have relationships with multiple themes/SDGs. This allows us for example to capture the contribution fertilisers make to SDG 2: Zero Hunger, while recognising that there is a negative impact on SDG 15: Life on Land and SDG 14: Life Below Water.

Net Zero Dashboard

We evolved our suite of climate models to support our journey to net zero. This included bringing into production our new model, the **Net Zero Dashboard**. The Net Zero Dashboard provides analysis on the emissions and temperature alignment across our investments, allowing portfolio managers to understand which of their holdings are most exposed to climate risk.

The Schroders Net Zero Dashboard estimates the forward-looking environmental impact of our investing activities. Specifically, it calculates the implied temperature pathway and financed emissions for a snapshot of our investment holdings so that investment teams can understand which of their holdings are most exposed to climate risk. Breaking exposure down by sector and region supports target setting by analysts and fund managers, while providing Group Risk with data to engage with investment teams on their climate transition approach.

[1] ESG integration is the process of identifying, analysing and incorporating relevant and material ESG factors into investment decisions as well as the ongoing monitoring of portfolios and engagement with investee company or assets' management teams. We consider that examining a wider range of factors than may be captured in traditional investment analysis allows a more complete view of potential investment drivers and better- informed investment decisions as a result. For certain businesses acquired more recently, we have not yet accredited the integration of ESG factors into investment decision-making. A small portion of our business where the integration of ESG factors is not practicable or possible is also excluded, for example, certain legacy businesses or investments in the process of being liquidated, and certain joint venture businesses.

More insights can be found here.

Insights

Research in practice

AI: what is the social and environmental impact?

Environment

AI, despite existing in the digital realm, has substantial physical impacts due to the underlying infrastructure required for its operation. This includes data centres, processors, and specialized computing hardware, all of which have significant raw material and resource requirements.

However, AI holds promise in addressing environmental challenges. It can enable better resource monitoring to optimize energy and water usage. AI-powered "agritech" can enhance food security, and it has the potential to improve our ability to predict extreme weather events. By harnessing these capabilities, AI can contribute positively to sustainability efforts.

Human rights

Digital access has made a huge contribution to economic development. While the percentage of the global population with access to the internet now exceeds 60%, billions of people remain without. As technology evolves, this "digital divide" could continue to prevent equal participation for low-income households, the disabled, rural areas, and older adults.

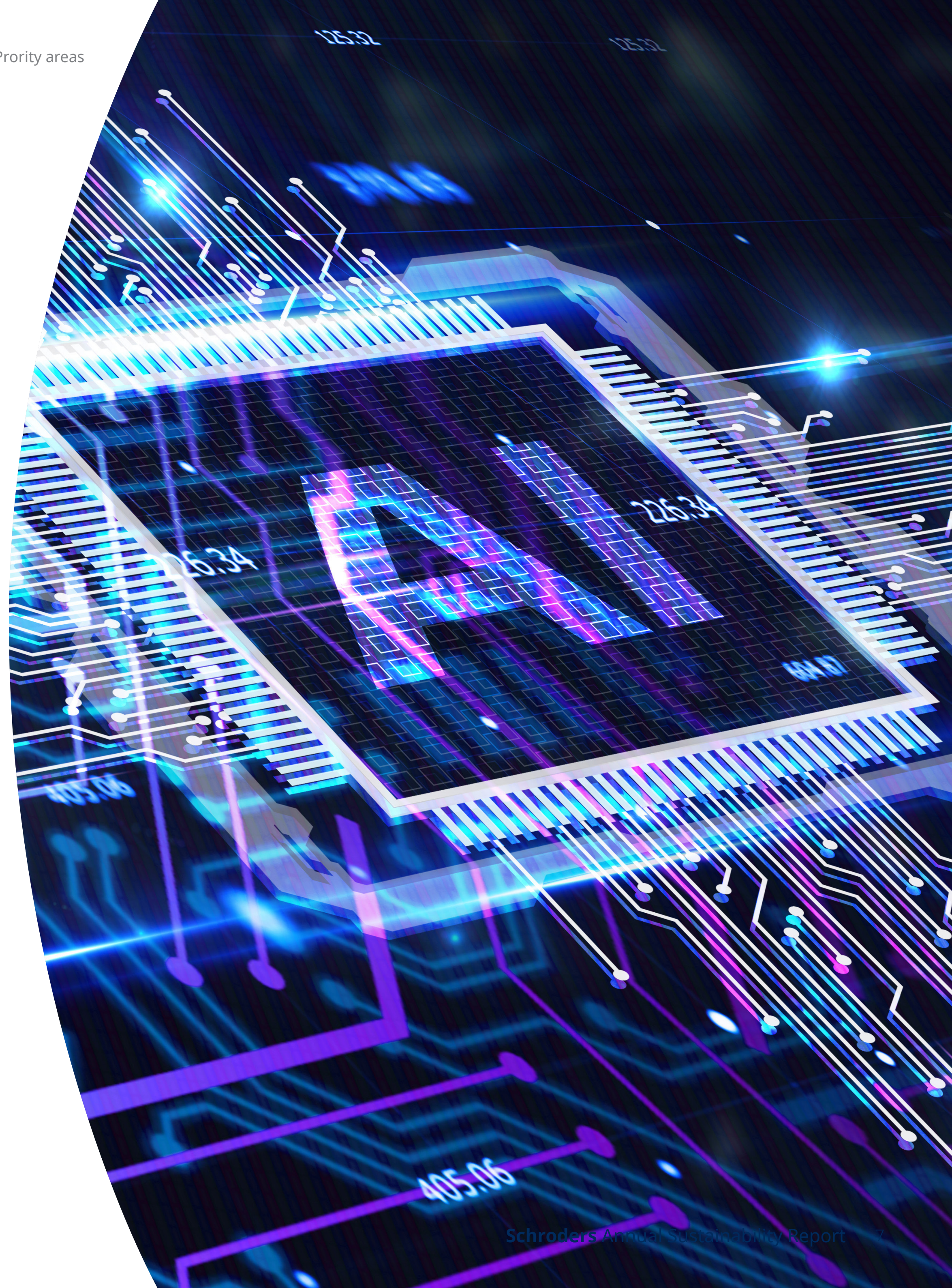
Against this backdrop, there are concerns about the deployment of generative AI while many still to do not have basic internet or broadband access. The UN has called for a Global Digital Compact (to be agreed in 2024) to promote increased transparency and accountability about the impact of digital technologies on human rights.

As with the environment, we also need to consider the benefits that AI can bring to human rights. Studies have already shown how AI can improve outcomes in education and healthcare.

Human Capital Management

We've been automating work for 200 years. Every time we go through a wave of automation, whole classes of tasks go away, but new classes of task, and new jobs, are created. There can, of course, be dislocation in the process and sometimes the new jobs go to different people in different places. Over time, however, the total number of jobs has not gone down, and society, generally, has become more prosperous. We engage with companies we invest in on their approach to human capital management and expect them to act responsibly in their efforts to attract, retain, develop and motivate their employee base.

AI may create the opportunity to automate certain tasks in a way that improves speed or accuracy.
This may result in workers having more time to do focus on the human-centric elements of their job.



Research in practice

Human Capital Management: how people are our greatest assets

An organisation's human capital refers to its people's capabilities; a cumulative, unique, path-dependent set of individual and collective attributes, including skills, experiences, and relationships, available to the firm to create economic value. It is a special form of intangible asset that produces economic wealth by unlocking value from otherwise inert forms of tangible capital on firms' balance sheets. Human capital management is the catalyst that permits this crucial transformation, turning assets into earnings by driving productivity.

Below are our core views and findings on this topic so far:

1. Human capital is a critical source of competitive advantage and resilience;
2. Effective human capital management requires the stewardship of a variety of systems, including operating models, culture and inclusion, incentives, talent and learning, and innovation;
3. Qualitative and quantitative analysis of human capital management allows us to ask different questions about the drivers and sustainability of value creation;
4. Human capital return on investment (HCROI) is an accounting-based quantitative measure that can be used alongside employee economic value added (EEVA) and other metrics to assess the effectiveness of human capital management;
5. HCROI is positively correlated with forward excess returns over multiple time horizons and across multiple sectors, even after controlling for a variety of factors;
6. Companies with stronger HCROI create more value through the cycle;
7. HCROI analysis can be used as part of a broader investment and engagement process; helping us interrogate why companies with similar levels of labour investment can achieve different fundamental outcomes;
8. Corporate disclosure of human capital-related data remains poor; richer and more pervasive disclosure would benefit market participants and asset owners.

Read our full research here.

Integration in practice

Climate integration in practice

Global Small Cap Equities

Our Global Small Cap Equities team review climate risks on a systematic basis. Analysts identify and flag any controversial stocks or those that are significant contributors to emissions, as flagged by our proprietary model SustainEx™. The components of this analysis are also reviewed and monitored by the team at a portfolio level during team meetings.

In conducting bottom-up climate research, analysts utilize various tools, including but not limited to SustainEx™, CONTEXT, as well as third party reports such as MSCI and Sustainalytics. However, there may be instances where we disagree with these scores, often due to inadequate reporting or disclosure, which is common among small-cap companies. Our difference in opinion arises from working closely with the company to gain a comprehensive understanding of their business and making a judgment on the carbon intensity of their operations. Currently, we rely on a straightforward approach that involves reviewing any carbon data provided by the company, as well as leveraging the knowledge and experience of the covering analyst through the analysis of financial data, capital expenditure (capex) investment, and asset intensity.

As new data and tools become available, we aim to enhance our climate risk assessments. Where we have gained confidence in our views, we actively work to bring about change where appropriate, ensuring that risks are accurately reflected. This may involve collaborating with the sustainability team to challenge external scoring bodies or advocating internally for adjustments to SustainEx scores.

In terms of Scope 1-3 emissions and avoided emissions, we collaborate with the SustainEx™ team to gain a better understanding of the necessary data and encourage our invested companies to provide relevant disclosure and enhance their reporting to acknowledge the associated benefits. We do not currently have any on-going initiatives to change SustainEx scores.

Active ownership as a key pillar of the investment process

European Specialist Equities

Our European Specialist Team identify sustainability issues for engagement in several ways:

- Internal screens such as SustainEx™ and TMed and external reports from the likes of MSCI flagging ESG-related risks.
- Company news flow has prompted specific engagement (e.g. around capital allocation; governance issues; human rights concerns).
- Through collaboration across investments desks on issues affecting several funds/products.

The fund managers established a more systematic approach to drive multi-year engagements in 2023. These engagement plans have been developed and are maintained in collaboration with the Head of Engagement and the ESG Integration team. There are currently 16 individual company multi-year engagement plans live and mapped on ActiveIQ. The team will continue to create multi-year engagement plans for more companies throughout 2024, broadening the scope of AUM that is covered.

Engagement for an Impact fund:

The engagement to determine Impact is carried out based on KPIs and risks are identified as part of the Impact Scorecard process. The fund managers carry out broader sustainability analysis in a variety of ways. There is a combination of qualitative monitoring (due diligence through company meetings, expert calls, sell-side research) and quantitative analysis (Collider report, CONTEXT governance scores, ESG Dashboard for climate risks, external ratings, proprietary Principle Adverse Impact (PAI) dashboard).

The fund managers use ActiveIQ to track progress on multi-year engagement plans into Active IQ, working closely with the Active Ownership team.

A new accreditation for 2023

Integration in Private assets: the example of Schroders Greencoat

Schroders Greencoat integrates sustainability factors throughout the investment process, through four key stages:

1. Investment screening
2. Detailed due diligence
3. Price adjustment/and or mitigation plans
4. Investment committee approval

By integrating sustainability factors at each stage of the investment process, Schroders Greencoat aims to ensure that sustainability risks and opportunities are carefully considered and addressed.

Part of the ESG due diligence is the risk assessment of the asset against climate change and the identification of potential mitigation measures.

During a recent acquisition, the team assessed the asset with their preferred climate risk assessment platform under different climate scenarios and timeframes. The results showed high risk in coastal inundation historically and throughout the century due to the topography, whilst the exposure to all other hazards were minimal. (Hazards include coastal and riverine flooding, heat stress, precipitation drought, wind and wildfire). These results were aligned with the seller's flood risk and climate risk assessment and after extensive discussion with technical advisors we agreed on the seller's suggested mitigation measures.

Specifically, the elevation of buildings by 30cm above ground level was required and similarly sensitive equipment within the Distribution Network Operator (DNO) substation was raised a minimum of 1m above ground level. These design amendments aim to provide flood defence against extreme weather events during the asset's lifetime.

Influence

Through constructive and committed engagement with management teams at the companies and assets in which we invest, active ownership is a key element of the value we bring to our clients. Social and environmental forces are reshaping societies, economies, industries and financial markets and in doing so are increasingly influencing investment returns.[2]

By thoughtfully encouraging boards and management teams to adapt to these changes and tracking their success, we can strengthen the long-term competitiveness and value of their businesses. The importance of effective governance and corporate culture, good quality boards and management teams is vital to implementing successful investment strategies.

Our Engagement Blueprint describes our approach to engagement on environmental, social and governance (ESG) topics, it complements our ongoing dialogue with management teams on other critical factors such as corporate strategy and capital efficiency. To help identify ways to improve our approach, we examine the effectiveness of engagements we have undertaken, and in 2023 we published research analysing the association between engaging companies and investor returns.[3]

In February, we produced the third update to our Engagement Blueprint, first published in 2022.
We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. We aim for the blueprint to provide clients with a better understanding of how we approach our active ownership responsibilities, and to provide clarity on our engagement priorities to investee companies. It also serves to summarise our approach to engaging on sustainability issues to policy makers.

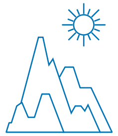
As an active manager with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the companies in which we invest.
Our active ownership priorities seek to reflect the combined perspectives of our clients, fund managers, investment analysts and sustainability specialists across the firm, supported centrally by our Sustainable Investment team.

Climate change

- Climate risk and oversight
- Decarbonising and minimising emissions
- Just Transition
- Climate adaptation
- Climate solutions

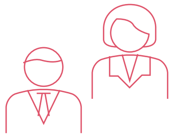
Natural capital and biodiversity

- Nature-related risk and management
- Circular economy pollution and waste
- Sustainable food and water
- Deforestation



Human rights

- Overarching approach to human rights
- Workers
- Communities
- Customers and consumers



Human capital management

- Corporate culture and oversight of human capital
- Investment in the workforce
- Engagement and representation
- Health, safety and wellbeing

Diversity and inclusion

- Leadership and oversight of diversity and inclusion
- Workforce diversity and inclusion
- Value chain diversity and inclusion

Corporate governance

- Boards and management
- Executive remuneration
- Relationships with shareholders
- Purpose, strategy and capital allocation
- Transparency, risk and reporting

+ cross-cutting thematic priorities and sector specific issues

These themes are underpinned by additional cross-cutting thematic priorities, such as business ethics, and sector specific issues, like antimicrobial resistance (AMR) and health. We also increasingly recognise the interconnectedness of themes, such as the Just Transition within the climate theme, which recognises the social dimension of the transition to a resilient and low carbon economy. We seek to reflect this interconnectedness where possible in our engagements with companies.

[2] https://www.stern.nyu.edu/experience-stern/about/departments-centersinitiatives/-centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance
[3] https://mybrand.schroders.com/m/48264c85c129ca64/original/How-Engagement-Works-Governance-and-Returns-FINAL.pdf

Active Ownership at Schroders

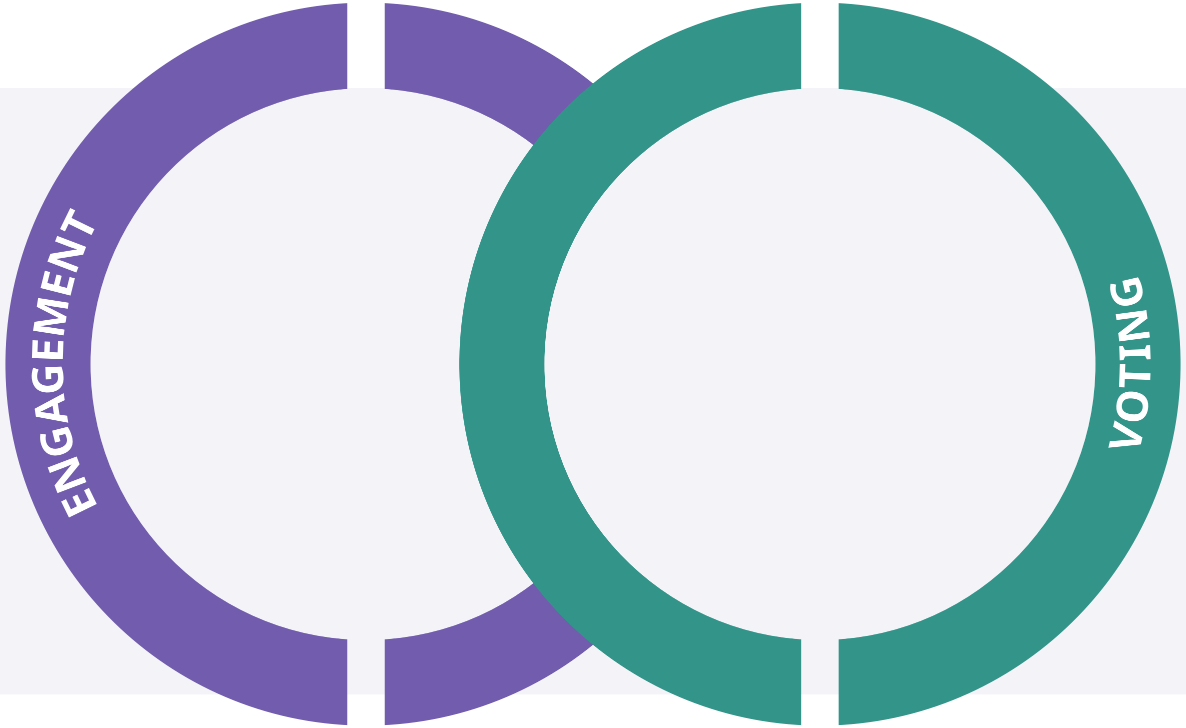
We identify two key methods for practising active ownership:

Engagement

We work with companies using a variety of approaches to:

- **Gain insights** into their understanding and management of relevant ESG risks and their assessment of ESG opportunities
- **Encourage** them to take action in the areas where we believe that change may be required to deliver long-term value for our clients

We refer to these two approaches as insights and outcomes engagements respectively.



Voting

We use our voting rights as shareholders to encourage companies to take action where we believe it to be in the interests of our clients. This includes regular voting as well as targeted voting as part of an escalation in engagement, when necessary.

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

Strengths of engaging as an active manager

We recognise the wisdom of having those closest to the holdings – fund managers and analysts – leading on engagement. In 2023, our investors led 72% of sustainability-focused company dialogues.

Our active ownership priorities reflect the combined perspectives of our fund managers, investment analysts and sustainability specialists supported centrally by the Sustainable Investment team. Our Engagement Blueprints for both listed assets and private markets provide the foundation to guide a common approach to engagement, taking into account differences in asset class as well as factors such as the regulatory environment, cultural factors and market capitalisation.

We believe that engagement should be a two-way street. We welcome companies, clients and our wider stakeholders contacting us about relevant issues and providing feedback on the framework we have set out in this document. Over the course of 2023, we received valuable feedback from many clients on our engagement approach, which we consider as we review our engagement strategy.

Active Ownership in practice

Collaboratively engaging on mental health issues

In 2023, we engaged with a North American provider of health insurance on mental health as part of a collaborative effort centred around the CCLA Corporate Mental Health benchmark.

In March 2023, the ESG team sent an email explaining the mental health benchmark and outlining plans for the collaborative engagement. Our goal was to raise awareness of the importance of mental health in the workplace and initiate discussions on improving mental health practices.

Next, we held a call with the company's investor relations team to delve deeper into the CCLA Corporate Mental Health benchmark. We explored the company's approach to mental health within the workplace, its services for consumers and its disclosures related to mental health practices.

Throughout the engagement, the company highlighted challenges in the US healthcare system, including high consumer healthcare costs and issues with insurance coverage when customers seek care outside the provider network. We also discussed the company's network of healthcare providers and its partnerships for local initiatives.

Overall, we feel encouraged by the company's approach to managing mental health for employees and customers, based on the engagement so far. We look forward to further disclosures regarding mental health services and ongoing discussions aimed at improving the accessibility and affordability of these services.

Schroders Wealth Management Cazenove – engaging managers on net zero

To better understand how asset managers are navigating the challenges of decarbonising portfolios, we engaged with 21 managers with whom we invest, collectively responsible for £27 trillion of assets under management (AUM). 77% of these managers are signatories to the Net Zero Asset Managers (NZAM) initiative.

We share below the key takeaways from these engagements.

Fiduciary duty determines commitment to net zero: Where a manager believes their fiduciary duty lies is the biggest factor in determining how much AUM, if any, they are willing to commit to net zero. We have seen a clear divide between managers operating in the US and Europe.

Education of clients is crucial: Asset managers need to equip their clients with tools, data and resources to understand climate risks thoroughly. This enables clients to make informed decisions aligned with their investment preferences.

Offering net zero-aligned products: Managers must provide clients with investment products that are aligned with net zero goals, tailored to their preferences and capacities.

Engagement with companies for decarbonisation: Asset managers prioritise engagement with underlying companies as a key strategy for decarbonising portfolios. We encourage managers to focus on engaging with their top emitters and establish robust engagement policies with clear, time-bound targets.

Active Ownership within Schroders Capital

In private markets, active ownership and stakeholder engagement are not only fundamental to our regular business activity as a responsible manager of assets, they are at the heart of our value creation and sustainable and impact strategies. Given the importance of engagement, at the start of 2024, we extended the scope of our Engagement Blueprint to include our objectives and activities within Schroders Capital, which reflect different approaches where the structure of our investment allows or requires a different perspective to that of public market engagement.

While the guiding principles of why and how we engage are consistent across Schroders, the distinct characteristics of private markets investment strategies require distinct engagement approaches in each asset class considering typically longer investment horizons, the provision of capital for tangible assets and a greater ability to operate and enhance our assets, for example in direct real estate or infrastructure equity. These features can provide us with an opportunity to build operational and financial value from origination to exit along all the different steps of our investment process.

Schroders Capital

Engagement Blueprint for Private Markets

Engagement in numbers

In 2023, we held over 6,700[4] sustainability-focused engagements, interacting with over 4,400 companies across 73 countries. In 2023, we also engaged with 20 sovereigns. We breakdown our engagement activity below:

Sustainable Investment Team-led engagements

441

Analyst/fund manager-led engagements

1,108

There may be occasions when it is more effective to work with other institutional shareholders to influence company management and effect positive change. We review collaborative engagements on a case-by-case basis to ensure that the objectives of such engagements are aligned with our firm-wide ESG policy.

On occasion, we also send letters to our holdings to communicate updates to our policies or sustainable investment priorities. For example, in 2023, we sent letters to our equity holdings to set out our voting policy and expectations prior to the annual general meeting (AGM) season. We also shared our Engagement Blueprint.

We outline the number of collaborative engagements and expectation-setting letters sent out in 2023 below:

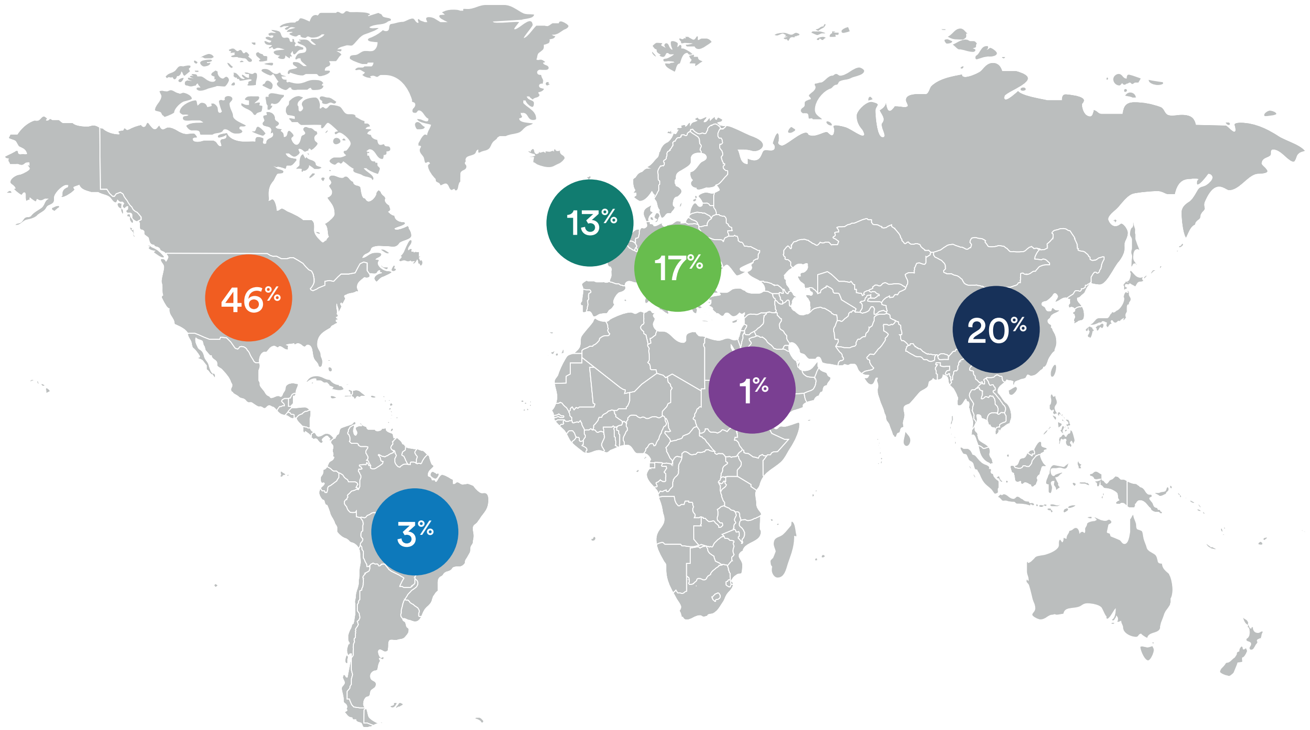
Campaigns and collaborative engagements

1,134

Mass communication around voting season

4,041

Engagement by region in 2023



Region			
Asia Pacific	20%	Middle East and Africa	1%
Europe (ex-UK)	17%	North America	46%
Latin America	3%	UK	13%
TOTAL			100%

[4]Engagement figure combines Sustainable Investment team-led, analyst/fund manager-led, campaigns and collaborations and mass communications around voting season.

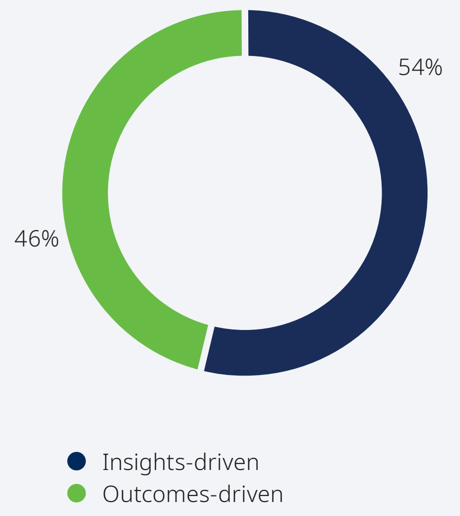
Source: Schroders, December 2023.

Engagement activity by type

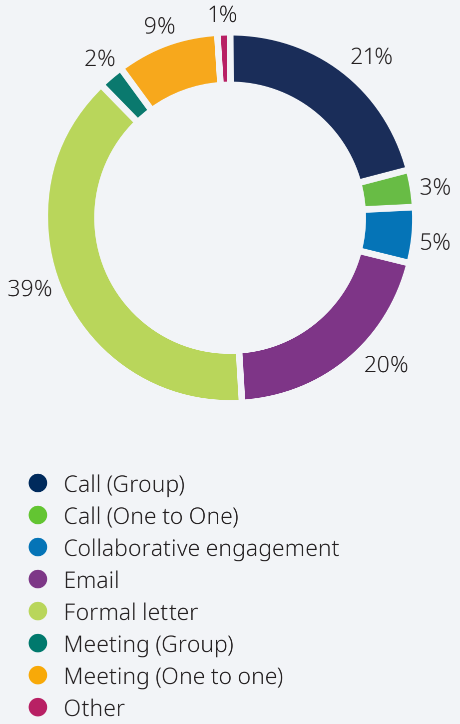
We divide our engagement into two categories: insights-driven and outcomes-driven. The figure below shows how this has been split over the past five years.

We outline below the split of our engagement activity in 2023, by method and engagement theme.

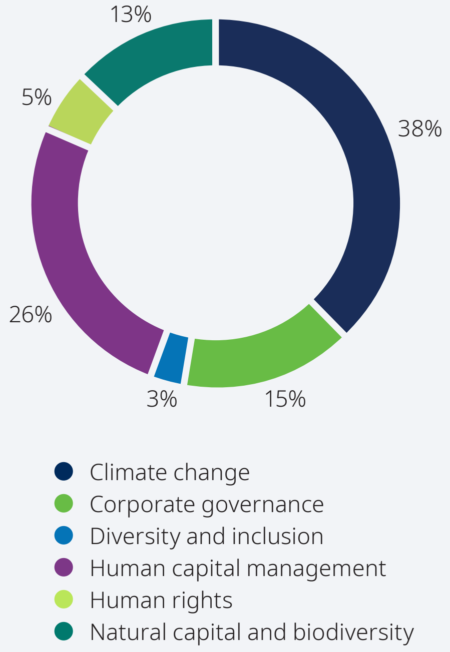
Reasons for ESG engagement in 2023



Company engagement by method in 2023



Company engagement by theme in 2023



Source: Schroders, December 2023.

Influence

Voting in Numbers

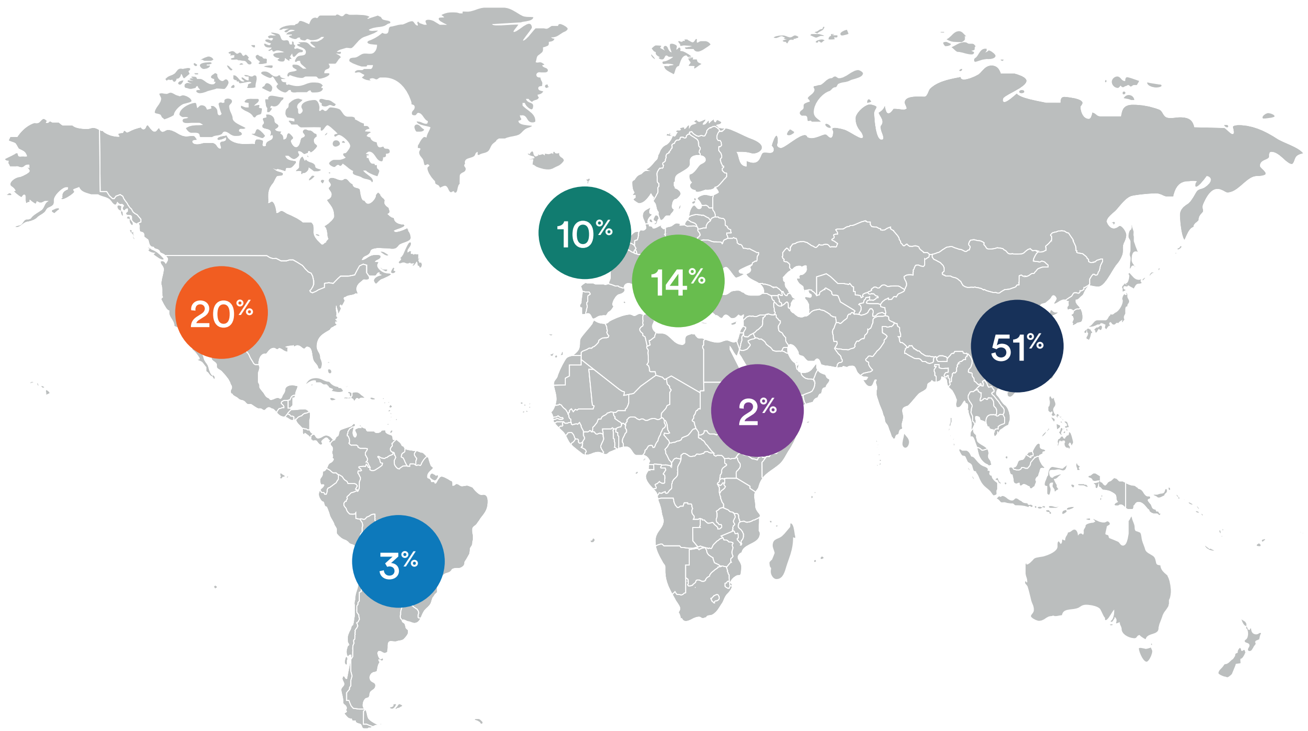
As active owners of our clients' capital, we believe that making full use of our voting rights is part of our fiduciary duty.

In 2023, we voted on approximately 96% of total resolutions, and instructed a vote against the board's recommendations at 13% of meetings. In total, we voted on over 7,140 resolutions.

Global voting over the past five years

Year	Meetings	Resolutions	% of resolutions voted with the board	% of resolutions + abstentions against the board
2023	7,400	76,997	87%	13%
2022	7,280	74,948	87%	13%
2021	7,492	78,637	87%	13%
2020	6,518	68,992	87%	13%
2019	5,876	61,156	87%	13%

Voting by region in 2023



Region		Region	
Asia Pacific	51%	Middle East and Africa	2%
Europe (ex-UK)	14%	North America	20%
Latin America	3%	UK	10%
Total			**100%**

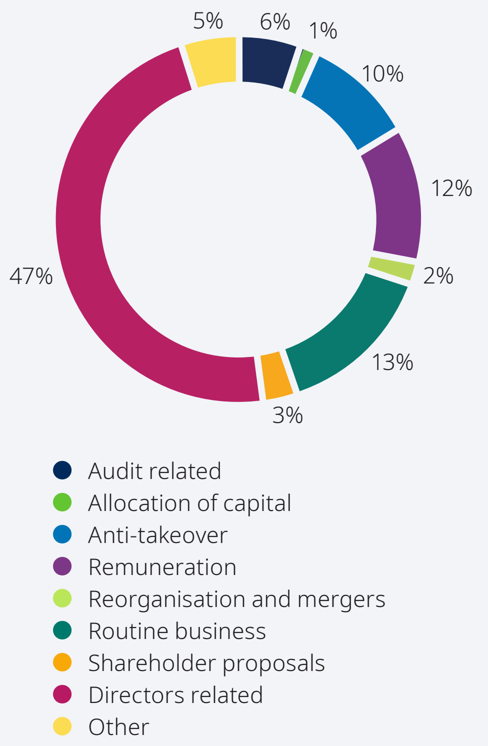
Source: Schroders, December 2023.

Voting activity by type

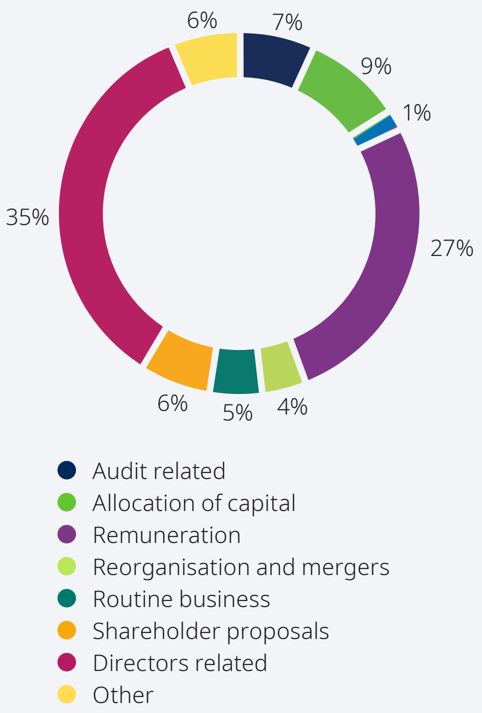
It is our policy to vote on all resolutions at all shareholder meetings globally unless we are restricted from doing so (e.g. as a result of share blocking or where market practices make voting very onerous or expensive). We aim to take a globally consistent approach to voting, guided by our published Voting Guidelines and subject to regulatory restrictions.

We outline the breakdown of our votes against management in 2023 in the figures below.

Votes by category



Votes against management



Source: Schroders, December 2023.

Innovate

Demand for sustainable investment strategies continues to outpace the wider global fund market, with particularly strong growth among products that provide exposure to specific sustainability themes or which deliver positive impacts to help tackle social and environmental challenges. The rapid growth in regulation of those funds has helped to define and bring transparency to that market.

While adherence to regulation is clearly vital, we consider it important that sustainable investment strategies are grounded in thoughtful analysis of the best ways to deliver the outcomes clients are seeking to achieve, rather than simply compliance with standardised requirements. Sustainability challenges are too important, and the field too nascent, for a formulaic approach to developing new ways to help our clients align their capital with sustainability and impact objectives.

In 2023 we established a framework describing the different types of sustainable strategies we manage across the firm to help our clients navigate that expanding range. At the end of 2023 we had achieved:

88%

Portfolios with SustainEx™ score above their benchmark (for portfolio to which these scores can be applied)

>£29bn

AUM in our Impact Driven, Sustainable Thematic and Sustainable Driven fund range[5]

153

Funds in our European fund range categorised as Article 8 or 9

Impact

2023 was a significant year for our impact investment offering. Our impact framework spans multiple asset classes and leverages the extensive expertise of BlueOrchard, a prominent impact investing manager within Schroders Capital with over 20 years of experience in impact across private and listed assets. Our impact framework is structured around three core pillars: impact management, through a rigorous, externally verified impact management framework; impact measurement, using a proprietary impact scorecard and reporting system; and impact governance, including oversight by an independent Impact Assessment Group to assess each transaction.

Schroders joins BlueMark's Practice Leaderboard

"BlueMark's independent verification marks another milestone in Schroders' sustainability and impact journey. The result a testament to our commitment to our robust product range and the rigour and integrity of our Group-wide approach, strongly anchored on BlueOrchard's best-in class impact investing framework." – Catherine MaCaulay, Impact Investment Lead

We are proud to have received top ratings for our alignment to the Operating Principles for Impact Management, from BlueMark. BlueMark is an independent provider of impact verification services in the impact investing market and scored Schroders as "high" or "advanced" on all nine Impact Principles. As a result, Schroders has now joined BlueMark's Practice Leaderboard. Find out more here.

Read our first Impact Report

Impact Report

Examples from around the group:

Schroders Solutions Solutions Advisory – Supporting our fiduciary management clients in setting stewardship priorities

The Department for Work and Pensions (DWP) published its first Guidance on Reporting Stewardship, which included both statutory and non-statutory guidance, and was effective for all UK pension scheme years ending on or after 1 October 2022. This was an important update from the DWP which made clear that pension trustees are expected to be more proactive in their own stewardship activities and improve their disclosures through the annual Implementation Statement. Over 2023, to support our UK fiduciary management (FM) clients in meeting best practice we first provided training on our Engagement Blueprint themes. We also gave them the opportunity to influence our engagement priorities as their fiduciary manager. To do this, we issued a SchrodersAsks survey asking for views on which Engagement Blueprint themes they wished us to prioritise. The results of the survey supported FM clients in the following ways:

- Helped them demonstrate they have set stewardship priorities per the DWP guidance.
- Inform and influence Schroders Solutions Investment team's priority campaign engagement themes to align with the majority of our clients' wishes.
- Provides focus areas for reviewing voting and engagement activity of underlying managers in the portfolio as part of annual regulatory Implementation Statement reporting

[5]Sustainable Product Range AUM includes internally managed AUM for funds and segregated mandates mapped to Schroders' Sustainability & Impact product framework (relevant to internally managed assets). Within Europe, this framework has an additional pillar, Sustainable Tilt, representing £46.4bn AUM. Further detail on the framework can be found on our website. Please note, the figures for segregated mandates are under-represented as mapping to this framework is still being finalised.

Source: Schroders, December 2023.

Inspire

Leading by example in our own corporate actions

Madeleine Cobb
Global Head of Corporate Sustainability

We see sustainability as a core business principle; that applies as much to the investments we manage for our clients as to our own business operations. The same rationale and approach to managing assets for our clients drives us in building our own healthy and resilient business for the future. And we believe that when we act with this purpose, society and the wider world benefit too. Our leadership in corporate sustainability is externally recognised: our MSCI ESG Rating is AAA, the highest leadership rating, placing us in the top 10% in our sector. For transparency and progress on climate, we are in the top 2% globally, regardless of sector, to make the coveted CDP Climate Change 'A List'.

Corporate sustainability forms the 'inspire' pillar of our sustainability framework. This is where we have the licence to go further and push the ambition across 'people' and 'planet'. This also supports us to maintain credibility as a sustainability leader, remain an employer of choice for existing and new talent and create positive impact. Our corporate sustainability strategy is made up of three core pillars, underpinned by responsible business practices.

We have made several sustainability commitments for our own business. In 2023, we launched our 2030 inclusion and diversity goals, covering our multi-year inclusion, transparency and diversity aspirations. You can read more about them in our Inclusion at Schroders Report 2023. We are also making steady progress towards our science-based targets. Read our Climate Report 2023 for more detail. Whilst these commitments provide a positive statement of intent, they say actions speak louder than words. We report on our progress in our annual reports, which can be found in our reporting centre.

Employees who agree we demonstrate our corporate responsibility

87%

to support the environment and society*

*2023 Employee Pulse Survey.

Our corporate sustainability framework

	Valuing our culture	Protecting our planet	Acting together
Our goals	Our ability to attract and develop people with the skills and passion to achieve our purpose	Our actions across the business to transition to net zero	Our collective action to create positive impact for charitable causes in our communities
Our priorities	– Build a great organisation with clear purpose and an inclusive culture – Recognise and reward performance with fair pay – Cultivate high-quality work in an environment that prioritises wellbeing – Support personal growth opportunities	– Reduce emissions in line with the science-based target of 1.5C° of warming by 2050 as we transition to net zero. – Improve our environmental impact through reducing resource use – Engage with our people and suppliers to support our climate goals – Mitigate beyond our value chain	– Support causes to improve equality and protect nature through 'Schroders Giving' corporate partnerships – Support our people to volunteer, fundraise and donate through corporate matching schemes – Facilitate philanthropic opportunities for our clients
Our values	**We strive for excellence. We promote innovation and teamwork. We have passion and integrity**		
The foundations	**Underpinned by responsible business practices** Compliance and ethics | Corporate governance | Data protection, privacy and cyber security Human rights | Supply chain management | Tax policies and practice		

Our progress

Key 2023 milestones

Insights

88% Portfolios with SustainEx™ score above their benchmark (for portfolios to which these scores can be applied)

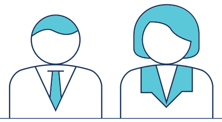
>50 substantive research pieces published for our investment teams, including two key collaborations with a client and Cornell University.

Awarded the **Excellence** in ESG Integration award by **Investment Week** in 2023

Influence

>6,500 engagements with >4,000 companies and **20** sovereigns[7]

Pre-declared our voting decision at 29 company AGMs via our voting blog



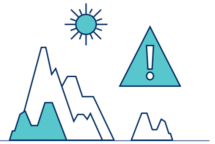
Engagement Blueprint won 'Best Strategy' award at Pensions for Purpose

Innovate

>£29bn[6] AUM in products within our Global Sustainability & Impact Product Framework

153 Funds in our European fund range categorised as Article 8 or 9

Joined BlueMark's 2023 Practice Leaderboard for our approach to **impact investing**



Inspire

35% decrease in operational **Scope 1** and **Scope 2** emissions since 2019

98% renewable electricity across global offices

£5.4 million committed to charitable causes

External recognition:

CDP A rating
CDP leadership level score A

Top of the Global Canopy Forest 500
Leading financial institution for action on deforestation

Sustainalytics
ESG risk rating
17.6 Low Risk

MSCI
AAA

Source: Schroders, December 2023.

[6]Sustainable Product Range AUM includes internally managed AUM for funds and segregated mandates mapped to Schroders' Sustainability & Impact product framework (relevant to internally managed assets). Within Europe, this framework has four pillars - Sustainable Tilt, Sustainable Driven, Sustainable Thematic and Impact Driven. Further detail on the framework can be found on our website. Please note, the figures for segregated mandates are under-represented as mapping to this framework is still being finalised.

[7]More than 400 sustainable investment team led, 1100 analyst/fund manager led, 1100 campaigns and collaborative engagements, 4000 mass communication around voting season.

Priority areas

Climate

Our climate change strategy

Strategy

Transitioning the investments we manage to deliver value over the longer term

Transitioning our operations to lead the way and have impact

Four key pillars of action

1 **Insights**
Measure and manage exposure in our clients' investment portfolios

2 **Influence**
Encourage and support companies to act more sustainably

3 **Innovate**
Develop investment products and innovative solutions to meet clients' needs

4 **Inspire**
Lead by example in our own corporate actions

Near-term targets and progress

2.5°C achieved — *Align portfolios to a 2.2°C pathway by 2030[1]

State net zero ambition for all third-party listed equity and credit funds by 2030[3]

Reduce carbon intensity of Scope 1, 2 and 3 (tenant energy consumption in Schroders Capital Real Estate) by 16% by 2025 and 36% by 2030[4,5]

Reduce Scope 1 and 2 emissions intensity of Schroders Greencoat assets by 50% by 2030[5]

35% achieved — *Reduce Scope 1 and 2 emissions by 46% by 2030[5]

98% achieved — *Achieve 100% renewable electricity by 2025

39% achieved — *Reduce business travel emissions by 50% by 2030[5]

23% achieved — *Encourage our suppliers to set science-based targets so that 67%[6] have done so by 2026

Long-term targets and progress

2.8°C achieved — *Align portfolios to a 1.5°C pathway by 2040[2]

Achieve net zero or net zero aligned pathway for all third-party funds by 2040[3]

1.5°C science-based pathway

Net zero by 2050 or sooner

* Validated science-based targets.
1 Includes Scope 1 and 2 financed emissions for Schroders direct listed equity, corporate bonds, REITs and ETFs.
2 Includes Scope 1, 2 and 3 financed emissions for Schroders direct listed equity, corporate bonds, REITs and ETFs.
3 Third-party funds (including Schroders funds), which Cazenove Capital selects within their discretionary business.
4 A proportion of Schroders Capital Real Estate directly invested in UK and European discretionary mandates.
5 From a 2019 base year.
6 By greenhouse gas emissions.
N.B. All target years are by 31st December.

Priority areas

In 2023, the temperature score for our listed assets, across Scope 1 and 2 emissions, decreased from 2.6°C to 2.5°C, surpassing our annual target. This continues the progress since our commitment to the Net Zero Asset Managers initiative in 2021, when our score was 2.8°C. Various business segments have set targets for financed emissions: Our Wealth Management division has presented its Climate Transition Action Plan (CTAP), detailing its commitments for the funds on its platform. Schroders Capital Real Estate and Schroders Greencoat have also set near-term emissions reduction goals.

Our climate strategy, centred on engagement, is based on the belief that climate change will significantly impact economies, industries and investments. The volume of climate-focused engagement across Schroders has increased recently, providing a basis for deeper analysis of the relationship between engagement efforts and their effects. Since 2021, we have logged engagements with more than 1,000 companies on climate topics, primarily emission reduction goals and transition plans. This dataset provides a basis to compare the changes we have seen among engaged companies with those of companies with which we did not engage. That analysis makes it clear that the strategy we have adopted is succeeding so far. Relative to the ACWI Investable Market Index, while the large global companies we have engaged with since 2021:

- were more than twice as likely to publish new emission-reduction targets
- reduced their emission intensity twice as quickly
- outperform by approximately 4% annually.

In 2023, we held over 900 engagements with more than 740 companies on climate change. We also supported 119 collaborative engagements through the IIGCC's Net Zero Engagement and fossil fuel financing initiatives.

Companies engaged

Of which are climatepriority companies

- 500

The geographic location of the 737 companies are broken down on the right

Engagement event format

Email	35%
Call or meeting (one to one)	42%
Collaborative	17%
Other	11%

Objectives set

Of which were related to

Climate alignment (target setting)	67%
Climate risk and oversight	18%
Deforestation	4%
Carbon capture	3%
Just Transition	2%
Other	1%

2023 voting activity

Shareholder resolutions (supported)
78%

Votes against directors (directors)
92

Votes against directors (companies)
87

Advanced disclosures
6

Source: Schroders, December 2023.

Nature

OECD has estimated that the services nature provides to the planet are worth around 1.5 times our global gross domestic product (GDP).[8] But nature's capacity to provide these benefits is being eroded quickly by the pressures caused by economic development and growth. According to the World Wide Fund for Nature, wildlife populations have declined by an average 69% over the last five decades. Close to US$7 trillion is invested globally each year in activities that have a direct negative impact on nature from both public and private sector sources – equivalent to roughly 7% of GDP.

In this context, it's unsurprising that societies, policy makers, companies and investors have become increasingly focused on nature. Nature-related risks are starting to crystalise as financial and investment risks.

This year we have integrated relevant nature-related information into our Climate Report.

- We have developed a proprietary biodiversity assessment model. We plan to integrate that analysis into established analytical tools to better incorporate biodiversity considerations into investment decisions.
- A significant focus for us in 2023 was delivering on our intention to eliminate commodity driven deforestation from our investments by 2025.
- In 2023 we engaged with 399 companies on biodiversity, with 73% of these engagements focused on deforestation and the remainder on other sub-themes including sustainable food and water, nature loss, circular economy, pollution and waste. We also joined Nature Action 100 (NA100) and participated in letters to 100 companies calling for urgent actions to protect and restore nature and ecosystems. In 2024 we will participate in several collaborative engagements with NA100, with companies whose business models we consider to be closely dependent on nature.
- We have focused on building out our capabilities to help our clients invest in real assets and nature-based solutions that seek to generate strong investment returns and accelerate positive change to protect and restore nature.
- We have continued to contribute to industry groups to share knowledge on investment risks and opportunities relating to nature and biodiversity. In addition, we continue to work towards the nature-related commitments we have made. We are pleased to see that our efforts were recognised by Global Canopy in their Deforestation Action Tracker as number one out of the 150 financial institutions assessed, with emphasis on strong improvements to our processes. In 2024, we will reflect on how best to develop our nature-related commitments, so that these become stronger and more comprehensive, given the recent publishing of the Finance for Biodiversity Foundation's guidance on target-setting.

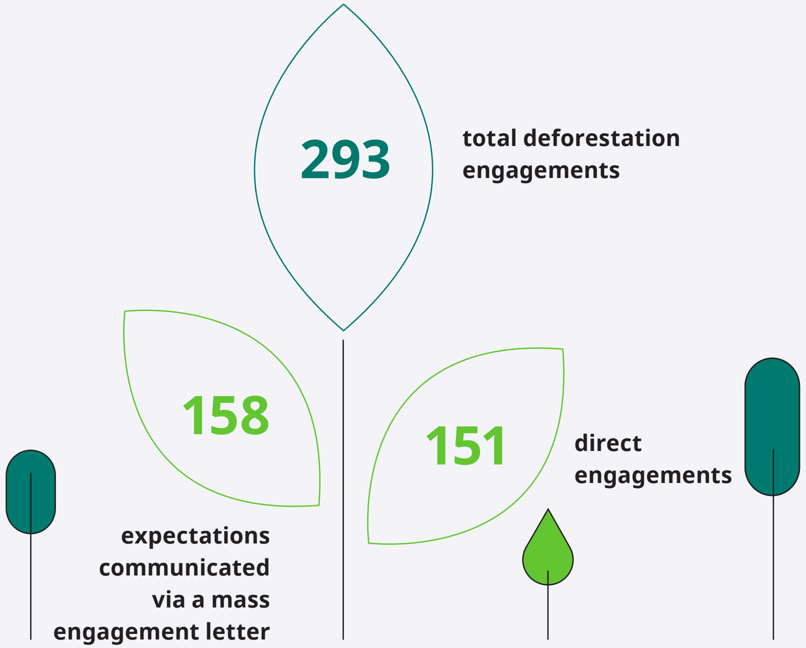
Schroders has joined the Taskforce on Nature-related Financial Disclosures (TNFD) Early Adopters, reflecting our commitment to managing risks associated with nature loss and ecosystem decline. As a TNFD Early Adopter, we plan to commence disclosure in line with the TNFD recommendations in corporate reporting from financial year-end 2024 (to be published in 2025), recognising data availability remains limited among investee companies and assets.

[8]https://www.oecd-ilibrary.org/sites/a3147942-en/index.html?itemId=/content/publication/a3147942-en#:~:text=Ecosystem%20services%20delivered%20by%20biodiversity,the%20size%20of%20global%20GDP

Priority areas

Update on deforestation

We have been engaging with companies on deforestation risk for several years[1] In 2023, we scaled up this effort by adopting a systematic approach to address our highest-risk holdings engaging with 293 companies on deforestation risk.



For more information on the progress made towards our deforestation commitment, please refer to our Deforestation Progress Report, here.

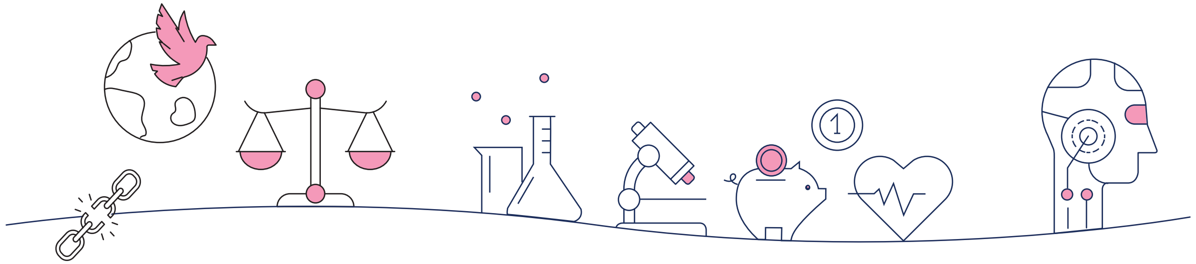
Read more here

[CTAP](#)
[Biodiversity plan and position statement](#)

Human rights

We seek to align with international frameworks that consider human rights issues through the lens of saliency.

- We believe that these salient issues will become increasingly material as businesses involved in human rights controversies could face higher operational, legal and financial risks, and could suffer damage to their reputation. The global standard for preventing and addressing the risk of human rights abuses is the United Nations (UN) Guiding Principles on Business and Human Rights (UNGPs or the "Ruggie Principles"). They are underpinned by the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work, and were unanimously endorsed by the UN Human Rights Council in 2011.
- These help businesses adhere to the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, a framework that provides guidance on responsible business conduct as well as national and sub-national laws and regulations related to human rights. Moreover, many human rights due diligence laws and trade and tariff sanctions related to human rights abuses are being introduced across the globe. The UNGPs state that companies should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. This responsibility applies across operations and to all business relationships, including those throughout a value chain. As an active investment manager, we recognise our connection to potential adverse human rights impacts through the investment portfolios we manage. Therefore, it is crucial that we have robust measures in place to identify and assess human rights and modern slavery risks. We comply with the sanctions regimes issued by the European Union the United Nations United Kingdom and United States. We fully support the international conventions on cluster munitions, anti-personnel mines and chemical and biological weapons and we will not knowingly hold the security of any company that is involved in the production, stockpiling, transfer or use of these weapons.
- A company's salient human rights issues are those that are at risk of the most severe negative impacts through a company's activities or business relationships. The concept uses the lens of risk to people, not the business, as the starting point, recognising that there is often a strong convergence of the two.
- Other UN instruments elaborate further on the rights of indigenous peoples, women, national or ethnic, religious and linguistic minorities, children, persons with disabilities and migrant workers and their families



Influencing companies to uphold human rights and ensure fair practices

We set out our approach to engagement on human rights in our Engagement Blueprint. We participate in several collaborative engagement efforts, including Find It, Fix It, Prevent It, the Investors Against Slavery and Trafficking APAC coalition, PRI Advance and the Churches, Charities and Local Authority (CCLA) Migrant Seasonal Workers. We are also investor members of the Workforce Disclosure Initiative, which aims to improve corporate transparency and accountability on workforce issues.

Schroders

[Group Human Rights Position Statement](#)
[Modern Slavery Statement](#)

Sustainability reporting

We are committed to delivering sustainable value for our clients and our focus on doing the right thing by them, our people and wider society is at the heart of our culture. Below we outline our corporate and investment sustainability reports, statements and policies.

Reports

Quarterly Sustainable Investment Reports: outline our sustainable research, thought leadership, product innovation and active ownership case studies

Climate (TCFD) Report 2023: outlines how we incorporate climate-related risks and opportunities into governance, strategy, risk management and metrics and targets

Climate Transition Action Plan 2021: outlines the actions we take in order to achieve our goal of being net zero by 2050

Modern Slavery Statement 2022: articulates our commitment to tackling modern slavery in our business and through our investments

Engagement Blueprint: lays out our approach to engagement and the actions we expect from the companies in which we invest

United Nations Global Compact (UNGC) Communication on Progress submission: our approach to integrating the 10 UNGC principles into our strategy, which relate to the four key areas of human rights, labour, environment and anti-corruption

Inclusion Report 2022: outlines our commitment to creating an inclusive culture at Schroders

Plan for Nature: outlines our approach to managing nature-related impacts and exposures, from research, analysis and engagement to developing nature-based investment solutions. It also covers our own operations and partnerships with like-minded organisations

Schroders Capital Sustainability and Impact Report: presents a comprehensive overview of how our activities in private markets have performed in terms of delivering long-term sustainability characteristics and impact

Statements

Group Climate Change Position Statement: sets out our position in relation to the environmental management of our operations

Group Human Rights Position Statement: sets our position in relation human rights and the remedy of human rights infringements in relation to our employees, supply chain, clients and investments

Group Nature and Biodiversity Position Statement: sets out our position on nature and biodiversity

Supplier Code of Conduct: outlines the standards and behaviours we expect from suppliers. Suppliers must demonstrate their compliance with this code

Policies

Sustainable Investment Policy: outlines our principles and practices regarding embedding sustainable investing in our processes and strategies

Schroders Group Exclusions and Screening policy: outlines our firmwide exclusions on controversial weapons and coal

Other disclosures

Vote disclosure site is where our global voting activity is published

Industry involvement

SFDR disclosures and statements

Our reporting centre features our publicly available reports.

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Important information

Schroders uses SustainEx™ to estimate the net social and environmental "cost" or "benefit" of an investment portfolio having regard to certain sustainability measures in comparison to a product's benchmark where relevant. It does this using third party data as well as Schroders own estimates and assumptions and the outcome may differ from other sustainability tools and measures.

CONTEXT™ is a proprietary tool used by Schroders to support the analysis of companies' and issuers' management of the environmental, social and governance trends, challenges and opportunities that Schroders believes to be most relevant to that company's or issuer's industry. It provides access to a wide range of data sources chosen by Schroders. Any views or conclusions integrated into Schroders' investment-decision making or research by fund managers or analysts through the use of CONTEXT™ will reflect their judgement of the sustainability of one or more aspects of the relevant company's or issuer's business model, rather than a systematic and data-driven score of the company or issuer in question.

ThemEx™ seeks to measure the alignment of a company's products and services to a range of sustainable investment themes, including Schroders' Super Themes (Climate Change, Demographic Shifts, Natural Capital Management, Societal Change, Technological Innovation) and the United Nations' Sustainable Development Goals. Alignment is estimated systematically based on the company's revenue from its underlying business activities. As ThemEx is focused on revenue alignment from a company's products and services, there is no alignment for operationally focused SDGs such as SDG 13 – Climate Action.

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