Schroders

Stewardship Code

Reporting on our stewardship activities and outcomes in 2020

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Our Commitment to Stewardship

At Schroders, we've always recognised that we have a responsibility to show our stakeholders that we are committed to taking action. Our purpose is to provide excellent investment performance to our clients through active management. Channelling capital into sustainable and durable businesses creates value for our clients and helps accelerate positive change.

In 2020 we integrated environmental, social and governance considerations across our investment teams. This was just a step on the journey. The way we invest is changing, driven by a fundamental shift in how companies are being viewed and valued. Where once we considered only risk and return, we now assess a third dimension – impact risk. Our tools empower our portfolio managers to assess the true impact of each company; to understand their 'impact-adjusted profits'.

Active ownership is also a core part of this. We engage with the companies we invest in to encourage them transition towards a more sustainable business model – one which is more resilient and can support future growth over the long term.

In 2020, there was much focus on the E in ESG and particularly on climate change. We've taken three major steps on this front that show how we're taking decisive action.

The first is that we've joined the Net Zero Asset Manager initiative, the goal of which is to attain net zero greenhouse gas emissions by 2050 or sooner. It is part of a shared aim to limit global warming to 1.5 degrees above pre-industrial levels.

Secondly, we have pledged to set robust emissions reduction targets under the Science-Based Targets initiative. The initiative provides companies with criteria to set a clearly-defined path to reduce their emissions. We were one of the first asset managers to join and expect others to follow.

The third is our appeal to the largest companies to publish detailed plans describing how they intend to transition, beyond simply showing long-term ambition. We have written to FTSE 350 companies but expect the same progress to be made elsewhere: we would like all medium and large companies, regardless of where they are listed or operate to publicly disclose their plans for the decades ahead.

On all aspects of ESG, we want companies to go beyond reporting profits; in time, we want them to publish 'impact-adjusted profits'. Profit, after all, is only half the story. It's essential that how that profit is generated is part of the evaluation equation.

Peter Harrison
Group Chief Executive

26 March 2021

Introduction

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

The UK Stewardship Code (the 'Code'), first published in 2010, updated in 2012 and 2019, sets out the definition and principles for effective stewardship by institutional investors. The Code is overseen by the independent regulator the Financial Reporting Council. Schroders fully supports the Code and complies with all its principles. We seek to apply the Code globally across all of our investments, taking into account local practice, codes and laws. We keep these under review and use this statement as our response to other such codes. The exceptions to this are Schroder Investment Management (Japan) and Schroder Investment Management (Australia) which have their own statements covering locally managed funds that comply with local regulations, but operate using similar principles. Schroders' Environmental Social Governance Policy should be read in conjunction with this document, and provides additional detail on a number of relevant practices.

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our purpose

Schroders has a long history of stewardship with over 20 years of active voting and engagement on behalf of our clients. This has evolved from a UK-focused activity driven by a small responsible investment team to a truly integrated approach across our global footprint. Our purpose is to provide excellent investment performance to our clients through active management. By serving clients, we serve wider society. Channelling capital into sustainable and durable businesses accelerates positive change in the world. Funding the future is a privilege; we use it wisely and responsibly.

Culture, values and business model

We believe that ESG factors are increasingly important drivers of financial performance and investment returns. Our investment process and ownership activities must reflect social and environmental impacts and performance as a result. Schroders' investors are now integrating environmental, social and corporate governance (ESG) factors into their decision-making across all investments the firm manages[1]. This has been driven by our CEO and board, and implemented by divisional heads supported by a 20-strong sustainable investment team and network of 80+ ESG champions across both investment and distribution. This integration has been achieved through the Schroders Sustainability Accreditation framework. This is a process involving close collaboration between the sustainable investment team and each investment desk, culminating in the submission and approval of each desk's accreditation document. Desks are required to describe their approach to ESG integration and how it is embedded within their investment philosophy and processes. Desks must also be supportive of the firm's proxy voting and engagement processes. The documentation must include case studies evidencing ESG integration. A renewal of accreditation is required annually; progress must be demonstrated before the accreditation is renewed. For more information, please refer to our ESG policy. Integration of sustainability into the investment process is aligned to our belief that social and environmental change is happening faster than ever before and that as investors we need to understand how our companies are adapting to establish whether they can generate stakeholder value in the long term. Please refer to principles 4 and 11 to understand our role in the industry and how we're promoting sustainable investment.

[1]For certain businesses acquired during the course of 2020 we have not yet integrated ESG factors into investment decision-making. There are also a small number of strategies for which ESG integration is not practicable or now possible, for example passive index tracking or legacy businesses or investments in the process of or soon to be liquidated, and certain joint venture businesses are excluded.

Principle 2

Signatories' governance, resources and incentives support stewardship.

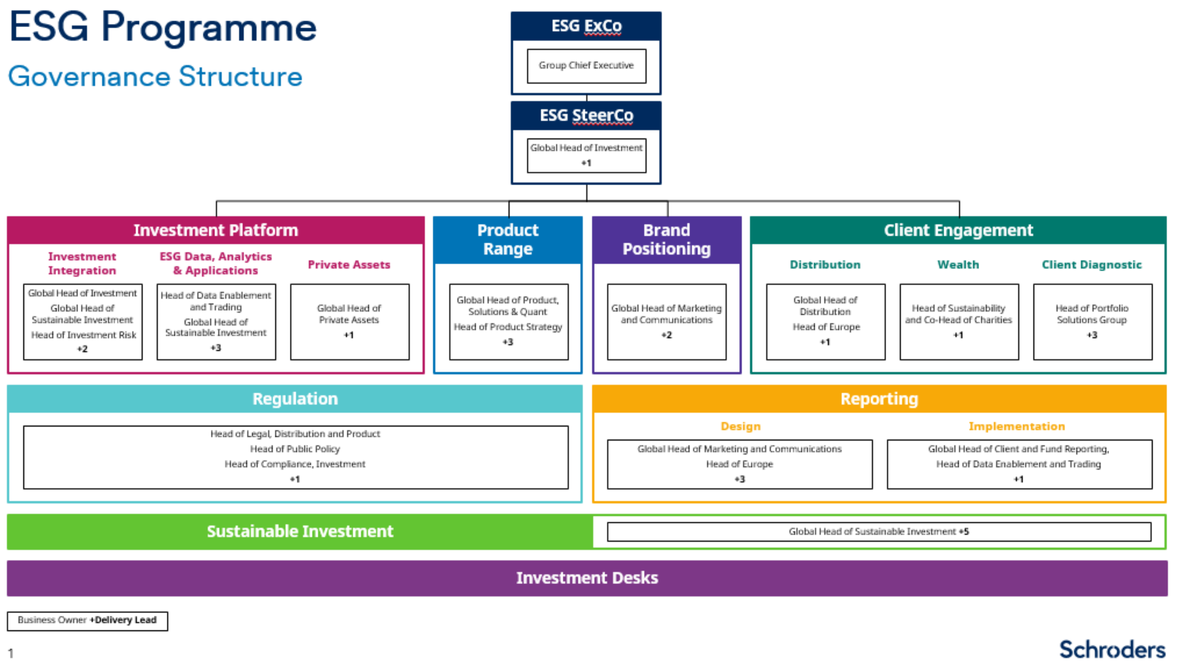
A well resourced team

We have had dedicated ESG resource since 1998 and as at the end of 2020 we had a 20-strong dedicated sustainable investment team. The team is led by the Global Head of Sustainable Investment, who reports into the Global Head of Investment, who in turn reports to our Global CEO. Within the sustainable investment team, we have a management team of experienced individuals covering research, integration, governance, engagement and product. They are supported by our corporate governance analysts, product executives and sustainable investment analysts who have responsibility for coverage of specific sectors and sustainability themes. Our team has combined industry experience of 190 years.

Like our investment staff, the majority of our team are based in London. In recent years we have appointed a Head of Sustainable Investment, North America, and Head of Sustainable Investment, Europe, as well as integration and product specialists in Singapore and Australia. We have an 80+ strong ESG champion network covering both investment and distribution. We provide online ESG training and communicate new training modules monthly to investors and distribution teams. The team is majority female, and encompasses multiple ethnicities. While people are our main asset; we've invested significantly in technology resource and data to support the proprietary sustainable investment research tools that have been key to our integration success in 2020. Please refer to Principle 4 to see more detail on our proprietary research tools. We have multiple technology teams supporting sustainable investment directly, as well as a strong partnership with our 20-strong Data Insights Unit. We don't outsource any of our stewardship activities to third parties, but we do employ some ESG data providers to help collate information, including MSCI and Sustainalytics, as well as ISS to help us execute our independent voting decisions.

Oversight and accountability for effective stewardship

As Schroders worked towards full ESG integration during 2020, further details of which can be found here, we strengthened our governance structures to facilitate our ESG strategy across all areas of our business from investment and distribution to product and marketing. We introduced the new governance structure illustrated below in 2020. The ESG Steer Co is responsible for the management and execution of Schroders' firm-wide ESG programme priorities. The committee meets every three weeks. The ESG Steer Co reports into the ESG ExCo which is responsible for the strategic direction of the programme. This governance structure ensures accountability and enables better collaboration across different work streams within our ESG programme. Importantly, it drives a common narrative so that the importance of ESG integration is communicated consistently from a top down and a bottom up perspective. This creates a conducive culture to embracing and embedding ESG across all parts of the firm.



Performance management

Our central HR function created a goal based around increasing ESG understanding/integrating it into the investment process in 2020, which all investment employees were asked to add to their objectives. We will continue to monitor the progress against this objective. Our full remuneration disclosures can be found on our website here.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Polices in place

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

Voting Conflicts

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

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

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

– Where the director of a company being voted on is also a director of Schroders plc

– Where Schroders plc is the company being voted on

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

Comply or Explain

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

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

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

Credit Suisse group AG

We regard our platinum clients as significant, so they follow our conflicts of interest policy. Credit Suisse is a platinum client which requisitioned a special meeting in November 2020 to approve the allocation of CHF 336 million to dividends and two resolutions to approve additional voting instructions. While supportive of the dividend resolution, we believed that the lack of disclosure of the remaining two resolutions would warrant a vote against. We raised our concerns with the portfolio manager explaining the conflict and the process to follow third party recommendation. Our third party analysis mirrored our initial vote recommendation which we followed and recorded.

Engagement Conflicts

Schroders has investments in companies that it also has business relationships with. Our commitment to stewardship and active fund management means that there is regular engagement with these companies. Although we are constrained in how we vote at an AGM or EGM of a major client, this does not stop us engaging on any issue as outlined in our ESG policy. If a client has a concern about an engagement that involves Schroders they should raise this with their client director who should log it in our conflicts register and inform the Head of Investment.

Schroders Conflicts Committee

Schroders Group Conflicts Committee, which is chaired by the Global Head of Investment, meets monthly or more frequently should specific matters or escalated conflicts need attention. On a rolling basis annually, the chief administrative officers of the regions (EMEA, APAC and Americas) present to the Committee an overview of the conflicts of interest management practices in the respective countries in their regions, including highlighting any situational conflicts resolved in-country during the past year, and any standing conflicts that have been added to the Conflicts of Interest Register and identified in their region.

The role of the Committee, and each member in regard to their respective business area or function, is to:

– Review and approve meeting minutes

– Take responsibility for and oversee the Group's Conflicts of Interest Framework and recommend/agree appropriate actions or enhancements to the Group Conflicts of Interest Policy and related arrangements

- Review the arrangements made and activities undertaken by each material business area, as appropriate, to identify, prevent or manage material potential and actual conflicts of interest (standing and situational), in accordance with the Conflicts of Interest Policy (this to be coordinated by each individual member of the Committee in respect of her/his business area or function)
- Oversee, with the assistance of the regional CAOs, that the Group's Conflicts of Interest Policy is implemented in the regions and countries in which the Group operates, and review relevant minutes of legal entity meetings and/or compliance/conflicts committee meetings in regions/countries to monitor that the Conflicts of Interest Framework is operating globally
- Review the approach to the identification, avoidance and/or mitigation of intra-Group conflicts of interest
- Set the level of materiality required for a conflict to require review by the Committee, currently those conflicts requiring exceptional client disclosures and those rated with a residual risk of high amber or red
- Review specific conflicts escalated to Committee to determine appropriate action
- Review the Conflicts of Interest Register at least annually for completeness, including the process by which relevant areas populate the register and record the actions taken in response to those conflicts
- Agree the risk-assessment methodology to determine residual risks identified in the Conflicts of Interest Register, and agree the residual risks are within the Group's risk appetite
- Identify and review identified conflicts of interest resulting from new business initiatives, business acquisitions, or restructurings, novel or materially different product launches, and the mitigating controls proposed to manage these conflicts of interest on a routine basis going forward
- Ensure awareness of the Group's approach to conflicts management

Conflict Escalations

Material issues, matters that cannot be resolved by the sub-committee, or matters which could change the status of risk appetite for the risk/risk profile of the firm etc. will be summarised and reported to the Group Risk Committee and to appropriate legal entity boards. Where agreement cannot be reached on a particular issue, or the conflict is deemed by any member as significant, then the matter will, at the direction of the Chair, be escalated to the Group Business Issues Committee and/or the Group Chief Executive.

When Schroders are engaging with companies, there may be occasions where we can either be made an insider with our permission, or inadvertently as a consequence of an unrequested communication by company management that we consider amounts to inside information. In all instances, all Schroders staff in accordance with the firms Market Abuse policy, must follow the necessary procedures implemented when receiving such information.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

It is central to our investment process to analyse each investment's ability to create, sustain and protect value to ensure that it can maximise returns in line with our clients' objectives. We believe the responsibility of investors includes protecting the interests of our clients from the impacts of financial and non-financial risk, both of which may result from systemic risks. In our view, ESG and industrial trends are intrinsically linked. Companies face competitive pressures from a wider range of sources, on a larger scale and at a faster pace than ever before. Investors no longer have a choice as to whether to seek exposure to ESG risks and opportunities; all companies and portfolios will be impacted. One of the reasons we committed to, and achieved, full ESG integration in 2020 was the potential that this work has to identify systematic risks that are not being recognised by other market participants. We identify systemic risks through our thematic ESG research, covering a broad range of topics from climate change to corporate lobbying.

Our proprietary research tools

Our proprietary ESG research tools, including CONTEXT and SustainEx, also help us to monitor how our equity and credit holdings are able to respond to systemic risks. More information can be found on our website, and a brief summary is provided below:

Context	Context looks at a wide range of data to assess a company's relationship with its key stakeholders such as its customers, suppliers, regulators and employees, as well as its impact on the environment and social communities. This tool is interactive and customisable, enabling our investment analysts to select and weight the most material sustainability trends for each sector and select the most relevant metrics for assessment. The tool gives our analysts the flexibility to make company specific adjustments to reflect their specialist knowledge.
SustainEx	SustainEx is Schroders' proprietary measure of the social and environmental impact that a company may create. Based on independent data and research, the model combines measures of both the harm companies can do (for example, through activities like carbon emissions) and the good they can bring (for example, through paying a 'living wage') to produce an aggregate measure of each company's social and environmental impact. The model enables our investors to integrate sustainability risk considerations effectively by assessing the extent to which companies are in credit or deficit having regard to such measures, and the risks they face if the social and environmental 'costs' they externalise are pushed into their own financial costs.

These tools help us to identify potential systemic risks and respond by incorporating these risks directly into analysts' investment recommendations. However, not all systemic risks can be predicted, and the 2020/21 global pandemic is an example of this. We responded to this risk in a number of ways as illustrated below:

Case study: Covid response timeline:

– **March 2020** – Sustainability Insights published by our Global Head of Sustainable Investments and we started a 'saints and sinners' list to monitor company responses to the pandemic.
– Our CEO, Peter Harrison, wrote an open letter published in the FT, that committed to support strong companies during the pandemic through capital raises but not at any cost. Companies support their stakeholders, especially employees, customers and suppliers, even if this means dividends are suspended.
– **April 2020** – We then engaged directly with 180 UK-listed companies to reinforce this message. Our Head of UK Equities and Global Head of Stewardship published an open letter detailing the threats Covid posed to the financial system and Schroders' commitment to supporting responsible companies through the pressures they face.
– **June 2020** – Our Q2 quarterly report covered a wide range of Covid-related research and engagement activity, from the changing social contract between companies and employees to protecting worker safety in the US meat production industry.
– **July 2020** – We published a thematic research piece outlining our views on how the pandemic will impact different stakeholders and the six ways in which corporates will have to change
– **September 2020** – Our Global Climate change and Energy Transition investment teams reviewed the impact of Covid on renewable energy markets
– **October 2020** – Our Global Equities Fund Manager, Katherine Davidson published an insight on Covid-19 and stakeholder capitalism

Sharing our research and supporting industry initiatives

We have a track record of not only conducting our research into a broad range of sustainability topics but also sharing this work more broadly so that it can be consumed by other stakeholders.

As well as the work shared in our annual sustainable investment report we also share our research and more detail on the engagement examples above through our quarterly reports and our website.

We have a long-standing commitment to engaging with a wide range of stakeholders who are impacted by financial markets to ensure that they function effectively; these range from exchanges, to auditors and regulators. We also view engagement with regulators and policymakers as an important part of our role in supporting a well-functioning market. For example, recognising the threat climate change poses to the financial system and the value of the assets in which we invest, we have engaged formally in the CRCF (FCA-PRA) working groups to help develop policy proposals for the finance industry. Please see full details in our annual report. More detail about our industry involvement and collaborative engagement can be found under Principle 10.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

We regularly review our ESG Policy and Stewardship Code Statements to ensure that we are following local and international best practice as well as being accurate in how we describe our activities. We undertake that review through the assessment of industry codes and best practices in different regions, review of emerging best practice through consultants and by assessing areas of weakness highlighted by our own experiences. We regularly discuss policy and code statements at internal committee meetings. These meetings are administered by the active ownership team and attended by global analysts and investors to formulate ideas to drive positive change. Significant changes are signed off by our Group Management Committee.

In 2020 we made the following changes to our published policies:

Defining ESG

– Definition added for impact investing

Integration

– New wording added explaining accreditation process and how this ties into integration

– Summary text added outlining flagship tools CONTEXT and SustainEx

Engagement

– Defined four key attributes critical to the success of our engagement approach (in line with information on our website

Voting: conflicts of interest

– Previously referred to Stewardship Code statement on separate website. That text is now embedded within the policy document for ease of access

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

Overview of Internal Audit

The Group Internal Audit function is independent and reports to the Board Audit and Risk Committee (BARC). It conducts reviews of the Schroders Group's global operations. The Internal Audit team plans its work through a systematic assessment of the Group's exposure to risks that could have a significant impact on Schroders' business. The outcomes of these risk assessments provide the basis for the prioritisation of audit work and the level of resources allocated. In addition to reviewing the specific processes and controls of the team being audited, and depending on the outcome of the audit planning process, internal audits will also include a review of the risk and governance culture within the team, their IT systems and supporting technology, and adherence to applicable team procedures and Group policies. Formal reporting takes place at the end of each audit, with matters arising being recorded and tracked to completion. The results and status of these matters are overseen by the BARC.

In line with the results of the Internal Audit risk assessments, a review of the Sustainable Investment team was undertaken in 2020. The primary objective of the audit was to determine whether the team's internal controls were operating effectively to mitigate the key risks associated with the activities reviewed. The audit identified opportunities for the team to further enhance their processes and controls. Management responded positively to the audit, and action plans were put in place to address the audit findings.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our client base and AUM

Within our Annual Sustainable Investment Report we report on our client base in terms of client domicile and assets under management across asset class. Further details are available in our Annual Report and our website.

While most Schroder investments are managed with a long-term perspective to reflect our culture and firm principles, this time horizon varies across the firm. We also consider requirements and expectations across different regions, for example in line with regulatory expectations in the US our fiduciary duty is to maximise shareholder returns.

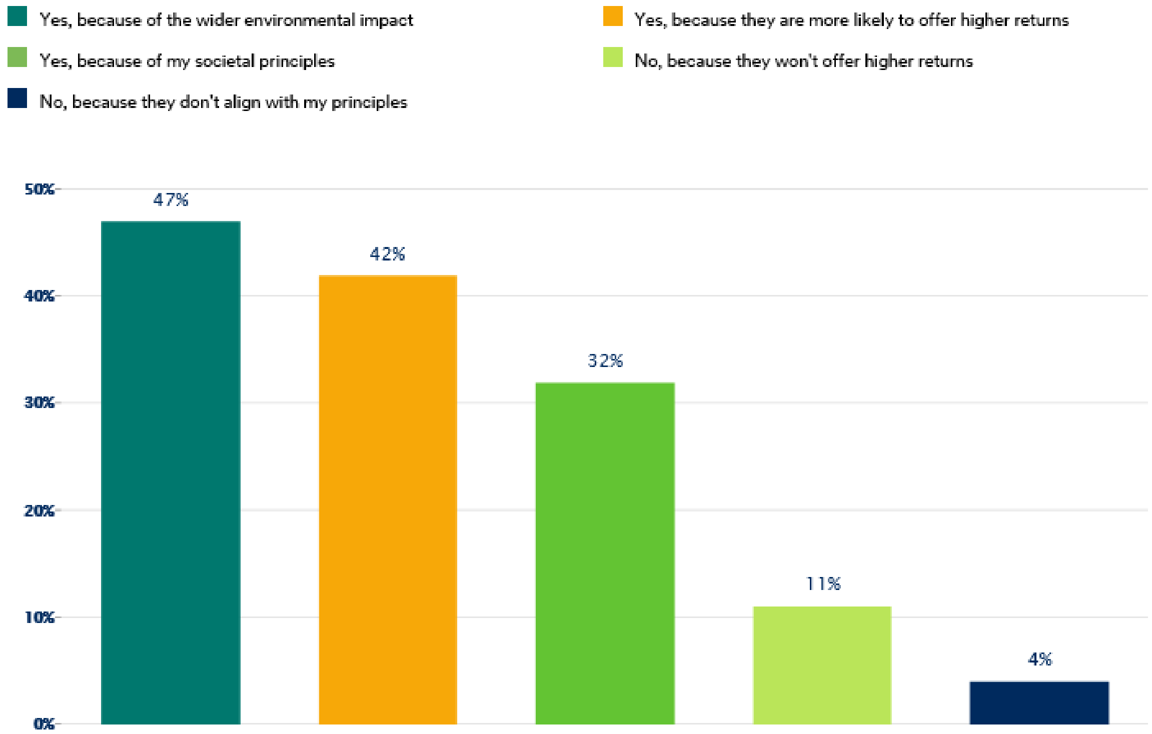
Understanding our clients needs

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

1. ***Global Investor Study.*** In 2020, we surveyed over 23,000 people, from 32 locations around the world, about their behaviour and financial expectations for the year ahead and how views were changing in response to Covid-19. In terms of sustainability, it's clear that environmental concerns are the key driver in terms of motivations for investing sustainably and hat companies are accountable for their impact on the environment, as illustrated by the survey responses below:

People are motivated by their high returns and positive environmental impact

Are sustainable funds attractive to people, and why?



The detailed survey findings from our global investor can be found here.

While we engage on a broad range of stakeholder issues from supply chain standards and bribery to water risk and human rights, environment remains a key focus for our engagement efforts. Our 2020 engagement data show that environmental topics, including climate change, environmental policy and biodiversity are the second most popular topic for engagement after corporate governance, with 466 environmental engagements during the period.

2. ***Global Institutional Investor Study.*** Schroders' annual Institutional Investor Study analyses the investment perspectives of 650 institutional investors, collectively responsible for $25.9tn in assets and from 26 locations across the world. Key findings from this years' report highlight the significant acceleration of expectations around stewardship and the concerns of greenwashing, as illustrated below:

Institutional investors' attitudes to sustainability:

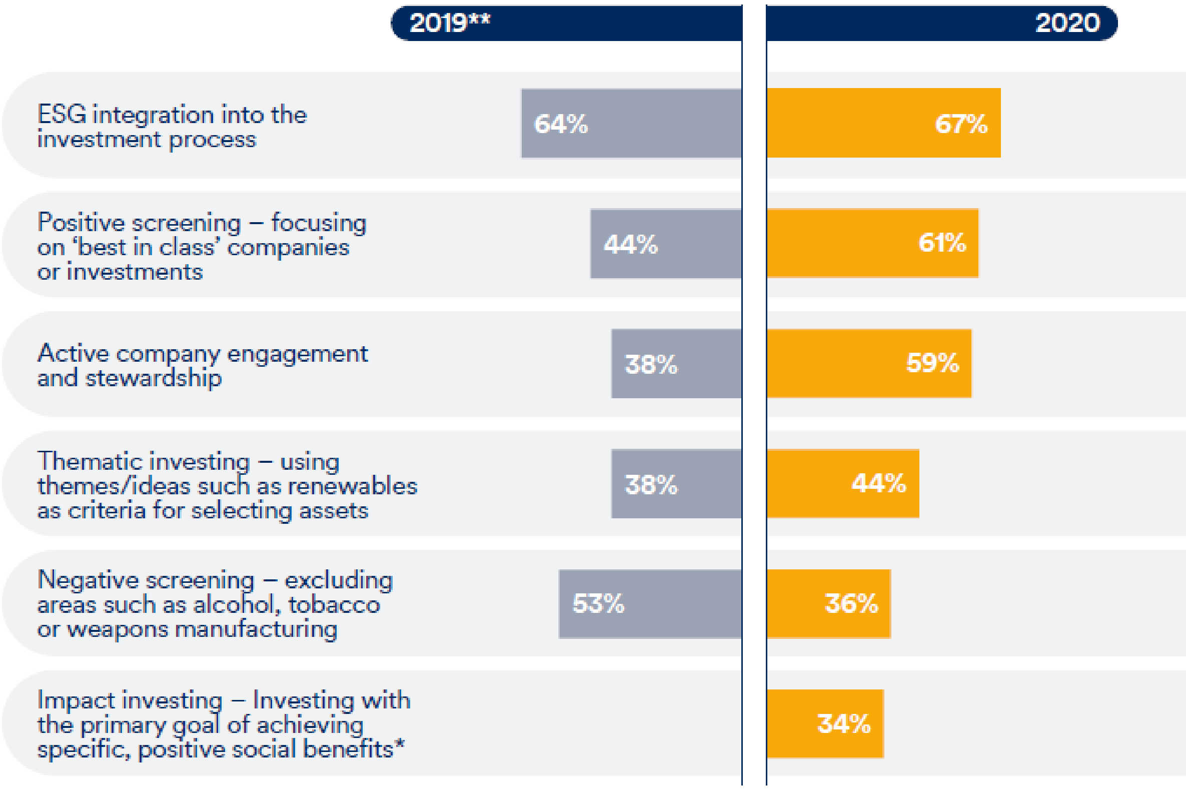
69% believe the role of sustainable investing will become more important over the next five years

67% cite ESG integration as their favoured investment approach when implementing sustainability

60% highlight greenwashing as the main challenge to investing sustainably

58% say the alignment of corporate/internal values is the primary driver behind their sustainable investment focus

Preferences shift from exclusive to inclusive approaches with strong focus on active ownership



Detailed findings of the survey can be found here.

Incorporating client feedback

One of the key findings from the survey is the significant jump in preference for active company engagement and stewardship. The proportion of institutional investors emphasizing its importance rose from 44% in 2019 to 61% in 2020, moving it firmly to second place after ESG integration.

The increased demand for active ownership is striking and we have taken major steps to strengthen our active engagement with companies. 2020 marks a significant milestone in our stewardship journey. While we have been conducting and recording our company engagements since 2000, this year saw the move from this being an activity primarily led by our dedicated ESG team to investors conducting and recording their own engagements. We have integrated engagement guidance within our proprietary research tool CONTEXT to provide both equity and debt investors with customised engagement questions for the 10,000 entities within the tool and we have launched a new engagement tracking tool, which shows that over 10% of our total engagements in 2020 were led by investors.

Surveys are a valuable method for canvassing investor views at scale and allow comparability, but we also gain insight through our day-to-day interactions with clients. We cross-check the results of our investor survey with other industry surveys, and the ongoing feedback we receive from clients. Insights from these interactions are fed back to our sustainable investment team through our monthly distribution sustainability call, for example.

Client reporting

On a monthly basis we disclose all voting decisions at resolution level, including our rationale for any vote against management. Each quarter and annually we publicly disclose the following:

- List of companies engaged with and which stakeholder group the engagement related to
- A geographical and sector breakdown of engagement
- Breakdown of engagement by tier to distinguish between who and how an engagement was conducted

– Overall statistics on the progress of historic engagement by year
– Case studies of regional engagement and proxy voting activity

In addition, our clients receive a more detailed report on our engagement achievements which is outlined on a company by company basis. There is clear overlap between our most frequent areas of engagement and the priority areas that have been identified through our client surveys. For example on environment we have conducted two thematic engagements in collaboration with our investment teams on the opportunities for transition within the oil field services sector and understanding how extractives companies are positioned to respond to increasing physical risk from climate change. These two examples provided the respective investment teams with a greater understanding of potential future revenue streams and increased operating costs, which can be reflected in fair value calculations. For full details, please see our quarterly reports.

Our corporate governance specialists, who have specialist knowledge of best practice in individual markets, work alongside investors and our internal compliance and legal teams to ensure compliance with our ESG policy.

Our voting policy is integrated within our investment process and we therefore prefer for clients to agree to our policy so we can provide a thorough service. Practicality dictates that we are only able to carry out engagement activities with companies on the basis of our voting policy. We welcome a dialogue with our clients on voting policy and its application. For those clients who prefer to use a different voting policy, we suggest they consider using a third-party voting service provider. We would also note that the ability to engage with a company in which we do not control voting rights is severely constrained.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Achieving full integration

We seek to integrate ESG considerations into our research and overall investment decisions across investment desks and asset classes. By the end of 2020, we successfully integrated ESG into all investments the firm manages, in line with our intentions announced in 2019. Schroders' Sustainability Accreditation is our approach to formally recognising investment teams which have successfully integrated ESG into investment decisions. The accreditation process starts with a collaborative effort between the sustainable investment team and the investment team to map out the end-to-end investment process from idea generation to portfolio construction, and ensure ESG is integrated systematically and meaningfully into the relevant steps. Our approach is pragmatic – we want to integrate ESG into established investment processes rather than create separate processes, which run the risk of becoming an after thought or a box ticking exercise. It is also robust; teams should be able to articulate and demonstrate how relevant issues are identified, investments are examined, portfolio decisions are influenced and how they monitor and manage emerging ESG risks. The sustainable investment team provides research, proprietary tools, and support to implement these steps. The accreditation documents are reviewed and refreshed; over time investment teams are expected to have improved levels of ESG integration.

Our approach to ESG integration

Our integration approach spans the breadth of the investment process, from identifying trends, analysing securities, constructing portfolios, through to engagement, voting and reporting. We believe that the investment decision makers must own true ESG integration. Below we outline how our fund managers, analysts and sustainable investment team work together to integrate ESG into each team's investment processes:

– The sustainable investment team works directly with the investment teams and provides ongoing advisory services to ensure that ESG is integrated in a relevant way for the asset class, investment philosophy, and market, taking into account rapidly evolving best practices. This does not remove accountability which remains with each investment team to ensure ESG is integrated in its research, analysis and decision-making processes

- Our ESG analysts – like our investment analysts – have a sector focus. This enables them to gain a deeper understanding of sector specific ESG issues and work in tandem with our investment analysts and portfolio managers to identify and assess ESG risks and opportunities, as well as incorporate consideration of these factors into their company models where appropriate. Regular sector updates are distributed to analysts across the capital structure to ensure that they are kept appraised of the latest developments
- Our sustainable investment team produce regular multi-sector and multi-region thematic research to ensure investors keep abreast of the latest ESG trends, and how they can impact valuation and risk
- Our sustainable investment team has produced a number of proprietary tools to help our analysts and fund managers identify, understand and manage ESG risks and opportunities. We outline these tools in the section below. The sustainable investment team provides ongoing training to investors to ensure that they are aware of developments in this rapidly evolving area of interest. The team also creates training content which is available to investors on the in-house learning and development system. Investors have ESG training included in their personal objectives
- Our equity and Fixed Income analysts analyse relevant ESG risks and opportunities for securities under their coverage within their research notes. Our sustainable investment team provides support by adding sector views and reviews of research notes for some teams periodically to highlight where ESG analysis can be enhanced and to promote best practice
- Each quarter the sustainable investment team screens desk portfolios against third-party ESG ratings from specialist ESG research providers and these ratings are distributed to investment desks. We do not believe that third-party ESG research views are the definitive view of a company's ESG performance but it provides a catalyst for further research and discussions
- Our sustainable investment team has developed a number of proprietary ESG tools to help our fund managers and analysts identify, understand and manage ESG risks and opportunities. CONTEXT and SustainEx, our flagship tools currently available for equity and corporate credit, are covered in Principle 4

Integration in practice

Examples of integration across emerging market equity, US municipal bonds and Multi-Asset portfolios are summarised below, with further examples of integration across real estate, private assets and commodities available in our quarterly and annual reports.

Case study: selling Norilsk Nickel on ESG concerns

Schroders' Data Insights Unit support the emerging market equities team with ESG analysis on a project basis. For instance, geospatial and meteorological analysis by the DIU helped the investment team gain a better understanding of Russian assets in the Arctic circle and their vulnerability to climate change.

In May 2020, an ageing fuel tank at one of Norilsk Nickel's power plants in the Arctic circle collapsed, leaking 21,000 tons of diesel fuel into two Siberian rivers. The government declared a state of emergency and ordered an investigation.

In early July, the national environmental watchdog imposed a record $2.1bn fine on the company. The analyst had previously applied an additional 2% cost of equity to his valuation model to account for the elevated environmental and governance risks at the company. He now includes the additional cost of the $2.1bn fine in the valuation, and has raised the cost of equity premium to 2.5%.

We held a small position in Norilsk in our core emerging market portfolios, which we sold in early June, on learning of the diesel spill. The fund manager decided to sell the stock given the increased ESG concerns.

[Read more about our permafrost analysis and engagement in our Q4 report]

Case study: MUSE in action

With growing evidence of the importance of ESG factors to credit stability and performance, we created a proprietary tool; Municipal US Sustainability Explorer (MUSE) to mitigate potential threats and generate alpha for investors.

California's 2020 wildfire season was another record setter, with 9,639 fires burning almost 4.4 million acres – an astounding 4% of the state's land. Using MUSE, we can determine the potential future risk of drought or wildfire in a particular area. Where MUSE identified higher wildfire risk in our California holdings, we found a low probability of a single event causing significant risk as they had large and diverse enough tax bases. The ability to weave environmental factors into our analysis helps us determine if we are being appropriately compensated for taking on any additional risk to the portfolio. When assessing future potential investments in California, we are vigilant of the size and diversity of their tax base.

Case study: European Multi-Asset

We integrate ESG across asset class research, asset allocation, portfolio construction and ongoing monitoring. Sustainability forms one of the four key pillars that underpin our philosophy in generating excess returns and/or mitigating risk (known as 'risk premia'):

- Valuations are key – Valuations of asset classes matter just as much as individual stocks
- Path of returns mattes – The macroeconomic environment needs to be taken into account
- Risk is multi-faceted – Risk requires quantitative techniques with forward-looking scenario analysis
- Sustainability – Through analysis of ESG factors we can improve investment decisions

The following diagram illustrates how ESG is embedded in different stages of the investment process.

Source: Schroders, for illustrative purposes only.

Case study: Private assets integration – Schroder AIDA – infrastructure equity

The infrastructure equity business's investment strategy centres on investing in companies that own and/or operate infrastructure assets and activities.

As a long-term investor, ESG analysis is fundamental to the investments we make. Our mission is to invest in infrastructure which is a core part of local communities and essential for the growth and development of the region. Our infrastructure 'acid test' must confirm that the asset is essential to the community, capital intensive, has a long economic life, is often a natural or regulated monopoly and has low obsolescence/ technology risk.

Our mission statement is 'essential infrastructure, sustainable performance'. We are currently focused on three key trends that contribute to a sustainable future:

- Accelerating the ecological and energy transition
- Developing the digital economy through the deployment of new equipment and technology
- Investing in mobility solutions to prepare the city of tomorrow

For each opportunity, we analyse the potential ESG risks and opportunities associated with the asset and underlying activities. We use Schroders' proprietary tool CONTEXT when a new investment is considered to determine key ESG trends in the relevant sector and guide our analysis of ESG risk, ensuring we are asking the right questions. Then, a proprietary tool that Schroder AIDA has developed with Deloitte, gives an ESG ranking based on the impact and ESG risk of the investment. The tool considers the asset's contribution to the Sustainable Development Goals and to the three key trends described above. Final investment recommendations to the Investment Committee are accompanied by detailed research notes, which include a mandatory section on sustainability. This sustainability section includes an environmental analysis, a social analysis and a governance analysis. Our environmental analysis looks at the likelihood and impact of sustainability risks (such as climate related risks). Social analysis focuses on factors such as the company's health and safety policy, and the social climate of the company – how its operations may impact civil and local community regulations and whether there is support for the activities of the company. Our governance analysis includes the assessment of factors such as presence and efficiency of risk, audit, and HR committees; political instability; and consensus on regulation. We also regularly monitor the ESG performance of our investments, tracking them against indicators bespoke to each project.

We collaborated with the management of a logistics company for strategic commodities and agreed to measure progress against 'workdays lost due to accidents in the year', how much hazardous waste they are producing and the level of emissions of certain organic chemicals at their operating sites. These relate to the context of the operations and focus on areas that are both material and relevant for the company and where there is room for improvement.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Link to AUM breakdown

Proxy advisors: Every three years we undergo a process with the help of Group Procurement to tender for proxy advisors, and this last took place over the course of 2019/20. Both the governance and the procurement teams put together an RFP. Answers are evaluated and a shortlist of providers is engaged with by both teams to reach a decision.

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

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

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

The accurate and timely delivery of proxy votes to our investee companies through technology ensures we exercise our ownership responsibilities without having to attend multiple shareholder meetings.

We are reliant on our voting agent to inform and deliver our ballots and this process is scrutinised during the regular RFP process. We also carry out multiple ad-hoc checks to ensure accuracy.

Material votes are tracked and confirmed with the relevant custodians and company, especially after direct engagement.

During monthly internal committee meetings we circulate the previous month's vote history so investors can confirm vote input.

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

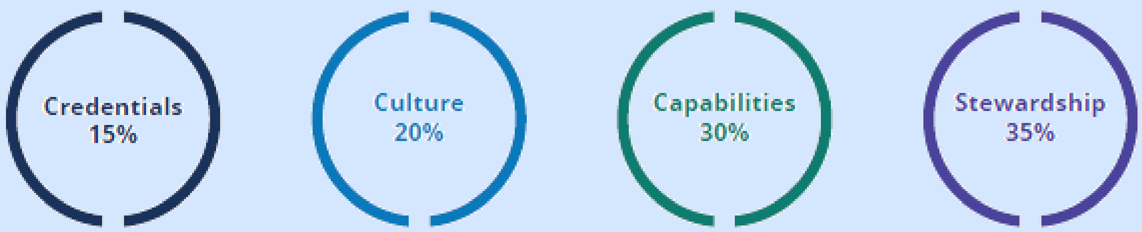
To integrate sustainability factors into our manager selection process, we first examine the manager at the firm-level, where we aim to understand if sustainability factors are a central part of the firm's ethos and culture. We do this using ESG questionnaires which have the same overarching objective of seeking to understand external managers' sustainability approach better. The questionnaire may have slightly different questions depending on the asset class in question. Secondly, at the strategy level, we assess the extent to which the investment manager integrates sustainability risk considerations in their own investment processes. Both of these levels of assessment contribute to our research and analysis on the suitability of the external fund manager for inclusion in our portfolios.

Manager selection teams at Schroders are an additional step away from asset or security selection. Our active ownership approach therefore is focused on engaging with our external managers to increase the robustness of their own sustainability risk integration and their active ownership practices

The manager selection teams will review external managers regularly as part of their existing processes. The review will consider whether the external manager continues to meet the team's ESG criteria for inclusion in portfolios and approved lists.

Case study: Cazenove

The firm's ESG questionnaire commonly contains questions across four pillars:



Responses are analysed and managers receive a score from 1 to 5. Those scoring a 5 are considered 'leaders' in sustainable investment. Those scoring a 3 or 4 are categorised as 'acceptable' while those that score a 1 or 2 are deemed 'laggards.' We are pleased that the results of the 2020 ESG manager questionnaire showed that over two thirds of our managers met or exceeded our expectations. We continue to focus on improving the 32% of managers that fell short, and many of our engagements have resulted in us applying a 'positive momentum' indicator to these managers which is encouraging.

An annual review process will look at the same things as the on boarded process plus we will look for improvements perhaps proactively by the manager but definitely reactively if we had identified a gap at the last review.

Case Study: From ESG concerns to investment

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

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Our approach to engagement

Effective and responsible active ownership has long been part of Schroders' approach. It is essential to question and challenge companies about issues that we perceive may affect their value. As such, engagement and voting are integral to our investment process. Share interests carry ownership rights and exercising those rights is an integral part of our overall investment process. The overriding principles in exercising these are to protect and enhance value for clients and to work in their best interests. Credit Fixed Income instruments rarely have voting rights attached to them, but we will exercise the same processes in instances where these do arise. Companies should act in the best interests of their owners, and must also have due regard for other stakeholders including lenders, employees, communities, customers, suppliers, regulators and the environment in order to have sustainable business models.

Strengths of engaging as an active manager

When engaging, our purpose is to seek additional understanding, share our expectations or, where necessary, to seek change that will protect and enhance the value of investments for which we are responsible. The following four attributes are critical to the success of our engagement approach:

1. Knowledge: We leverage the knowledge of our analysts and portfolio managers to understand which sustainability issues matter to a company's long-term performance. The investment tools we have developed, such CONTEXT mentioned earlier in this report, help us to identify the most important issues facing individual companies and areas of weakness in their management of those key issues
2. Relationships: We have built strong, long-standing relationships with the companies in which we invest, with our engagement history dating back to the year 2000, and embedded a culture of active ownership and regular dialogue across investment teams
3. Impact: The insight gained through engagement can directly influence the investment case
4. Incentive: We have the power to reduce or even sell out of a holding if engagement is unsuccessful, or we have the option to avoid investing at all

We focus on issues material to the value of the company's shares or debt instruments. These include a full range of stakeholder issues from employees, customers, and communities to the environment, suppliers and regulators. The governance structure and management quality that oversee these stakeholder relationships are also a key focus for our engagement discussions. These issues may be identified through our thematic research, company level investment research, stakeholder scores within our proprietary tools or responding to controversies. We prioritise our engagement activities based on the materiality of the issue and our exposure to the individual company, which is based on the absolute amount invested or percentage owned on an instrument.

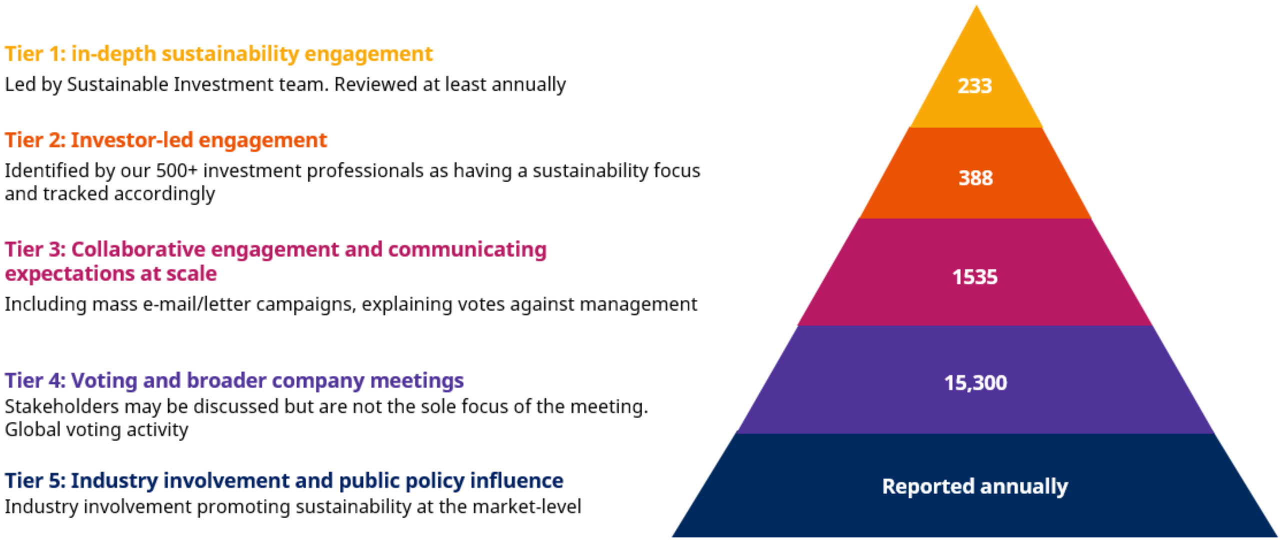
Process

Our engagement activities are undertaken by our portfolio managers, Fixed Income and equity investment analysts and the sustainable investment team. In the past few years, we have developed a number of new engagement tools to support our investors in undertaking engagements in the most structured and effective way possible. A company engagement generally begins with a process of enhancing our understanding of the company and helping the company to understand our position on a topic. The extent to which we expect to effect change depends on the specific situation, the amount that we own and where we sit in the capital structure. We track engagement progress over time to ensure we can systematically monitor outcomes. Where we have engaged repeatedly and seen no meaningful progress, then we will escalate. This can include voting against management at a company's AGM.

For example we voted against the lead independent director at Amazon after seeing little progress on labour standards over five years; further detail can be found here. We organise our engagement activity through a tiered structure which was introduced in 2020. This structure helps to distinguish between the method of engagement and level of influence we have on an investee company:

The full sphere of active ownership

Enhanced reporting to capture different levels of interaction



Source : Schroders. Pyramid illustrates number of engagements conducted 1 January 2020 – 31 December 2020.

While the pandemic significantly reduced the ability to meet companies face to face, the use of video conference calls allowed us to continue our engagement through 2020. Across tiers 1 – 3 the meeting formats were as follows; 76.5% were conducted via email or letter, 12.8% were collaborative, 8.1% were one-on-one meetings, and 2.5% were group meetings with other investors.

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

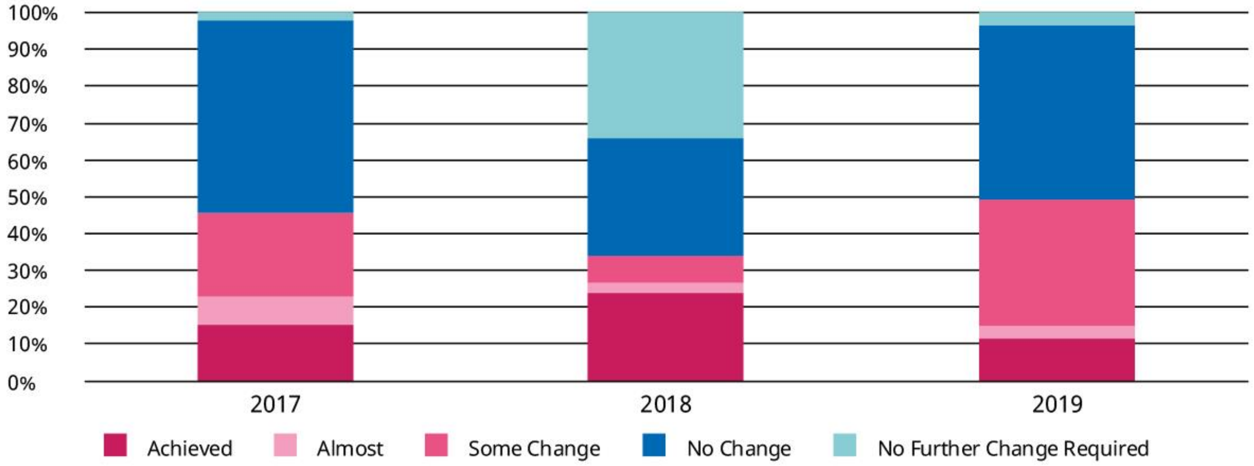
We also welcome companies contacting us about relevant issues. We recognise that many value a dialogue concerning resolutions likely to be tabled at their AGM. Because of the concentration of AGMs, we seek early engagement where possible, especially when issues are likely to be contentious, or involve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

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

Tracking our engagement progress

We record all of our stewardship activities in our proprietary research database to facilitate the monitoring of companies in which we are invested. Fund managers, analysts and ESG specialists record engagements through this database, the details of which are available to everyone in the Investment division through our research platform. To ensure effective monitoring, we define expected timeframes for milestones and goals, track progress against these, and revise them as necessary. We review the company's progress against all engagement requests a year after they have been made, and subsequently on an ongoing basis, recognising that material changes will take time to be implemented into a company's business process. We acknowledge that success factors may be subjective, and that Schroders' influence may not have been the sole driving force for this change. However, we believe it is important to measure the outcomes of our engagement on a systematic basis. We report on our engagement success via our annual reports, an example is shared below:

Engagement success over three years:



Each quarter we produce a public Sustainable Investment report which highlights our engagement and voting activities over the period. The engagement section includes detailed case studies as well as the total number of engagements, the companies engaged with broken down by region, type and sector, and progress achieved. In 2020 we introduced a tiered reporting structure to help distinguish between the different levels of influence we have through our active ownership activities, as illustrated above.

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

Case study: Collaborating with our Asia credit team: Mass engagement – climate risk in the Chinese real estate sector

The issue: China Property is by far the most important sector for the Asian Credit team. The quality and quantity of ESG disclosures are poor.

The engagement: We developed a streamlined set of questions for the China Property sector, focused on the most material topics – safety, green buildings, energy consumption, water consumption and alignment to China's net zero target by 2060. Most of the questions are quantitative to avoid greenwashing.

This should provide us with a standardised dataset. We intend to conduct this survey once or twice a year. For this first round, we requested responses by 5 February 2021.

The analysis: At the time of writing we still receiving responses.

The outcome: The responses will be reflected within our proprietary research tool; CONTEXT. The first round of surveys is intended to form a baseline to consider how best to incorporate it into our investment analysis.

Case study: Collaborating with our European credit team: Housing Associations

The issue: While housing associations have a clear social purpose and impact, sustainability reporting is not yet widespread across the sector. This means housing associations are potentially missing out on opportunities to demonstrate strong ESG performance to investors.

The engagement: We wrote to all 17 housing associations within our investment universe to ask them to adopt the Sustainability Reporting Standard for Social Housing (SRS), a voluntary reporting framework covering 48 criteria across a wide range of ESG considerations. Schroders is listed as an early adopter investor of the initiative. We also asked housing associations to complete a survey on a subset of ESG metrics that would help us understand how they are currently performing on key ESG issues.

The analysis: The ESG information gathered through this engagement has been incorporated within the credit team's ESG assessment of housing associations, which is a key part of their overall investment process.

The outcome: The response was very positive, with 14 housing associations responding to our engagement – 2 had already adopted the SRS, 8 said they were intending to, 3 were still deciding and 1 was in the process of developing its own ESG framework and so had decided not to adopt the new standard. The engagement also helped us open up a dialogue on a number of other important sustainability issues – for example, whether or not the organisation is pursuing leaseholders or shared owners for the costs of cladding and other fire safety remediation work.

Our Annual Sustainable Investment report provides further detail on how we prioritise and conduct our engagements, our methods and approach, how we set objectives and monitor progress and define outcomes. The report includes a broad range of stats evidencing our engagement activities over the year and how our engagement approach has evolved over the past twenty years.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

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

We review collaborative engagements on a case-by-case basis to ensure that the objectives of such engagements are aligned with our ESG policy. A sub-committee of our internal Corporate Responsibility Committee has final sign-off for any collaborative engagements. All of the collaborative engagements are subject to our recording and monitoring processes.

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

Any institutional shareholders who have not yet spoken with Schroders about stewardship of investee companies are encouraged, in the first instance, to contact active.ownership@schroders.com.

Below we outline some of the key collaborative initiatives we have been involved in throughout 2020:

- Investor Forum – Board succession and corporate strategy
- Find It, Fix It, Prevent It – Compliance with UK Modern Slavery Act reporting standards and bonded labour risks in the Middle East as a result of Covid
- CCLA and industry peers – Employee mental health during Covid-19
- PRI and First Sentier – Washing machines and microfiber pollution

- ICCR – Worker safety in the US protein sector
- Industry peers – risks in the protein supply chain
- Church of England Pensions Board and industry peers – Indigenous community rights in the mining sector

Industry Involvement and public policy

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

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

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

Committees or initiatives promoting responsible investment

- Asia Investor Group on Climate Change (AIGCC)
- Climate Financial Risk Forum (CFRF)
- Committee on Climate Change
- FrenchSIF
- Hong Kong Green Finance Association (HKGFA)
- Human Capital Management Coalition
- Investor Forum
- Investor Stewardship Group (ISG)
- Linklaters Non Executive Masterclass
- Net Zero Asset Managers Initiative
- Sustainability Accounting Standards Board (SASB)
- Responsible Investment Association of Australasia (RIAA)
- UN Global Compact

Industry consultations

- Financial Reporting Council (FRC)
- Focusing capital on the long term (FCLT)
- Institutional Investors Group on Climate Change (IIGCC)
- CFA
- IFRS Foundation
- London Stock Exchange and FTSE Russell

Public policy

Schroders contributed to public policy developments in 2020, both directly and through contributing to industry bodies such as the Investment Association (IA) European Fund, European Fund and Asset Management Association (EFAMA) and the Monetary Association of Singapore (MAS) Environmental Risk Management Working Group.

Further detail about our collaborative engagements, industry involvement, public policy activity and contribution to industry consultations, along with the extent of our contribution to each can be found within our annual report.

The majority of our collaborative engagements aim to make clear our expectations of companies and promote increased transparency. However, where we have clear, measureable requests we monitor progress through our proprietary engagement database. We acknowledge that there is more work to be done to assess the effectiveness of our collaborative efforts.

Case study: Collaboration via Investor Forum

As part of the Investor Forum, we led on an initial engagement with Pearson, reiterating to the chairman the desire to move faster in finding a new external chief executive (CEO) as investors felt that the succession timetable was too slow. After several letters were sent in collaboration with the Forum, the company announced a new CEO in August 2020. We also engaged collaboratively with Aviva. Following concerns around strategic direction and governance oversight, the original objectives of the engagement were to challenge the company to refresh their corporate strategy and to ensure an acceleration of board and chair succession. With the change of CEO following rapidly on the heels of the appointment of the new chair in 2020, we felt it was clear that the company had fully understood the messages from investors regarding the need for change.
The company statement quotes the new CEO saying, '**We will look at all our strategic opportunities, and at pace.**'

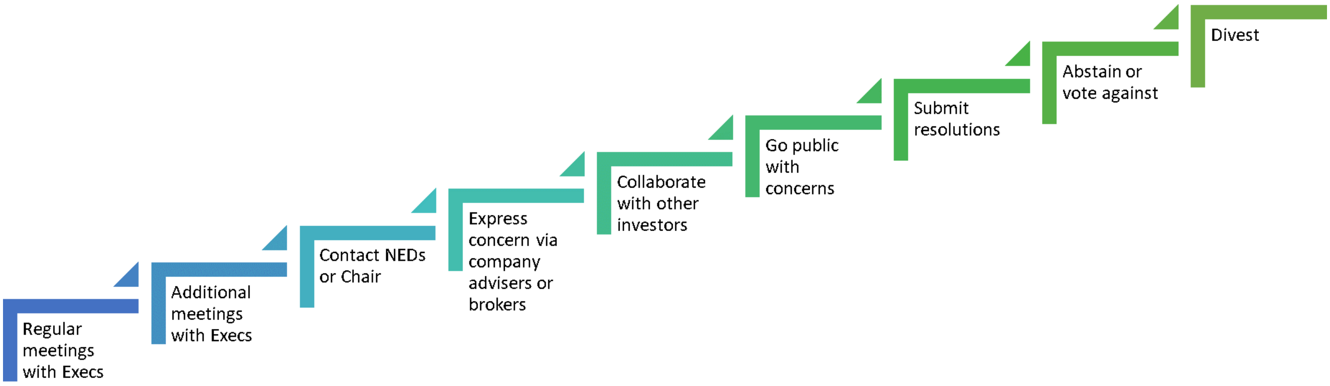
Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

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

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

Our escalation process



Source : Schroders.

An example of this escalation process in practice can be found within our Q3 report, where we discuss our 5-year engagement with Amazon and our concerns around the management of labour standards, which ultimately resulted in a vote against the board.

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

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

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

Where our escalation process has proven unsuccessful in delivering the changes requested, we retain and will use on occasion, the option to sell our position in a company. Disentangling those decisions made following engagement and voting failures from those made for other reasons is impossible given our active management processes.

Principle 12

Signatories actively exercise their rights and responsibilities.

Voting processes

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

We utilise the services of the proxy voting agency Institutional Shareholder Services (ISS) to advise and deliver our proxy votes to the companies we invest. All proxy vote instructions in all markets are submitted using the ISS global voting platform. ISS carry out the individual processing of vote instructions with the custodians and/or company/company agents. For certain holdings of less than 0.25% of share capital we have implemented a custom policy that reflects our ESG policy and is administered by our proxy voting provider. We vote on both shareholder and management resolutions. We may attend annual or extraordinary general meetings to submit our votes in person.

Voting policy

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

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

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

Use of proxy research

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

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

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

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

Where we do not do this, we classify the vote as significant and will disclose the reason behind this to the company and the public. For example, see our case study in our Q4 quarterly report on our vote against executive pay at Tesco PLC during the pandemic.

Why might we abstain?

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

Disclosure of our voting activity

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

We release publicly a quarterly Sustainable Investment Report which highlights our engagement and voting activities over the period. The voting section summarises our voting activities, including the number of companies we voted, the percentage of our holdings voted, votes per region, the direction of our votes and main reasons for our votes against. These are available on our website here.

Client oversight and influence of voting

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

Fixed Income

We maintain good connections with many bond issuers as well as a wide range of intermediaries ensuring suitable access to all relevant bond documentation including prospectuses and trust deeds. This network, along with our standing as a significant Fixed Income franchise, allows a degree of input into the bond issuance process including not only pricing but also discussions around terms and conditions. Analysis of these terms and conditions forms part of the investment decision process alongside our analysis of business, sustainability and financial profiles. Specifically, we maintain subscriptions with an external service provider to help fast track our review and feedback regarding bond covenants and related matters. We are also regularly party to reverse inquiry and pre-marketing discussions, usually for new or complex issuers, which affords even greater opportunity to influence the terms and conditions of these issuances, such as a recent project in the Scandinavian real estate space.

Aside from direct dialogue with issuers and intermediaries, we have an internal corporate actions team which processes any issuer requests for changes to instrument terms and conditions. The relevant analyst will assess the request and, after any appropriate further consultation with the issuer, will provide a recommended action to the portfolio management group. We do not seek to obstruct common sense or technical changes that benefit all parties but have in some instances voted against proposals where we viewed bondholder rights as being impaired, important examples being in the UK and North American airport sectors.

In the event that an asset has become impaired, a researcher analyst will work alongside the portfolio management team to assess the best course of action. Whilst this can result in the sale of the asset, it can alternatively lead to further engagement with the issuer and even membership of a bondholder group through to a suitable restructuring or other conclusive action, as was the case with an Italian industrial company and a South American municipality.