

Invest for the future

Responsible investment

About us

Cazenove Capital Management is the private wealth management and charity investment business of Schroders. We offer personalised discretionary and advisory investment services to a broad variety of clients, as well as wider wealth management services such as wealth planning, cash administration, deposit-taking and lending.

Each of our clients has unique financial requirements and objectives, but all have a common goal – to preserve and grow the value of their assets. We explore each client's needs in detail and advise them on the most suitable financial solutions for their particular circumstances. Our client communication and reporting is effective, clear, flexible and comprehensive. We also have efficient custody, administration and reporting platforms which enable clients to centralise their financial affairs with us with confidence.

Overall, we believe that our complete range of services and the quality of our private client and charity specialists, together with the stability and depth of investment resource of the Schroder Group give us an unparalleled ability to look after our clients.

Foreword



Responsible Investment (RI) has evolved from the domain of a few ethical investors during the 1990s into best practice fund management. We developed an RI function in 2002 which is used by a growing number of our clients. As part of the Schroder Group we benefit from an extensive resource of Environmental, Social and Governance (ESG) specialists with whom our Head of RI works closely.

Our commitment to this space can be seen in our thought leadership piece, *Intentional Investing*, published jointly with the Association of Charitable Foundations in May 2015 and our recent win at the Charity Times Better Society Awards where we were named Asset Manager of the Year.

We see ourselves as long-term stewards of our clients' capital and our approach involves engaging with companies on their ESG processes to encourage best practice and help drive better performance. Both academic research and our own experience shows that companies with strong ESG management often deliver superior long term returns. The appraisal of ESG factors is integrated in our stock and fund selection process.

In addition to the research and engagement work we carry out for the benefit of all our clients, we offer a number of other services for more specific requirements. These include the exclusion of sectors and stocks in which a client does not wish to be invested and, for Charities, we provide a range of charity specific funds that exclude tobacco. We research, select and monitor funds provided by other asset management houses across all areas of RI and social impact. Finally, we monitor our preferred mainstream funds' exposure to areas such as tobacco and armaments and use our influence to encourage them to invest responsibly. Full details of all our RI services are clearly explained in this brochure and our menu of options means we can always tailor a solution to meet your specific needs.

A handwritten signature in black ink, appearing to read 'Andrew Ross'. The signature is fluid and cursive, with a large, stylized 'R' at the end.

Andrew Ross
Chief Executive

Taking good care of your assets

Strong ESG management requires dedicated resources and specialist skills

Our resource

Our committed ESG resource is integrated into the mainstream investment process and works with ESG specialists across the business. With over 100 years' combined investment experience, these experts deploy significant expertise in managing our approach to RI.

Integrated research

While ESG factors are sometimes difficult to value, understanding them helps us make better-informed decisions, whether it be reducing risk, managing assets or identifying new opportunities. We train our analysts to integrate ESG considerations into their research and produce a number of detailed research pieces to help support and inform decision making processes. On occasion some ESG issues may have direct financial relevance (e.g. carbon emissions, water scarcity and the living wage) and in these instances we endeavour to integrate these considerations into our valuation process.

Engagement and stewardship

We aim to deliver superior returns through encouraging responsible business behaviours. Importantly, we do not overlook investing in businesses just because they fail to tick certain boxes; instead we work with them to help them improve their ESG policies and processes thus mitigating risks and identifying opportunities.

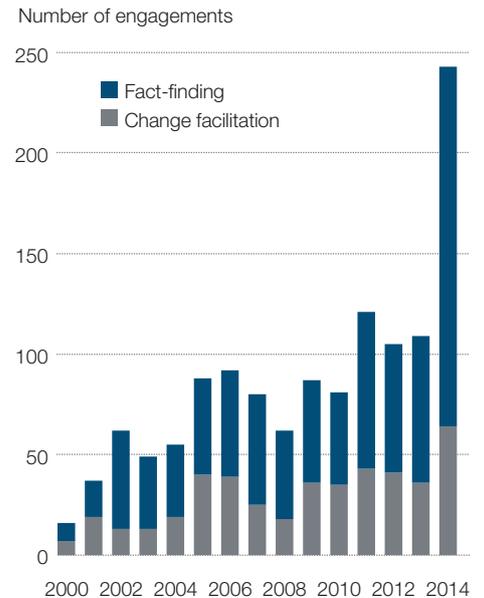
The key to success is the ability to measure outcomes and we have a strong track record of promoting best business practice. Since 2000, we have engaged with nearly 1,200 companies on a wide range of specific ESG issues. As a result of these engagements, 30% of companies have ultimately responded positively to our calls for change. We expect engagements to become increasingly important as responsible business practices are recognised as drivers of a company's competitive position, success and profitability. By engaging with these companies on our own and with other investors, we hope to speed up the process.

Investment process



ESG Engagement

243 engagements during 2014



Source: Schroders, as at 31st December 2014. 2014 includes governance engagement for the first time.

Case studies

BHP Billiton

More than a decade of engagement

We have discussed ESG issues with mining group BHP Billiton on a regular basis for more than 10 years. Our discussions have ranged from topics such as board diversity, HIV and AIDS to bribery and corruption. Climate change has been a constant theme and this is an issue where we believe our influence has made a real difference.

In 2010, the company adopted a greenhouse gas (GHG) emissions reduction target of 6% per unit of production by 2012. We did not believe this was sufficiently demanding and made our views known to management. We seek 'absolute' targets for GHG emissions, consistent with the aim of the Intergovernmental Panel on Climate Change to seek a 40-70% cut on 2010 levels by 2050. We therefore welcomed the company's announcement in 2013 that it was adopting an absolute GHG target to keep emissions at 2006 levels.

While we celebrate this success, we are aware that the bar is constantly raised; the company's risk profile is altering, expectations of corporate behaviour rise inexorably and the regulatory environment is ever more stringent.

We will continue to press the company to make further progress on the range of issues mentioned above. We know that maintaining BHP's position as one of the global leaders in a particularly environmentally-sensitive sector helps make it a better investment for our clients.



17 Meetings

1 Request for change

8 Engagement successes

Coach

On the road to a more sustainable future

Investors are made painfully aware when well-known consumer goods groups fail to live up to high ethical standards. Brands such as Nike, Adidas and Primark have been tarnished by alleged involvement in poor labour practices in developing countries. Such issues can have a direct effect on revenue, not only in terms of consumer boycotts but also as a result of strikes affecting their supply chains.

We were therefore encouraged that our 2012 review of Coach, a maker and retailer of luxury women's handbags, revealed that the company had a supply chain management policy in place. Less encouraging was the lack of evidence that it was being implemented. We therefore pressed the company to provide details of its supply chain audits, including an assessment of the environmental impact of its suppliers. In 2013, we reviewed the company's progress and were pleased to find that its inaugural sustainability report included quantitative information on both the supply chain audit programme and the firm's environmental performance.

There is still work to be done, but we believe we have made a good start. Management is more aware of ESG risks and their importance to a company whose brand is its main asset.



2 Meetings

8 Requests for change

2 Engagement successes

Ethics and missions

Ethical screening

Many clients wish to avoid investing in certain areas such as tobacco or armaments. Beyond this some clients want to invest in a way that delivers social outcomes, often in line with their mission. For example, this could be support for small business start-ups in India, the alleviation of homelessness or the protection of forests and water sources.

We have a menu of 11 ethical screens for directly invested clients to select from if they wish. Where a client's ethical requirements differ from our menu of screens, it is possible to create a bespoke policy in detailed discussion with our RI specialist. We also manage a global ethical model based on the Church of England Ethical Restriction policy. All screens are updated regularly to ensure that clients will not hold stocks associated with the screened activity. Clients should be aware that, in reducing scope for diversification, screening can increase portfolio risk in the short-term.

Impact investment

Impact investment - which is sometimes known as Social Finance - is provided on client request. These investments potentially sacrifice a proportion of financial return for a measureable social benefit. The investment vehicles tend to be small, illiquid and have a limited track record. We continually identify and monitor a range of impact investments, be they companies, funds or venture capital trusts across areas such as forestry, microfinance and property.

Supporting responsible investment worldwide

The industry is increasingly working together, pooling resources and coordinating its approach. We regularly meet with organisations to discuss their plans and the course we feel responsible investors should take to influence change.

We collaborate and support the following institutions and initiatives:

- Principles for Responsible Investment
- UK Sustainable Investment and Finance Association
- European Social Investment Forum
- Carbon Disclosure Project
- Corporate Governance Forum
- Institutional Investors Group on Climate Change
- International Corporate Governance Network
- Association of British Insurers
- Association of Real Estate Funds' ESG
- UK Green Building Council
- Access to Medicine Index
- European Fund and Asset Manager Association Responsible Investment Working Group

The best opportunities, the best managers

Since 2003, through the identification of sustainable themes and their tipping point, we have been investing in funds that play to these themes – such as water, alternative energy, demographic changes and the rise of globalisation. We select these funds via a robust process supported by our Ethical Asset Class Committee.

The universe set is identified and kept up to date via sector contacts and newsflow. Initial performance screens are applied followed by a thorough RI assessment. We then meet the managers to understand fully the people, process and philosophy before making an investment decision. Funds selected for investment are regularly monitored and will be removed from the investment list if they become unsuitable.

We also have the ability to analyse the holdings within our preferred mainstream managed funds and use our influence to encourage them to invest responsibly.

Some clients would like their entire portfolio to be managed with strict ethical considerations, others apportion a certain percentage to focus on their mission. Please discuss your ethical requirements with your Cazenove Capital contact and we will shape your portfolio accordingly.

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