SUSTAINABLE INVESTMENT REPORT

FOURTH QUARTER 2020

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Schroders

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Against the unusual backdrop of a global pandemic, this year we achieved our target of fully integrating Environment, Social and Governance (ESG) issues into our financial analysis. We expect 2021 to be another record year for inflows into sustainable investment funds. As more people seek investments with purpose, our ability to measure and report on impact is crucial.

Hannah Simons
Head of Sustainability Strategy

ESG integration has been a key focus at Schroders over the past few years. In 2019 we publicly committed to ensuring ESG factors were appropriately integrated into investment decisions across the assets we manage.

We achieved our target this quarter, driven by a rigorous internal accreditation process originally launched in 2017. Now it is applied to each investment desk.

The events of this year have shown just how important it is that sustainability considerations are not just a tick-box exercise.

At Schroders, as an active manager, sustainability is an integral part of how we invest: read more from Stephanie Chang, Schroders' Head of Integration, on p4.

We've also been busy this year developing a new impact reporting framework. Using proprietary ESG tools, we will soon be helping investors understand more about the impact their portfolios have on people and the planet.

ON THE PATH TO NET ZERO

It had been said that 2020 would be a critical year for addressing climate change, arguably one of the most pressing long-term issues we face.

With the COP26 climate summit now taking place towards the end of 2021, we expect a greater focus on climate risk over the course of this year.

New US president Joe Biden's U-turn on climate policy could inspire action, as Schroders' Global Head of Sustainable Investment Andy Howard explains on p7.

Schroders has joined the Net Zero Asset Managers initiative, supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. You can expect more on how we will encourage the transition in 2021.

THE EXPONENTIAL GROWTH OF SUSTAINABILITY POLICY

There has been a range of government action around the world.

While the majority of policy has been favorable for ESG, the backdrop in the United States has been at odds with the rest of the world when it comes to a new pensions ruling. Sarah Bratton Hughes, Head of Sustainability in North America, writes on this on p11.

Meanwhile 2021 marks an important year for financial institutions in the EU as sustainability-related disclosures regulation comes into force. This is part of the European Commission's broader Sustainable Finance Action Plan to support a transition to a greener future.

Regulators in Hong Kong and Singapore are also looking into how environmental risks can be brought into the picture, and in Australia the regulator of pension funds and insurers already requires them to consider ESG risks.

ACTIVE OWNERSHIP IN PRACTICE

At Schroders, we believe we have certain responsibilities as investors and as guardians of our clients' assets. We seek to actively influence corporate behavior to ensure the companies we invest in are managed in a sustainable way.

The active ownership section of our report captures our voting and engagements from the fourth quarter. From summary stats to in-depth case studies, this section provides transparency over how we are using our influence to drive change.

You can read more about how we're engaging with Russian businesses over thawing permafrost (p16), our ask of Tesco on executive pay (p20), and how we're tackling the treatment of migrant workers in Singapore (p18).

Schroders' chief executive Peter Harrison wrote in the foreword to our 2019 report that "after a challenging 2018 for markets, I can assure you that our commitment to sustainability as a firm and as an investor remains undimmed".

Despite headwinds, Schroders can demonstrate that pledge has been kept.

SUSTAINABILITY INSIGHTS

We're fully integrated! But what does it really mean?

In 2019 Schroders' chief executive publicly announced our commitment to full ESG investment integration by the end of 2020.

Stephanie Chang
Head of Integration

We are incredibly pleased to announce that, through the tremendous efforts of our 60+ investment teams and sustainable investment team, we achieved that target[1].

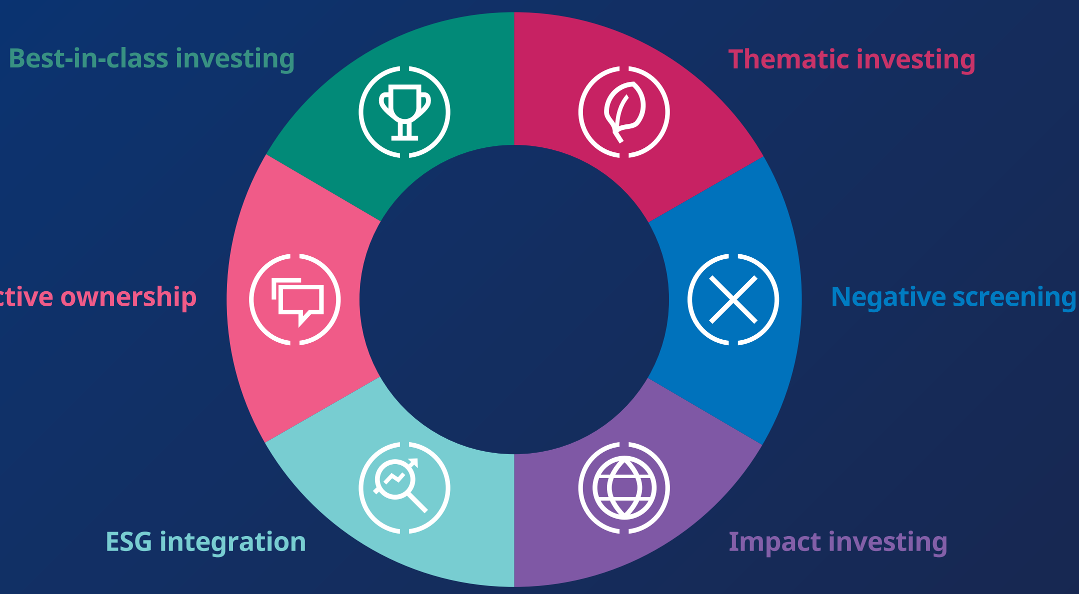
Our 2020 annual sustainable investment report will take a closer look at our journey to full integration and what's next in Schroders' sustainability journey. Our annual report will be publicly available towards the end of Q1 2021, so keep an eye out.

For now, however, we are bringing things back to basics, with a focus on the importance of ESG integration, not only as a commitment for Schroders, but for the entire investment industry.

WHAT IS ESG INTEGRATION?

There are a number of approaches to investing sustainably – from thematic to best-in-class – as pictured below. ESG integration is about understanding the most significant ESG factors that an investment is exposed to, and making sure that you're well positioned for upside or adequately compensated for any associated risk.

APPROACHES TO SUSTAINABLE INVESTING



Source: Schroders

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.

This has come to the forefront of investing as a wide range of environmental and social challenges become increasingly prevalent.

Integrated strategies focus on managing risk and identifying potential winners to deliver long-term value. Essentially it is about asset managers considering both financial and ESG issues in their processes given both can pose material risks.

An ESG integrated investment strategy is not the same as a sustainable or impact investment strategy.

Best-in-class sustainable strategies may have additional focus on companies with leading sustainability profiles, often in combination with avoiding potentially controversial activities or sectors.

Impact investing, while still seeking a financial return, is intended to generate a specific, measurable positive impact on society.

For more information on the different approaches, check out our recent guide: Everything you need to know about sustainable investing

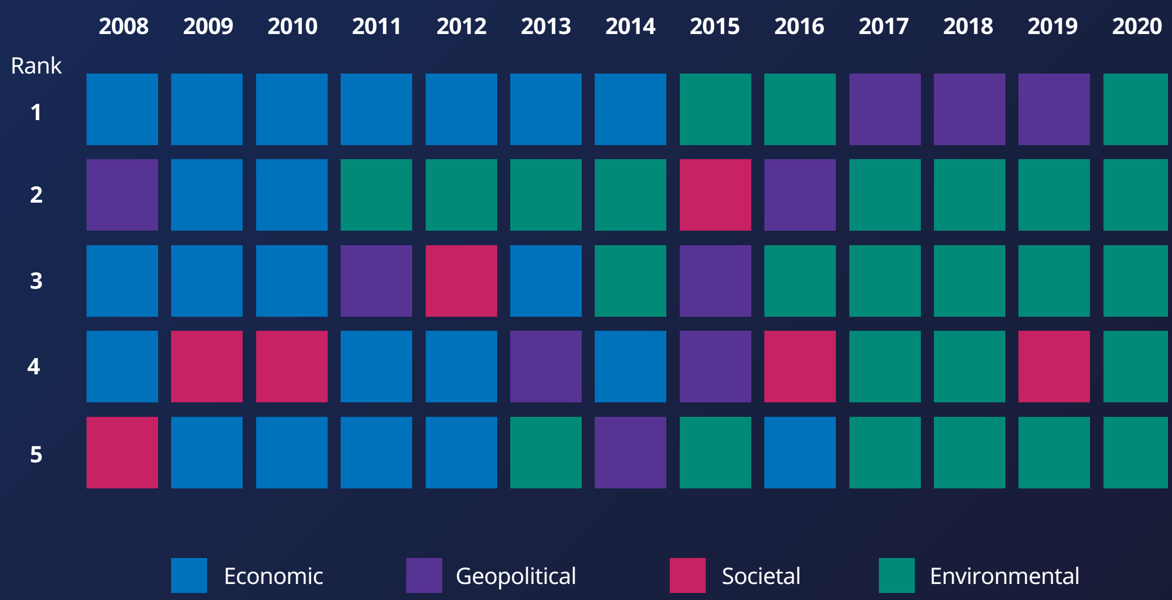
Importantly, ESG integration isn't just about researching climate change or excluding companies at the start of the process. It should be, as its name suggests, integrated or embedded within every appropriate stage of investment process – and certainly not an afterthought or one-off box-ticking exercise.

WHY IS IT IMPORTANT?

Fundamentally, ESG integration is about managing risk. As we mentioned earlier, ESG risks have been growing very quickly. The World Economic Forum identifies the top five global risks in terms of both likelihood and impact. A decade ago these risks were dominated by economic issues. In the last five years, these were quickly overshadowed by environmental and social issues – and in 2020 the top five most likely global risks were all environmental.

Our CEO said earlier this year that "ESG [integration] won't exist in 5 years' time, it's what people will be expected to do". What was once perceived as a "nice to have" is now essential to successful investment, and those that fail to integrate risk being left behind.

TOP FIVE GLOBAL RISKS IN TERMS OF LIKELIHOOD



Source: World Economic Forum Global Risks Report 2020

WHAT DOES THIS MEAN IN PRACTICE?

You could ask this question to 100 asset managers across the industry and likely not get very many identical answers. Our 2020 Institutional Investor Study identified greenwashing as the greatest barrier to sustainable investing – so understanding what ESG integration really means in practice is more important than ever.

At Schroders, integration means embedding ESG in every appropriate stage of the process. This will mean different things for different asset classes.

For example, in our fundamental equity teams, ESG largely features in bottom-up company research. Across our credit teams, ESG will feature in top-down thematic research as well as bottom-up issuer research. We have also developed a consistent, scored approach to assessing the ESG qualities of external managers.

Regardless of the asset class, it is imperative to have a robust framework that allows for consistency across the fundamentals. Schroders' proprietary tools and collaborative platforms have allowed us to reach full integration in a consistent manner. While practical application of a tool may look slightly different for, say, emerging market equity versus infrastructure debt, our stakeholder approach to sustainability is a clear and consistent theme that runs across all of our integrated strategies.

Importantly, active ownership is a consistent feature across our integrated strategies and investment desks are expected to evidence this. Engagement is fairly common across equities, where it is coupled with the leverage that voting rights gives us. It is just as important across other asset classes whether that is corporate credit, external managers or real estate. Monitoring your investments, encouraging change that is aligned with our investment interest and holding them to account is critical to the value-add we bring as active investors.

If you are interested in finding out more about active ownership, visit our dedicated web pages

Investment desks' processes are assessed for ESG integration and validated through the firm's ESG accreditation framework on an annual basis. Successful ESG integration relies on our fund managers and analysts embracing and executing this responsibility. In support, our sustainable investment team sits at the heart of Schroders' sustainability efforts, offering expert knowledge, practical advice and collaborative opportunities.

However, ESG integration is perhaps easiest understood in the context of an actual investment strategy. For practical case studies of how we integrate ESG across different asset classes, check out our 2019 Annual Sustainable Investment Report.

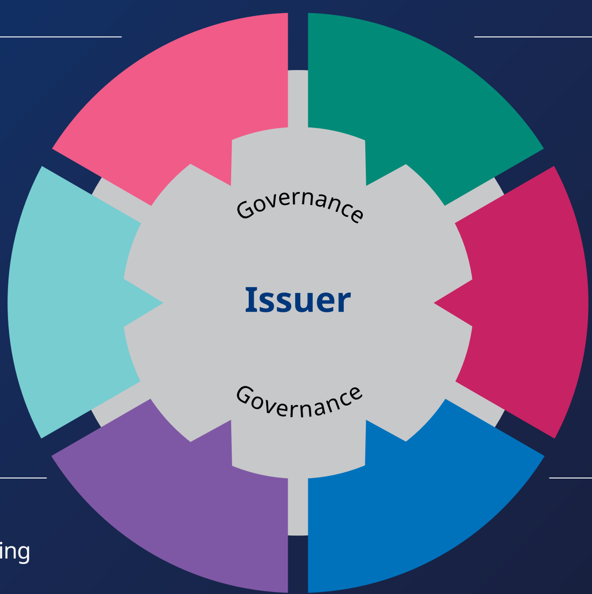
Our 2020 Annual Sustainable Investment Report will unveil what lies ahead for Schroders after successfully reaching full ESG integration. The report will be available towards the end of Q1 2021.

SCHRODERS' STAKEHOLDER MODEL

Employees
How do your employees perform? How motivated is your team?

Suppliers
How exposed is your supply chain to disruption risks? How strong are your supplier relationships?

Environment
Have you put in place an energy plan? Are you managing operating impacts?



Communities
What support do you offer your local community? Have you committed to protect human rights?

Customers
How is your brand perceived? What's in your produce pipeline?

Regulators
How competitive is your market? Are you paying a fair rate of tax?

Source: Schroders

Climate Progress Dashboard: Will a Biden Paris U-turn inspire action?

The latest update to our Climate Progress Dashboard suggests the current pace of change will result in temperatures rising by 3.8°C above pre-industrial levels.

Andrew Howard
Global Head of Sustainable Investment

The 26th UN Climate Change Conference of the Parties (COP26) would have taken place in Glasgow, Scotland, in November 2020 if it were not for the coronavirus pandemic. Global leaders were expected to come back together with tougher and more detailed plans to underpin the Paris Agreement.

While COP26 was delayed until 2021, the latter half of 2020 saw the stars align around much tougher and faster action to cut global greenhouse gas emissions.

The 3.8°C rise above pre-industrial levels suggested by our latest Climate Progress Dashboard update is down from the 3.9°C rise recorded in the middle of the year, but still a long way from the "below 2°C" limit enshrined in the Paris Climate Accord. However, there are signs of tougher action ahead.

THE PARIS AGREEMENT IN A NUTSHELL

The central aim of the Paris Agreement is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels. Signatories are aiming to limit the temperature increase even further to 1.5°C.

There is no silver bullet to the threat climate change poses. It requires aggressive policies, rapid capital reallocation and strong financial incentives, among other measures.

But there are four signs we may be on the brink of rapid change, not least in the election of Joe Biden in the US.

Taken together, they paint a picture of increasing pressure on the status quo. Assuming statements of intent translate into action, we could start to see the long run temperature rise implied by our Climate Progress Dashboard pushed down much further.

How might climate change affect investment returns? Watch our short video on p15.

SCHRODERS' CLIMATE PROGRESS DASHBOARD*

Political change	Business and finance	Technology solution	Entrenched industry	
Political ambition 2.7°	Corporate planning 3.4°	Electric vehicles 3.2°	Oil & gas investment 3.1°	3.8° Aggregate implied temperature rise
Public concern 3.3°	Climate finance 5.5°	Renewable capacity 3.0°	Fossil fuel reserves 4.7°	
Political action 2.9°	Carbon prices 3.1°	CCS Capacity 4.9°	Fossil fuel production 6.1°	

Source: *Temperatures are measured in degrees Celsius. Data as of September 30, 2020.

WHAT IS SCHRODERS' CLIMATE PROGRESS DASHBOARD?

Schroders developed the Climate Progress Dashboard to track the progress implied by a range of factors, from carbon prices to renewable and carbon capture and storage capacity. The dashboard was developed in mid-2017.

The dashboard is updated quarterly with accompanying commentary from Andy Howard, Global Head of Sustainable Investment. To find out more, visit our website.

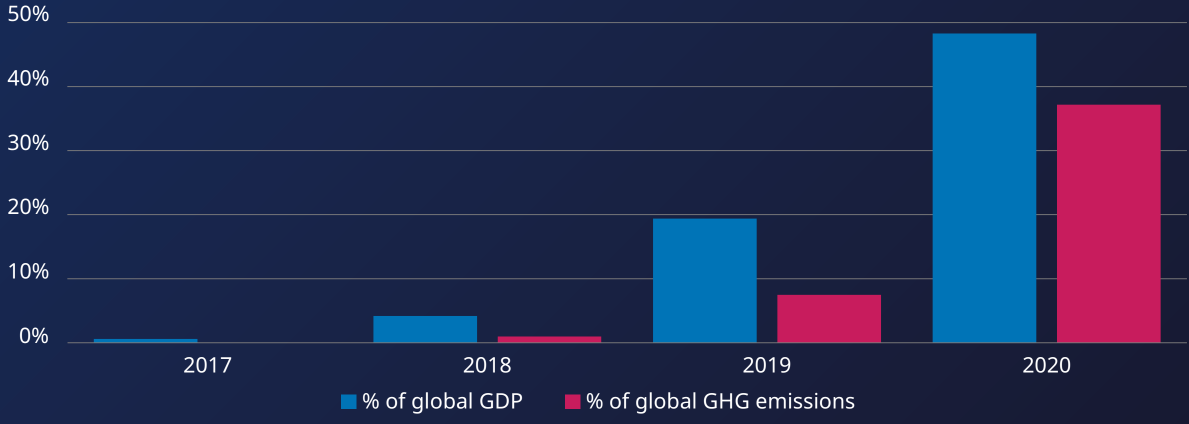
1. ALIGNMENT OF COVID RECOVERY PLANS TO CLIMATE GOALS IN EUROPE

Many governments have committed to ensuring the rebuilding of their economies is aligned to their long term climate goals. It is a widely-held view that the coronavirus crisis recovery is an opportunity to redesign more sustainable economies and tackle climate change.

The EU Green Deal is at the heart of the recovery in Europe. Agreed in 2019, it is a policy framework and package that aims to transform the European economy, with the overarching goal of achieving climate neutrality by 2050.

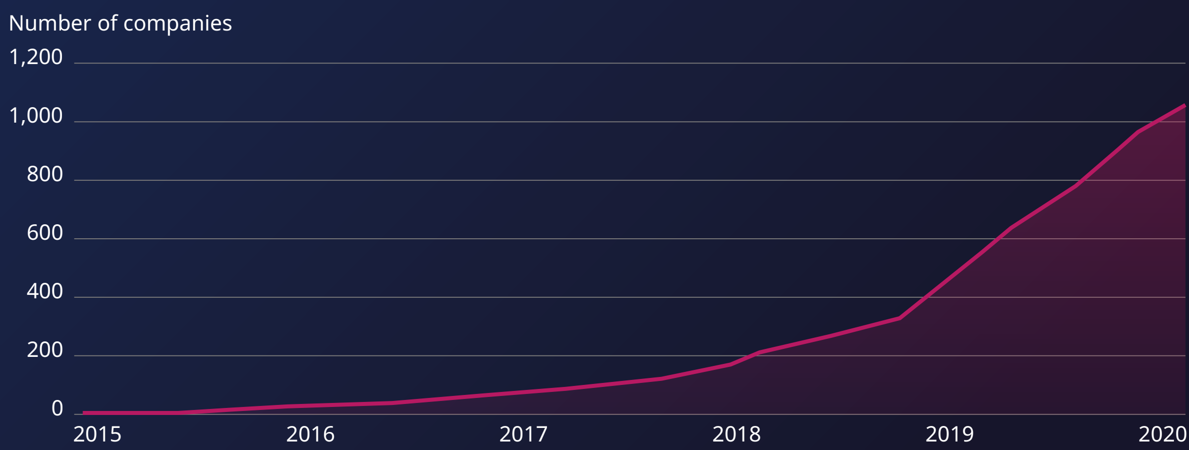
Meanwhile the European Commission announced a recovery instrument called Next Generation EU, embedded within a revamped long-term EU budget, in May. Later in the year, the European Parliament and EU member states reached an agreement on the €1.8 trillion package, including a commitment that 30% will be spent on fighting climate change. That is the largest share of the largest European budget ever.

SHARE OF GLOBAL GDP AND GREENHOUSE GAS EMISSIONS COMMITTED TO NET ZERO



Source: Schroders analysis of media reports and industry studies, World Bank.

NUMBER OF COMPANIES WITH EMISSIONS PLEDGES RECORDED BY SBTi



Source: Science Based Targets Initiative (SBTi).

2. BIDEN'S 180 DEGREE TURN ON CLIMATE POLICY IN THE US

Joe Biden's presidency is likely to turn US climate policy on its head. On the day the US formally left the voluntary Paris Agreement under Donald Trump, Biden confirmed that he planned to bring the nation back into the fold once he is confirmed.

He tweeted on 5 November: "Today, the Trump Administration officially left the Paris Climate Agreement. And in exactly 77 days, a Biden Administration will rejoin it."

The Barack Obama administration entered the Paris Agreement in 2015. Biden's pledge to rejoin and to commit the US to a net zero emissions reduction target by 2050 is expected to mean significant investment into green industries and technologies. He has laid out a US$2 trillion clean energy and infrastructure plan.

It will also require tighter regulation of higher-emitting industries, including oil and gas, utilities and autos.

3. NEW NET ZERO EMISSIONS PLEDGES IN ASIA INCREASE SHARE OF GLOBAL GDP COMMITTED TO NET ZERO

There has been a slew of national commitments to net zero emissions. Since October, leaders in China, Japan and Korea have all made net zero pledges.

In total, countries or US states representing more than one third of global greenhouse gas emissions and close to half of global GDP have now made net zero commitments.

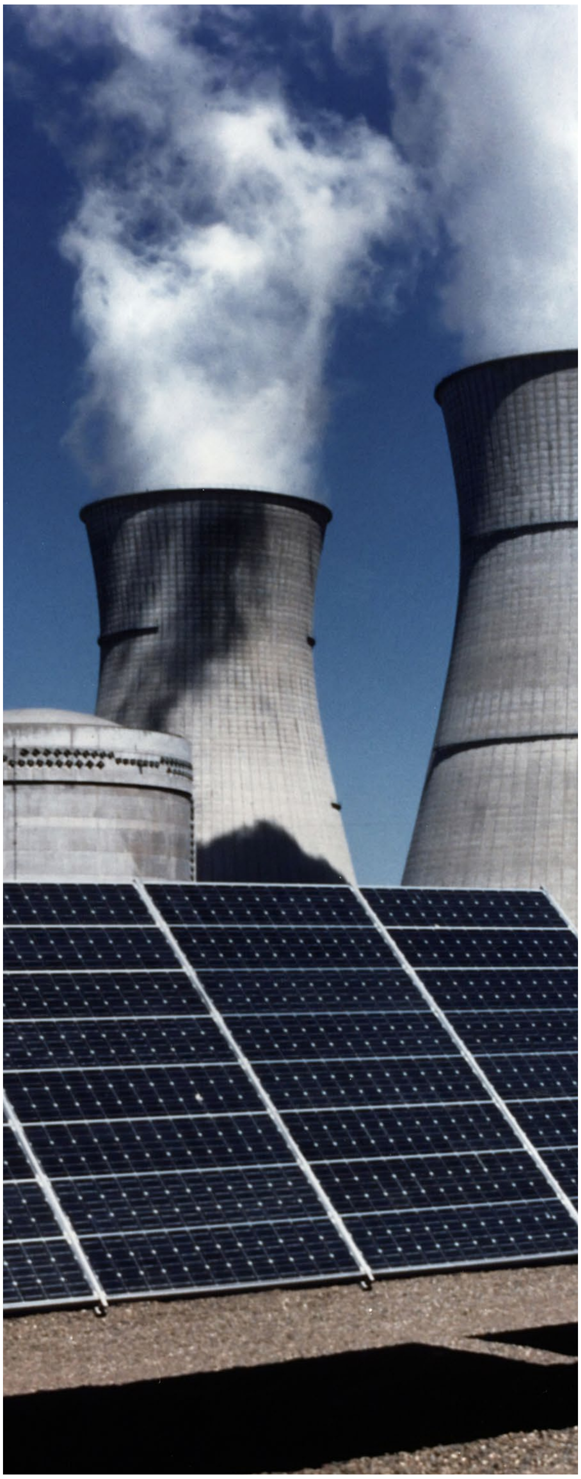
> **"Today, the Trump Administration officially left the Paris Climate Agreement. And in exactly 77 days, a Biden Administration will rejoin it."**
> **Joe Biden, 5 November 2020**

4. RAPID INCREASE IN COMPANY EMISSION-REDUCTION TARGETS GLOBALLY

A growing number of companies have made ambitious public commitments to decarbonize. Over the last few years, the number of companies which have logged their pledges through the Science Based Targets initiative has ballooned.

The SBTi is a partnership between the climate research provider CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature.

More than 1,000 businesses are working with the SBTi to set science-based targets and report progress on an annual business. Last year that figure was less than 400.



A SPOTLIGHT ON CARBON CAPTURE AND STORAGE

Look out for a full explainer on the pros, cons and investment implications of carbon capture and storage coming to Schroders Insights in 2021.

Carbon capture and storage (CCS) is one of the necessary tools available to fight climate change. It is the process of capturing carbon dioxide, transporting it and permanently depositing it underground.

The aim is to reduce the carbon emissions produced by manufacturers, typically in "heavy" industries such as utilities, oil & gas, and heating. CCS can capture up to 90% of CO_2 emitted by a factory.

As at 30 November 2020, there were about 50 CCS projects in motion across the globe.

Emissions from industrial processes are usually captured at a large "point source", such as a natural gas field, power plant, cement factory or steel plant. There are a number of techniques used for it, but the most widely adopted is the use of liquid solvents like amines to absorb carbon emissions as they travel through large factory chimneys.

Emissions are then compressed into liquid form and injected into a geological formation underground, such as depleted oil & gas fields or saline formations, for permanent storage. Over hundreds of years, these carbon emissions will be absorbed by the surrounding rocks.

When executed properly, the emissions will not escape back into the atmosphere. When done poorly, they may escape and re-enter the atmosphere. Large quantities of CO_2 emitted suddenly can cause death by asphyxiation in a radius of 300m.

Deep ocean storage is an alternative storage method but less common – it can further acidify oceans and is illegal under many international conventions.

The US Department of Labor pension rules could slow – but won't halt – the use of sustainable investments in the market

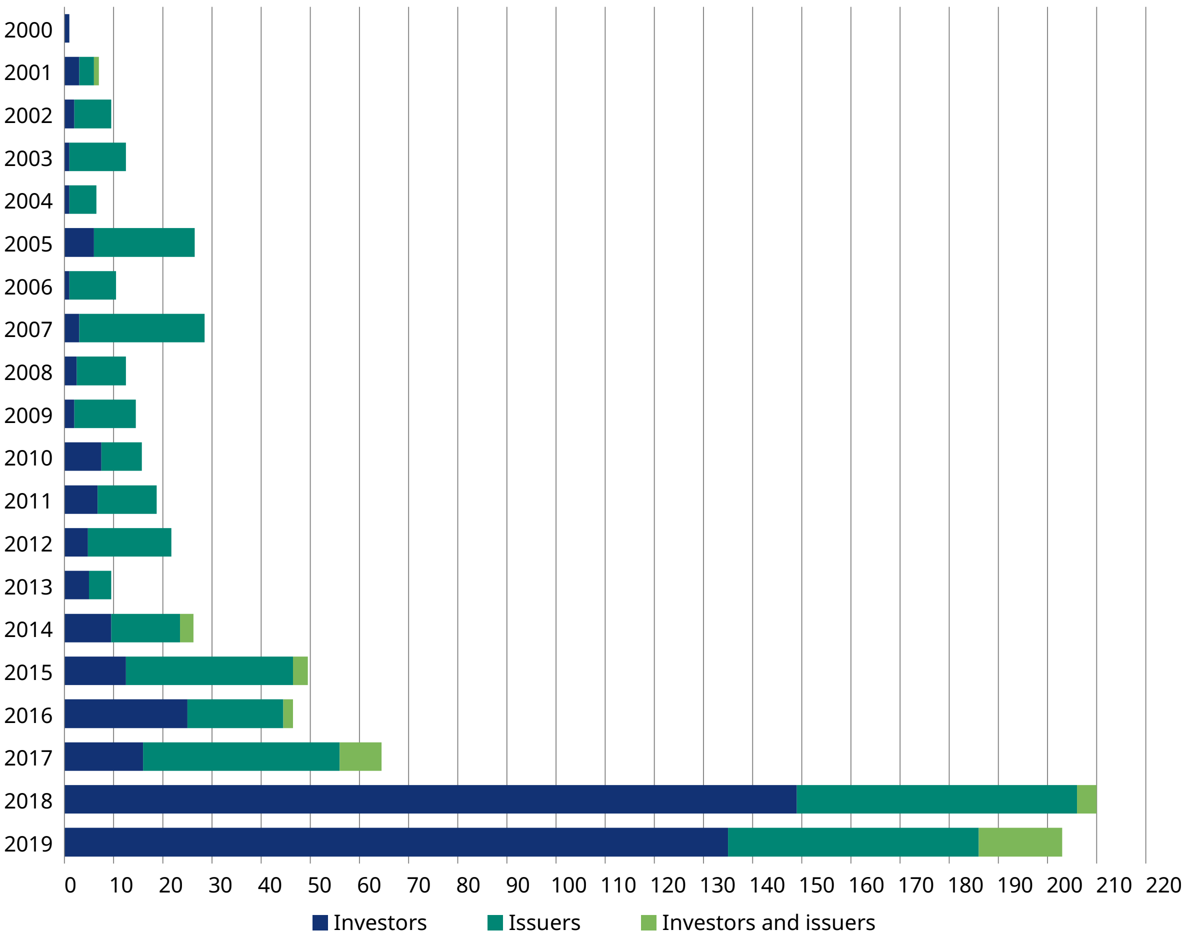
US regulation potentially limiting the use of ESG factors is at odds with policy and regulation elsewhere in the world.

Sarah Bratton Hughes
Head of Sustainability, North America

There has been exponential growth in global sustainability policy over the past three years. While the majority of it has been favorable for sustainable and ESG investing, the backdrop in the United States private pension space has been at odds with much of the rest of the world.

ESG REGULATION IS GROWING EXPONENTIALLY

Increase in ESG regulation globally since 2000



Regulations collected by MSCI and the UN PRI's ESG regulations database; regulations can be either mandatory, voluntary, or explanatory in nature – and are collected globally. Regulations database has been compiled using numerous sources, e.g. US Federal Register, Publications Office of EU, ILO etc. Source: MSCI ESG Research, UN PRI January 2020.

PECUNIARY OR NON-PECUNIARY, THAT IS THE QUESTION

In summer 2020, the US Department of Labor proposed two changes to regulations that had the potential to severely limit the use of ESG strategies for private pension, including multi-employer, plans. These plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA), the US legislation under which savers' interests are safeguarded.

The first piece of regulation, "Financial Factors in Selecting Plan Investments," focused on whether it was at odds with a plan sponsor's fiduciary duty of seeking to maximize returns to incorporate ESG factors and funds into a plan's portfolio. The proposed rule cited that ESG factors were "non-pecuniary" – meaning not financially material – in nature.

"While the public had a short period in which to respond, a study led by US lobby group the Forum for Sustainable and Responsible Investment and Morningstar reported that there were 8,737 comments about the proposed regulation with 95% opposing the rule."

Many argued that the Dept of Labor's definition of ESG reflected an exclusionary approach and disregarded the "financial materiality" of ESG issues.

The second piece of proposed regulation, "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights," released in August, was centered on ensuring that fiduciaries exercise their proxy voting duties prudently and solely for the economic benefit of the plan. The proposed regulation was intended to provide guidance to ERISA fiduciaries in the context of proxy voting and other exercises of shareholder rights, particularly as to whether and when it was appropriate for fiduciaries to vote (or when fiduciaries must not vote) on ESG-focused resolutions.

THE FINAL OUTCOME

In November, the Dept of Labor issued a final rule on financial factors that was more flexible than anticipated. In response to the overwhelming opposition in the public comments, the final rule struck out any mention of ESG. In fact the Dept of Labor acknowledged in the preamble that ESG factors can be financially material. The final rule is focused on ensuring that a fiduciary select investments based solely on pecuniary factors and prohibits fiduciaries from sacrificing returns or adding additional risks in order to promote non-pecuniary goals.

A FOCUS ON PECUNIARY FACTORS

"ERISA fiduciaries must evaluate investments and investment courses of action based solely on pecuniary factors – financial considerations that have a material effect on the risk and/or return of an investment based on appropriate investment horizons consistent with the plan's investment objectives and funding policy."

The final proxy voting regulation was released in December and the principle is consistent that fiduciaries are prohibited from voting on resolutions focused on environmental and social issues that are not financially material and beneficial to the plan and plan beneficiaries. However, the final rule adopts a more flexible, principles-based approach than the proposed rule.

SO, WHAT DOES THIS MEAN FOR ESG IN PRIVATE PENSION PLANS?

Based on our interpretation, there are a few main implications we see:

1. There will be a continued focus on understanding and assessing the financial benefits of ESG integration to demonstrate the contribution of such factors to delivering better long-term risk-adjusted returns.
2. Robust ESG integration should be systematic, not outsourced; meaning ESG analysis lives with investment teams and it is not an outsourced ESG function. It needs to be embedded into the investment process in order to maximize long-term risk-adjusted returns.
3. There will be continued focus on using an inclusionary approach to sustainable investing, rather than an exclusionary approach that is focused on negative screening. Thematic, impact and broad screen strategies are likely to be inappropriate.
4. Active managers will continue to engage with investee companies in order to ensure these companies are addressing ESG factors that may present material risks or financial opportunities to their business.
5. Operational implementation of the proxy voting rule may be challenging and will require a review of proxy voting policies and engagement with clients. It's our expectation the rule will result in reduced voting by ERISA plans.

A question remains as to whether passive solutions would pass the pecuniary test. Many of the indices used in connection with these strategies are constructed utilizing third-party ratings that are a bolt-on to the investment process, rather than the embedded approach taken by active managers that focuses on the material effects on the risk and return of an investment. We believe that this "bolt-on" aspect of passives is unlikely to satisfy the Dept of Labor requirement that the fiduciary focus solely on material financial factors when considering an investment or investment course of action.

"We expect a more positive stance toward certain aspects of sustainable investing from President-Elect Biden, given his campaign pledges to take action on climate change"

WHERE DO WE GO FROM HERE?

The new rule takes effect on January 12, 2021, prior to the transfer of power occurring on 20 January. We expect a more positive stance toward certain aspects of sustainable investing from President-Elect Biden, given his campaign pledges to take action on climate change. He has recently named John Kerry to his cabinet as US Special Presidential Envoy for Climate, which will also be a new position on the National Security Council; Brian Deese (formally the Global Head of Sustainable Investing at BlackRock) to lead the National Economic Council and Gina McCarthy, Head of White House Office of Climate Policy. Even so, reversing the Dept of Labor's final rule is not straightforward. Although the Congressional Review Act could be used to overturn the rules, that is not assured, and unless the Democratic Party holds a majority in the Senate, it may be even less likely. The new administration could agree that it will not enforce the new rules until they prepare further guidance, and this guidance could include a broader interpretation of what constitutes pecuniary factors. Another path to overturning the rules could be private lawsuits – especially given the short comment periods and speed at which the rules were adopted and, in the case of the financial factors rule, in the context of the overwhelming number of negative comments on the initial proposal and potentially negative impact on ESG and passive investment funds.

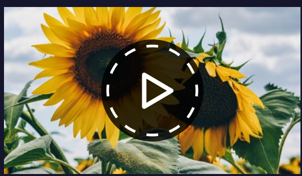
WHERE DOES THE REST OF THE WORLD STAND ON SUSTAINABLE INVESTMENT POLICY?

Governments around the world have been committing to reaching net zero emissions and have been setting out roadmaps for transitioning their economies towards a greener future. The EU is probably the leader in this space, having already set out a very ambitious action plan to reach emissions neutrality by 2050, which includes new regulation to ensure that the financial services sector does its bit towards channeling private money to more sustainable businesses. There is further movement in Asia, with regulators in Hong Kong and Singapore looking into how environmental risks can be brought into the picture, while in Australia the regulator of pension funds and insurers already requires them to consider ESG and climate change risks.

A comprehensive survey of sustainable investing policy and regulation will feature in the Q1 Sustainability Report in 2021

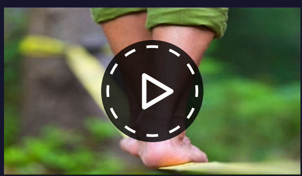
What investors have been reading, watching and listening to

From the impact of a Biden presidency to the findings of our survey of institutional investors, here's a snapshot of what Schroders has published recently. Listen to episodes from The Investor Download podcast. Or you can watch Global Head of Sustainable Investment Andy Howard talk about the impacts of climate change. For the latest, visit Sustainability Insights.



How sustainability is moving to the top of investors' agendas

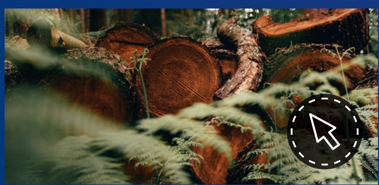
Ron Insana, Senior Adviser to Schroders and CNBC Contributor, talks with Andy Howard, Global Head of Sustainable Investment, about the latest sustainable investment trends and what we can expect as we head into 2021.



What motivates investors – morals or money?

How much would it take to get you to invest against your beliefs? 10% return, 20%, perhaps even more? That's just one of the questions posed to more than 23,000 investors around the world in a major new study into sustainable investing.

The views and opinion contained within the podcasts are held at the time of recording and are subject to change.



Gearing up against greenwashers: investors seek clarity on sustainability terminology

Investors want a better understanding of sustainability terminology so as to avoid "greenwashers", according to the Schroders Institutional Investor Study.

Read about the results from our survey of 650 institutional investors across 26 countries during April 2020 – including comments from Andy Howard, Schroders' Global Head of Sustainable Investment, and Elly Irving, Schroders' Head of Engagement.

The environmental and social impact of a Biden presidency

Ahead of the US election, Sustainable Investment Analyst Catherine Macaulay, looked at the key elements of the Biden climate agenda and its sectoral impactions, as well as the social element of his campaign.

Catherine argued a Democrat victory would result in a step-change in US climate policy. Biden would re-commit to the Paris Agreement and to a net zero emissions reduction target by 2050. She also wrote about implications beyond the climate agenda.

Why company culture matters – and how you track it

We all know it matters, but how do you measure and manage it? Global and International Equities Portfolio Manager Katherine Davidson writes about why it is so important, how she assesses it, and how investors can influence it.

She argues culture is an informal institution within an organization: it's the values and norms that guide behavior outside explicit rules or policies. It's the spirit rather than the letter of the law. Job review sites, academic research and employee turnover are three of the sources Katherine turns to.

How investment returns might be affected by climate change

Schroders has integrated climate change into its investment returns forecasts for the next three decades, uncovering the stark impact global warming is set to have. Featuring economist Irene Lauro; Head of Sustainable Investment, Andy Howard; and Kate Rogers, Head of Sustainability, Wealth.

Green and ESG bonds: what's behind their rise?

The green and social bond market continues to grow, evolve and diversify, remaining a helpful tool in driving sustainability.

Saida Eggerstedt, Head of Sustainable Credit, writes about how this year has seen something of a growth spurt for green bonds with the market heading toward the $1 trillion milestone.

As well as significant government bond launches, there has been increased issuance from the corporate sector and from a wider range of businesses and industries. She answers questions on these trends.

How sustainability can make a product stand out

Mannat Chopra, Sustainability Support Analyst in Schroders' European Equities team, explains how sustainable products can give companies an edge across a range of different industries. He also asks: can this last as sustainability becomes the norm?

Read Mannat's take on what makes a product sustainable, how some products help people behave as responsible consumers as well as the topics of enabling sustainability in business to business products and services and whether sustainable products could lose their edge.

What are the UN's Sustainable Development Goals? A quick guide

The United Nations' 17 Sustainable Development Goals are a "blueprint to achieve a better and more sustainable future for all". They're a "call for action" to "promote prosperity while protecting the planet".

Read what Schroders' Global Head of Sustainable Investment, Andy Howard, has to say about them.

Andy explores whether we are on track to meet the goals by 2030, how they're relevant to investment, and how investment firms have developed their use of them.

On thin ice: The danger posed by thawing permafrost and how businesses need to prepare

Thawing permafrost poses a significant risk, for example to Russian commodity producers. We're engaging with companies that need to assess, prepare and actively respond to this risk.

Holly Turner
Sustainable
Investment Analyst

Francesca Guinane
Data Insights Unit
Relationship Manager

James Ferguson
Research Analyst, Global
Emerging Market Equities

Rapidly thawing Arctic permafrost is a prime example of how climate change is impacting natural ecosystems and, in turn, business operations.

Permafrost is the name for ground that remains frozen for more than two years. It has existed in this region for millennia.

Temperatures in Russia have increased by around two and a half times the global average since 1970, according to the Federal Service for Hydrometeorology and Environmental Monitoring.

Another 1.9–3.4°C temperature rise has been predicted by the middle of the century – and the increase could be even more dramatic in critical winter months, a paper published in Russian Meteorology and Hydrology suggests.

WHAT DANGERS DOES THAWING PERMAFROST POSE?

Permafrost covers about a quarter of the northern hemisphere and its thawing leads to a multitude of environmental issues.

Chief among these is the release of gases such as carbon dioxide and methane, which contribute to climate change and accelerate global warming.

It's estimated that there's more than twice as much carbon stored in the earth's permafrost than there is in the atmosphere – up to 1,600 billion tonnes.

Thawing permafrost represents a significant physical climate risk to companies operating in permafrost areas. For example, as soils shift, infrastructure is threatened and floods become more likely.

"Last year a sizeable fuel tank leakage occurred in the industrial city of Norilsk in Krai, Russia, just above the Arctic Circle."

It increased fears over the impact of global warming – and specifically thawing permafrost – on infrastructure.

Although a subsequent investigation did not identify permafrost thawing as a reason for the incident, we continue to view it as a significant infrastructure risk to Russian firms.

We believe it should be at the forefront of risk considerations and capital allocation decisions of major Russian companies in the energy and materials sectors in particular.

HOW CAN THIS CLIMATE CHANGE RISK BE QUANTIFIED?

Schroders is committed to modeling investment risks from physical climate change.

Climate change is becoming a defining theme of the global economy. Schroders' Climate Progress Dashboard monitors change indicators across the four categories that have the most influence on limiting global temperature rises: political change, business and finance, technology solutions and entrenched industry (i.e. fossil fuel use). Read more on p7.

We are aiming to deduce future permafrost risk in Siberia in a collaborative effort between Schroders' data insights unit, the sustainable investment team and our emerging markets equities team.

This involves studying the surface temperatures in the locations where the main companies operate and identifying which are operating in at-risk areas.

Schroders' data insights unit created a permafrost dashboard so we can analyze weather and geographic trends in oil and gas production across Russia. It allows us to track rates of permafrost thawing in different locations.

HOW HAS SCHRODERS ENGAGED WITH COMPANIES AT RISK?

In December 2020, Schroders' global emerging market equities and sustainable investment teams engaged with seven companies identified as operating in at-risk areas in Russia.

"We sent a list of questions alongside a tailored letter outlining our understanding of the permafrost risk relevant to each company's operations and how climate change is exacerbating the problem."

This included which of a company's locations are most at risk from climate change disruption through permafrost destabilization.

The answers will enable us to understand how each company views physical climate risk from permafrost.

WHAT NEXT? SCHRODERS' AIM TO INFLUENCE PERMAFROST MANAGEMENT

The aim is to collate feedback and rank the firms based on our analysis.

The information gathered from company responses will not only allow us to better assess companies' management of these risks, but also to further develop our proprietary tool and monitor how these risks evolve in the coming years.

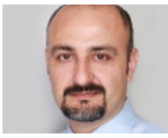
Where companies are not sufficiently managing current risks, or are not sufficiently prepared for future risks, we will engage further to influence them towards more sustainable business practices.

Ultimately we want to influence companies where the current permafrost assessment and management is not sufficient.

How we're tackling forced labor issues in Singapore

Schroders' sustainable investment team contacted employers of migrant workers in Singapore after the government announced new rules in July.

Wong Dan Chi
Sustainable Investment Analyst



Sameer Kakakhel
Equity Analyst

Lu Chuanyao
Equity Analyst

Leong Jeannette
Credit Portfolio Manager

Measures to stem the spread of COVID-19 have drawn international attention to migrant workers' living conditions in dormitories in Singapore.

In response, in June the Singapore government indicated that new standards for migrant workers would be established.

We engaged with five companies in Singapore that employ large numbers of migrant workers, in the property development and marine industries.

We asked how the new standards would impact how they operate, about their approach to workers' rights and also how they planned to absorb any cost increases.

WHAT ARE THE NEW STANDARDS FOR MIGRANT WORKERS' DORMITORIES IN SINGAPORE?

Contractors are being encouraged to house workers in dormitories near their construction site. The new standards for dormitories are:

- Six square meters of living space required
- Maximum ten beds per room with one meter between each and no bunk beds
- One toilet, bathroom and sink to every five beds
- More sick bay beds: at least 15 per 1,000 bed spaces

The government plans to create additional dormitories with these higher standards to accommodate 100,000 workers to support this.

HOW DID COMPANIES RESPOND TO OUR QUESTIONS?

Three of the five companies gave comprehensive responses.

The engagements covered the range of measures taken and the attention paid to migrant workers' wellbeing – both living conditions and safety.

The firms appeared to have strong relationships with regulators and so were able to respond quickly to the new rules.

Another company responded only briefly. The final company did not respond.

The responses suggested that increased costs are to be expected with the new standards for migrant workers, these will be somewhat met by support from the government.

The cost increase for the construction sector are estimated to be 10–15%. Our analysis suggests an increase in construction costs of one to three per cent for developers.

The impact on profit/loss is expected to be less than one per cent.

HOW WILL WE PROGRESS OUR ENGAGEMENTS ON MIGRANT WORKER ISSUES?

Following our initial communication with these five companies, we contacted two of the leading companies on the topic of debt bondage – a term for when someone is forced to work to pay off a debt.

> **"We wanted to better understand the situation on the ground and share our expectations."**

While there are policies and commitments to "zero forced labor", our understanding of the local market is that there's a risk contractors may not consider debt bondage to be forced labor.

Contractors may consider themselves to be compliant with local regulation while exploitative practices may be more likely to take place in the migrant workers' place of origin.

The conversations were useful to understand the challenge for developers with a rotating schedule of migrant workers. This is compared to manufacturing firms, which have a more consistent workforce to manage.

WHAT ARE WE HOPING TO ACHIEVE?

Recognizing that this is a new topic for many contractors, our initial focus will be on raising awareness of how debt bondage is in fact forced labor.

We asked the companies to educate their main contractors on the topic, using existing platforms of communication.

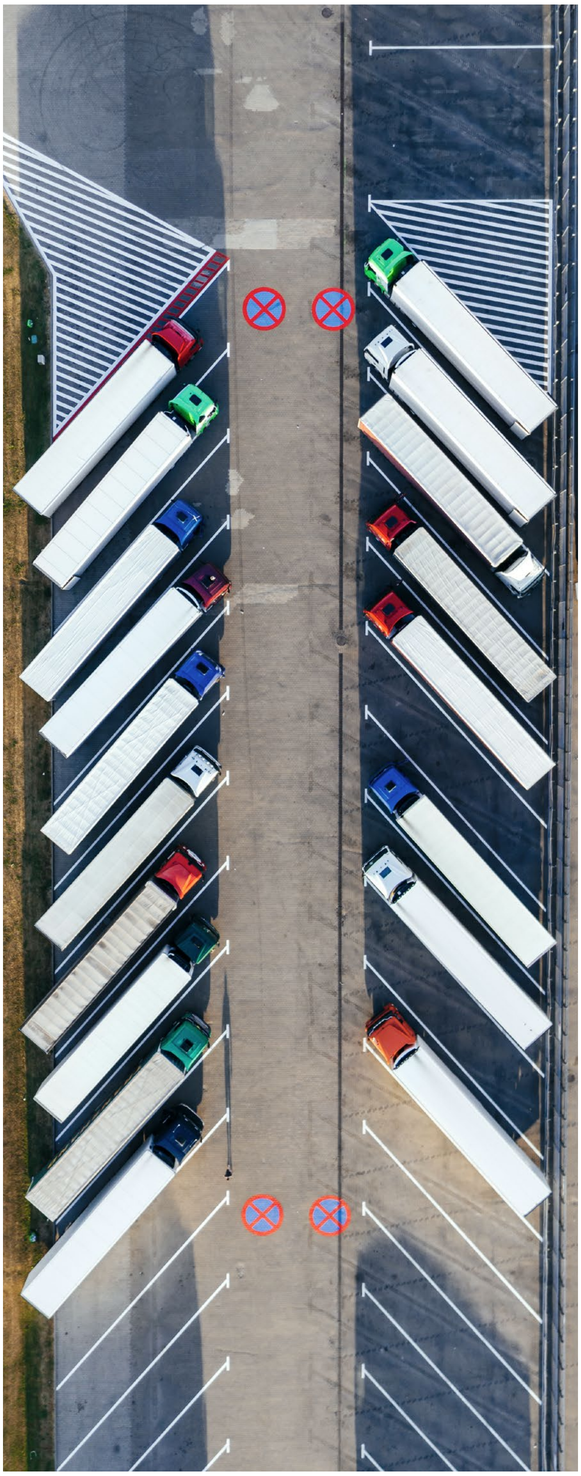
The two companies we spoke to seemed responsive and to indicate they will consider it.

As leading corporates, we believe that their actions will have a positive trickle-down effect and we will continue to encourage efforts in this area.

ACTIVE OWNERSHIP

How we're challenging the Tesco board on executive pay

We've been engaging with companies on their approach to executive pay, particularly given COVID-19. It's Tesco that has been in the spotlight.



Daniel Veazey
Head of Corporate Governance

As has been widely covered in the news, the former chief executive of Tesco was awarded a £6.4 million pay package in May, the biggest of any executive at the chain in almost a decade.

Dave Lewis, who left the helm of the supermarket in September, was set to receive a £2.4 million cash bonus, a £2.4 million long-term share bonus, and £1.6 million basic salary and benefits.

As the Guardian reported at the time, "his basic salary alone is 355 times that of the lowest-paid average employee".

HOW WE'VE BEEN ENGAGING WITH TESCO ON EXECUTIVE PAY

We have been questioning Tesco on remuneration issues since 2015.

In 2018 we voted against its pay policy.

We had historically supported Tesco's executives being predominantly incentivized to increase total shareholder returns, and approved its remuneration package in 2017.

But in 2018 Tesco shifted their remuneration policy to focus on earnings per share instead – something that we felt was less aligned with the interests of shareholders.

"Calls of caution were ignored, and Dave Lewis' long-term share bonus last year was boosted by £1.6 million on the basis of Tesco's share performance compared with rivals'."

Executive pay is influenced by Tesco's share performance relative to a custom list of rivals. In 2020, Tesco removed Ocado from that custom list, with effect from May 2018. By doing so, Tesco's relative share performance notably improved, leading to a handsome benefit for company executives.

HOW TESCO'S CHANGING BENCHMARK INFLATED PAY

Tesco admitted that removing Ocado affected awards granted, as the latter's share price appreciation meant Tesco would have underperformed in benchmark comparators.

The impact of this meant that Tesco's total shareholder return moved from a 4.2% underperformance to a 3.3% outperformance.

"The fact that Tesco had outperformed the new benchmark meant that the former CEO's long-term share bonus was £2.4 million rather than £800,000."

The company explained that because Ocado was a technology provider rather than a company in the food and retail index it should no longer be considered a direct competitor.

OUR ASK OF TESCO

Executive remuneration performance criteria are approved by shareholders at the company's AGM, so we consider any retrospective changes a red flag.

While we would agree that Ocado has shifted away from being a retail-focused business, this technology strategy was actually announced prior to 2017 when the peer group was set.

"Ultimately, 67% of Tesco's shareholders voted against the then CEO's £6.4 million pay package, so it's something that we were not alone in condemning."

However, the vote to approve the remuneration report was advisory rather than binding, meaning Dave Lewis was still eligible for the boosted pay package.

We're regularly engaging with hundreds of companies on remuneration and, especially in light of COVID-19, about how they're dealing with executive pay and using their discretion.

In the case of Tesco particularly, we will keep engaging with the business ahead of the 2021 annual general meeting. The alteration to its executive pay has not gone unnoticed by commentators so we expect pressure to build.

Engagement in numbers

ENGAGEMENT BY TIER

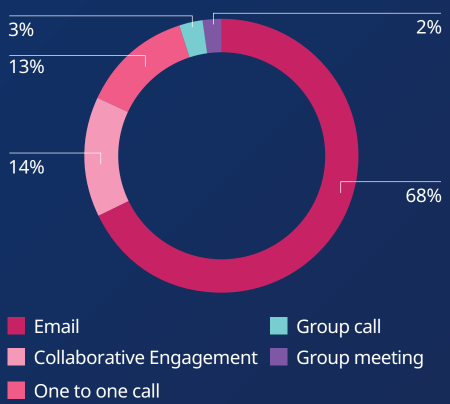
Tier	Scope	Number of engagements
1	In-depth, Sustainable Investment team-led engagements	72
2	Analyst/fund manager-led engagement	121
3	Collaborative engagement and communicating expectations at scale	291
4	Influence through actively voting on all holdings and conducting company meetings	2778
5	Industry involvement and public policy influence	Reported annually

Regional engagement (tiers 1 – 3)

UK	41%
Asia Pacific	20%
Europe (ex-UK)	20%
North America	11%
Latin America	4%
Middle East and Africa	4%

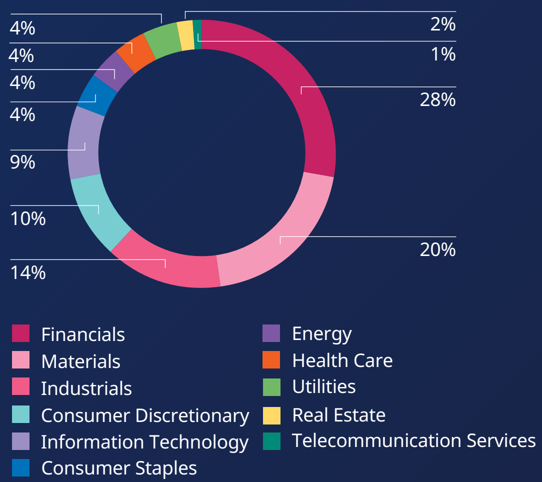
Source: Schroders as of December 31, 2020

Engagement type (tiers 1 – 3)



Source: Schroders as of December 31, 2020

Engagement by sector (tiers 1 – 3)



Source: Schroders as at 31 December 2020

Voting in numbers

We believe we have a responsibility to exercise our voting rights. We therefore evaluate voting issues on our investments and vote on them in line with our fiduciary responsibilities to clients. We vote on all resolutions unless we are restricted from doing so (e.g. as a result of share blocking).

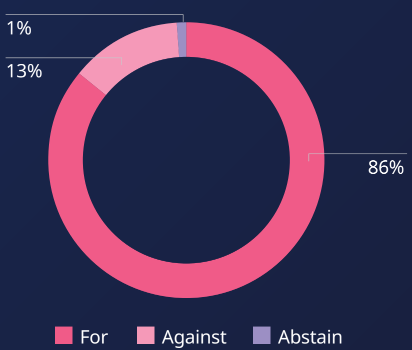
This quarter we voted on **951 meetings and approximately 99.68% of all resolutions**. We voted on **26 ESG-related shareholder resolutions**, of which we voted with **management on 20**.

Company meetings voted

Asia Pacific	46%
UK	18%
Europe (ex-UK)	17%
North America	10%
Middle East and Africa	6%
Latin America	3%

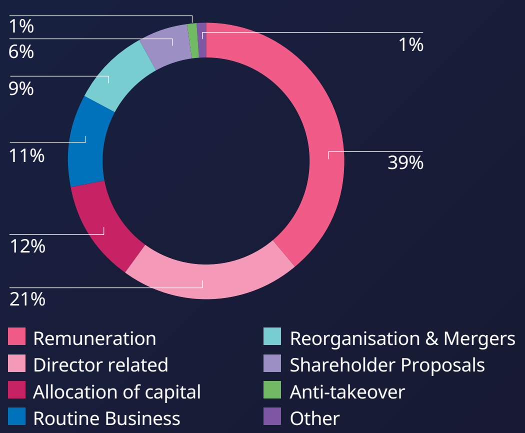
Source: Schroders as of December 31, 2020

Direction of votes this quarter



Source: Schroders as of December 31, 2020

Reasons for votes against this quarter

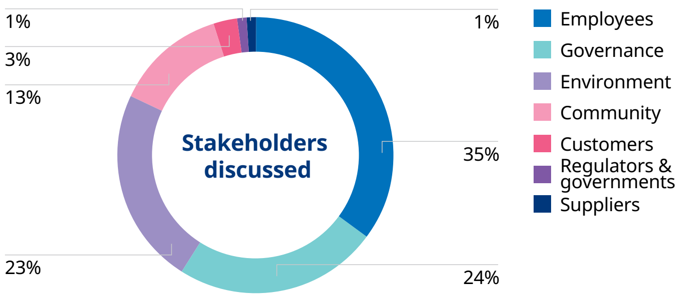


Source: Schroders as of December 31, 2020

Which companies we've engaged with

484 tier 1–3 engagements took place this quarter with the **443 companies listed below.** The table summarizes whether the broad range of topics discussed with each company fall under "environmental", "social" or "governance" issues. The chart opposite illustrates the topics discussed this quarter categorized by stakeholder. For further details about the issues discussed and company responses, please contact your Client Director.

STAKEHOLDER BREAKDOWN OF TIER 1–3 ENGAGEMENTS



Company	E	S	G
Consumer Discretionary			
4imprint Group		✔	
Adidas			✔
Amazon			✔
Bellway		✔	
Beyond Meat	✔		
Bovis Homes		✔	
Bridgepoint Education			✔
Burberry		✔	
Denso		✔	
Dunelm		✔	
EG Global Finance			✔
Electrolux			✔
Euromoney		✔	
Fulham Shore			✔
Future		✔	
Games Workshop		✔	
Gentex Corporation		✔	
Grupo Televisa			✔
GVC Holdings		✔	
Howden Joinery		✔	
Inchcape		✔	
Informa		✔	
J D Wetherspoon		✔	
JD Sports Fashion		✔	
Marks and Spencer		✔	
Mitchells and Butlers		✔	
Namco Bandai Holdings		✔	
Ocado Group		✔	
Paddy Power Betfair		✔	

Company	E	S	G
PagSeguro		✔	
Persimmon		✔	
Pets at Home Group		✔	
Prada	✔	✔	✔
Realestate.com			✔
Redrow Group		✔	
RELX Group		✔	
Renault	✔		
Restaurant Group			✔
Schibsted		✔	
Sega Sammu		✔	
Taylor Wimpey		✔	
Tesla Motors		✔	
Trinity Mirror			✔
Tui		✔	
Volkswagen		✔	
WH Smith		✔	
Whitbread		✔	
William Hill		✔	
WPP		✔	✔
Consumer Staples			
Carrefour			✔
Casino, Guichard-Perrachon et Cie	✔	✔	
Colruyt Group			✔
Cranswick		✔	
Danone			✔
Eastern Co			✔
Greencore		✔	
Greggs		✔	
Hilton Food Group		✔	

Source: Schroders, December 31, 2020.
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Company	E	S	G
Imperial Brands		✔	
JSL	✔	✔	✔
Pz Cussons		✔	
Reckitt Benckiser		✔	
SSP Group		✔	
Tesco		✔	✔
Energy			
Alfen Power	✔		
BP		✔	
China Shenhua Energy		✔	
CNOOC		✔	✔
Coal India		✔	
Energean		✔	
Gazprom	✔		
ITM Power	✔		
JinkoSolar Holding	✔		
Lukoil	✔		
Lundin Petroleum	✔		
Novatek	✔		
Petrobras			✔
Rosneft	✔		
Shaanxi Coal Industry		✔	
Technip			✔
Wintershall Dea	✔		✔
Wood Group		✔	
Woodside Petroleum			✔
Financials			
3i Group		✔	
ABN Amro	✔		
Admiral Group		✔	
AJ Bell		✔	
Allied Irish Banks	✔		
Amlin		✔	
Arab National Bank	✔		
Ashmore Group		✔	✔
Assura		✔	
Aviva		✔	
Banco De Oro	✔		
Banco de Sabadell	✔		
Banco Itau	✔	✔	✔
Banco Santander	✔		

Company	E	S	G
Bangkok Bank	✔		
Bank Mandiri	✔		✔
Bank of America	✔		
Bank of China	✔		
Bank of Communications	✔		
Bank of the Philippine Islands	✔		
Barclays	✔		
BBGI		✔	
Beazley		✔	
Brewin Dolphin		✔	
British Land		✔	✔
Bromford Housing Association			✔
Brooks Macdonald			✔
Catalyst Housing	✔		
Cerved Information Solutions			✔
Cheung Kong Property		✔	
China Construction Bank	✔		
Citigroup	✔		
Clarion Housing Group		✔	✔
Close Brothers		✔	✔
CLS Holdings		✔	
Commerzbank	✔		
Credit Agricole	✔		
Credit Suisse	✔	✔	✔
DBS Bank	✔		
Derwent London		✔	
Deutsche Bank	✔		
Direct Line Insurance		✔	
Emirates	✔		
Equity Lifestyle Properties	✔		
Erste Bank	✔		✔
First Abu Dhabi Bank	✔		
FirstRand Bank			✔
Grainger		✔	
Great Portland Estates		✔	
Grupo Financiero Inbursa			✔
Haitong Securities			✔
Hargreaves Lansdown		✔	
Heimstaden Bostad			✔
HSBC	✔		
Huntington Bancshares	✔		

Source: Schroders, December 31, 2020.
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Company	E	S	G
Industrial and Commercial Bank of China	✔		
Industrivarden			✔
ING	✔		
Integrafin		✔	
Intesa Sanpaolo	✔		
Invitation Homes	✔		
John Laing Environmental Assets	✔		
JP Morgan Chase	✔		
Jupiter Fund Management		✔	
Kasikornbank	✔		
Kookmin Bank	✔		
Lancashire		✔	
Land Securities		✔	
Landmark Infrastructure Partners	✔		
Law Debenture		✔	
Legal & General		✔	
Libra (Longhurst Group) Treasury	✔		
Lloyds Banking Group		✔	
LSE		✔	
Man Group			✔
Mirvac Group			✔
Mitsubishi Estate			✔
Mitsubishi UFJ Financial Group	✔		
Mitsui Fudosan	✔		
Mizuho Financial Group	✔		
National Bank of Kuwait	✔		
Nordea Bank	✔		
Notting Hill Housing Trust	✔		
OneSavings Bank		✔	
Optivo Finance		✔	✔
OTP	✔	✔	✔
Overseas Chinese Banking Corporation	✔		
Paragon Group		✔	
Partners Group			✔
Phoenix Holdings		✔	
Provident Financial		✔	✔
Qatar National Bank	✔		
Raiffeisen Bank International	✔		✔
Rathbone Brothers		✔	

Company	E	S	G
Regions Financial	✔		
Rexford Industrial Realty	✔		
Royal Bank of Canada	✔		
Safestore Holdings		✔	
Samba Financial Group	✔		
Sanctuary Capital	✔		
Sanne Group		✔	
Savills		✔	
Segro			✔
Shaftesbury		✔	
Shinhan Financial Group	✔		
Shopping Centres Australasia			✔
Siam Commercial Bank	✔		
South State	✔	✔	
Sovereign Housing Capital		✔	✔
St James's Place Capital		✔	
St Modwen Props		✔	
Standard Bank Investment Corp (SBIC)	✔		
Standard Life		✔	
Sumitomo Mitsui Financial	✔		
Sun Communities	✔		
Sun Hung Kai Properties	✔		
TBC Bank		✔	
Terreno Realty Corporation	✔		
UBS	✔		
Unicredit	✔		
Unite Group		✔	
United Overseas Bank	✔		
Vicinity Centres			✔
Workspace Group		✔	
Health Care			
Alcon	✔	✔	✔
AstraZeneca			✔
Biohaven Pharmaceutical	✔	✔	✔
Cheplapharm Arzneimittel			✔
Danaher	✔		
DaVita Incorporated			✔
Dechra Pharma		✔	
Genus		✔	
Johnson & Johnson			✔

Source: Schroders, December 31, 2020.
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Company	E	S	G
Lepu Medical Technology Beijing			✔
Lonza Group			✔
Puretech Health		✔	
Santen Pharmaceutical	✔	✔	✔
Sonic Healthcare		✔	
Syncona		✔	
Thermo-Fisher			✔
TMO			✔
Udg Healthcare		✔	
Industrials			
Acuity Brands			✔
Aggreko		✔	
Andritz			✔
Ashtead		✔	
Assa Abloy			✔
Avon Rubber			✔
B&M European Value Retail		✔	
Babcock Intl Group		✔	
Balfour Beatty		✔	✔
Bunzl		✔	✔
China International Marine Containers			✔
Clarkson		✔	
DCC		✔	
De La Rue			✔
Dialight			✔
Diploma		✔	
Dormakaba Holding			✔
EasyJet		✔	
Getlink	✔		
Grafton		✔	
Hays		✔	
Homeserve		✔	
IMI		✔	
International Consolidated Airlines		✔	
Intertek			✔
IWG		✔	
J Fisher & Sons		✔	
John Laing Group		✔	
Keller Group			✔
Kingspan Group		✔	✔

Company	E	S	G
Larsen & Toubro		✔	
Localiza Rent A Car			✔
Meggitt		✔	
Michael Page		✔	
Mineral Resources		✔	
National Express		✔	
Prosegur Cash			✔
Qinetiq	✔	✔	
Rentokil Initial			✔
Rolls-Royce			✔
Rotork		✔	
Royal Mail		✔	
Schneider Electric			✔
Serco Group		✔	
Shenzhen Inovance Technology			✔
Skil Ports And Logistics			✔
Smiths Group			✔
Spirax-Sarco Engineering		✔	
The Capita Group		✔	
TI Fluid Systems		✔	
Tomra Systems	✔		
TPI Composites	✔		
Trainline	✔		
Travis Perkins		✔	
United Tractors		✔	
Vesuvius		✔	
Weg	✔		✔
Weir Group		✔	✔
Wizz Air		✔	
Wolseley		✔	
Information Technology			
Activision Blizzard		✔	
Asustek Computer		✔	
Auto Trader Group		✔	
Avast			✔
Aveva Group		✔	
Cap Gemini		✔	
Capcom		✔	
CD Projekt		✔	
Check PT Software			✔

Source: Schroders, December 31, 2020.
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Company	E	S	G
Cisco Systems		✔	
Dena		✔	
Electronic Arts		✔	
FDM Group		✔	
Genpact			✔
Hewlett Packard		✔	
Hexagon			✔
II-VI Incorporated			✔
Kainos		✔	
KLA Tencor			✔
Konami Holdings		✔	
Micro Focus		✔	
Money Supermarket		✔	
NCC Group			✔
Nexon		✔	
Nintendo		✔	
Oracle			✔
Oxford Instruments		✔	
Playtech		✔	
Renishaw		✔	
Seagate	✔	✔	✔
Sequoia	✔		
Silverlake		✔	
Solaredge Technologies	✔		
Spectris	✔	✔	
Square Enix Holdings		✔	
Take-Two Interactive Software		✔	
Tencent		✔	✔
Ubisoft Entertain		✔	
Unisplendour			✔
Venustech Group			✔
Yandex			✔
Zhejiang Chint Electrics			✔
Zynga		✔	
Materials			
Acerinox			✔
African Rainbow Minerals		✔	
Agnico Eagle Mines		✔	
Alcoa		✔	
Alrosa		✔	
Anglo American		✔	

Company	E	S	G
Anglo American Platinum		✔	
AngloGold Ashanti		✔	
Anhui Conch Cement	✔		
Antofagasta		✔	
Arcelor Mittal		✔	
Barrick Gold		✔	
BHP Billiton		✔	
Boliden		✔	
Borregaard	✔		✔
Crest Nicholson		✔	
CRH		✔	
Croda International		✔	
DS Smith	✔	✔	
DSM	✔		✔
Evraz		✔	
Ferrexpo		✔	
First Quantum		✔	
Fortescue Metals		✔	✔
Freeport-McMoran		✔	
Glencore		✔	
GMK Norilsk Nickel	✔	✔	
Gold Fields		✔	
Grupo Mexico		✔	
Hexpol			✔
Hill & Smith		✔	
Hochschild Mining		✔	
Holmen	✔		
Ibstock		✔	
Iluka Resources		✔	
Impala Platinum		✔	
Incitec Pivot		✔	
Independence		✔	
Industrias Penoles		✔	
Jiangxi Copper		✔	
Jiangxi Ganfeng Lithium		✔	
Kardemir			✔
KGHM Polska Miedz		✔	
Kinross Gold		✔	
Korea Zinc	✔		
Kumba Iron Ore	✔	✔	
Lafargeholcim	✔	✔	✔

Source: Schroders, December 31, 2020.
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Company	E	S	G
LG Chemical			✔
Lynas Corporation		✔	
Mitsubishi Materials		✔	
Newcrest Mining		✔	
Newmont Mining		✔	
Norsk Hydro	✔	✔	✔
Northam Platinum			✔
Northern Star Resources		✔	
Orocobre		✔	
OZ Minerals		✔	
Pan American Silver		✔	
Petrokimya Holding			✔
Polymetal	✔	✔	
Polyus		✔	
Regis Resources		✔	
Resolute Mining		✔	
RHI Magnesita		✔	
Rio Tinto		✔	
Sandfire Resources		✔	
Saracen Mineral		✔	
Saudi Industrial Investment Group	✔		
Severstal		✔	
Shandong Gold Mining		✔	
Sibanye Gold		✔	
SIKA			✔
Smurfit Kappa		✔	
South32		✔	
Southern Copper		✔	
St Barbara		✔	
Sumitomo Metal Mining		✔	
Teck Resources		✔	
Umicore	✔		
Vale		✔	
Vedanta		✔	
Victrex		✔	
Western Areas		✔	
Zhejiang Huayou Cobalt		✔	
Zhejiang Weixing New Building Materials			✔
Zijin Mining		✔	

Company	E	S	G
Real Estate			
Alstria	✔		
Columbia Property Trust	✔		
CoreSite Realty	✔		
Countryside Properties		✔	
CPI Property	✔		✔
Emaar Malls	✔	✔	✔
Healthcare Realty Trust	✔		
Home Group	✔		
Mabanee	✔	✔	✔
Tritax Big Box REIT		✔	
VGP	✔		
Telecommunication Services			
Ascential		✔	
Saudi Telecom	✔	✔	✔
Talktalk		✔	
Troy Income and Growth Trust			✔
Turkcell Iletisim			✔
Utilities			
Australian Pipeline Trust			✔
Centrica			✔
Energisa	✔	✔	
Equatorial	✔	✔	
ISA	✔	✔	✔
Korea Electric Power			✔
National Grid	✔		✔
Northumbrian Water		✔	
Pennon Group		✔	
ReNew Power	✔		
RWE	✔		✔
Severn Trent		✔	
Telecom plus		✔	✔

Key

E – Environment
S – Social
G – Governance

Source: Schroders, December 31, 2020.
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Engagement progress

This section reviews progress on historical engagements. We record our engagement activity in our proprietary research database to facilitate the monitoring of companies in which we are invested. To ensure this is effective, we define expected timeframes for milestones and goals; track progress against the defined milestones and goals; and revise the goals, if necessary, depending on progress.

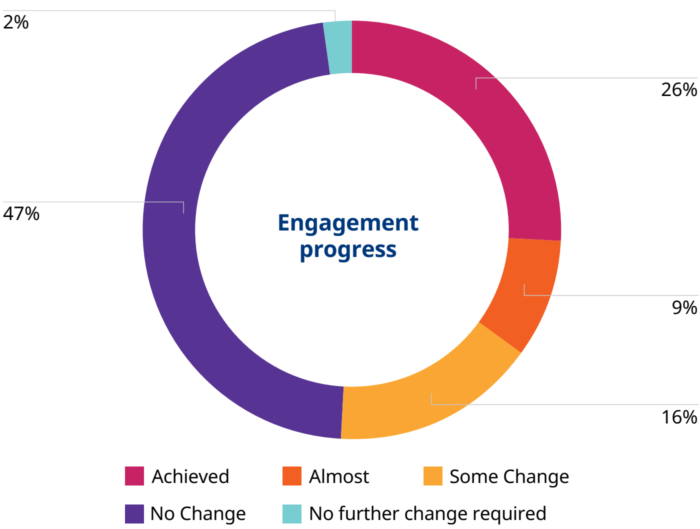
There are five possible results: 'Achieved', 'Almost', 'Some Change', No Change' and 'No Further Change Required' (typically because we have sold out of the position).

We recognize that any changes we have requested will take time to be implemented into a company's business process. We therefore typically review requests for change 12 months after they have been made. We continue to review progress on an ongoing basis thereafter and will escalate where necessary.

In Q4 2019, Schroders undertook 40 requests for change classified as tier 1 engagements. Upon reviewing these engagements in Q4 2020, the pie chart below shows a breakdown of the progress we have made.

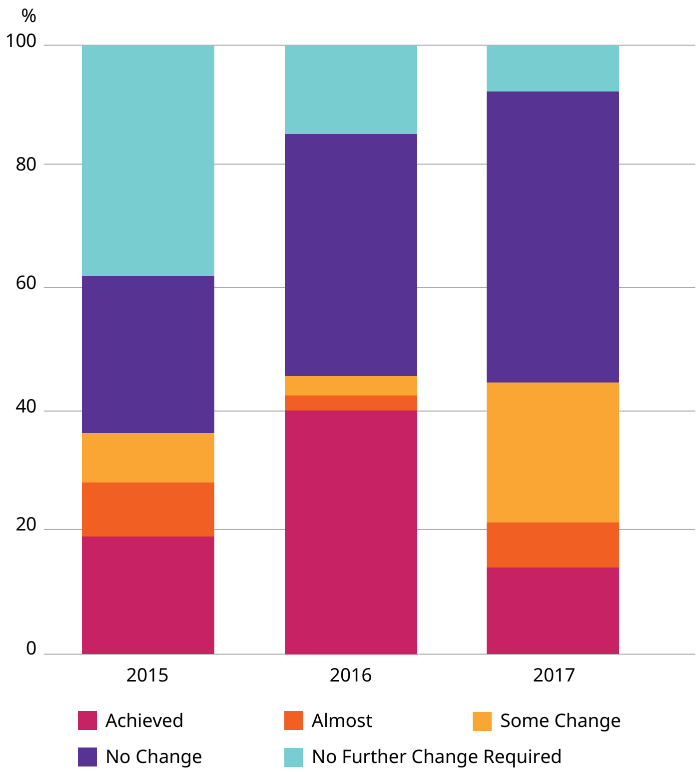
The bar chart below shows the effectiveness of our requests for change over a three-year period. Our experience shows that at least two years of dialogue is typically required before our requests begin to materialize into measurable change within a company. It is for this reason that the two most recent years are omitted from the chart.

ENGAGEMENT PROGRESS FROM Q4 2019



Source: Schroders as of December 31, 2020

EFFECTIVENESS OF REQUESTS FOR CHANGE – 3 YEAR PERIOD



Source: Schroders as of December 31, 2020

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The success of any quantitative ESG research model depends largely upon the effectiveness of the investment team's quantitative model. A quantitative model, such as the risk and other models used by the investment team requires adherence to a systematic, disciplined process. The team's ability to monitor and, if necessary, adjust its quantitative model could be adversely affected by various factors including incorrect or outdated market and other data inputs. Factors that affect a security's value can change over time, and these changes may not be reflected in the quantitative model. In addition, factors used in quantitative analysis and the weight placed on those factors may not be predictive of a security's value. No investment strategy, technique or model can guarantee future results or eliminate the risk of loss of principal.

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