

ENGAGEMENT BLUEPRINT

Our vision for active ownership at Schroders

January 2023



This document is intended to be for information purposes only
and it is not intended as promotional material in any respect

Schroders

CONTENTS

Introduction

4

Why do we engage?

4

How will we engage?

Six core themes for active ownership

10

Climate Change

14

Natural Capital and Biodiversity

17

Human Rights

20

Human Capital Management

23

Diversity and Inclusion

26

Corporate Governance

Click on the links to navigate the document. Click on  to return back to the navigation page.



ENGAGEMENT BLUEPRINT

Through constructive and committed engagement with management teams at the companies and assets we invest in, active ownership is a key element of the value we can bring to our clients. Social and environmental forces are reshaping societies, economies, industries and financial markets and in doing so are increasingly influencing investment returns.¹ Approached thoughtfully and with focus, encouraging management teams to adapt to these changes, and holding them accountable for doing so, can strengthen the long term competitiveness and value of their businesses and at the same time accelerate positive change towards a fairer and more sustainable global economy.

Schroders has a long history of engagement and active ownership and we have engaged with companies on ESG-related items for more than 20 years. Over that time we have influenced significant change, and helped many companies in which we invest improve aspects of their environmental, social and governance performance. Our engagement practices have been strengthened and refined over this period to provide us with a strong platform on which the six core themes for active ownership set out in this Engagement Blueprint are based.

We published our first Engagement Blueprint in 2022 and this document builds on that foundation. It describes where we plan to focus our active ownership efforts. Establishing and articulating the guiding principles for our active ownership efforts helps establish a common approach across asset classes we manage, and greater consistency in our engagement and input to policy makers, regulators and industry groups. We have a long history of engagement with policy makers, for which sustainability factors are becoming an increasingly important focus. While this document is primarily focused on our engagement with the companies in which we invest, we will continue to develop our active

ownership approach and priorities across asset classes to address new priorities and expectations. This blueprint is forward-looking and is a compass to guide our desire to generate investment returns for our clients by driving transition and change, and we note that the approach may differ by fund. It is not intended to be a list of expectations for companies to currently meet in their entirety. It is complementary to our published [ESG policy for listed assets](#) and [Sustainable Investment reports](#). We will, of course, continue to engage on more traditional factors such as underperforming profitability outside of the engagement areas described in this document.

We believe it is important to be transparent with companies, clients and other key stakeholders about our active ownership priorities. This should mean that clients better understand how we plan to execute active ownership responsibilities on their behalf, and companies understand key areas on which we will focus. We expect companies, led by the board, to embrace shareholder rights and constructive engagement with both shareholders and holders of long-term debt around material long-term sustainability issues.

It is now widely recognised and accepted that companies need to be held to account over how they do business and their social impact. We firmly believe that taking an active approach to investment management is the best way to protect and enhance the value of our clients' assets.

Peter Harrison
Chief Executive Officer

¹ <https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance>

Schroders is a leading global investment manager headquartered in London, but operating from 38 locations across Europe, the Americas, Asia, the Middle East and Africa. As of 30 June 2022, we were responsible for managing £773 billion of assets for our clients who trust us to deliver returns. We strive to provide excellent investment performance and solutions to our clients through active management. By serving clients, we serve wider society: by channeling capital into more sustainable and durable businesses we can deliver better investment returns over time and accelerate positive change in the world. As a large investment manager, we recognise that we have an important part to play in shaping the future of all our stakeholders.

INTRODUCTION

Why do we engage?

We consider active ownership to be the influence we can apply to management teams so that more sustainable practices are properly considered in managing the companies and assets in which we invest on behalf of our clients. We aim to drive change that we believe should better protect and enhance the value of our clients' investments and we are committed to leveraging our influence as an investor to change how a company operates for the better. We believe this is an important aspect of our role as stewards of our clients' capital and how we help clients meet their long-term financial goals.

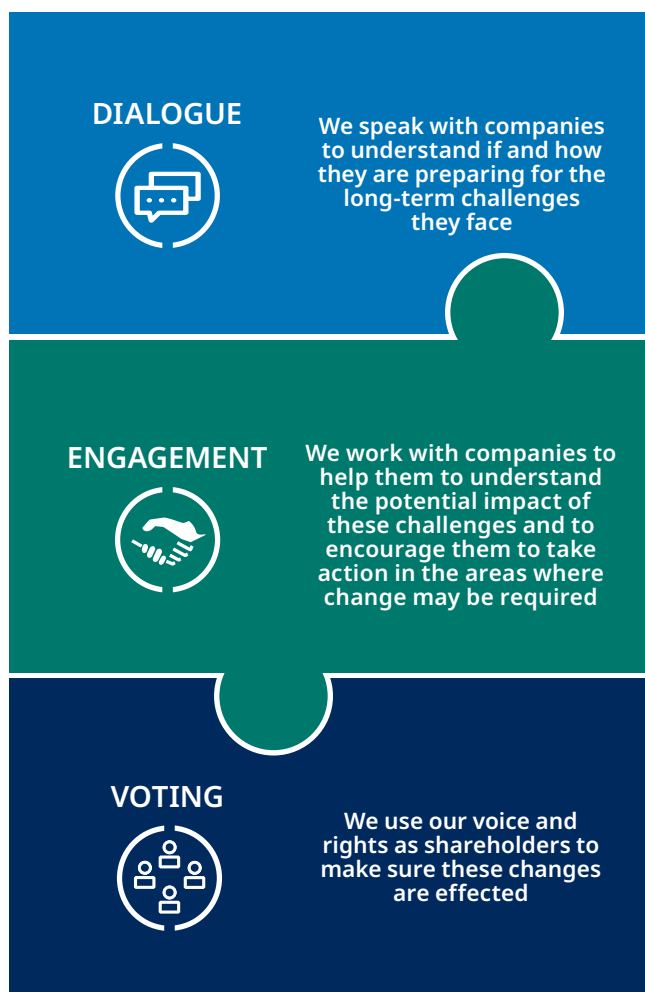
How will we engage? Scope of our approach

As an active manager, with hundreds of experienced and insightful analysts and fund managers around the world, we are especially well placed to engage thoughtfully and constructively with the companies in which we invest. Our active ownership priorities reflect the combined perspectives of our clients, fund managers, investment analysts and sustainability specialists across the firm, supported centrally by our Sustainable Investment team. We aim to take a common approach across investment desks and asset classes, including across equity and fixed income investments, and other asset classes that do not have voting rights.

Our approach to active ownership is also similar across geographies and market capitalisation. However, differences in expectations arise from country and regional contexts; for example, differing socio-cultural factors, regulatory maturity and resource constraints.

Active ownership in practice

We identify three key methods for practicing active ownership:



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

We recognise that effective engagement requires continuous monitoring and ongoing dialogue. Where we have engaged repeatedly and seen no meaningful progress, we will escalate our concerns. Decisions on whether and how to escalate are based on the materiality of each issue, its urgency, the extent of our concern and whether the company has demonstrated progress through previous engagements. We identify a number of methods to escalate our engagements below; these may take place in any order or frequency depending on the nature of the engagement. We do not aim to engage with every company in which we invest, nor with respect to every engagement theme described in this document.

We aim to drive change that will protect and enhance the value of our clients' investments and we are committed to leveraging our influence as an investor to change how a company operates for the better.

Methods of escalation

We seek to align our approach to voting with our wider active ownership priorities. This can include voting against the board's recommendations; for example, by holding directors to account on ESG topics, and supporting shareholder proposals, which are becoming increasingly frequent and important levers for change. We will oppose the board's recommendations if we believe that doing so is, taking into account relevant factors, in the best interests of shareholders and our clients.



Meeting or otherwise communicating with non-executive directors or the chair of the board



Expressing our concerns via company advisers or brokers



Collaborative intervention with other institutional investors



Withholding support or voting against the board's recommendations



Publicly stating our concerns



Submitting resolutions at general meetings



Requisitioning shareholder meetings



Divesting, which may mean a full or partial exit

We examine sustainability-related resolutions on a case-by-case basis and carefully consider the following questions, where they are relevant, amongst others:

IS THE RESOLUTION ALIGNED TO OUR BLUEPRINT?

Our Blueprint summarises our views on issues we regard as having the potential to be particularly material to investment risk, taking into consideration both the financial materiality and the potential impact on stakeholders. We seek to ensure that our approach to voting aligns with our wider active ownership priorities.

IS A RESOLUTION THE BEST WAY TO ADDRESS THE ISSUE?

We do not intend to micro-manage companies, but rather to provide oversight and guidance through dialogue, engagement and voting. Moreover, we consider if other relevant stakeholders are better placed to address the issue, for example governments through regulation.

DOES THE RESOLUTION ADD VALUE TO WHAT THE COMPANY IS ALREADY DOING?

This could include improving transparency to help us better understand how companies identify and manage risks, providing reassurance that policies and practices are effectively implemented, strengthening management systems to resolve and prevent controversies, and encouraging companies to move towards ESG best practice.

DOES THE RESOLUTION HAVE THE POTENTIAL TO CAUSE UNINTENDED DAMAGING CONSEQUENCES?

This considers if the proposal, if implemented, could have the potential to cause unintended consequences of a significant level to the company's stakeholders, taking into consideration a range of contextual factors, including cost, sector, geography, and economic climate.

Outcomes-based approach

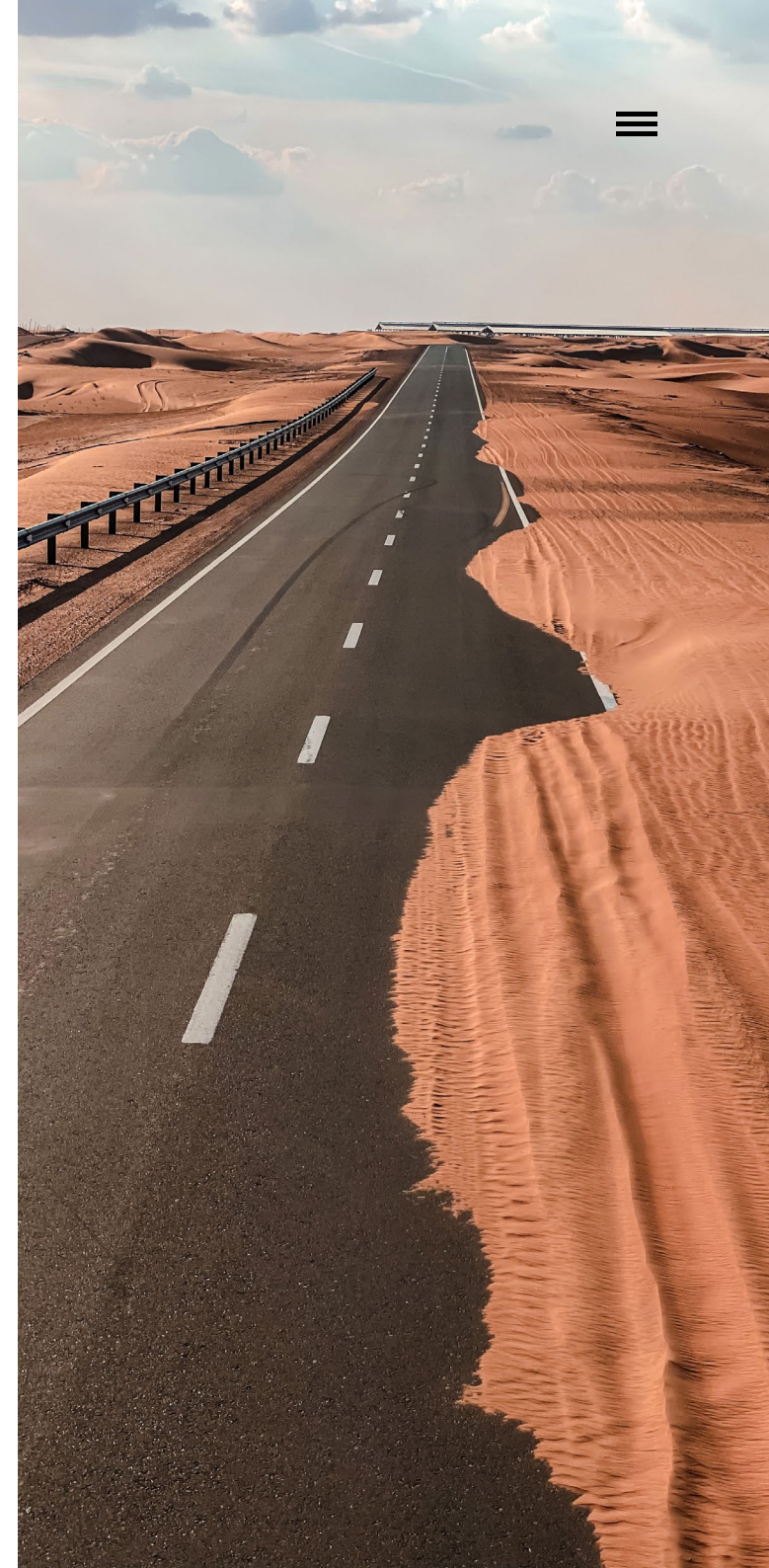
Our approach to active ownership focusses on achieving meaningful outcomes and change - that's why we prioritise the depth and quality of our engagements over the volume of activity. When determining when to engage and setting an objective for the engagement, we would expect to consider the following factors amongst others:

- 1. Materiality:** We seek to focus our engagement on what we consider to be the most material sustainability threats and opportunities to the company. These are areas which could have a significant impact, both negative and positive, on a company's long-term value. While we look at the sustainability issues companies themselves deem material, we also apply our own understanding and judgement. This may include using our proprietary ESG tools and research, such as [CONTEXT](#).
- 2. Regional context:** The potential materiality of issues and the expectations we have of companies may vary by country and region; for example, because of differing socio-cultural factors, regulatory maturity and resource constraints. Where possible we reference country or regional initiatives, regulations and leading practice from peers in our dialogue with companies.
- 3. Realistic outcomes:** We consider both leading practice and what could realistically be achieved by the company in the next few years, including considering the size of the company and how quickly it might effect change.
- 4. Ability to monitor progress:** We aim to use objective, measurable metrics or indicators that can be used to assess company performance on an issue.

- 5. Length of engagement:** We aim to set short- to mid-term objectives - that can often be achieved over a 12- to 24-month period depending on the intensity of the engagement - but with a longer-term vision in mind. We recognise that some issues may require more urgent action than others, and that other objectives may take longer for a company to achieve.

We aim to set pre-defined SMART (specific, measurable, achievable, realistic and time-bound) engagement objectives where they are suitable for the engagement. We aim to monitor progress against the engagement objectives at a frequency that is appropriate for the priority of the engagement and materiality of the issue or holding, typically at least annually. That said, we recognise that the length of time to achieve an objective will vary depending upon its nature. Key strategic changes might take time to implement into a company's business processes, however additional disclosure requests could be achieved on a faster timeline. A measurable outcome from our engagement upon completion of an objective could take a range of forms, including additional disclosure by a company, influencing the company strategy on a particular issue, or a change to the governance of an issue.

We recognise that success factors may be subjective, and that Schroders' influence is rarely the sole driving force for change. Regardless, we believe it is critical to track companies' progress and measure the outcomes of our engagement, no matter how large or small our influence may be.



Active ownership's role in impact investment strategies

Our impact investment strategies target societal and/or environmental real-world impacts in addition to financial returns. A number of Schroders funds seek to apply impact investing principles throughout their investment process. These impact-driven funds have objectives to pursue and deliver measured impact. Our ability to influence change in companies in which these funds invest through engagement is a key lever in delivering positive impacts through those investment strategies. For this reason, engagement can be a key element of an impact investment strategy.

There are many similarities in how we engage with companies on broader sustainability issues, and how we might engage in the context of an impact strategy. Across both contexts our approach to engagement focuses on achieving specific outcomes and lasting change, and we prioritise depth and quality in our engagements.

In addition, engagement priorities for impact strategies focus on actions that can accelerate the company's contributions to the impact objectives of the strategy in question, which is reflected through the "Theory of Change". The Theory of Change informs a tailored impact scorecard to select an investment aligned with the strategic impact objectives. Key impact performance indicators (KPIs) may go beyond the sustainable practices of companies and be focused on the specific products and services they provide.

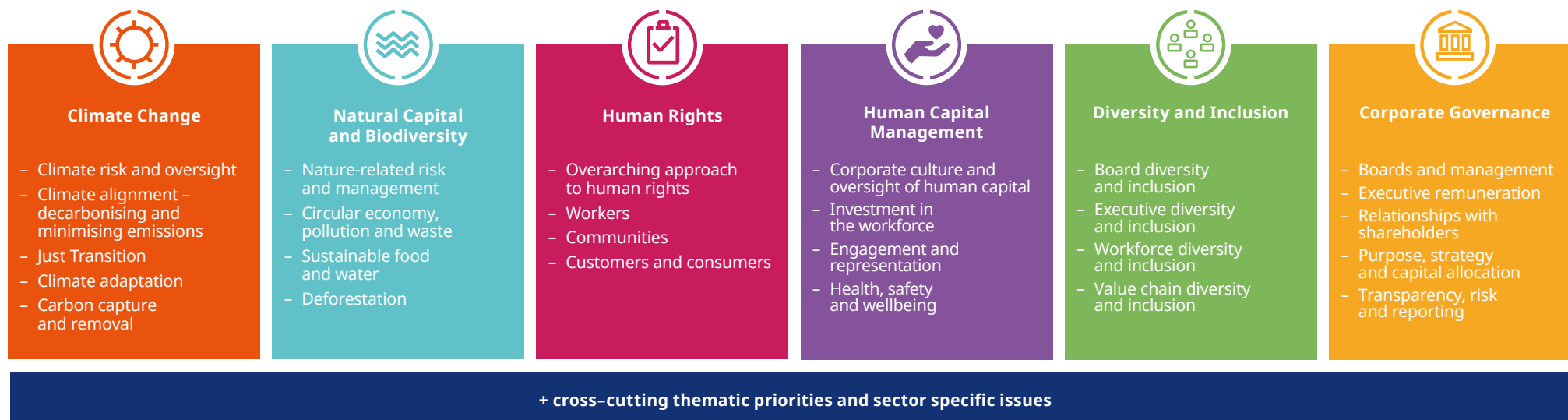
We recognise that making changes in products and services can take longer than policy or disclosure changes, for example. As a result, engagement for an impact fund may follow a longer timescale than broader sustainability engagements.

Our managers for impact strategies typically engage closely with the portfolio companies at the time of the selection of the key impact KPIs as well as during the life of the investment to see how actual performance compares with the impact KPI targets set at the time of investment.

Examples of engagement in these types of strategies could be engaging with companies to increase the percentage of their revenues linked to impact-related activities during the life of the investment, or encouraging a company to allocate capital and research and development (R&D) resources to solutions in areas that will deliver positive impacts. Impact fund engagement may also focus on collecting more granular data on the "additionality" of the company's strategy compared to other companies in the same sector, which could better target underserved regions and/or provide innovative investment solutions to a larger group of beneficiaries.

Our priority engagement themes

We focus on sustainability issues that we determine to have the potential to be material to the long-term value of our investee holdings. When companies fail to address these adequately, we believe that over time they might negatively impact their financial performance for our clients. These issues reflect expectations and trends across a range of stakeholders including employees, customers, and communities, to the environment, suppliers and regulators. By strengthening relationships with that range of stakeholders, business models become more durable. The governance structure and management quality that oversee stakeholder relationships is also a focus for our engagement discussions. In addition, we seek to reflect the priorities of our clients. Based on this process, we identify six broad themes for our engagement:



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

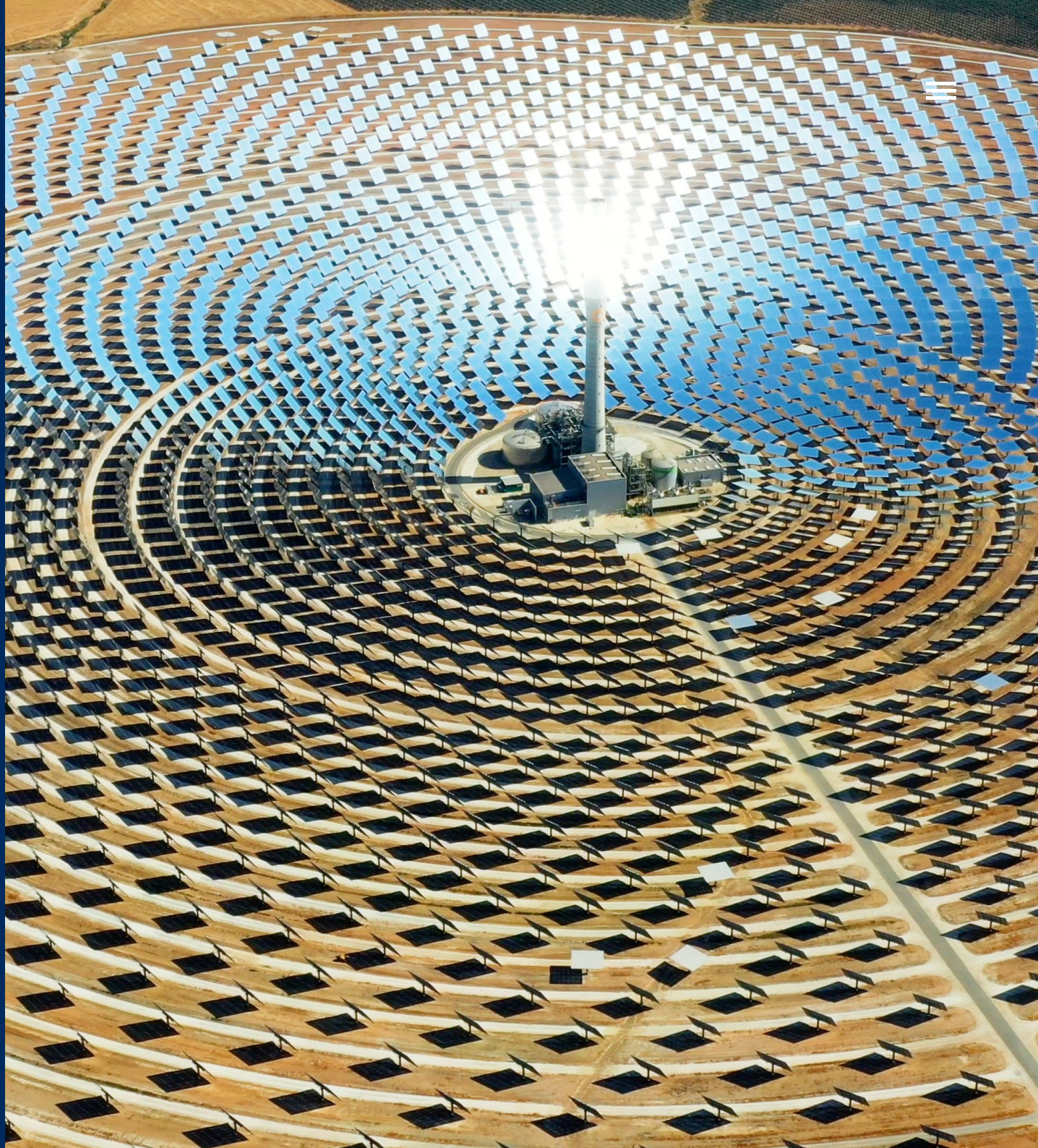
We plan to regularly review our priorities and update this document, at least annually, as our understanding of the issues and market best practice evolves. This will help us to push for change in the right areas.

Over the following pages we outline, for each of our key themes, the long-term outcomes we aim to achieve and the corresponding short- to mid-term actions. Where possible we align our desired long-term outcomes with established international goals, such as the Paris Agreement or the UN Sustainable Development Goals (SDGs).

That said, the objectives we may set are unique to a specific company depending on its current practices, our determination of its most material issues and broader considerations such as company size, geography and sector. As such, we don’t engage on all key themes for all companies; rather, we focus on achieving positive outcomes for their most material themes, and our clients’ most material holdings.

Feedback

We believe that engagement should be a two-way street. We welcome companies, clients and our wider stakeholders contacting us about relevant issues and providing feedback on the framework we have set out in this document. We also acknowledge that Schroders' own business is on a similar journey to many of our investee companies regarding progressing our own ESG priorities. We explain our approach as a public company in our [Corporate Responsibility Report](#) and [Annual Report](#). We aim to be responsive to stakeholders looking to engage with us.



THEMATIC PRIORITIES

Climate Change

Why do we engage?

We believe that companies urgently need to transform their business models to collectively avoid the most catastrophic effects of climate change on people and the planet, and adapt to future temperature rises. As a long-term active investor, we seek constructive and collaborative engagement that is dedicated to supporting companies' climate transition to protect and improve shareholder value.

The global average temperature reached about 1.1 degrees Celsius above the pre-industrial baseline in 2021² and is on course for a temperature rise of close to 3 degrees by the end of the century without concerted action.³

We should be able to avoid the worst impacts of climate change if we manage to limit long run temperature rises to around 1.5 degrees Celsius above pre-industrial levels.⁴ We could achieve this by reducing emissions to “net” zero by 2050. This means reducing emissions to an absolute minimum and finding ways to counterbalance them (including the outright removal of greenhouse gases from the atmosphere).

Governments are taking action. By the end of COP27, the annual United Nations Climate Change Conference, 169 countries had submitted new or updated climate plans⁴. The final agreement also committed countries to deforestation and methane targets, and to phase-down coal power and phase-out of “inefficient” fossil fuel subsidies.⁵

We believe that companies' long-term financial success depends on their ability to transition their business models to a net zero or 1.5 degree pathway, and adapt to a changing climate. We engage with companies as a way of encouraging positive change that we believe can future-proof their businesses and help to generate returns for our clients. For companies that have already committed to act, engagement and voting is our route to holding them to account for their progress.

Schroders has joined the [Net Zero Asset Manager initiative](#) and committed to the [Science-Based Targets initiative](#). Our [Climate Transition Action Plan](#) sets out how we will manage our business towards net zero omissions in our own operations and value chain, and through the investments we make on behalf of our clients.

The global average temperature reached about 1.12 degrees Celsius above the pre-industrial levels baseline in 2021 and, according to our latest Climate Progress Dashboard, is on course for a temperature rise of over 3 degrees by the end of the century without concerted action.

² <https://public.wmo.int/en/our-mandate/climate/wmo-statement-state-of-global-climate>

³ <https://climateactiontracker.org/global/cat-thermometer/>

⁴ <https://www.climatewatchdata.org/2020-ndc-tracker>

⁵ <https://www.un.org/en/climatechange/cop26>

⁶ World Meteorological Organisation (2021), Atlas of Mortality and Economic Losses from Weather, Climate and Water Extremes (1970 – 2019), https://library.wmo.int/index.php?lvl=notice_display&id=21930

We define five key areas of focus for our climate engagements, each representing one of the key responses to climate change:


- 1. Climate risk and oversight:** Strong governance is critical to ensure companies are equipped to deal with strategic and financial risks from climate change. Our priority asks will be for the disclosure of key information on material climate factors – outlined on the following page – that could impact the company, and to hold the board to account for their oversight of climate strategies and risk.
- 2. Climate alignment – Decarbonising and minimising emissions:** The pathway to 1.5°C requires a dramatic reduction in emissions within the next decade. We engage to encourage companies to develop a robust and inclusive path to net zero.
- 3. Just Transition:** The transition to a low-carbon economy involves the restructuring of many industries which have historically been key drivers of jobs and economic activity, with implications for companies' many stakeholders. We engage with companies to encourage them to mitigate the potentially costly social effects of their net zero transition.
- 4. Climate adaptation:** As a result of climate change, the number of weather, climate and water extremes will become more frequent and severe. With economic losses due to these extremes rising sevenfold since the 1970s,⁶ we engage to strengthen climate resilience and adaptation to minimise such losses.
- 5. Carbon capture and removal:** Climate scenarios limiting warming to 1.5°C require “negative emissions” through the removal of carbon dioxide from the atmosphere. We engage to encourage companies to develop scalable carbon capture solutions, and to protect the world's natural carbon sinks where their business models do not allow faster emissions reductions in their existing assets and operations.

How will we engage?

We have marked with a ♦ the climate expectations that we believe large and medium companies^{7,8} need to adopt to align their business models with the transition to a net zero economy. Where appropriate, we have aligned our engagement expectations with those of collaborative initiatives in which we participate, including IIGCC and CA100+.











CLIMATE RISK AND OVERSIGHT

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Robust governance and oversight of climate-related risks 	Climate risk management (including transition risk) and reporting	♦ Report annually on the company's climate-related risks, and the steps the company is taking to manage these risks (e.g. TCFD reporting) <ul style="list-style-type: none"> – Conduct climate-scenario analysis and publish the results and integrate into business strategy – Reflect material climate factors in the company's annual report and accounts
	Board accountability	<ul style="list-style-type: none"> – Establish director responsibility for oversight of climate change, including the company's climate transition plan – Where climate change is a material potential factor in future financial performance, hold senior management accountable for performance against appropriate emissions and other climate targets
	Climate lobbying	<ul style="list-style-type: none"> – Publicly disclose any climate-related lobbying activity and trade association membership over the year – Set out how the company aligns its direct lobbying activities and trade association membership with the goals of the Paris Agreement and with the company's climate strategy

⁷ There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. For this reason, we consider the largest 80% of companies we hold via public equity or corporate bonds as in scope (assessed by market cap or enterprise value). We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

⁸ Our desired engagement outcomes are the same across developed and emerging markets. However, we recognise that companies based in emerging markets may need more time to meet our desired outcomes due to, for example, the trajectory of Nationally Determined Contributions (NDCs) in their operating countries, limited government policy response to climate change in some countries, or limited of financial support/incentives available to help companies transition compared to those based in developed countries. When assessing a company's progress against our desired outcomes, we do take into account regional variations in standards of good practice.

CLIMATE ALIGNMENT – DECARBONISING AND MINIMISING EMISSIONS

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Avoid the worst impacts of climate change by limiting global warming to 1.5°C</p>  	1.5°C alignment	<ul style="list-style-type: none"> Commit to decarbonise business models towards net zero by mid-century Set long-, medium- and short-term science- based targets, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions^{9,10} Publish a detailed transition plan explaining how the company will transition and meet its targets Publish the company's performance and progress against its emissions targets, and wider transition plan, annually¹¹ <ul style="list-style-type: none"> Seek to verify emissions metrics and targets via an independent third-party
<p>Accelerate the deployment of technological solutions to limit warming to 1.5°C</p>    	Climate technology, transport and innovation	<p>For relevant sectors (e.g. energy, power, basic resources, transport, etc.):</p> <ul style="list-style-type: none"> Set out how the company intends to scale- up new and existing climate technology and solutions, and/or grow renewable energy capacity across geographies, including the potential positive impact of these activities¹²
<p>Allocate capital to limit warming to 1.5°C, focusing on regions and technologies with the greatest climate impact</p>  	Climate finance	<p>For relevant sectors (e.g. financials, basic resources, energy, utilities, etc.):</p> <ul style="list-style-type: none"> Set out how the company will align its loans and/or investments toward activities that support the company's climate goals and targets Disclose the amount of capital expenditure allocated to activities that support the company's climate goals and targets



9 Scope 1 emissions are direct emissions that occur from sources owned or controlled by the company, Scope 2 emissions are indirect emissions from the purchase of energy, and Scope 3 emissions are all other indirect emissions that occur in a company's value chain

10 We recognise that it may not be practical for companies to set targets across all scopes and timeframes e.g. a short-, medium- and long-term Scope 3 target. The key point is that we are looking for interim, and well as long-term, targets for all relevant emissions

11 As an interim step, our desired short-term engagement outcome for companies that have not yet set targets, particularly smaller companies and those in emerging markets, is that they start to measure and report their emissions, covering Scope 1, 2 and relevant Scope 3 greenhouse gas emissions.

12 This could include, for example, information on "Scope 4" avoided emissions, which are emissions saved indirectly by products and services through the substitution of high carbon activities with low carbon alternatives. As the emissions are saved outside the value chain of a company's activity, they are not captured under conventional Scope 1 (direct), Scope 2 (indirect) and Scope 3 (value chain) emission measures. For further information on this topic, see our 2021 report, [A framework for Avoided Emissions analysis](#), developed in collaboration with Singapore's sovereign wealth fund GIC.

JUST TRANSITION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Support workers, communities, suppliers and consumers impacted by a rapid transition to a low carbon economy</p> 	<p>Social implications of climate change</p>	<ul style="list-style-type: none"> – For relevant sectors, identify the key social impacts of companies' climate transition plans, policies and adaptation measures, across both the operations and the wider value chain, and include implications for human rights, human capital management, and diversity and inclusion – Engage constructively with impacted local communities and indigenous groups, applying the principle of Free, Prior and Informed Consent (FPIC) – Set out how the company plans to consult and support impacted workers, such as facilitating a smooth transition to new jobs or providing reskilling / upskilling opportunities – Where phase-out or divestment from certain activities or markets forms part of the company's climate transition plan, set out how the company is considering, and mitigating impacts on, affected stakeholders where possible <p><i>Engaging on the Just Transition may vary considerably by region and sector. It covers a wide range of topics in addition to those set out above, including concerns around energy access, affordability and security, and the disproportionate physical impacts of climate change being experienced by vulnerable nations.</i></p>
CLIMATE ADAPTATION		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Strengthen resilience and adaptation to adverse impacts of climate change</p> 	<p>Climate resilience</p>	<ul style="list-style-type: none"> – Undertake a physical risk, resilience and opportunity assessment – Set out how the company plans to effectively manage, monitor, and report on relevant physical climate risks and build climate resilience – Disclose physical events (e.g. floods) that have damaged the company's assets or caused disruption to business operations and value chain



CARBON CAPTURE AND REMOVAL		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Protect, restore and create natural carbon sinks and scale up viable carbon capture technologies</p> <div><div><div>9</div><div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div></div><div><div>13</div><div>CLIMATE ACTION</div></div><div><div>14</div><div>LIFE BELOW WATER</div></div><div><div>15</div><div>LIFE ON LAND</div></div></div>	<p>Carbon capture and removal</p>	<p>For relevant sectors (e.g. energy, power, basic resources, etc.):</p> <ul style="list-style-type: none">– Set out the company’s policy to limit negative impacts of its activities on natural carbon sinks, such as peatland and forests– Disclose the contribution of any nature-based solutions towards 1.5°C alignment– Disclose the contribution of any technology-based carbon removal projects (e.g. carbon capture, utilisation and storage) towards 1.5°C alignment <p>For companies using offsets:</p> <ul style="list-style-type: none">– Prioritise reducing emissions before offsetting emissions, and provide transparency on the company’s offset strategy– Disclose how the company selects, verifies and accounts for offsetting projects



Natural Capital and Biodiversity

Why do we engage?

The benefits that nature provides often go unpriced, resulting in their excess use. This is one of the reasons we are seeing ecosystem decline and degradation as well as rising ecological scarcity. In 2022 the World Economic Forum (WEF) identified biodiversity loss as one of the top three most severe risks on a global scale over the next 10 years.¹³ The WEF estimates some \$44 trillion of economic value generation, over 50% of global GDP, is somewhat or highly dependent on nature.¹⁴ The potential economic impacts of inaction are large: the World Bank estimates that a partial ecosystem collapse could cost 2.3% of global GDP (or \$2.7 trillion) per year by 2030.

In practical terms this could mean businesses, banks and investors face increased insurance risks, higher costs of capital and a loss of investment opportunities. Sectors such as agriculture, food and marine, which are heavily reliant on ecosystems that are either not valued or undervalued currently, may see company valuations affected when these are eventually valued appropriately. Furthermore, regulatory and policy pressures, which could have direct revenue impacts, are already beginning to build and crystallise.

Schroders is a member of the [Natural Capital Investment Alliance](#) and became signatories to the Finance for Biodiversity Pledge in 2022. [Our Group Environment Statement](#) sets out our position in relation to the environmental management of our operations. [Our Plan for Nature](#) and our [Group Nature and Biodiversity Position Statement](#) set out our approach to the investments we manage and our own operations with regards to nature and biodiversity.

The WEF estimates some \$44 trillion of economic value generation, over 50% of global GDP, is somewhat or highly dependent on nature. The potential economic impacts of inaction are large: the World Bank estimates that a partial ecosystem collapse could cost 2.3% of global GDP (or \$2.7 trillion) per year by 2030.

We prioritise four key engagement sub-themes within the broad topic of biodiversity and natural capital. These reflect what we believe to be the key natural capital and biodiversity issues faced by the investee companies in which our clients are invested:

1. Natural capital-related risk and management:

The degradation of natural capital, including the loss of biodiversity and depletion of renewable stocks, poses a risk for businesses, their earnings and their value over the medium and longer term. We engage to encourage companies to develop strong governance on this issue, and adopt emerging good practices on nature-related financial disclosures and target setting.

2. Circular economy, pollution and waste:

Creating a circular economy that limits pollution and waste, such as plastic pollution, and promotes re-use and recycling is critical in reducing the intensity of natural resource consumption and alleviating environmental pressures. We engage to encourage companies to minimise waste and pollution, and to promote circularity.

3. Sustainable food and water: The world's food system must transform to meet population growth, and address malnutrition and other health risks. Moreover, the food and water system is both at risk from climate change and is a significant contributor to greenhouse gas emissions and other environmental pressures; for example, through the use of fertilizer and pesticides. We engage to promote a food and water system that is more environmentally sustainable, healthy, respects animal welfare, and is better able to meet the needs of a growing population.

4. Deforestation: Forests are an important source for sequestering and storing carbon and they also play a critical role in the earth's water cycle and in sustaining biodiversity. Deforestation is a major contributor to greenhouse gas emissions and biodiversity loss. We expect companies to eliminate exposure to commodity driven deforestation and to promote the sustainable management of forestry assets.

¹³ https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf




¹⁴ https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

How will we engage?




We have marked with a ♦ the priority natural capital and biodiversity actions for our engagement with large and medium companies¹⁵. Where appropriate, we will seek to align our engagement expectations with those of major collaborative initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) and Science-Based Targets for Nature (SBTN).



NATURAL CAPITAL-RELATED RISK AND MANAGEMENT


Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Reduce biodiversity loss and protect and restore natural capital   	Management and oversight	♦ Establish board level responsibility and accountability for biodiversity and natural capital
	Policy and strategy	♦ Put in place comprehensive policies to manage and reduce negative impacts on nature and biodiversity through the full value chain ♦ Set targets to reduce negative impacts on nature, in line with the science-based targets for nature as this emerges
	Measurement and disclosure	♦ Establish measurement systems to understand impacts and dependence on nature ♦ Disclose in line with emerging best practice such as TNFD

CIRCULAR ECONOMY, POLLUTION AND WASTE

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop sustainable consumption and production practices   	Circular economy and waste	– Implement responsible waste disposal, recycling and lifecycle management practices to promote a circular economy – Engage with downstream implications of products – Set waste reduction and recycling targets (both for ensuring recyclability of waste produced by the company or by the use of the company's products, and using recycled inputs in the manufacturing processes)
	Plastics	– Set targets on use of recycled plastics (rPET) as a raw material or on the recyclability of products
	Pollution	– Measure and disclose non-greenhouse gas pollutants – Set targets to reduce non-greenhouse gas pollutants

¹⁵ There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

SUSTAINABLE FOOD AND WATER

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>A more resource-efficient, healthier and sustainable food and water system</p> 	Agriculture	<ul style="list-style-type: none"> – Adopt sustainable agricultural practices and efforts to increase sustainable sourcing – Practice sustainable use of fertilizer and pesticides – Make efforts to increase share of healthy products and alternative proteins, and to reduce food waste
	Fishing	<ul style="list-style-type: none"> – Adopt sustainable fishing practices and efforts to increase sustainable sourcing
	Water	<ul style="list-style-type: none"> – Implement a water stewardship strategy including efforts and targets to reduce water consumption and manage wastewater treatment – Disclose operations in water stressed areas

DEFORESTATION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Promote sustainably managed forests and end deforestation</p> 	Strategy & ambition	<ul style="list-style-type: none"> ◆ Set timebound commitments to end illegal or unsustainable deforestation in their operations and supply chains and disclose progress towards these targets annually ◆ Target no commodity-driven deforestation by 2025 at the latest and report yearly on progress
	Governance & oversight	<ul style="list-style-type: none"> – Demonstrate board-level and management accountability for forest-related risks – Publish a publicly available comprehensive no-deforestation policy
	Traceability and supply chain management	<ul style="list-style-type: none"> – Conduct commodity specific deforestation risk-assessments for operations and/or supply chains – Develop adequate traceability systems – including mechanisms to monitor compliance with commitments – Disclose locations of production sites, processing facilities and/or suppliers – Demonstrate compliance with a credible certification scheme and set targets to improve levels – Conduct high conservation value and high carbon stock assessments for new developments and acquisitions
	Metrics & targets	<ul style="list-style-type: none"> – Disclose the metrics used to assess commodity-driven deforestation risks and progress to mitigating them – Disclose quantifiable progress towards deforestation commitments, including efforts to improve traceability across the entire supply chain

Human Rights

Why do we engage?

All companies have the potential to impinge on the rights that are inherent to us as human beings¹⁶. There is increasing recognition of the role that businesses can and should play to respect human rights. Businesses involved in human rights controversies could face higher operational, legal and financial risks, and could suffer damages to their reputation. Respect for human rights is also an important foundation in building resilient supply chains and forging business stability.

The global standard for preventing and addressing the risk of human rights abuses is the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the UN Human Rights Council in 2011¹⁷. The Guiding Principles provide operational clarity for the two human rights principles that are championed by the UN Global Compacts¹⁸, and help businesses adhere to the OECD's Guidelines for Multinational Enterprises, as well as national and sub-national laws and regulations related to human rights. Moreover, many human rights due diligence laws and trade and tariff sanctions related to human rights abuses are being introduced across the globe.



The global standard for preventing and addressing the risk of human rights abuses is the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the UN Human Rights Council in 2011.

The Guiding Principles state that companies should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved. Moreover, the principles are increasingly reflected in national legislation, with financial penalties for non-compliance, forcing companies to establish and disclose processes to eliminate modern slavery from their businesses and supply chains. This responsibility applies across operations and to all business relationships, including those throughout a value chain. We recognise that there are regional differences in human rights practices which we consider in our engagement and expectations of companies.

Our engagement aims to work with companies to implement the Guiding Principles. This means that businesses should formally commit to respect human rights, carry out effective human rights due diligence, and provide access to effective remedy for any victims of human rights abuses. [Schroders' Group Human Rights Statement](#) and [Modern Slavery Statement](#) set out Schroders' position for its entities and employees in relation to the respect of human rights and the remedy of any infringements relating to its employees, supply chain, clients and investments.

There are also specific groups on which we focus particular attention for our engagement:

- 1. Workers:** It is estimated that on any given day 27.6 million people are in forced labour, 86% of which occurs within the private sector¹⁹. We engage to encourage companies to adhere to relevant global laws, and conduct the necessary supply chain human rights risk assessments and effective due diligence to protect and uphold the rights of workers in supply chains. This also includes reporting on workforce metrics across supply chains²⁰.
- 2. Communities:** The World Bank estimates that there are over 476 million indigenous peoples living around the world, and in 2021 nearly four people a week were killed worldwide protecting their land from business exploitation²¹. We engage to encourage companies to uphold and respect internationally recognised human rights, including land and resource rights, and use the mechanism of free, prior and informed consent (FPIC) to protect the rights of those in the communities in which companies operate.
- 3. Customers and consumers:** Companies have an important role to play in driving human rights and sustainable development through supporting access to basic products and services, while also ensuring that products and services do not cause harm and adversely affect human rights. We expect that companies respect and uphold the rights of consumers and users of their products and services.

¹⁶ The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

¹⁷ Other UN instruments elaborate further on the rights of indigenous peoples, women, national or ethnic, religious and linguistic minorities, children, persons with disabilities and migrant workers and their families.

¹⁸ The human rights principles championed by the UN Global Compacts are Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses. [The Ten Principles | UN Global Compact](#)

¹⁹ <https://www.walkfree.org/reports/global-estimates-of-modern-slavery-2022/>

²⁰ Workers in the direct operations of a company are captured within our human capital management theme.


²¹ <https://www.globalwitness.org/en/campaigns/environmental-activists/defenders-earth/>

How will we engage?

We have marked with a ♦ the priority human rights actions for our engagement with large and medium companies²². Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the Investor Alliance for Human Rights and the Find It, Fix It, Prevent It campaign.




OVERARCHING APPROACH TO HUMAN RIGHTS



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Promote human rights for sustainable development</p> 	Implementing the UN Guiding Principles	<ul style="list-style-type: none"> ♦ Establish and implement a human rights policy in line with the UNGPs, ILO and/or other international frameworks which commits to respect human rights ♦ Establish board responsibility for oversight of human rights policies and processes, and for this responsibility to be engrained in relevant governance documents and charters ♦ Introduce robust human rights due diligence processes in line with the human rights policy, including: <ul style="list-style-type: none"> a. Identifying and assessing actual or potential adverse human rights impacts b. Integrating findings in processes and taking appropriate action c. Tracking effectiveness of the measures, including through broad access to thorough and transparent grievance mechanisms d. Communicating how impacts are being addressed ♦ Provide for or cooperate in remediation where the company identifies that they have caused or contributed to adverse impacts ♦ Strive to conduct meaningful engagement with rights holders or legitimate representatives and other relevant stakeholders ♦ Assess the effectiveness of the human rights due diligence process

²² There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

WORKERS

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect labour rights and promote safe and secure working environments in the supply chain 	Supply chain working conditions	<ul style="list-style-type: none"> – Develop a responsible sourcing policy or supplier code of conduct, aligned with international labour standards, and make it publicly available – Implement and uphold responsible sourcing practices – Conduct ongoing and effective supply chain human rights due diligence to identify actual and potential human rights impacts – Design and implement remediation plans where necessary and report on their effectiveness.

COMMUNITIES

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Protect fundamental freedoms and provide equal access to economic resources and control over land and property for all  	Indigenous and community rights Operations in high-risk and conflict-affected areas	<ul style="list-style-type: none"> – Commit to apply the ILO and UN Guiding Principles to protect indigenous rights – Apply the principle of FPIC before a potentially impactful project begins and on an ongoing basis, and as far as possible ensure communities are able to participate in the benefits of company activities, including receiving fair compensation – Commit to addressing grievances and disputes constructively and proactively with local communities and indigenous groups – Take adequate steps to identify the interaction between the company's core business operations and conflict dynamics to prevent causing harm – Adapt existing policies and due diligence measures to the specific needs of conflict-affected and high-risk contexts, performing enhanced due diligence in these contexts and ensuring responsible exit where human rights risks associated with remaining in a location cannot be mitigated

CUSTOMERS AND CONSUMERS

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Respect for fundamental rights and universal provision of basic needs   	Access to fundamental products and services Responsible and ethical products and services	<ul style="list-style-type: none"> – Develop clear strategies for access to fundamental products and services in low- and middle-income countries, for example medicines and finance – Ensure company human rights policy encompasses the protection of rights in products and services (entire value chain) – Include risks from the company's products and services in the company's overarching assessment of salient human rights risks, and take steps to mitigate against these where relevant, such as performing screening of customers or business partners – Encourage business partners and businesses associated with the company to respect human rights in line with the company's policy

Human Capital Management

Why do we engage?

Human capital management refers to how a company acts with respect to people working within the direct operations of a company and includes the practices to recruit, retain and develop human capital. We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage²³ and that effective human capital management is essential to drive innovation and long-term value creation²⁴. We also recognise a number of links between high standards of human capital management and a company's ability to address one or more of the UN's Sustainable Development Goals.

We believe that not every company is exposed to the same human capital risks, or exposed to an equal degree. There are also significant regional differences in human capital management expectations which we consider in our engagement and expectations of companies.

Schroders' people strategy aims to develop an agile and diverse workforce so that we can continue to attract, retain, develop and motivate the right people for our current and future business needs. This is outlined in our [Annual Report](#).

We identify human capital management as a priority issue for engagement, noting that people in an organisation are a significant source of competitive advantage and that effective human capital management is essential to drive innovation and long-term value creation.

We prioritise four key sub-themes within the broad topic of human capital management:

1. Corporate culture and oversight of human capital:

We have seen that negative organisational culture has featured prominently in numerous corporate failures in recent years. We engage with companies to understand how they invest and develop their corporate cultures including how they approach oversight and management of their culture. This is done with a view to our building a picture of how companies create and sustain human capital, which can give them a key competitive advantage against their peers.

2. Investment in the workforce: 19% of the world's wage earners, 327 million workers, are paid at or below their countries' minimum wage²⁵. This excludes workers in the informal economy. Evidence shows that paying workers a living wage leads to better health outcomes, and increased ability to recruit and retain staff, and increased productivity^{26,27}. We encourage companies to go beyond compliance with local minimum wages to pay a living wage that allows for workers to live a decent life free from poverty. We also encourage companies to consider employee compensation and benefits holistically to ensure the broad financial wellness of the workforce, recognising that basic wage levels are not the sole driver of worker financial wellness. Moreover, almost one-third of jobs will need to reskill by 2030^{28,29}; we therefore engage to ask that companies invest in the development of the workforce, align workforce skills with long-term strategy and help prepare the workforce for sector-wide transitions, for example the energy transition.

3. Engagement and representation: There is evidence that strong employee engagement contributes to increased profitability³⁰ as engaged employees support innovation and growth. We engage to ask that companies proactively solicit input from their workforce and monitor their engagement and motivation.

4. Health, safety and wellbeing: Almost 2 million people die from work-related causes each year³¹. Employers have a duty of care to their workers; we therefore engage to encourage companies to provide safe and secure working environments for workers, in terms of both physical and mental health.

²³ <https://hbr.org/2007/03/maximizing-your-return-on-people>

²⁴ <https://www.icgn.org/sites/default/files/2021-05/5.%20Viewpoint%20Human%20Capital%20Management.pdf>

²⁵ <https://www.ilo.org/infostories/Campaigns/Wages/globalwagereport#minimum-wages>

²⁶ https://www.livingwage.org.uk/sites/default/files/IWFM-Living-Wage-Report-Screen-2022-2023_2.pdf

²⁷ <https://www.qmul.ac.uk/geog/media/geography/livingwage/docs/FINALReportLWFsurvey2013.pdf>

²⁸ <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/>

²⁹ <https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills/#:~:text=As%20jobs%20are%20transformed%20by,are%20expected%20to%20change>

³⁰ <https://news.gallup.com/poll/188144/employee-engagement-stagnant-2015.aspx>


³¹ <https://www.who.int/news/item/16-09-2021-who-ilo-almost-2-million-people-die-from-work-related-causes-each-year>

How will we engage?


We have marked with a ♦ the priority human capital actions for our engagement with large and medium companies³². Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the Workforce Disclosure Initiative (WDI) and Human Capital Management Coalition (HCMC).



CORPORATE CULTURE AND OVERSIGHT OF HUMAN CAPITAL



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Promote a strong ethical culture which provides decent work and drives long-term sustainable growth 	Board oversight of human capital management (HCM)	<ul style="list-style-type: none"> ♦ Establish clear board responsibility for human capital management oversight ♦ Clearly define the HCM factors and information that the company should measure, monitor, disclose and set targets for ♦ At a minimum disclose: the total number of people employed (broken down by contract type), the total cost of the issuer's workforce (including wages, benefits and other expenses), turnover or another stability metric, and workforce diversity data across different levels of seniority.
	Corporate culture	<ul style="list-style-type: none"> – Articulate the company's corporate culture and values and explain how the board ensures that these are being applied throughout the organisation – Disclose how the company measures and assesses company culture, and the outcomes of this assessment – Monitor how changes in company culture indicators lead to changes in employee outcomes

INVESTMENT IN THE WORKFORCE


Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Foster a culture where all workers can afford a decent and secure standard of living for their families 	Financial wellness	<ul style="list-style-type: none"> – Assess the financial wellness of the company's workforce to understand how the company can support workers. One such measure could be disclosing the living wage deficit or an equivalent metric – Commit to pay all direct employees a living wage (or equally valued equivalent) and in the mid-term, commit that all workers (including contractors in direct operations) are paid a living wage (or equally valued equivalent) – Disclose the paid time off benefits, including sick pay, available to employees, and assess if the benefits provided by the company sufficiently support the financial wellness of employees – Ensure decent notice for shifts and a guaranteed number of working hours a week (living hours), while ensuring that working hours are reasonable and comply with the law and industry standards

³² There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.



INVESTMENT IN THE WORKFORCE

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship</p>  	Training and development	<ul style="list-style-type: none"> – Communicate an understanding of potential future skills gaps of the company in line with long-term strategy, and outline a plan to address these – Disclose programmes to upskill and reskill workers, including for economic transitions – Disclose how the company measures the effectiveness of such initiatives <p>Sector specific:</p> <ul style="list-style-type: none"> – Commit to help facilitate a smooth transition to new jobs for employees whose jobs are at risk, ensuring that new positions are high-quality jobs aligned to the ILO's four pillars of work – Work to support local communities who may experience indirect job loss

ENGAGEMENT AND REPRESENTATION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Protect labour rights</p> 	Worker voice	<ul style="list-style-type: none"> – Establish clear and trusted mechanisms for worker voice in corporate governance – Put effective grievance mechanisms in place and support remediation – Disclose how the company creates and ensures a culture of actively embracing freedom of association by upholding international standards such as those outlined by the ILO
	Employee engagement	<ul style="list-style-type: none"> – Establish regular employee feedback channels with demonstration of actions taken as a result of feedback

HEALTH, SAFETY AND WELLBEING

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Promote safe and secure working environments for all workers and promote mental health and well-being</p>  	Mental health	<ul style="list-style-type: none"> – Acknowledge mental health as an important issue – Assess and establish a strategy that addresses the root causes of poor mental health in the workforce and provides resources and support for workers on mental health, including how the company assesses the effectiveness of such measures
	Physical health and safety	<ul style="list-style-type: none"> – Establish a health and safety policy and ensure it is implemented as intended – Adopt a strong culture of safety in the conduct of business and have safety considered alongside all business strategy decisions – Set measurable targets, using both lagging and leading indicators for safety and disclose progress – Assess the effectiveness of the health and safety measures

Diversity and Inclusion

Why do we engage?

We believe that companies should strive to create diverse and inclusive organisations. Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction³³. Inclusion is what allows diversity to thrive. Moreover, we identify increasing regulatory pressures around diversity and inclusion; however, progress on this topic remains slower than in some other engagement areas.

We encourage companies to consider diversity broadly, in terms of both demographics and professional diversity. We recognise that there are significant regional differences in diversity and inclusion definitions and expectations, which we consider in our engagement and expectations of companies. In national laws, diversity characteristics commonly include: race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation³⁴. Companies may also consider additional grounds where discrimination may occur³⁵.

[Schroders' Workforce Diversity Report](#) is an important step to being transparent with data about the diversity of our own workforce, so that we can aim for meaningful and relevant aspirational targets (operating lawfully) and be held to account for our progress.

Inclusion is what allows diversity to thrive.

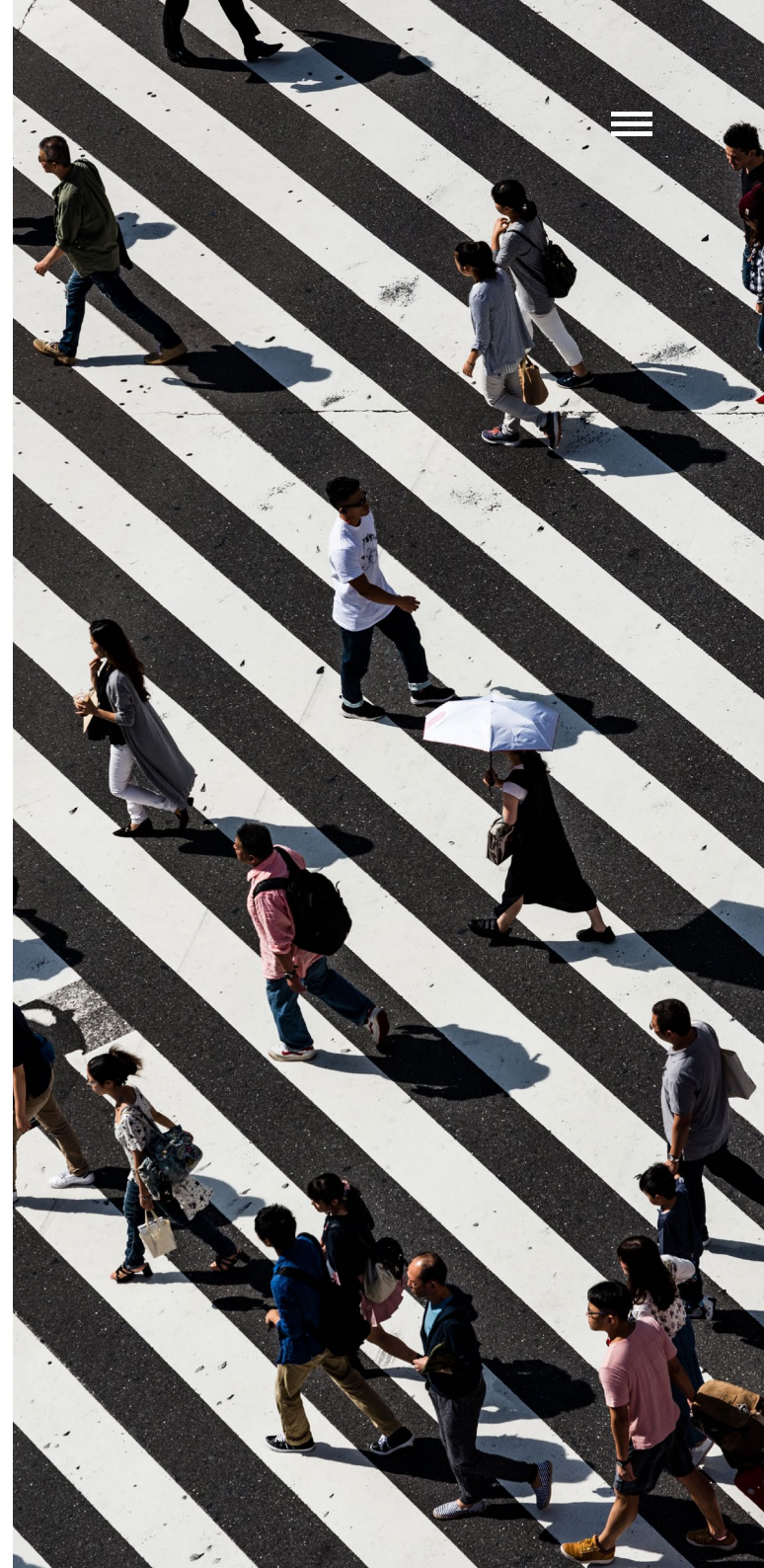
³³ <https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case>

³⁴ https://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_BDE_EN/lang--en/index.htm

³⁵ <https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-6>

We breakdown our engagement on diversity and inclusion into four key sub-themes:

- 1. Board diversity and inclusion:** We believe that directors with diversity across multiple dimensions bring a valuable range of outlooks and opinions, and when coupled with an inclusive board culture, ultimately bring about better decision-making, debate and problem-solving on boards. We expect genuine diversity to be present on the board.
- 2. Executive diversity and inclusion:** We expect companies to have a diverse representation in key decision-making positions which allows for greater breadth of experience and perspective. We believe this allows for a greater ability to relate to employees, clients and consumers.
- 3. Workforce diversity and inclusion:** We ask that the workforce broadly represents the communities that the company operates in and the customers that it serves, and that the company creates an inclusive culture which increases employee engagement and productivity.
- 4. Value chain diversity and inclusion:** We encourage companies to extend their diversity practices across the value chain, where possible, so that their products and services are inclusive and take into account feedback from diverse consumer groups. We also encourage companies to review their procurement processes and ensure the procurement opportunities they provide do not discriminate and are inclusive for all.



How will we engage?

We have marked with a ♦ the priority diversity and inclusion actions for our engagement with large and medium companies³⁶. Where appropriate, we have aligned our engagement expectations with those of the collaborative initiatives we are part of, including the WDI and HCMC.



BOARD DIVERSITY AND INCLUSION


Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Full and effective participation and equal opportunities for leadership for women and underrepresented minorities</p> <p>5 GENDER EQUALITY 10 REDUCED INEQUALITIES</p>	Board composition	<p>♦ Disclose board diversity characteristics, perspectives and approaches</p> <ul style="list-style-type: none"> – Implement a policy requiring the board to consider one or more diverse candidates each time it has a vacancy – Commit to improving and seeking genuine board diversity – Articulate how the company seeks to create an inclusive board culture

EXECUTIVE DIVERSITY AND INCLUSION



Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
<p>Full and effective participation and equal opportunities for leadership for women and underrepresented minorities</p> <p>5 GENDER EQUALITY 10 REDUCED INEQUALITIES</p>	Diversity in decision making	<p>♦ Disclose diversity characteristics of the executive committee</p> <ul style="list-style-type: none"> – Set targets for increasing diversity of the executive committee – Outline a robust strategy to achieve the targets set – Implement a policy requiring each vacancy to consider at least one or more diverse candidates for executive recruitment – Disclose how diversity in CEO and C-suite succession planning is considered

³⁶ There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired outcomes. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

WORKFORCE DIVERSITY AND INCLUSION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Empower and promote the inclusion of all  	Workforce composition and Inclusive culture	<ul style="list-style-type: none"> ◆ Publicly state leadership commitments and expectations for action on diversity and inclusion ◆ Collect and disclose workforce diversity data (while respecting local regulation) <ul style="list-style-type: none"> – Set time-bound targets for workforce diversity and inclusion and disclose a strategy to achieve the targets, including disclosure of family and parental leave policies – Disclose gender and ethnicity pay gap information for the key markets it operates in (where data is available) – Disclose metrics to assess inclusive culture and set targets for increasing inclusivity (e.g. turnover, retention and promotion rates) – Assess effectiveness of diversity and inclusion programmes in creating an inclusive culture

VALUE CHAIN DIVERSITY AND INCLUSION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Empower and promote the inclusion of all  	Supplier diversity	<ul style="list-style-type: none"> – Disclose policy on sourcing from ‘diverse suppliers’ to ensure that all relevant, potential suppliers have the fair and equal opportunity to compete for business within the supply chain – Engage major suppliers on diversity and inclusion performance and expectations
	Inclusive products and services	<ul style="list-style-type: none"> – Assess impact of products and services on diverse populations – Disclose approach to ensuring fair and equitable access to products and services (e.g. technology, communications, finance, healthcare, nutrition, affordable housing, etc)



Corporate Governance

Why do we engage?

We believe that it is essential that strong governance policies and practices are in place to ensure that businesses act in the best interest of shareholders and other key stakeholders, in order to drive long-term sustainable value creation. We also recognise that, in most cases, in order to see progress and performance on other material ESG issues, strong governance structures should be in place first.

We believe boards should play an active role in engagement with shareholders on long-term strategy, board composition, executive remuneration and capital allocation topics, alongside broader material and salient environmental and social matters. Schroders plc's approach to corporate governance is described in the governance section of our [Annual Report](#).

We also recognise that, in most cases, in order to see progress and performance on other material ESG issues, strong governance structures should be in place first.

We prioritise five key aspects of corporate governance for our engagement:

- 1. Boards and management:** Through their fiduciary duty, boards represent the interests of shareholders and play a critical role in overseeing the company's management and strategy. Board composition and structure is fundamental to good governance practices. We expect boards to maintain a significant level of independence, and to appoint high quality, diverse directors to carry out the board's duties. A strong board, with a significant independent cohort, will promote diversity of thought and better decision-making, particularly when it encourages diversity of skills, experience and other attributes that enables the directors to counsel and oversee management more effectively.
- 2. Executive remuneration:** Executive remuneration can be an important tool in driving long-term sustainable returns to shareholders, delivery on strategy, and creating the desired culture and behaviour within organisations. We engage to strengthen the links between these three components while ensuring executive pay is not excessive and reflective of the shareholders' experience.
- 3. Relationship with shareholders:** Companies should engage in continuous dialogue with shareholders on material issues, including addressing any significant dissent before or after shareholder meetings. We encourage companies to do this all year round, and not just in the wake of their annual meetings. Particularly in the case of controlled companies, there should be an independent member of the board specifically responsible for addressing minority shareholders' concerns.

4. Purpose, strategy and capital allocation:

Boards are responsible for the governance and oversight of a company's strategy, performance and management of risk. We believe it is important that the board takes responsibility for oversight of a company's purpose and long-term strategy, and is effectively overseeing the material and salient risks that can affect long-term sustainable returns to shareholders. We encourage boards and management to deploy capital efficiently on behalf of shareholders, while also taking into account other stakeholders' expectations.

- 5. Transparency, risk and reporting:** Auditors are expected to provide robust, transparent and objective assessments of companies' financial health. We engage to discuss the company's relationship with the auditors and the quality of the audit, as well as review the fees paid, ensuring independence and impartiality is maintained and audit quality is improved, when necessary. We encourage companies to disclose their processes for identifying and managing ESG risks, including cybersecurity risks. We also engage on the responsible payment and transparent disclosure of taxes, as well as lobbying activities and political donations.

How will we engage?

We have marked with a ♦ the priority corporate governance pillars for our engagement with large and medium companies³⁷. Where appropriate, we have aligned our engagement expectations with regional best practice, legislation and relevant corporate governance codes. We also participate in a number of industry initiatives, collaborative projects and investor groups to encourage best practice.



BOARDS AND MANAGEMENT

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop effective, accountable, inclusive and transparent board structures	Board leadership	<ul style="list-style-type: none"> – Explain the role of the board in ensuring the highest ethical standards, including how management of ethics, culture and compliance is overseen by the board – Provide meaningful disclosure about how the board fulfils its risk oversight role, including an explanation of internal and external audit programmes – Implement a strong CEO and executive succession planning process led by the board
	Board structure	<ul style="list-style-type: none"> – Maintain a majority independent board at companies with a dispersed ownership structure. For controlled or family-owned companies, independence should be proportionate to the percentage of free float and at least a minimum of a third of the board should be independent. There should also be a lead independent director appointed to best represent the interests of minority shareholders – Disclose levels of independence on the board and how independence is assessed – Seek a healthy mixture of tenures on the board – Seek to split combined chair and CEO roles and appoint an independent chair; in the interim, companies should appoint a strong lead independent director – Boards should promote diversity at board level and throughout the organisation in regard to gender and ethnicity
	Board effectiveness	<ul style="list-style-type: none"> – Regularly assess board performance and make-up, both of committees and each director through robust and regular assessments – Disclose director biographies and diverse characteristics and skills – Constantly review board members' external commitments, and ability to fulfil their duties – Ensure the board is refreshed regularly taking account of performance and the attributes, including diversity, skills, experience and independence, that the board needs for the future success of the company

³⁷ There is no standard definition for large and medium companies, and significant regional variation in what is considered large, medium or small. We recognise that smaller companies face greater resource and financial constraints than larger companies and therefore may need more time to meet our desired expectations. When assessing company progress against our expectations, we generally compare the progress of similar-sized peers based in the same region.

EXECUTIVE REMUNERATION

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Fair and balanced executive compensation which drives long-term value creation and the desired corporate culture	Philosophy	<ul style="list-style-type: none"> ◆ Explain how remuneration policies and practices promote the desired culture at all levels of the organisation, including the executives, management and the entire workforce – Conduct an annual vote on remuneration – Set clear and understandable pay structures – Develop remuneration schemes with a focus on long-term value creation – Maintain an ability to apply judgment or other tools to reduce payment to management when the metrics used to calculate remuneration produce payment that is not merited by overall performance to avoid overly formulaic outcomes that do not reflect overall performance – Incorporate robust risk mitigation measures, such as clawback and bonus deferral
	Structure	<ul style="list-style-type: none"> – Shift towards simpler remuneration structures – Focus on long-term strategic goals, with the remuneration committee, cognisant of total shareholder return and ESG performance – Ensure, as with financial measures, that ESG metrics are reflective of the company's strategy, well-articulated, clearly measurable and rigorous – Ensure that the majority of awards are contingent on challenging financial performance hurdles – Ensure that strategic, personal objectives and ESG performance metrics are not too large a proportion of the executive remuneration and only earned for outstanding performance – Ensure pay packages are long-term and aligned with the shareholder experience – Disclose targets and pay outcomes, showing clear alignment between pay and performance
	Quantum	<ul style="list-style-type: none"> – Have in place significant and long-term shareholding requirements for executives and directors with prohibition of all share hedging and strong limits on pledging, in particular for non-founders – Set measures to monitor CEO pay so as to ensure pay is aligned to company performance – Prevent use of special retention awards – Develop severance pay arrangements which are reflective of the departing executive's performance with the option for discretion to be applied by the board to reduce pay-outs, if appropriate – Take account of shareholders', employees' and other stakeholders' experience when setting pay and assessing performance

RELATIONSHIP WITH SHAREHOLDERS		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Deliver long-term sustainable value creation for shareholders	Engagement	<ul style="list-style-type: none"> – Conduct shareholder dialogue at the board level on various topics. Various board directors should be accessible depending on topic (e.g. remuneration committee chair) – Maintain an open dialogue year round, and not only related to the annual meeting – Consult shareholders on key decisions, such as new strategy, climate targets and succession planning
	Shareholder rights	<ul style="list-style-type: none"> – Set measures to have directors attend and participate in shareholder meetings – Set measures to have directors elected by a simple majority in annual elections – Encourage single class of share capital and ‘one share, one vote’ – Set measures such that significant change to the company’s capital structure, material M&A etc. require shareholder approval. – Encourage a framework that respects and enables shareholders to file resolutions and does not unreasonably obstruct shareholders’ right to file shareholder proposals in any way – Ensure that shareholders, owning a reasonable proportion of shares, have the right to call a special meeting – Incorporate reasonable proxy access provisions – Provide sufficient and timely information about any voting proposal
	Minority shareholder representation	<ul style="list-style-type: none"> ◆ Put measures in place, particularly where there is a controlling shareholder, in order to protect minority shareholder interests. This could be in the form of an independent chair or a lead independent director, sufficient good quality independent directors, engagement with shareholders and a single class share structure – Deliver long-term sustainable value creation for shareholders – Name an independent member of the board to be available to discuss minority shareholder concerns
	Consideration of stakeholders	<ul style="list-style-type: none"> – Consider the interests of stakeholders, including shareholders, in all board and executive team decision making
PURPOSE, STRATEGY AND CAPITAL ALLOCATION		
Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Long-term value creation through the effective use of capital in line with the company purpose	Purpose	<ul style="list-style-type: none"> – Publish the company’s purpose, owned by the board, which is inclusive of all key stakeholders – Take responsibility at the board level for ensuring management fulfils the stated purpose
	M&A	<ul style="list-style-type: none"> – Set measures such that M&A decisions can be voted on by both parties’ shareholders. If necessary, an independent committee within the board should oversee any M&A, and any director with potential conflict of interest must recuse themselves
	Efficient use of capital	<ul style="list-style-type: none"> – Put measures in place to not overly expose the balance sheet to risk when making capital allocation decisions – Provide pre-emption rights for share issuance, in accordance with the guidelines set out by the UK Pre-Emption Group or regional best practice, subject to past performance of management and the board

TRANSPARENCY, RISK AND REPORTING

Desired long-term outcomes	Engagement topic	Desired short/mid-term actions
Develop effective, accountable, inclusive and transparent business practices	Disclosure	<ul style="list-style-type: none"> ◆ Provide useful, informative and comprehensive disclosure on the key governance issues listed in this table to enable all stakeholders to make informed judgements and decisions – Disclose ESG risks, including cybersecurity risks, of which the board has oversight and the process for identifying these risks
	Audit	<ul style="list-style-type: none"> – Put in place an objective audit process to examine a company's financial position – Have the wholly independent audit committee oversee the audit process; the whole board should be responsible for financial statements – Designate that the audit committee chair be responsible for overseeing the internal audit function – Ensure that the board satisfies itself that whistleblowing arrangements are working as intended – Encourage the audit committee chair to engage with shareholders on audit related matters – Report in a way that clearly communicates the company's material risks and how the company manages and mitigates them – Strive for high quality, independent and effective audits – Provide a clear breakdown and explanation of all fees paid to the external auditor during the year – Implement the regular tender and replacement of external auditors in line with local regulations and global best practice – The board must set the company's risk appetite and oversee the material and salient risks arising from its strategy – The board must ensure that the company demonstrates that it is managing risks, including ESG and cyber risks, in line with its tolerances
	Tax	<ul style="list-style-type: none"> – Comply with all tax laws and the intentions behind them and disclose the full extent of taxes paid or collected in each country – Publish a global tax policy that does not encourage inappropriate tax practices
	Lobbying and political contributions	<ul style="list-style-type: none"> – Regularly disclose funds spent on direct lobbying activities (estimates) and in support of political candidates and organisations, and explain how these activities are aligned to the company's strategic goals – Disclose memberships to trade associations and, where possible, the funding associated with these memberships



EST. 1804

Schroder Investment Management Limited
1 London Wall Place, London EC2Y 5AU, United Kingdom
T +44 (0) 20 7658 6000

Important Information: This communication is marketing material. The views and opinions contained herein are those of the author(s) on this page, and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. This material is intended to be for information purposes only and is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. It is not intended to provide and should not be relied on for accounting, legal or tax advice, or investment recommendations. Reliance should not be placed on the views and information in this document when taking individual investment and/or strategic decisions. Past performance is not a reliable indicator of future results. The value of an investment can go down as well as up and is not guaranteed. All investments involve risks including the risk of possible loss of principal. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. Some information quoted was obtained from external sources we consider to be reliable. No responsibility can be accepted for errors of fact obtained from third parties, and this data may change with market conditions. This does not exclude any

duty or liability that Schroders has to its customers under any regulatory system. Regions/ sectors shown for illustrative purposes only and should not be viewed as a recommendation to buy/sell. The opinions in this material include some forecasted views. We believe we are basing our expectations and beliefs on reasonable assumptions within the bounds of what we currently know. However, there is no guarantee that any forecasts or opinions will be realised. These views and opinions may change. To the extent that you are in North America, this content is issued by Schroder Investment Management North America Inc., an indirect wholly owned subsidiary of Schroders plc and SEC registered adviser providing asset management products and services to clients in the US and Canada. For all other users, this content is issued by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registered No. 1893220 England. Authorised and regulated by the Financial Conduct Authority.